



*Trends in Compliance Activities  
Through Fiscal Year 2018*

**September 9, 2019**

**Reference Number: 2019-30-063**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

### TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2018

## Highlights

**Final Report issued on September 9, 2019**

Highlights of Reference Number: 2019-30-063 to the Commissioner of Internal Revenue.

### IMPACT ON TAXPAYERS

This report is a compilation of statistical information reported by the IRS. The data presented in this report provide taxpayers and stakeholders with information about how the IRS focuses its compliance resources and the impact of those resources on revenue and compliance over time.

### WHY TIGTA DID THE AUDIT

TIGTA conducts this review annually in response to continuing stakeholder interest in the analysis and trending of Collection and Examination function activities. The overall objective was to provide various statistical information regarding Collection and Examination function activities.

### WHAT TIGTA FOUND

During Fiscal Year (FY) 2018, U.S. taxpayers filed more than 152 million individual and 11.4 million business income tax returns and forms. These filings resulted in the more than \$3.4 trillion of total revenue collected during FY 2018. The challenges associated with implementing the Tax Cuts and Jobs Act of 2017 and declines in the number of employees have not helped to ease the difficulties in enforcing the tax law. While the direct impact of the FY 2019 lapse in appropriations and Government shutdown that lasted for 35 days may be difficult to quantify, the shutdown increased the challenges for the IRS in its efforts to administer the tax laws.

Over the past five years, the IRS's budget has increased approximately 2 percent to \$11.4 billion in FY 2018 from \$11.2 billion in FY 2014. In addition, the IRS ended FY 2018

with approximately 74,904 full time equivalents, a 4 percent decline from the 77,685 in FY 2017.

The IRS collected an all-time high amount of enforcement revenue of \$59.4 billion in FY 2018. Over the past several years, increases in enforcement revenue have generally been due to an increase in returns filed with a balance due, which are largely handled through automated notices and other substantially automated programs. More than half of the total enforcement revenue collected in FY 2018 was collected within the collection automated notice stream (\$30.2 billion).

The Automated Collection System supported the IRS's enforcement operations by collecting approximately \$3.3 million per full-time equivalent in FY 2018, while revenue officers within the Field Collection function collected, on average, over \$2.6 million each.

In FY 2018, the IRS identified 73.4 million taxpayers that failed to file a tax return, including 10.6 million individuals and 62.8 million businesses. Delinquencies associated with nonfilers for Tax Year 2016, the most recent year estimated, were approximately \$37.5 billion.

During FY 2018, 991,000 (less than 1 percent) returns were examined. The number of returns examined has declined 28 percent since FY 2014, when 1.4 million were examined. The decline in examinations is the result of decreases in staffing. From FY 2014 to FY 2018, the number of staff assigned to the IRS's Examination functions decreased 24 percent.

### WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. IRS officials were provided an opportunity to review the draft report and did not provide a formal response.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 9, 2019

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2018 (Audit # 201930009)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This audit is included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Improving Tax Reporting and Payment Compliance.

Although we made no recommendations in this report, we provided IRS officials an opportunity to review the draft report. IRS management did not provide us with any report comments.

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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*Abbreviations*

ACS	Automated Collection System
ERIS	Enforcement Revenue Information System
FY	Fiscal Year
IRS	Internal Revenue Service
LB&I	Large Business and International
SB/SE	Small Business/Self-Employed
TE/GE	Tax Exempt and Government Entities
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment



## *Trends in Compliance Activities Through Fiscal Year 2018*

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### *Background*

Given the responsibility for administration of the Nation's tax code, the Internal Revenue Service (IRS) must consider its mission in planning and executing various legislative changes as well as in evaluating its performance and the results of its programs. The IRS's mission is to:

*Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.*

Each year, the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the IRS's Collection and Examination function activities.<sup>1</sup> Our data analyses were performed in TIGTA's Washington, D.C., and Baltimore, Maryland, offices during the period December 2018 through June 2019. Nationwide data from IRS management information systems were used during our review. Due to time and resource constraints, we did not audit the IRS systems to validate the accuracy and reliability of that information. We did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of this report are included in Appendix IV. A glossary of terms is included in Appendix VI.

Most of the calculations throughout the report and Appendix IV are affected by rounding. All initial calculations were performed using the actual numbers rather than the rounded numbers that appear in the report. Much of the data included in this report update prior TIGTA reports on compliance trends. Appendix V presents a list of those recent reports.

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<sup>1</sup> TIGTA did not perform this review in Fiscal Year 2012.



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*Results of Review*

**Despite Diminished Resources, the Internal Revenue Service  
Achieved an All-Time High Amount of Enforcement Revenue in Fiscal  
Year 2018**

During Fiscal Year (FY) 2018, U.S. taxpayers filed more than 152 million individual and 11.4 million business income tax returns and forms. These filings make up approximately two-thirds of the 250 million returns and forms that the IRS received from taxpayers in FY 2018.<sup>2</sup> The IRS also received over 30 million employment tax returns, more than 1 million excise tax forms, and approximately 279,000 estate and gift tax forms.<sup>3</sup> These filings resulted in the more than \$3.4 trillion of total revenue collected during FY 2018.<sup>4</sup>

Taxpayer services, such as filing and account services, taxpayer assistance, and taxpayer advocacy services, are important to ensure that taxpayers receive the help that they need in timely meeting their tax obligations. Taxpayers that do not meet their tax obligations timely contribute to the Tax Gap. For Tax Years 2008 through 2010, the IRS estimated the annual gross Tax Gap to be \$458 billion.<sup>5</sup> The Tax Gap is generally comprised of three components: nonfiling, underreporting, and underpayment. The IRS estimates that these components contribute \$32 billion, \$387 billion, and \$39 billion, respectively, to the gross Tax Gap.

Legislative changes often have an impact on both voluntary compliance and the IRS's ability to mitigate the Tax Gap through its compliance functions. On December 22, 2017, the President

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<sup>2</sup> The IRS reports that the remainder of the 250 million returns and forms includes but is not limited to forms such as Form 1040-ES, *Estimated Tax*; Form 1041, *U.S. Income Tax Return for Estates and Trusts*; Form 941-X, *Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund*; Form 943-X, *Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund*; Form 944-X, *Adjusted Employer's Annual Federal Tax Return or Claim for Refund*; Form 1040-X, *Amended U.S. Individual Income Tax Return*; Form 1041-A, *U.S. Information Return Trust Accumulation of Charitable Amounts*; Form 1120-X, *Amended U.S. Corporation Income Tax Return*; and Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*.

<sup>3</sup> IRS, Publication 55B, *Internal Revenue Service Data Book, 2018*, p. 4 (May 2019), available at <https://www.irs.gov/pub/irs-soi/18databk.pdf>.

<sup>4</sup> See Appendix IV, Figure 1.

<sup>5</sup> IRS, Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010* (May 2016), available at <http://www.irs.gov/uac/IRS-The-Tax-Gap>. Unlike prior Tax Gap estimates that pertain to a single tax year, these estimates reflect an estimated average compliance rate and associated average annual Tax Gap for Tax Years 2008 through 2010. The annual gross Tax Gap was estimated to be \$345 billion in Tax Year 2001, \$450 billion in Tax Year 2006, and \$458 billion in Tax Years 2008 through 2010. The IRS noted that the December 2007 through June 2009 recession and the weak recovery that followed contributed to the gross Tax Gap remaining substantially unchanged from the previous Tax Year 2006 estimate.





