



*Actions Were Taken to Timely Provide
Disaster Relief Tax Assistance to Victims of
Hurricanes Harvey, Irma, and Maria*

July 5, 2018

Reference Number: 2018-40-049

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HIGHLIGHTS

ACTIONS WERE TAKEN TO TIMELY PROVIDE DISASTER RELIEF TAX ASSISTANCE TO VICTIMS OF HURRICANES HARVEY, IRMA, AND MARIA

Highlights

Final Report issued on July 5, 2018

Highlights of Reference Number: 2018-40-049 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

As a result of Hurricanes Harvey, Irma, and Maria, the President signed major disaster declarations for Florida, Georgia, Louisiana, Puerto Rico, the Seminole Tribe of Florida, South Carolina, Texas, and the U.S. Virgin Islands. Following major disasters and emergencies, taxpayers and tax practitioners may require tax relief to enable them to meet their tax obligations for filing returns or paying taxes.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess IRS efforts to assist victims of Hurricanes Harvey, Irma, and Maria. More than 49 million individuals and 19 million businesses were eligible for disaster tax relief. Tax relief includes postponing the date to file tax returns and make tax payments that have an original or extended due date that falls within the postponement period. Further, penalties and interest will not accrue on tax returns or payments with an original or extended due date that falls within the postponement period.

WHAT TIGTA FOUND

The IRS coordinated its efforts to provide tax relief to individuals and businesses. Examples include identifying areas affected by the disasters and distributing an internal disaster relief memorandum for each disaster declaration. This memorandum provided key IRS functions with a summary of the tax relief that should be provided to taxpayers.

The IRS also timely and correctly placed disaster relief freeze codes on 68,635,299 (99 percent) of the 68,733,105 eligible taxpayers' accounts. These codes allow the IRS to provide special processing related to any filing payment or interest relief, granted for a geographic area. The IRS provided tax relief for affected taxpayers until January 31, 2018. However, the IRS extended the tax relief dates for Puerto Rico and the U.S. Virgin Islands to June 29, 2018.

In addition, the IRS restored service to taxpayers in areas affected by the hurricanes. The hurricanes affected all counties in Florida, multiple counties in Texas, as well as the U.S. Virgin Islands and Puerto Rico. Taxpayers in these areas could face unique challenges as they attempt to meet their tax obligations, particularly if English is their second language. IRS management indicated that they monitor call volumes on the various telephone lines and, depending on the time of year, staffing availability, and employee skill levels, have some flexibility to reassign work to Spanish applications should the call volume increase.

IRS management indicated that services at Taxpayer Assistance Centers and Volunteer Income Tax Assistance/Tax Counseling for the Elderly sites affected by the hurricanes were restored and made available to assist taxpayers. For example, all Taxpayer Assistance Centers in affected areas have re-opened for service.

TIGTA also identified that the IRS postponed examination activities for 46,570 (99.5 percent) of the 46,819 individuals who were under examination at the hurricane strike dates, and for 5,493 (99.3 percent) of the 5,527 businesses. Finally, the IRS postponed collection activities for 1,723,389 (99.9 percent) of the 1,723,695 individuals who were in collection status at the hurricane strike dates, and for 403,792 (99.9 percent) of the 403,805 businesses.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. TIGTA provided IRS management officials an opportunity to review and comment on the draft report. IRS management provided technical comments that were incorporated as appropriate.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 5, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria (Audit # 201740042)

This report presents the results of our review to assess Internal Revenue Service (IRS) efforts to assist victims of Hurricanes Harvey, Irma, and Maria. This audit was part of our Fiscal Year 2017 discretionary audit coverage and addresses the major management challenges of Protecting Taxpayer Rights and Providing Quality Taxpayer Service.

