Treasury Inspector General
for Tax Administration
Office of Audit

REQUIRED ACTIONS WERE NOT ALWAYS COMPLETED PRIOR TO CLOSING DEFUNCT CORPORATION CASES AS CURRENTLY NOT COLLECTIBLE

Issued on April 17, 2015

Highlights

Highlights of Report Number: 2015-30-028 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Accounts may be reported as currently not collectible (CNC) for a variety of reasons, one of which is that the entity is defunct. This can apply to corporations, partnerships, and exempt organizations. The Internal Revenue Manual requires that certain case actions be completed on delinquent corporate accounts prior to closing them as CNC-defunct. Consistent application of these actions helps protect the Government's interest and ensures that taxpayers are treated equitably.

WHY TIGTA DID THE AUDIT

In Fiscal Year 2013, the IRS closed 264,840 tax modules, involving approximately $4 billion, as CNC-defunct. This audit was initiated to determine if the Field Collection function is performing all required collection actions before closing delinquent corporate accounts as CNC-defunct and if all tax periods for defunct corporate taxpayers are properly closed.

WHAT TIGTA FOUND

IRS employees did not complete required case actions in approximately 15 percent of a stratified sample of 162 corporation cases closed as CNC-defunct. Specifically, employees did not always complete required research or obtain necessary financial information, and the cases with missing actions were approved by their managers. TIGTA identified 39 instances involving 30 cases in which required case actions were not taken. These actions are required to ensure that, before a case is closed as uncollectible, due diligence is exercised to determine whether collection potential exists.

TIGTA also determined that 30 of 162 sampled cases were closed after 65 weeks, which is considered over-age. In December 2011, IRS management removed the requirement for managers to specifically monitor and discuss over-age cases.

In addition, 66 percent of the sampled corporations were already out of business when the case was assigned to the revenue officer. Out-of-business taxpayers are an unlikely source of revenue, raising the question of whether the IRS is choosing the most productive cases for its revenue officers. On the other hand, for employment tax cases, the IRS can assess the Trust Fund Recovery Penalty against individual employees of the defunct business. However, 15 percent of these cases did not include delinquent employment taxes, so there was no possibility of this penalty. Trust Fund Recovery Penalties were assessed on only 21 percent of the out-of-business cases.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) ensure that Field Collection employees and managers are properly trained on the actions they need to take prior to closing cases as CNC-defunct and 2) ensure that case actions are taken timely, including properly documenting the reasons for any delays.

In their response to the report, IRS officials agreed with the recommendations and have already conducted training to improve CNC closures. IRS management plans to augment this training by issuing a memorandum reminding Field Collection employees to follow the procedures in the Internal Revenue Manual when closing cases as CNC. Additionally, management plans to issue a memorandum reminding Field Collection managers and revenue officers that the Internal Revenue Manual requires revenue officers to document delays in taking timely actions and managers to review cases for timely actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2015reports/201530028fr.pdf.