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signed into law the Tax Cuts and Jobs Act of 2017.<sup>6</sup> This Act contains 119 tax provisions administered by the IRS that affect both domestic and international taxes; it is the first major tax reform legislation in more than 30 years. A recent TIGTA review of 26 key provisions of the Act found that the IRS had to create 48 new tax products and revise 494 existing tax products. These 542 tax products include 268 tax forms, 197 tax form instructions, and 77 publications. In addition, the IRS performed computer programming changes and updates for 69 of the 119 provisions—changes that affected 128 information technology systems.<sup>7</sup>

The challenges associated with implementing this legislation were experienced across the IRS's operations, including the operating divisions that are responsible for the IRS's compliance and enforcement activities. These activities, which include the collection of delinquent taxes and examination of tax returns, play a vital role in the IRS's efforts to administer the tax code, promote taxpayer compliance, and mitigate the Tax Gap. Although the IRS collected its highest amount of enforcement revenue in FY 2018 (\$59.4 billion), in recent years, declines in the number of employees available and on-hand have not helped to ease the difficulties in enforcing the tax law.<sup>8</sup> In addition, aging information technology systems and recent lapses in appropriations also contributed to the IRS's challenges.

### **Impact of recent lapse in appropriations on compliance efforts in FY 2019**

From December 22, 2018, to January 25, 2019, the IRS, along with other portions of the Federal Government, experienced a lapse in appropriations and resulting government shutdown that lasted 35 days. Over the past 10 years, this is the fourth instance of a lapse in appropriations.

The most recent shutdown affected the IRS's compliance operations in a variety of ways. For instance, the IRS collected 17 percent less in January 2019 compared to January 2018. During February 2019, after the shutdown ended, this measure improved but remained 10 percent less than was collected one year prior in February 2018.

Returns examined in the Wage and Investment (W&I) Division decreased 38 percent, and the amount of proposed tax assessments declined 45 percent in January 2019 compared to January 2018. Similarly, the number of returns examined and the proposed tax assessments decreased 44 percent and 51 percent respectively in February 2019 compared to February 2018. There was also a 6 percent increase in enforcement revenue attributed to the W&I Division (\$3.1 billion in January 2019 compared to the \$3.0 billion collected in January 2018).

The Small Business/Self-Employed (SB/SE) Division examined 22 percent fewer returns, and there was 9 percent less in proposed tax assessments for the first five months of the fiscal year (October 2018 through January 2019) compared to the same period in FY 2018. The effects did

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<sup>6</sup> Pub. L. No. 115-97, 131 Stat. 2054 (2017). Officially known as "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."

<sup>7</sup> TIGTA, Ref. No. 2019-44-030, *Interim Results of the 2019 Filing Season* (Apr. 2019).

<sup>8</sup> Enforcement revenue collected in FY 2018 is the largest nominal amount ever, when not adjusted for inflation.



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not substantially improve after the shutdown, with results for the first six months of the fiscal year (October 2018 through February 2019) showing 25 percent fewer returns being examined and proposed tax assessments declining 26 percent compared to the same period in FY 2018. As a result of the shutdown, the SB/SE Examination function adjusted its plans for the remainder of FY 2019. Planned closures through correspondence examinations in the SB/SE Division were reduced by 14 percent, while planned field examinations were reduced by 5 percent.

The Large Business and International (LB&I) Division estimates that the lapse in appropriations and ensuing shutdown led to a loss of nearly 400 large business return starts in January 2019.<sup>9</sup> The LB&I Division realized a 16 percent decrease in the number of returns examined and an 88 percent reduction in the amount of proposed tax assessments in January 2019 compared to January 2018. This carried into February 2019, with an 11 percent decline in the number of returns examined and a 61 percent drop in the amount of proposed tax assessments compared to February 2018. Enforcement revenue attributed to the LB&I Division declined during the lapse in appropriations by 70 percent, from \$5.8 billion in January 2018 to \$1.8 billion in January 2019.

The results above show that the impact on operations was not limited to the period of the shutdown. Comparing the first five weeks after reopening in FY 2019 to the same five weeks of the previous year (January 31, 2018, through March 10, 2018) shows a significant decrease in calls received by the IRS. The IRS attributes this to the fact that case starts and notices were not issued during the shutdown.

In addition, the Taxpayer Advocate reported that, during the week of February 2, 2019, the Accounts Management call lines experienced a 48 percent level of service and a 17 minute wait time, compared to an 86 percent level of service and a four minute wait time in FY 2018. The Automated Collection System (ACS) had a 38 percent level of service and a 48 minute wait time, compared to 65 percent level of service and a 19 minute wait time in FY 2018.<sup>10</sup> TIGTA recently reported that the IRS's performance measures, such as level of service, do not reflect overall call demand for IRS telephone assistance or performance.<sup>11</sup>

Overall, the direct impact on compliance results is difficult to quantify because of additional challenges that these functions are continuing to mitigate, including the continued decline in available staffing. While the direct impact may be difficult to quantify, the lapse in appropriations did increase the difficulty, at least for a short amount of time, of the IRS's efforts to bring taxpayers into compliance.

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<sup>9</sup> The LB&I Division is generally responsible for businesses with assets of \$10 million or more.

<sup>10</sup> IRS, *National Taxpayer Advocate Annual Report to Congress 2018* (Feb. 2019).

<sup>11</sup> TIGTA, Ref. No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019).



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**Resources and Their Potential Impact on Enforcement Revenue**

Over the past five years, the IRS’s budget has increased approximately 2 percent, to \$11.4 billion in FY 2018 from \$11.2 billion in FY 2014. As shown in Figure 1, funding for each of the IRS’s main budget activity’s has varied.

**Figure 1: Change in Appropriations by Budget Activity  
From FY 2014 to FY 2018 (in Millions)**

	FY 2014	FY 2018	Percentage Increase/(Decrease)
Taxpayer Services	\$2,157	\$2,513	17
Enforcement	\$5,022	\$4,627	(8)
Operations Support	\$3,799	\$4,181	10
Business Systems Modernization	\$313	\$110	(65)

*Source: Department of the Treasury, IRS, Congressional Justifications for Appropriations and Annual Performance Report and Plan, FY 2015 and FY 2020.*

In FY 2018, Taxpayer Services accounted for 22 percent of the IRS’s FY 2018 appropriations, Enforcement received 40 percent, Operations Support received 37 percent, and Business Systems Modernization received 1 percent.