Although we made no recommendations in this report, we did provide IRS management officials an opportunity to review and comment on the draft report. IRS management provided technical comments which were incorporated as appropriate.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

FEMA	Federal Emergency Management Agency
IRS	Internal Revenue Service
TCE	Tax Counseling for the Elderly
TIGTA	Treasury Inspector General for Tax Administration
VITA	Volunteer Income Tax Assistance



Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

Background

In response to Hurricane Harvey, the President signed major disaster declarations for Texas on August 25, 2017, and Louisiana on October 16, 2017. The President also approved major disaster declarations in response to Hurricane Irma in the U.S. Virgin Islands on September 7, 2017; Florida and Puerto Rico on September 10, 2017; Georgia on September 15, 2017; the Seminole Tribe of Florida on September 27, 2017; and South Carolina on October 16, 2017. Finally, the President approved major disaster declarations in response to Hurricane Maria in Puerto Rico and the U.S. Virgin Islands on September 20, 2017.

When the President declares a major disaster or emergency, immediate notification is made to the Governor of the affected State or U.S. Territory, appropriate members of Congress, and Federal departments and agencies. At that time, the Director of the Federal Emergency Management Agency (FEMA) appoints a Federal Coordinating Officer to assess the damage and make an initial appraisal of the types of relief most urgently needed by the affected citizens and public officials. The Federal Coordinating Officer coordinates FEMA's disaster assistance efforts and works with other Federal agencies including the Internal Revenue Service (IRS) on relief issues. For example, after the FEMA assesses the damage, it issues a Disaster Declaration to both notify the IRS Disaster Assistance Program Office and to provide general disaster information including the specific counties/municipalities/parishes/islands (referred to collectively in this report as "counties") within the disaster area designated as eligible for assistance. There are three types of assistance given by the FEMA:

- **Emergency Measures** – Includes actions to be taken before, during, and after a disaster to save lives, protect public health and safety, and prevent damage to improved public and private property.
- **Public Assistance** – Provides assistance to State, Tribal, and local governments for the repair or replacement of disaster-damaged public facilities. The Public Assistance Grant Program provides grants to State and local governments and certain private nonprofit agencies to respond to disasters, recover from the impact, and mitigate the impact of future disasters.
- **Individual Assistance** – Provides assistance to individuals and businesses in need of temporary housing, unemployment payments, housing repairs, medical assistance, and similar benefits.

The specific type of assistance that the FEMA gives generally dictates the type of disaster assistance the IRS will provide. For example, the IRS grants tax relief to individuals and businesses in counties given individual assistance by the FEMA. In certain circumstances, this relief can also be extended to taxpayers in counties identified for public assistance. Once



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individual assistance is given by the FEMA to specific counties affected by the disaster, the IRS Disaster Assistance Program Office prepares and distributes an internal Disaster Relief Memorandum¹ to key IRS functional areas that summarizes the tax relief to be provided. Individuals and businesses in eligible counties are identified by zip code. Figure 1 shows the number of taxpayers and businesses affected by the three hurricanes.

Figure 1: Individuals and Businesses in Disaster Areas and Eligible for Tax Relief

Hurricane	Individuals	Businesses
Harvey	17,007,391	4,666,647
Irma	31,417,396	14,197,710
Maria	1,030,379	413,582
Total	49,455,166	19,277,939

Source: Treasury Inspector General Tax Administration (TIGTA) analysis of tax accounts for individuals and businesses, as of October 27, 2017.

Following major disasters and emergencies, taxpayers and tax practitioners may require tax relief to enable them to meet their tax obligations such as filing returns or paying taxes. To provide this relief, the IRS places a disaster relief indicator on taxpayers' accounts. Along with placing the indicator on the applicable tax account, the IRS includes additional information on the tax account such as the FEMA number that identifies the Federally declared disaster and the disaster relief period (beginning and ending dates).

