



## Treasury Inspector General for Tax Administration Office of Audit

### PLANNED IMPROVEMENTS HAVE NOT BEEN MADE TO MANAGE AND TRACK CORRESPONDENCE WITH INTERNATIONAL TAXPAYERS

Issued on September 8, 2015

## Highlights

Highlights of Report Number: 2015-30-072 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

As of May 2014, the U.S. State Department estimated that approximately 7.6 million U.S. citizens live in a foreign country. The rules for filing income, estate, and gift tax returns, as well as paying income taxes, are generally the same for international taxpayers as for those taxpayers living in the United States. The IRS heavily relies upon its many notices and letters as its primary means of communication with taxpayers.

### WHY TIGTA DID THE AUDIT

As globalization trends continue, so too do the challenges to the IRS's ability to provide services to and enhance the tax compliance of U.S. taxpayers living in other countries. This audit was initiated to evaluate the process for sending tax correspondence (notices and letters) to business and individual taxpayers who reside outside the United States, analyze how the taxpayers responded, and determine whether the correspondence resulted in improved compliance.

### WHAT TIGTA FOUND

Even though the IRS sent approximately 855,000 notices and letters to U.S. taxpayers living in other countries during Calendar Year 2014, it cannot determine taxpayer response rates. The lack of data on response rates for international taxpayers is problematic because this information is needed to determine the effectiveness of international correspondence on increasing taxpayer compliance and to make program improvements.

IRS data systems are not designed to accommodate the different styles of international addresses, which can cause notices to be undeliverable. Other factors complicate the delivery of international mail, making its delivery less certain than domestic correspondence.

In addition, the IRS generally does not know if international taxpayers receive the tax correspondence

sent to them. Without specific controls to monitor and metrics to measure international tax correspondence, the IRS cannot determine the impact of its international tax correspondence on taxpayer compliance.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) develop a systemic process that identifies undelivered international mail volumes, as well as tracks international tax correspondence and receipt trends; 2) develop specific performance measures to monitor the compliance impact of sending international tax correspondence to taxpayers residing outside the United States; 3) use the Postal Service Form 2865, *Return Receipt for International Mail*, for the countries that currently support return receipts for registered foreign mail; 4) expand the *International Submission Processing Individual Master File Foreign Address Job Aid* to include abbreviated address formats for all foreign countries as needed; and 5) coordinate with the other business operating divisions to make the job aid available to all IRS employees who are responsible for the input of addresses into IRS computer systems.

In their response to the report, IRS officials disagreed with four of the five recommendations. While the IRS generally agreed that TIGTA's recommendations could provide additional insight into the factors contributing to undeliverable international mail, it does not believe this information would permit the IRS to overcome budgetary, statutory, and operational constraints as needed to achieve appreciable improvement in its current processes. TIGTA does not believe that the IRS's response is adequate because current IRS processes for addressing international mail issues are ineffective or nonexistent.

### 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/201530072fr.pdf>.