From FY 2017 to 2018, Business Systems Modernization funding decreased 62 percent, from \$290 million in FY 2017 to \$110 million.<sup>12</sup> During April 2018, on the last day of the tax filing season, the IRS experienced a system crash due to a contractor’s programming issues, forcing the IRS to extend the filing season by one day. Additionally, the Taxpayer Advocate recently reported that IRS performance is limited by its antiquated technology systems that house the official record of taxpayer accounts (both the Individual Master File and the Business Master File are the oldest legacy systems in the Federal Government) and, if the IRS’s aging systems are not replaced, there may be a risk of harm to taxpayers and impairment of revenue collections for the Nation’s largest accounts receivable.<sup>13</sup>

Aging technology is not the only challenge that the IRS works to mitigate. As part of its FY 2018 Management’s Discussion and Analysis, the IRS notes several key challenges that are a priority. These include enabling all taxpayers to meet their tax obligations, cultivating a well-equipped workforce, protecting the integrity of the tax system, advancing data access, and implementing new tax laws. Such priorities are balanced with the IRS’s key responsibilities of

<sup>12</sup> According to the IRS’s FY 2018 Management’s Discussion and Analysis, Business Systems Modernization funding provides for capital asset acquisitions of information technology intended to modernize key tax administration systems. IRS, *Management’s Discussion & Analysis, Fiscal Year 2017* (Jan. 2018).

<sup>13</sup> IRS, *National Taxpayer Advocate Annual Report to Congress 2018* (Feb. 2019).



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providing efficient and effective taxpayer services and enforcing the tax laws. However, a balanced approach to these priorities is not possible without a workforce that supports the programs that ensure an effective tax administration system.

Recently, the Government Accountability Office reported on the IRS's skills gaps in mission critical occupations and determined that the IRS's efforts to address these skills gaps do not target the occupations in greatest need, such as tax examiners and revenue officers.<sup>14</sup> Overall, the IRS ended FY 2018 with approximately 74,904 full-time equivalents, a 4 percent decline from the approximately 77,685 in FY 2017. In addition, the IRS's compliance programs continued to see reductions in their available resources. Figure 2 shows staffing by compliance program and position.

**Figure 2: Examination and Collection Staffing**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Collection:					
Revenue Officers (Field Collection)	2,809	2,612	2,348	2,364	2,168
Campus Collection (including ACS Staff)	3,563	3,871	3,673	3,788	3,894
SB/SE Examination:					
Revenue Agent	5,216	4,832	4,803	4,364	4,026
Tax Compliance Officer	931	845	753	674	605
Tax Examiners	48	44	63	63	52
LB&I Examination:					
Revenue Agent	3,583	3,350	3,134	3,016	2,802
Tax Compliance Officer	87	96	79	82	68
Tax Examiners	13	15	8	0	0
W&I Examination:					
Tax Examining Staff	3,545	2,421	2,310	2,194	2,484
TE/GE Examination: *					
Revenue Agent	1,071	991	929	876	821
Tax Examining Staff	113	101	95	97	99
<b>Total</b>	<b>20,979</b>	<b>19,178</b>	<b>18,195</b>	<b>17,518</b>	<b>17,019</b>

Source: Revenue Officer data obtained from Collection Activity Report 5000-23. SB/SE and LB&I Examination data based on TIGTA analysis of IRS Table 37s. Campus Collection, W&I Examination, and TEGE Examination data based on TIGTA analysis of data provided by the IRS Human Capital Office.

\* TE/GE = Tax Exempt and Government Entities.

<sup>14</sup> Government Accountability Office, GAO-19-176, Report to Congressional Requestors, Internal Revenue Service, *Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission* (Mar. 2019).



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While losses in staffing have been substantial, the amount of total enforcement revenue related to the work performed by these compliance employees has not decreased in total. Enforcement revenue collected increased to \$59.4 billion in FY 2018, which is the highest amount of enforcement revenue ever collected by the IRS.<sup>15</sup>

Given the fact that available resources have generally been on the decline, it may be somewhat unexpected for enforcement revenue to have increased in each of the past four years. While examination closures of a number of a relatively few large taxpayers can have an impact on enforcement revenue, the IRS also advised us that over the past several years, increases in enforcement revenue have generally been due to an increase in returns filed with a balance due that are largely handled through notices or other substantially automated programs. In fact, more than half of the total enforcement revenue collected in FY 2018 (\$59.4 billion) was collected within the collection notice stream (\$30.2 billion). Because notices are computer generated and mailed to taxpayers, there is initially little direct involvement by IRS employees. To the extent that taxpayers then take action to pay or otherwise resolve their balance due modules, collections can occur with relatively little additional IRS investment.<sup>16</sup> However, a portion of taxpayers may contact the IRS to discuss the notice, take action to pay, or otherwise resolve their delinquency. In these instances, the level of direct employee involvement may increase.

The remainder of enforcement revenue collected in FY 2018 was collected prior to the notice stream (\$12.2 billion) (*e.g.*, Examination, Office of Appeals), by the ACS (\$9.8 billion), by the Field Collection function (\$5.6 billion), or when assigned to the queue (\$1.5 billion).<sup>17</sup> Figure 3 shows a comparison of enforcement revenue collected during FY 2014 and FY 2018.

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<sup>15</sup> See Appendix IV, Figure 2.

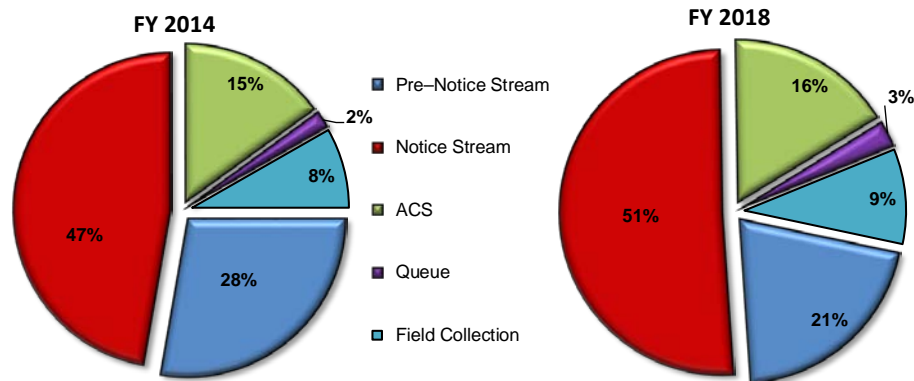
<sup>16</sup> TIGTA, Ref. No. 2011-30-112, *Reducing the Processing Time Between Balance Due Notices Could Increase Collections*, p. 4 (Sept. 2011).

<sup>17</sup> Enforcement revenue details are based on our analysis of information from the Enforcement Revenue Information System, which is a compilation of cross-functional IRS databases that track direct hours spent on cases; the life span of enforcement cases, assessments, recommendations, and collections; and the timing of revenue collected from all IRS enforcement actions.



## Trends in Compliance Activities Through Fiscal Year 2018

**Figure 3: Enforcement Revenue Collected During FY 2014 and FY 2018<sup>18</sup>**



Source: TIGTA analysis of Enforcement Revenue Information System (ERIS) data.

### Collection Function Compliance Activities

The mission of the IRS's Collection function is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, and to educate taxpayers to facilitate future compliance. This is generally achieved through processes and programs that include the collection notice stream, the systemic processes and work of employees within the Campus Collection function (including the ACS), and the work of revenue officers within the Field Collection function.