The placing of a disaster relief indicator on a tax account is intended to postpone the time to file certain tax returns and make certain tax payments that have an original or extended due date that falls within the postponement period. Also, penalties and interest will not accrue on tax returns or payments with an original or extended due date that falls within the postponement period. In the most catastrophic disasters, tax relief also includes suspending certain enforcement activities, *e.g.*, collection of delinquent taxes, performance of audits. Figure 2 shows the number of individual and business taxpayers that were in a collection status or under examination at the time of these hurricanes.

¹ A Disaster Relief Memorandum is an internal document issued to notify IRS personnel that tax relief has been granted associated with a Federally declared disaster. It is prepared for each disaster declaration and includes a summary of the relief (such as the counties eligible for tax relief), the disaster relief period (beginning and ending dates), and the type of tax relief granted.



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Figure 2: Individuals and Businesses in Collection Status or Under Examination at the Hurricane Strike Dates

Function		Number of Taxpayers	Balance Due
Collection	Individual	1,723,695	\$32,646,984,788
	Business	403,805	\$11,063,447,535
Examination	Individual	46,819	--
	Business	5,527	--

Source: TIGTA analysis of taxpayer accounts in collection status or under examination.

This review was performed in the Wage and Investment Division and Small Business/Self-Employed Division located in New Carrollton, Maryland, during the period September 2017 through February 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

A Coordinated Effort Was Initiated in Response to the Hurricanes to Provide Tax Relief to Individuals and Businesses

The IRS's Small Business/Self-Employed Division's Disaster Assistance Program Office coordinates the agency's tax relief efforts for individuals and businesses. Figure 3 shows selected activities completed by the Disaster Assistance Program Office in response to each hurricane.

Figure 3: Selected Activities Completed by the Disaster Assistance Program Office

Activity	Hurricane		
	Harvey	Irma	Maria
Prepared internal Disaster Relief Memoranda identifying counties affected by the disaster.	✓	✓	✓
Prepared an IRS Disaster Relief Memorandum for distribution (internal use only) for each disaster declaration.	✓	✓	✓
Determined the relief period (up to 180 days) along with the specific type of relief to be provided as well as the need to add a disaster relief indicator on taxpayers' accounts.	✓	✓	✓
Notified the State Disaster Assistance Coordinator ² of Federally declared disasters to coordinate operations in the field to include staffing, training, reporting, and securing equipment.	✓	✓	✓
Coordinated with the Communications and Liaison function to ensure timely issuance of press releases alerting the public of the IRS's disaster relief assistance as well as coordinating with other local, State, and Federal government agencies.	✓	✓	✓

Source: TIGTA analysis of IRS actions related to the hurricanes.

² The State Disaster Assistance Coordinator has primary responsibility to mobilize personnel to provide assistance to taxpayers in areas covered by Federally declared disasters.



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The Disaster Tax Relief and Airport and Airway Extension Act of 2017³ was signed into law on September 29, 2017

This law modifies several tax provisions and rules for individuals and businesses in areas affected by Hurricanes Harvey, Irma, and Maria. IRS management indicated there are 73 provisions included in the legislation. The provisions include early withdrawals and loans from retirement plans, employment-related tax credits, deductions for charitable contributions, deductions for personal casualty losses, and income requirements for the earned income tax credit and the child tax credit. Implementation of these provisions required the IRS to revise forms, publications, and instructions for multiple tax years. In addition, training was given to educate employees on the special disaster-related rules for the multiple provisions in the law. The IRS estimates implementation of this legislation will cost more than \$2.5 million. It should be noted that the IRS was not provided additional funding to implement the processes and procedures required by the legislation.