When delinquent taxpayers do not respond to notices issued via the notice stream, the bulk of the IRS's Collection inventory is initially routed to the ACS. The ACS is a collection inventory system and collection function through which contact representatives at call sites are responsible for answering incoming taxpayer telephone calls and working an inventory of Taxpayer Delinquent Accounts (TDAs) and Taxpayer Delinquency Investigations (TDI).<sup>19</sup> ACS staff generally work cases requiring telephone contact for resolution as well as those cases that may realize a benefit from a variety of systemic actions in an attempt to prompt payment and bring taxpayers into compliance. These include, but are not limited to, systemic notice issuances and,

<sup>18</sup> Pre-notice stream enforcement revenue reflects the collection of revenue before tax delinquencies are treated by the collection notice stream or included as collection inventory within the ACS, the queue, or Field Collection. The collection queue is an inventory of unassigned delinquent cases. However, revenue collections may continue to post to delinquent cases while awaiting assignment.

<sup>19</sup> A TDA is balance due account of a taxpayer, which may consist of multiple tax periods with a balance due. A TDI is an unfiled tax return for a taxpayer; one TDI is issued for each delinquent tax period for a taxpayer.



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if taxpayers are unresponsive or uncooperative, enforcement actions such as levies and Notices of Federal Tax Lien filings.

During FY 2018, approximately 79 percent of delinquent accounts (TDA modules) were routed to the ACS (6,133,107 modules).<sup>20</sup> Activity and results on delinquent accounts assigned to the ACS were mixed:

- Fewer TDAs were closed from FY 2017 (6.5 million modules) to FY 2018 (6.1 million modules).
- The amount collected on TDAs assigned to the ACS increased 5 percent from FY 2017 (\$3.3 billion) to FY 2018 (\$3.5 billion).
- The number of closures for taxpayers coming into compliance by fully paying their delinquent account decreased from FY 2017 (1.6 million modules) to FY 2018 (1.5 million modules).<sup>21</sup>

The ACS operates with multiple work streams and various systemic actions; as such, it is difficult to attribute the collection of delinquent taxes to specific employees. However, a total of \$9.8 billion in enforcement revenue was attributed to ACS operations. With 3,002 full-time equivalents, the ACS supported the IRS's enforcement operations by collecting approximately \$3.3 million per full-time equivalent in FY 2018.

While the majority of collection's inventory is routed to the ACS, the IRS's Field Collection function receives the highest risk and most complex cases because those employees (revenue officers) have unique skills that enable them to work such cases. Revenue officers work one-on-one with taxpayers to bring them into compliance by obtaining delinquent returns, payments on past due tax delinquencies, or establishing payment plans. When necessary, revenue officers take enforcement actions such as levies, Notice of Federal Tax Lien filings, or seizures of property. During FY 2018, the Field Collection function closed over 211,000 delinquent tax modules for which taxpayers fully paid their delinquent tax obligations.

As we noted above, enforcement revenue attributed to the Field Collection function totaled \$5.6 billion, approximately \$1 billion more than in FY 2017. IRS management reports noted that there were an average of 2,168 revenue officers working active inventory each month throughout the year.<sup>22</sup> They collected, on average, over \$2.6 million each during FY 2018.

Because Field Collection cases are labor intensive, the cost associated with working them is generally higher than in other collection operations. In FY 2018, the IRS's Cost Accounting and User Fees Office analyzed cost-based performance measures for the Field Collection function. These measures included determining a cost per dollar collected. The cost per dollar collected

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<sup>20</sup> See Appendix IV, Figure 3.

<sup>21</sup> Details on the number of taxpayers and tax delinquencies in the ACS are included in Appendix IV, Figure 6.

<sup>22</sup> Revenue officers located in field offices assigned five or more cases, excludes management and overhead staff.



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represents how much the IRS spent on collecting one dollar, which is calculated by dividing net cost of collecting enforcement revenue attributed to Field Collection function by enforcement revenue attributed to the Field Collection function, to arrive at net cost per dollar collected by Field Collection function.<sup>23</sup> The IRS's analysis shows that, even though it represents the more high-cost option within the IRS's collection operations, in FY 2018 the Field Collection function cost only \$0.10 cents for every dollar of enforcement revenue collected. This was lower than the \$0.14 per dollar collected in FY 2017, and substantially lower than the \$0.18 per dollar collected in FY 2014.

In December 2015, legislation was enacted that requires the IRS to use designated contractors to assist in collecting tax delinquencies. The Fixing America's Surface Transportation Act includes a provision requiring the IRS to enter into qualified tax collection contracts with private collection agencies to work "inactive tax receivables."<sup>24</sup> From September 2017 through September 2018, the IRS provided private collection agencies with 601,671 delinquent taxpayer accounts totaling \$4.8 billion in outstanding tax liabilities.

As of September 30, 2018, private collection agencies collected revenue totaling \$89 million, exceeding the program's cost of \$67 million and resulting in net revenue of \$22 million. These collections reflected only 2 percent of the total outstanding tax liability assigned to the program. A recent TIGTA audit report cited the age of the cases being assigned as a possible cause of the low collection yield. TIGTA reported that delinquent accounts older than three years are statistically uncollectible and that the average age of cases assigned to the private collection agencies was 3.97 years.<sup>25</sup>

### **Nonfilers**

The IRS's collection operations also house the IRS's Nonfiler Inventory and Analysis group. This group analyzes available data twice a year and uses the results, along with the Individual Master File Case Creation Nonfiler Identification Process tool, to identify nonfilers. The program identifies taxpayers who have not filed an individual income tax return in the current year but for whom the IRS has received third-party reporting information, *e.g.*, wages and other income. Similarly, the Business Master File Case Creation Nonfiler Identification Process identifies business taxpayers that have an open filing requirement associated with Forms 941X, *Adjusted Employers Quarterly Federal Tax Return or Claim for Refund*; 1065, *U.S. Return of Partnership Income*; 1120, *U.S. Corporation Income Tax Return*; and 1120-S, *U.S. Income Tax*

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<sup>23</sup> The IRS's analysis attributed a portion (approximately 30 percent) of the enforcement revenue collected on cases in the collection queue to the Field Collection function's enforcement revenue. The other 70 percent of enforcement revenue attributed to the queue was allocated to actions by the ACS. Details on the number of taxpayers and tax delinquencies in the queue are included in Appendix IV, Figures 4 and 5.

<sup>24</sup> Pub. L. No. 114-94, Div. C, Title XXXII, § 32102, 129 Stat. 1312, 1733-36 (2015) (codified as Internal Revenue Code (I.R.C.) § 6306).

<sup>25</sup> TIGTA, Ref. No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited*, p. 3 (Sept. 2018).





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*Return for an S-Corporation.* Unlike Forms 1040, *U.S. Individual Income Tax Return*, which are filed annually on a calendar year basis, business returns may be filed on a calendar year, fiscal year, or quarterly basis.<sup>26</sup> Similar to the Individual Master File process, the Business Master File delinquency check assimilates third-party information in the case creation program to identify productive Business Master File nonfiler cases.

Once the Nonfiler Inventory and Analysis group evaluates the potential nonfiler inventory, it selects a portion of the overall number of nonfilers for case creation. Those nonfilers selected for case creation receive a delinquency notification, similar to taxpayers with delinquent payments. If a taxpayer fails to resolve the nonfiler case during this notice process, a TDI case may be generated and sent to one of the Collection inventory streams.

Due to resource constraints and the reallocation of employees to handle other types of work, for several years, Collection function management has been reducing the number of notices issued to nonfilers, which in turn has reduced the number of TDI cases.<sup>27</sup> In FY 2018, the IRS identified 73.4 million nonfilers, including 10.6 million individuals and 62.8 million businesses.<sup>28</sup> Of those nonfilers identified in FY 2018, the Collection function elevated 1.3 million nonfiler accounts (less than 2 percent) into delinquency cases. The IRS advised us that estimated delinquencies for Tax Year 2016 (the most recent year estimated) associated with nonfilers totaled approximately \$37.5 billion.

Given the 23 percent decline in TDI inventory from FY 2017 (2.3 million) to FY 2018 (1.8 million), it is evident that nonfiling continues to be a challenging compliance area that the IRS is attempting to mitigate with its current nonfiler strategy, which was updated in May 2018. The current strategy established the following goals: to identify and prioritize nonfiler work that maximizes dollars collected, to promote continued filing compliance through programs built to encourage voluntary taxpayer filing, and to increase operational efficiencies across existing nonfiler programs.

### **Examination Function Compliance Activities**

Examination is a vitally important aspect of maintaining a voluntary tax compliance system because approximately 85 percent of the gross Tax Gap is comprised of underreported tax on timely filed returns.<sup>29</sup> Examinations are the means of detecting and collecting a portion of this tax that is not reported and paid voluntarily. These efforts have a direct impact on the Tax Gap. Past IRS research supports that, in addition to their direct effect, examinations are also an

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<sup>26</sup> Unlike the Individual Master File Case Creation Nonfiler Identification Process, which is performed twice per year, the Business Master File delinquency checks are made 16 weeks after the due date of each return and tax period.

<sup>27</sup> See Appendix IV, Figure 7.

<sup>28</sup> This is an increase of 10 percent more than the 65.7 million taxpayers identified in FY 2017.

<sup>29</sup> IRS, Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010*, p. 9 (May 2016), available at <http://www.irs.gov/uac/IRS-The-Tax-Gap>.



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important driver of voluntary compliance. Research identified strong evidence implying that the indirect effect of audits to foster and improve voluntary compliance is significantly more than their effect on direct revenue. More specifically, the deterrent effect of audits started in Tax Year 1991 was more than 11 times as large as the average adjustment directly proposed by audits closed that year.<sup>30</sup>

IRS examinations can range from the issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer's records. According to recent statistics, taxpayers filed nearly 196 million returns during Calendar Year 2017, of which 991,000 (less than 1 percent) returns were examined in FY 2018.<sup>31</sup> This is 6 percent fewer examinations than in FY 2017 (1.1 million). The number of returns examined has declined 28 percent since FY 2014, when 1.4 million were examined.<sup>32</sup>

Additionally, the examinations completed during FY 2018 included approximately 741,000 (75 percent) conducted via correspondence and approximately 250,000 (25 percent) conducted in the field. Since FY 2014, there have been 32 percent fewer correspondence examinations and 38 percent fewer field examinations conducted.

The decline in examinations is the result of decreases in staffing within the examination functions. The IRS's Examination staff are organized in several business units including the W&I, the SB/SE, the LB&I, and the TE/GE Divisions. Positions include revenue agents, tax compliance officers, tax examiners, and other management and administrative staff. The number of staff assigned to the IRS's Examination functions decreased 24 percent from FY 2014 to FY 2018, with a recent decline of 8 percent since FY 2017.

Even with the recent declines in staffing, examination assessments generated \$10.8 billion of the IRS's total enforcement revenue (\$59.4 billion) in FY 2018, although this was \$1.4 billion (or 11 percent) lower than revenue in FY 2017 (\$12.1 billion).

Although the number of examinations and the number of staff on hand to perform those examinations have generally declined over the past five years, proposed assessments have not necessarily followed suit. As Figure 4 shows, proposed assessments have fluctuated year to

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<sup>30</sup> IRS, Publication 1916, *The Determinants of Individual Income Tax Compliance: Estimating The Impacts of Tax Policy, Enforcement, and IRS Responsiveness* (Nov. 1996). This analysis was conducted on individual taxpayer data over a 10-year period, 1982 through 1991, aggregated to the State level.

<sup>31</sup> IRS, Publication 55B, *Internal Revenue Service Data Book, 2018*, p. 23 (May 2019), available at <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>. IRS statistics generally associate Calendar Year 2017 data with FY 2018 examination results because, in general, examination activity is associated with returns filed in the previous calendar year. See Appendix IV, Figure 14, for details on the number of examinations by type of taxpayer.

<sup>32</sup> See Appendix IV, Figure 9.



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year. Most recently they declined by \$2.5 billion (or 9 percent), from \$29.0 billion in FY 2017 to \$26.5 billion in FY 2018.

**Figure 4: Proposed Assessments Over the Past Five Years (in Billions)**

	Total	Field examinations	Correspondence examinations
FY 2014	\$33.1	\$26.2	\$7.0
FY 2015	\$25.1	\$17.8	\$7.3
FY 2016	\$26.9	\$21.6	\$5.4
FY 2017	\$29.0	\$23.9	\$5.1
FY 2018	\$26.5	\$21.3	\$5.2

Source: TIGTA analysis of the IRS Data Book.

Taxpayers may not agree with a portion of these proposed assessments and may appeal the results of the examination or may simply not pay the assessed tax. As such, a portion of these *proposed* assessments may be reduced either before or after the Examination function closes the case. We inquired about the life cycle of these assessments, requesting the proposed assessed tax amount, subsequent reductions, and the final assessed tax amount. IRS consolidated the assessment data, as shown in Figure 5, directly from ERIS. The data reflects assessments within ERIS as of March 1, 2019, associated with cases closed in the applicable fiscal years.

**Figure 5: Number of Closed Returns and the Amount of Proposed and Final Assessments (in Billions) by Fiscal Year**

	No. Returns	Exam-Proposed (a)	Exam – Unagreed (b)	Exam – Net Tax Assessed (c)	Appeals – Net Tax Assessed (d)	Final – Net Tax Assessed <sup>33</sup> (e)
FY 2014	1.4	\$40.2	\$16.3	\$19.0	\$4.1	\$23.1
FY 2015	1.4	\$28.4	\$7.7	\$17.7	\$2.3	\$19.9
FY 2016	1.1	\$29.9	\$12.6	\$14.3	\$1.9	\$16.2
FY 2017	1.1	\$34.2	\$11.9	\$19.7	\$1.7	\$21.4
FY 2018	1.0	\$30.8	\$10.5	\$18.0	\$1.1	\$19.1
<b>Total</b>	<b>6.0</b>	<b>\$163.5</b>	<b>\$59.0</b>	<b>\$88.7</b>	<b>\$11.0</b>	<b>\$99.7</b>

Source: Provided by the IRS LB&I Division, via ERIS.