The IRS Timely and Accurately Placed Disaster Freeze Code Indicators on Eligible Taxpayer Accounts

The IRS accurately identified all 4,241 zip codes in the disaster-affected counties associated with the three hurricanes. Specifically, the IRS used FEMA's list of counties eligible for individual assistance to identify zip codes of the covered disaster areas eligible for tax relief. Once identified by the Disaster Assistance Program Office, the zip codes were sent to the IRS's Information Technology organization for input of the specific disaster relief freeze code indicator to be placed on tax accounts for taxpayers who reside within a specific zip code. Depending on the zip code in which the individual resides, one of two disaster freeze code indicators were placed on the taxpayer's tax account:

- **-O freeze code indicator** – Generally added to the tax accounts of taxpayers affected by the most catastrophic disasters. The -O freeze was added to the accounts of taxpayers who reside in the eligible zip codes in Florida, Puerto Rico, the Seminole Tribe of Florida, Texas, and the U.S. Virgin Islands. The -O freeze provides the following relief:
 - Suspends mailing of IRS notices with the exception of assessment notices⁴ and letters and notices pertaining to Form 668-D, *Release of Levy/Release of Property from Levy*.
 - Establishes a filing and payment postponement period for those taxpayers with a filing or payment due date or extended due date within the disaster period.

³ Pub. L. 115-63, 131 Stat. 1168 (codified in scattered sections of the I.R.C. and Title 49 of the U.S. Code).

⁴ An assessment notice is the written decision of the tax authorities after a review of a taxpayer's return, whereby the amount of taxable income is determined and the amount of tax due is calculated. It includes the amount of his or her tax refund, tax credit, and income tax already paid.



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- Allows for special penalty/interest computation for taxpayers meeting the criteria for the filing and payment relief granted.
- Suspends collection and examination activities, including the processing of Taxpayer Delinquent Accounts⁵ and Taxpayer Delinquent Investigations.⁶
- **–S freeze code indicator** – A systemic disaster indicator that gives the IRS the flexibility to grant filing and payment relief without suspending compliance activities. This freeze code was added to the accounts of eligible taxpayers in zip codes in Florida, Georgia, Louisiana, South Carolina, and Texas.

The tax relief is provided for the time frame that the IRS sets for each disaster. Figure 4 provides the disaster declaration and end of relief dates for the three hurricanes.

Figure 4: Disaster Declaration Dates and Date of End of Relief for Affected Taxpayers by Hurricane

Hurricane	State/Island	Date Disaster Declared	Date Relief Ends
Harvey	Texas	August 25, 2017	January 31, 2018 Extended to June 29, 2018, for Puerto Rico and U.S. Virgin Islands taxpayers.
	Louisiana	October 16, 2017	
Irma	U.S. Virgin Islands	September 7, 2017	
	Florida	September 10, 2017	
	Puerto Rico	September 10, 2017	
	Georgia	September 15, 2017	
	Seminole Tribe of Florida	September 27, 2017	
	South Carolina	October 16, 2017	
Maria	Puerto Rico	September 20, 2017	
	U.S. Virgin Islands	September 20, 2017	

Source: Disaster Declaration Memoranda for Hurricanes Harvey, Irma, and Maria.

⁵ A Taxpayer Delinquent Account is a balance due account of a taxpayer.

⁶ A Taxpayer Delinquent Investigation is an account in which it appears a tax return has not been filed by a taxpayer.



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Disaster relief freeze code indicators were correctly placed on affected taxpayer accounts

Our review identified that the IRS correctly placed a disaster relief freeze code on 68,635,299 (99 percent) of the 68,733,105 eligible taxpayers' accounts. Figure 5 provides the number of taxpayers that received the –O freeze code and –S freeze code.

Figure 5: Individuals and Businesses That Received a Disaster Relief Freeze Code, by Type of Freeze

Hurricane	<u>Business</u>		<u>Individual</u>	
	–O Freeze	–S Freeze	–O Freeze	–S Freeze
Harvey	2,058,540	2,616,832	7,334,875	9,663,982
Irma	9,921,704	4,295,634	18,479,757	12,944,339
Maria	412,462	55,669	1,026,388	197,640
Total	12,392,706	6,968,135	26,841,020	22,805,961

Source: TIGTA analysis of IRS tax accounts for individuals and businesses that received disaster relief indicators. Taxpayers affected by more than one hurricane are counted more than once, and some accounts received both the –O and –S freeze code.

Figure 6 provides the number of taxpayer accounts, in each disaster area, updated with a freeze code.

Figure 6: Total Number of Individuals and Businesses That Received a Disaster Relief Freeze Code, by Location

State/Island	Number of Taxpayer Accounts
Florida	30,155,895
Texas	20,257,840
Georgia	12,839,775
South Carolina	1,880,553
Louisiana	1,411,120
Puerto Rico	1,367,773
U.S. Virgin Islands	71,330
Total	67,984,286

Source: TIGTA analysis of IRS tax accounts for individuals and businesses in hurricane-affected zip codes.



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For the remaining 97,806 taxpayers whose tax account was not updated with an indicator, we determined that there was an address change associated with the taxpayer within a few weeks after the hurricane, or the taxpayer had a no-filing requirement marker on his or her account.⁷

The IRS also provides a process by which taxpayers located outside of the covered disaster areas, but affected, can self-identify for disaster relief

Taxpayers may also self-identify as being affected by the hurricanes and obtain tax relief by calling the IRS's disaster toll-free telephone line. The IRS will automatically grant tax relief and manually input the disaster relief indicator on the taxpayer's account. Our review identified a total of 5,622 business taxpayers and 10,508 individual taxpayers self-identified as victims of one of these hurricanes and were provided tax relief, as of November 17, 2017.

Taxpayer Service Was Restored in Areas Affected by the Hurricanes

The hurricanes affected all counties in Florida, multiple counties in Texas, as well as the U.S. Virgin Islands and Puerto Rico. Subsequent to these disasters, taxpayers in these areas can face unique challenges as they attempt to meet their tax obligations, particularly if English is their second language. Recognizing the potential challenges, IRS management indicated that they monitor call volumes on the various telephone lines and, depending on the time of year, staffing availability, and employee skill levels, have flexibility to reassign assistors to work Spanish applications should the call volume increase. Figure 7 shows a comparison of telephone service data for English and Spanish applications on the IRS's primary toll-free telephone line.

⁷ Some tax rules preclude individuals and businesses from having a filing requirement. For example, an individual with a single filing status, under the age of 65, is not required to file a return if his or her income is under \$10,400.



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Figure 7: Telephone Data on the IRS's Primary Toll-Free Telephone Line

Language	Services Provided	Calls Abandoned	Average Handle Time (seconds)	Average Speed of Answer (seconds)
Fiscal Year 2016				
Spanish	338,924	116,078	916	869
English	7,081,180	1,478,949	539	811
Fiscal Year 2017				
Spanish	325,133	71,228	987	438
English	5,705,215	540,794	573	386
Fiscal Year 2018*				
Spanish	140,578	27,888	905	347
English	2,616,417	252,264	558	382

Source: IRS Enterprise Telephone Database for English and Spanish.⁸ * = Data are through March 26, 2018.

In addition, immediately following the hurricane disaster declarations, the IRS issued 18 alerts to its front-line employees advising them of the disaster relief available to taxpayers. These alerts included the appropriate affected counties, the dates of the tax relief periods, as well as steps needed to postpone collection and enforcement activities. IRS management also indicated that Taxpayer Assistance Centers⁹ and Volunteer Income Tax Assistance and Tax Counseling for the Elderly (VITA/TCE) sites¹⁰ affected by the hurricanes were restored and assisting taxpayers. For example, all Taxpayer Assistance Centers in affected areas were reopened as quickly as possible, as shown below:

- 17 Taxpayer Assistance Centers in Florida were temporarily closed but all were reopened by September 19, 2017.
- 5 Taxpayer Assistance Centers in Texas were temporarily closed but all were reopened by September 5, 2017.
- 1 Taxpayer Assistance Center in Puerto Rico was temporarily closed but was reopened on October 12, 2017.
- No Taxpayer Assistance Centers are located in the U.S. Virgin Islands.