The differences between the total recommended additional tax presented in Figure 4 and proposed tax assessment amount shown in Figure 5 result because these data are not obtained from the same system. IRS management stated that the data in ERIS is constantly changing due to multiple feeder systems. Accordingly, the status of cases, tax assessments, and abatements are

<sup>33</sup> The net tax assessed is the agreed proposed tax assessment from examinations and Appeals less any abatements, claims, or anything that would reduce the assessment.



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constantly changing in ERIS as the feeder systems are updated. Also, ERIS is an accrual-based system that tracks revenues collected on both active and inactive cases. The IRS analysts who provided the data in Figure 5 informed TIGTA that the information from ERIS was better able to provide a high-level comprehensive analysis. The IRS Examinations functions generally use the Audit Information Management System for the source of examination results (Figure 4), whereas ERIS gathers data from across the IRS, tracking a case from start to finish and incorporating information from various enforcement functions (Figure 5). In addition, the IRS Office of Appeals stressed that ERIS is not an Appeals system.

Given the ability of ERIS to provide data from various stages of a case's lifecycle across IRS operations, we believe this may provide a more comprehensive analysis as to the success of the Examination functions' compliance efforts. As shown in Figure 5, over the past five years, the IRS Examination functions proposed approximately \$163.5 billion in additional tax assessments (the total of the agreed and unagreed proposed tax assessments). Taxpayers may not agree with all or a portion of these proposed assessments, at which point the IRS denotes these cases as unagreed. The taxpayer may formally protest the unagreed assessments through the IRS's Office of Appeals. Of the approximately \$59.0 billion of unagreed assessments shown in Figure 5, approximately \$29.3 billion, reflecting 27,978 examination cases, were still awaiting disposition within the Office of Appeals. The remaining 130,019 cases had been formally closed by the Office of Appeals or were awaiting final disposition.<sup>34</sup>

For those cases which were agreed by the taxpayer or may have been upheld by the Office of Appeals, after adjustments related to abatements, claims, and appealed assessments, the final net tax assessments amounted to approximately \$99.7 billion.

### **Examination results by business operating division**

**W&I Division** – The W&I Division serves individual taxpayers who pay taxes through withholdings, prepare their own tax returns, receive refunds, and generally interact with the IRS one time per year. The W&I Division also works to provide balance in compliance and outreach activities, such as enhancing delivery of Earned Income Tax Credit initiatives. In addition, the W&I Division provides staff, training, and direct support for: strategic planning; communications and liaison; finance; human resources; equity, diversity, and inclusion; business modernization; and embedded training.

Examinations within the W&I Division are mainly conducted at an IRS campus via correspondence. In FY 2014, compliance activities were realigned and many of the W&I Division's high-dollar examination programs were moved to the SB/SE Division, including

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<sup>34</sup> The IRS Office of Appeals noted that it does not produce sustention rates as a measure of productivity or success. It stated that cases are worked by applying the law to each taxpayer's unique facts and circumstances and attempt to resolve cases that are susceptible to resolution, considering hazards of litigation where appropriate. It also informed us that it does not measure success based on the extent to which cases are sustained in favor of the IRS or conceded in favor of the taxpayer.



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workstreams focused on issues such as nonfilers, high-income taxpayers, and Schedule A *Itemized Deductions* issues. The substantial portion of the W&I Division's compliance activities now revolve around addressing noncompliance involving refundable credits, including but not limited to, the Earned Income, Child, Educational, and Premium Tax Credits.

The W&I Division informed us that the impact from the realignment affected performance measures through FY 2016. Considering this, the number of W&I Division examinations increased 1 percent, from 457,000 in FY 2017 to 461,000 in FY 2018. At the same time, the amount of proposed assessments related to these examinations decreased from approximately \$2.1 billion in FY 2017 to approximately \$2.0 billion in FY 2018.<sup>35</sup>

More than 72 percent of examinations performed within the W&I Division are related to tax returns claiming the Earned Income Tax Credit. Overall, the number of tax returns claiming the credit have not increased over the past five years. At the same time, the number of examinations conducted by the W&I Division for returns claiming the credit have increased by 17 percent, from 282,665 in FY 2014 to 330,886 in FY 2018.

***SB/SE Division*** – The SB/SE Division serves individuals filing Form 1040; Form 2106, *Employee Business Expenses*; Form 1120; Form 1120-S; or Form 1065, as well as other business returns with assets less than \$10 million. The SB/SE Division's examination staff includes revenue agents, tax compliance officers, revenue officer examiners, and tax analysts who perform examinations either in the field or at a campus via correspondence audit.

The number of tax return examinations performed by the SB/SE Division continues to decline, having decreased 40 percent from FY 2014 (823,904) to FY 2018 (497,104). Of the 991,168 tax returns examined by the IRS during FY 2018, more than half were conducted by the SB/SE Division.<sup>36</sup> The SB/SE Division's results during FY 2018 included 408,731 individual tax return examinations, which accounted for 41 percent of the IRS's total examinations.

In FY 2018, SB/SE Division employees also examined 63,537 high-income tax returns, which accounted for 6 percent of the 991,168 total tax returns examined by the IRS in FY 2018. Over the past five years, the number of high-income tax returns examined by the SB/SE Division has declined over 50 percent from 130,395 in FY 2014 to 63,537 in FY 2018. Within the last year, this trend has continued, with the number of high-income examinations declining 26 percent from 85,942 in FY 2017.

Examinations of employment tax returns have also declined, by 25 percent, from FY 2014 (56,604) to FY 2018 (42,670). However, over the same period, proposed assessments for

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<sup>35</sup> The actual proposed assessments were significantly affected by rounding, this measure declined by \$48.4 million from FY 2017 to FY 2018.

<sup>36</sup> See Appendix IV, Figure 10. Of the 497,104 examinations conducted by the SB/ES Division in FY 2018, 225,071 were examined in the field, with 272,033 examined at a campus via correspondence.



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employment tax examinations increased 22 percent, from \$506.4 million in FY 2014 to \$618.0 million in FY 2018.

The amount of proposed assessments in the SB/SE Division decreased by 22 percent over the past five years, from \$12.1 billion in FY 2014 to \$9.4 billion in FY 2018. More than 71 percent of the SB/SE Division's total assessments were the result of field examinations in FY 2018. Field examiners proposed assessments totaling \$6.7 billion, while correspondence examinations resulted in \$2.7 billion in proposed assessments.

One measure of audit productivity is the percentage of audited tax returns that result in recommended adjustments. The IRS associates a high percentage of audited tax returns that result in recommended adjustments with greater audit productivity, while audits that result in no change are considered unproductive. Unproductive work is generally measured by the "no-change rate," *i.e.*, the percentage of examinations for which the examiner closed the case with no recommended tax change.

The SB/SE Division reported that examinations of individual and corporate tax returns resulted in 8 percent and 27 percent no-change rates for FY 2018, respectively—exactly the same as the FY 2017 no-change rates. In addition, the SB/SE Division reported that field examinations of individual returns resulted in \$22,152 in proposed assessments per return, which is more than the \$19,967 proposed per return in FY 2017.

***LB&I Division*** – The LB&I Division serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million as well as high-wealth individuals. These taxpayers typically employ large numbers of employees, deal with complicated issues involving tax law and accounting principles, and conduct business in an expanding global environment.