Taxpayer Assistance Center employees assist taxpayers affected by these disasters by distributing Publication 2194, *Disaster Resource Guide for Individuals and Businesses*, and

⁸ The Enterprise Telephone Database is the primary repository for all historic contact center data, which enables business operations to perform contact center analysis and track business metrics.

⁹ Field Assistance site at which comprehensive face-to-face assistance is provided to those taxpayers who need it, specifically prefilling assistance and help with routine compliance issues.

¹⁰ The IRS offers free assistance with tax return preparation and tax counseling using specially trained volunteers. The VITA and TCE programs assist seniors and individuals with low- to moderate-incomes, those with disabilities, and those for whom English is a second language.



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answering tax law questions related to casualty losses. Publication 2194 is a disaster resource guide to help individuals claim casualty losses on property that was destroyed by a natural disaster. The publication also contains a list of tax products needed to claim a casualty loss, instructions regarding information to be gathered, and worksheets. It also provides information on IRS disaster assistance and resources.

Finally, IRS management indicated that historically the IRS does not provide tax preparation assistance to disaster victims with returns that include casualty losses at its VITA/TCE sites. IRS management noted that they did explore adding casualty losses to the VITA/TCE sites tax preparation offering. Based on their assessment, management concluded that due to the topic's complexity, casualty losses would remain out of scope. However, the IRS developed the following products to support VITA/TCE sites when assisting impacted taxpayers:

- Fact Sheet, *Information for VITA/TCE Sites Impacted by Federally Declared Disasters* – outlines products and tax law implications.
- Casualty Loss Screening Tool – can be used as a resource to assist sites in identifying out of scope casualty loss returns.
- Job Aide, *Supplemental Guidance on How to Use Form 4852, Substitute for Form W-2 When Missing the Form W-2, Wage and Tax Statement, or 1099-R, Distributions From Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contracts, etc.*

Finally, during the 2017 Filing Season, nine VITA sites were open in Puerto Rico¹¹ and prepared 1,133 tax returns. For the 2018 Filing Season, the IRS had 652 sites in Florida, 543 sites in Texas, and eight sites in Puerto Rico. To advise taxpayers of changes to VITA sites in Puerto Rico, the IRS sent public announcements to local newspapers to promote the sites that were open for the 2018 Filing Season. In addition, VITA partners promoted the services through their social media platforms.

Enforcement Activities Were Postponed for Eligible Taxpayers As Required

The IRS postponed enforcement activity from the disaster declaration date through the end of the disaster relief period for taxpayers that the IRS added an –O freeze indicator to their tax account. Enforcement activity was also postponed on a case-by-case basis for taxpayers that the IRS added an –S freeze indicator to their tax account, as well as some taxpayers outside the disaster areas who called the IRS and self-identified as an affected taxpayer. Enforcement activities include actions taken by Examination and Collection functions. Examination function activities include: 1) correspondence examinations, which are completed through written correspondence with taxpayers, 2) field examinations, which involve face-to-face interaction with taxpayers and

¹¹ IRS management noted that it does not have VITA/TCE sites in the U.S. Virgin Islands.



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are typically conducted in their homes or businesses, and 3) office examinations, which are conducted in IRS offices.

Collection function activities include collecting delinquent taxes through:

- Notices of Federal Tax Lien – a publicly recorded document of the Government’s legal claim to property, including property subsequently acquired.
- Levies – a seizure of assets such as wages, bank accounts, Social Security benefits, and retirement income. The IRS also may seize property (including a car, boat, or real estate) and sell the property to satisfy the tax debt.

Examination function activities were postponed for the vast majority of taxpayers

Our review identified that the IRS postponed examination activities for 46,570 (99.5 percent) of the 46,819 eligible individual taxpayers who were under examination at the hurricane strike dates. In addition, the IRS postponed examination activities for 5,493 (99.3 percent) of the 5,527 eligible businesses that were under examination at the hurricane strike dates. For the 283 taxpayers who did not have their examinations postponed, work on the examination was completed prior to the disaster. For example, the IRS created letters by the disaster declaration dates, and the letters were sent to the IRS’s printing offices. These letters could not be withdrawn. In addition, some taxpayers notified the IRS that they wished to continue the examination activities.

The IRS also did not initiate new examinations on the vast majority of the 39,158,739 eligible individual taxpayers and businesses that had the –O freeze indicator placed on their accounts. Examination activities were initiated for 48 (less than 1 percent) of these taxpayers. This happened because IRS examiners did not realize the account had a –O freeze indicator when starting the examination or when adding additional tax years to an ongoing examination. In addition, some cases were started before guidance was issued to the Field Examination employees.

Collection function activities were postponed for the vast majority of taxpayers

Our review identified that the IRS avoided starting new collection activity on all 39,158,739 eligible taxpayers who had the –O freeze indicator placed on their accounts. In addition, the IRS postponed collection activities for 1,723,389 (99.9 percent) of the 1,723,695 eligible individual taxpayers who were in collection status at the hurricane strike dates and for 403,792 (99.9 percent) of the 403,805 eligible businesses that were in collection status. For the few taxpayers who did not have their collection activity postponed during the tax relief period, IRS management provided the following reasons:

- Computer input errors such as payment codes or action codes by Field Collection personnel.
- Notices of Federal Tax Lien were refiled or amended.



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- Levies were in place prior to the disaster relief indicator being placed on the account, and these actions continued after the input of the –O freeze indicator.
- With executive concurrence, the –O freeze indicator was overridden to address exigent circumstances or to allow an action requested by the taxpayer.

It should be noted that the previous analysis did not include those accounts that were in collection status and sent to a Private Debt Collector. The law requiring the IRS to enter into qualified tax collection contracts establishes certain protections for taxpayers including those in designated Federally declared disaster areas.¹² IRS guidance allows taxpayers to have their accounts returned to the IRS upon the request of the taxpayer and prohibits the assignment of accounts belonging to taxpayers in a Federally declared disaster area. The guidance provides that the IRS will not assign an account to a private collection agency that has the designation of a taxpayer in a Federally declared disaster area. We have a separate audit assessing the IRS's planning and implementation of the Private Debt Collection program.¹³

¹² Fixing America's Surface Transportation Act, Pub. L. 114-94, 129 Stat. 1312.

¹³ *Implementation of the Private Debt Collection Program Phase I*, Audit Number 201630029.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess IRS efforts to assist victims of Hurricanes Harvey, Irma, and Maria. To accomplish our objective, we:

- I. Assessed the completeness of the Disaster Program Office's response and IRS outreach to taxpayers affected by Hurricanes Harvey, Irma, and Maria.
 - A. Interviewed officials in the Disaster Program Office.
 - B. Evaluated the IRS's communication channels for accuracy, completeness, and consistency.
- II. Evaluated assistance provided to victims via telephone and walk-in office assistors.
- III. Assessed the accuracy and timeliness of setting disaster relief freeze codes on eligible individual and business tax accounts for Hurricanes Harvey, Irma, and Maria to ensure that the indicators are working as intended.
 - A. Determined if the IRS accurately and completely identified individuals and businesses located in zip codes eligible for tax relief.
 - B. Determined if the IRS accurately and completely placed disaster relief indicators on eligible individual and business tax accounts located in zip codes eligible for tax relief.
 - C. Determined if there were tax relief provisions not given to taxpayers who are eligible, and erroneously given to those not eligible.
- IV. Assessed the effect of tax relief efforts on IRS enforcement functions and determined if the IRS suspended compliance activities as required.
 - A. Interviewed officials in the Collection function to identify the systems and processes used to issue taxpayer notices.
 - B. Identified the number of individuals and businesses that should have had the –S or –O freeze placed on their account and were in a collection status and/or under examination at the disaster relief grant date.
 - C. Evaluated IRS processes for updating accounts in its systems for taxpayers with the –O freeze to determine if all appropriate compliance activities were suspended.