The number of examinations performed by the LB&I Division decreased 26 percent from FY 2014 (44,345) to FY 2018 (32,760). These LB&I Division examinations completed in FY 2018 were associated with 22,181 individual and 6,595 corporate tax returns. Since FY 2014, individual examinations have decreased by 29 percent from 31,382 and corporate examinations have decreased 20 percent from 8,287.<sup>37</sup>

Of the \$15 billion of total proposed assessments within the LB&I Division in FY 2018, the majority were associated with those largest of corporate taxpayers. Examinations involving these types of cases are often complicated and involve issues associated with complex tax laws or regulations. Proposed assessments from examinations of corporate taxpayers with assets of \$1 billion or more in FY 2018 totaled \$12.5 billion, approximately 83 percent of the LB&I Division's total proposed assessments for the year.

The no-change rate of individual and corporate examinations in FY 2018 was 9 and 40 percent, respectively. This is not a significant change from the FY 2017 rates (7 and 37 percent, respectively); however, the corporate no-change rate associated with LB&I Division

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<sup>37</sup> See Appendix IV, Figures 11 through 13.



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examinations has increased from 30 percent in FY 2014, while the rate for individual examinations has decreased from 10 percent during the same period.

As part of its Future State model, the LB&I Division has developed a “campaign,” issue-based approach to its treatments and examinations. In an effort to mitigate an increasingly difficult tax environment in which its budget and resources were shrinking, the LB&I Division has announced 53 campaigns. The LB&I Division is also reviewing the selection and examination of transfer pricing issues and obtaining data on the technical capabilities and expertise of LB&I Division employees.

**TE/GE Division** – The TE/GE Division includes the Exempt Organizations, Employee Plans, and Government Entities functions, including the Indian Tribal Governments and Tax Exempt Bonds functions. The Indian Tribal Governments function assists Indian tribes with addressing their Federal tax matters, while the Tax Exempt Bonds function administers Federal tax laws applicable to tax-advantaged bonds. In FY 2017, the TE/GE Division completed a reorganization to combine the Indian Tribal Governments and Tax Exempt Bonds functions. The scope and mission of the combined function remains the same as it was when the functions were separate. In FY 2017, the TE/GE Division also moved its Federal, State, and Local Governments function into the Exempt Organizations function from the Government Entities function.

Determinations case closures include both applications for tax-exempt status for employee retirement plans and applications from organizations seeking recognition of tax-exempt status. The IRS reviews applications to determine if the applicant meets the particular requirements of the Internal Revenue Code section under which exemption is requested and closes them upon approval or denial. Determination letters are related to exempt status, private foundation classification, and other determinations relating to exempt organizations and to retirement plans that satisfied the qualification requirements of Federal pension law.

The number of TE/GE Determinations case closures declined 7 percent from 105,951 case closures in FY 2017 to 98,249 closures in FY 2018.

**Figure 6: TE/GE Determinations for FY 2017 and FY 2018**

	FY 2017	FY 2018
Exempt Organizations	95,177	91,981
Employment Plans	10,774	6,268
<b>Total Determinations</b>	<b>105,951</b>	<b>98,249</b>

Source: Data provided by the IRS TE/GE Division.

TE/GE Division examinations could touch on various issues such as filing, operational, and organizational closures involving issues with verifying the exempt activities of the organization or its filing requirements including many instances involving securing delinquent returns. Other issues include employment tax related compliance checks, such as unreported compensation,



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tips, accountable plans, worker reclassification, and noncompliance with the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, and backup withholding requirements.<sup>38</sup> Unrelated business income is also a primary Exempt Organization issue involving items including gaming, nonmember income, expense allocation issues, net operating loss adjustments, rental activity, advertising, debt financed property rentals, and investment income. Indian Tribal Governments programs include tip compliance reviews and focus on areas such as employment tax, while Tax Exempt Bonds examinations include areas such as claims, referrals, prison financings, and small issue bonds.

The total number of examinations in the TE/GE Division has declined 12 percent over the past five years, from 17,842 in FY 2014 to 15,535 in FY 2018. As shown in Figure 7, the number of examinations decreased 1 percent. However, the amount of additional taxes proposed declined 82 percent, from \$216.7 million in FY 2017 to \$39.0 million in FY 2018.

**Figure 7: TE/GE Examinations for FY 2017 and FY 2018**

	FY 2017	FY 2018
Exempt Organizations	6,101	4,891
Employment Plans	7,000	6,500
Indian Tribal Governments/ Tax Exempt Bonds	2,790	4,324
<b>Total examinations</b>	<b>15,891</b>	<b>15,715</b>

Source: Data provided by the IRS TE/GE Division.

### Conclusion

The IRS faced many challenges during FY 2018, including the implementation of provisions related to new tax legislation and further declines in staffing. The lapse in appropriations and ensuing shutdown of IRS operations during FY 2019 added to the challenges.

Despite the challenges potentially jeopardizing effective administration of the tax law, overall the IRS's compliance operations collected more enforcement revenue in FY 2018, driven substantially by systemic processes. The majority of the increase in enforcement revenue is attributable to taxpayers paying tax obligations during the automated notice stream, which generated a five-year high of \$30.2 billion in FY 2018, a 12 percent increase from FY 2014. While the IRS collected more enforcement revenue this year than at any other point in its history, the IRS's Examination function continues its declining enforcement trend in terms of both the number of examinations and in proposed adjustments.

<sup>38</sup> Federal Insurance Contributions Act, 26 U.S.C. §§ 3101-3125; Federal Unemployment Tax Act, 26 U.S.C. §§ 3301-3309.





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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to provide various statistical information regarding Collection and Examination function activities as they relate to the IRS's efforts to bring taxpayers into compliance with their tax obligations. To accomplish our objective, we:

- I. Obtained and analyzed data, records, and other documentation to identify data, statistics, and activities related to voluntary compliance during the 2018 Filing Season.
- II. Obtained and analyzed data, records, or other documentation, and interviewed key management personnel to identify significant trends or changes relating to the IRS Collection function's FY 2018 enforcement activities. Areas of focus included the ACS and Field Collection function as well as related case inventories (the queue) or systemic collection processes (shelving and surveying of cases).
- III. Obtained and analyzed data, records, or other documentation and interviewed key management personnel to identify significant trends or changes relating to the IRS Examination functions' FY 2018 enforcement activities. Areas of focus included the W&I Division and the SB/SE Division (including analysis of campus, field, and the various specialty Examination functions) as well as the LB&I Division and the TE/GE Division.
- IV. Obtained and analyzed data, records, or other documentation and interviewed key management personnel to identify significant trends or changes relating to any other compliance data such as enforcement revenue, gross collections, or notice stream collections.
- V. Reviewed applicable TIGTA, Taxpayer Advocate Service, and Government Accountability Office reports for relevant information associated with trends or statistics identified in the programs referenced within Steps I through IV.
- VI. Assessed the impact of new legislation and budget issues on the compliance functions and activities detailed in Steps I through IV.
- VII. For any significant trends or aberrations noted within any of the data analysis performed in Steps I through IV, discussed with applicable IRS personnel and considered the taxpayer burden, if any, that the trends may indicate.



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**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 did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.