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- D. Monitored the accounts identified in Step IV.B. with the –O freeze to determine if examination or collection codes are erroneously placed on those accounts during the suspension period.
- E. Monitored the accounts identified in Step IV.B. with the –O or –S freeze to determine if transaction codes for collection notices were present on these accounts during the period August 23, 2017, through January 31, 2018.

Data validation methodology

During this review, we obtained extracts from the IRS’s Examination Returns Control System,¹ Audit Information Management System,² and Transaction Category Report³ databases that were available on TIGTA’s Data Center Warehouse.⁴ Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS’s Integrated Data Retrieval System.⁵ We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of values in pertinent fields for testing. Based on the results of our testing, we believe that the data used in our review were reliable.

Internal controls methodology

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: processes for providing outreach and assistance to taxpayers; processes for ensuring the placement of tax relief indicators; and processes for suspending compliance activities. We evaluated these controls by interviewing IRS management officials, reviewing IRS procedures, and analyzing taxpayer tax accounts.

¹ The Examination Returns Control System is an automated inventory management system used by field personnel in both the Small Business/Self-Employed and Large Business and International Divisions. It is used for controlling tax returns and technical time charges from the time returns arrive until they are closed on the Audit Information Management System.

² The Audit Information Management System tracks the location, age, and status of returns in the Examination function, and is used by Appeals, Examination function, and Tax Exempt and Government Entities Division employees to control returns, input assessments/adjustments, and provide management reports.

³ Files created as part of the IRS’s Accounts Receivable Dollar Inventory. The files identify all taxpayer accounts with a balance due and also show the collection status of the accounts.

⁴ The Data Center Warehouse is a collection of IRS databases containing various types of taxpayer account information that is maintained by TIGTA for purpose of analyzing data for ongoing audits.

⁵ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.



Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

Appendix II

Major Contributors to This Report

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Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Small Business/Self-Employed Division
Commissioner, Wage and Investment Division
Deputy Commissioner, Small Business/Self-Employed Division
Deputy Commissioner, Wage and Investment Division
Director, Office of Audit Coordination



Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

Appendix IV

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

June 19, 2018

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Mary Beth Murphy *Mary Beth Murphy*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Actions Were Taken to Timely Provide
Disaster Relief Tax Assistance to Victims of Hurricanes Harvey,
Irma and Maria (Audit # 201740042)

Thank you for the opportunity to review the draft audit report. We appreciate your recognition of our efforts to provide systemic filing and payment to taxpayers affected by Hurricanes Harvey, Irma and Maria. Your audit was conducted while the efforts related to these hurricanes were underway and we appreciate the consideration and flexibility of the audit team.

The IRS Disaster and Emergency Relief Program provides administrative filing and payment relief to taxpayers impacted by qualifying disasters or emergencies and to provide outreach on disaster related tax issues. The goal of the program is to assist taxpayers in meeting their federal tax obligations without being penalized.

As you acknowledged in your report, the IRS has developed processes and procedures that help ensure taxpayers adversely affected by a major disaster or emergency are afforded tax relief. The policies we have in place allowed us to timely and efficiently grant tax relief to over 67 million business and individual taxpayers located in the areas impacted by Hurricanes Harvey, Irma, and Maria.

In addition, each IRS Business Operating Division provided assistance, from answering taxpayer/Federal Emergency Management Agency (FEMA) calls, to providing guidance to taxpayers with compliance issues, while some of our employees headed out to personally work in the Disaster Recovery Centers in some of the harder hit areas. This was all accomplished while the IRS was trying to account for its own employees.

The IRS strives to provide outstanding service and support to the taxpayers impacted by disasters. We are committed to continuously look for opportunities for improvement in how we provide disaster assistance moving forward.



Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria

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If you have any questions, please contact me or Nanette M. Downing, Director, Human Capital Office, Small Business/Self-Employed Division.