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**Appendix II**

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**Appendix III**

*Report Distribution List*

Commissioner, Large Business and International Division  
Commissioner, Small Business/Self-Employed Division  
Commissioner, Wage and Investment Division  
Director, Office of Research, Applied Analytics, and Statistics  
Director, Enterprise Audit Management



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**Appendix IV**

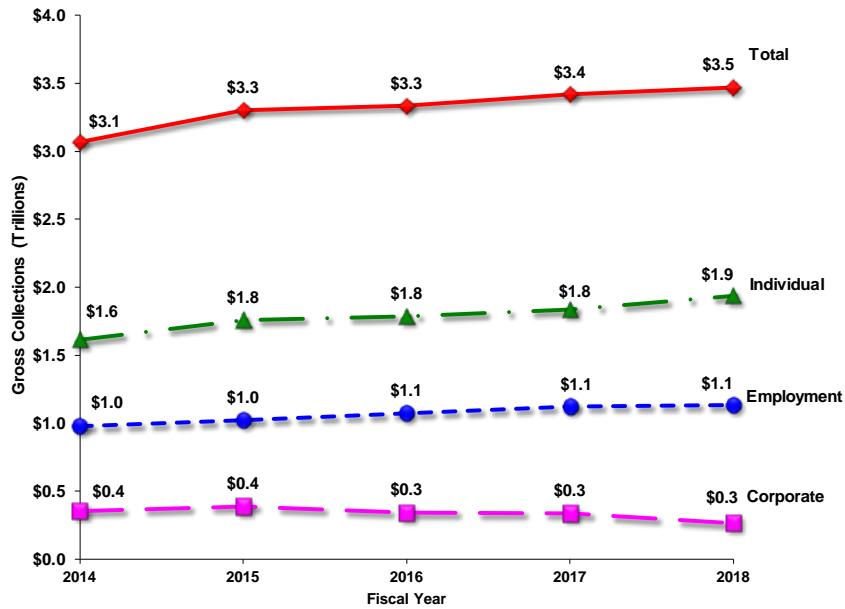
*Detailed Charts of Statistical Information*

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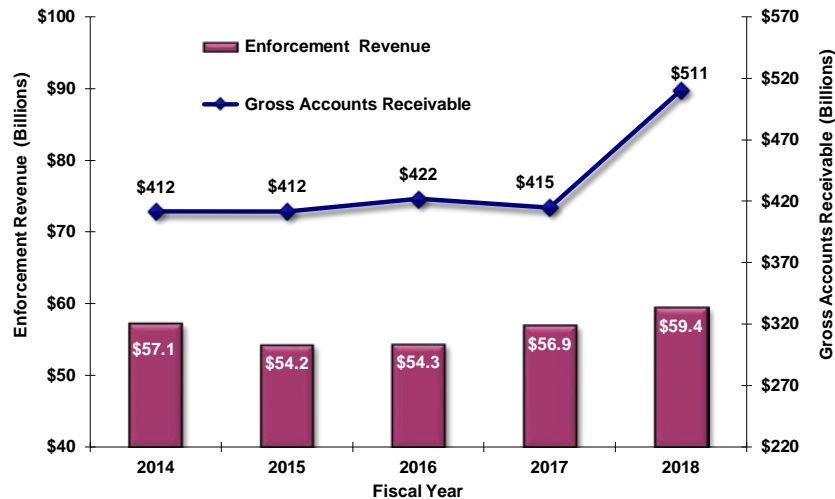
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**Figure 1: Total Tax Revenue by Type of Tax<sup>1</sup>**



Source: TIGTA analysis of the IRS Data Book.

**Figure 2: Amount of Enforcement Revenue Compared to Unpaid Assessments**



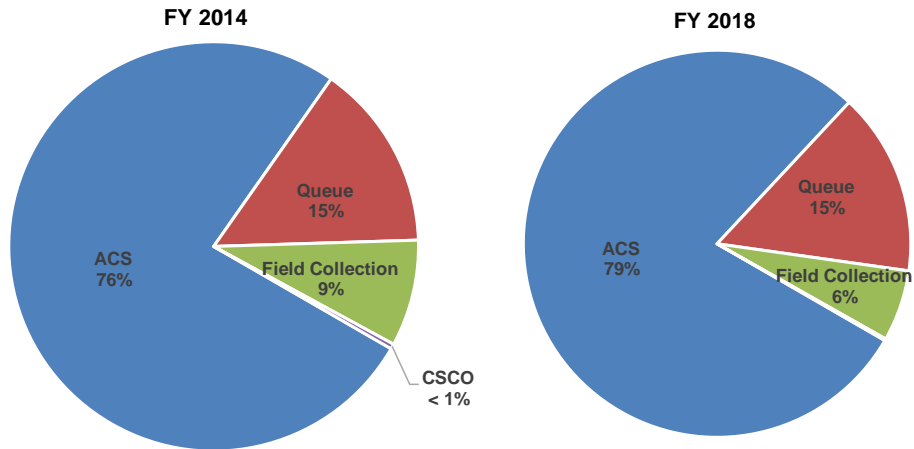
Source: Offices of Research, Applied Analytics, and Statistics and the Chief Financial Officer.

<sup>1</sup> The total line includes excise, estate and trust, and gift taxes, not just individual, corporate, and employment taxes.



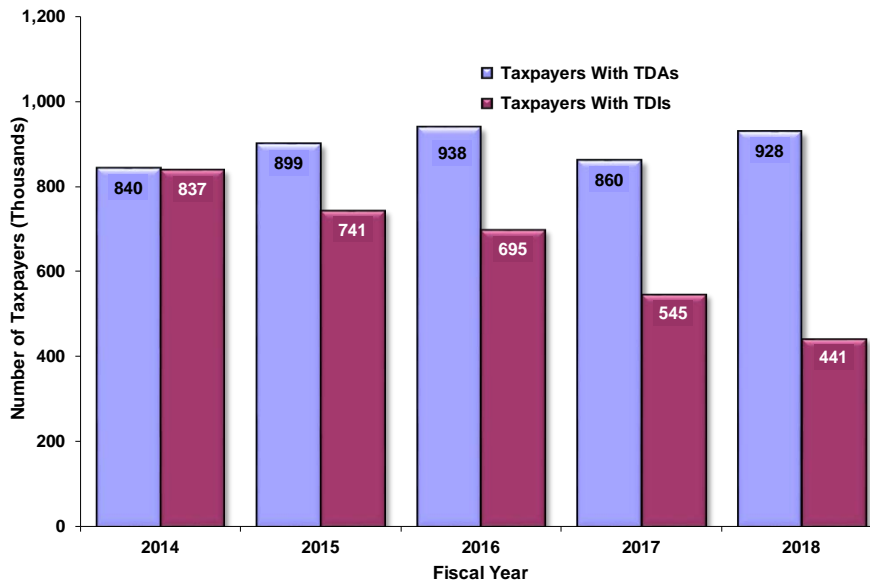
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**Figure 3: Percentage of TDAs Issued to Collection Functions<sup>2</sup>**



Source: Collection Activity Report 5000-2.

**Figure 4: Taxpayers With TDAs and TDIs Maintained in the Queue**



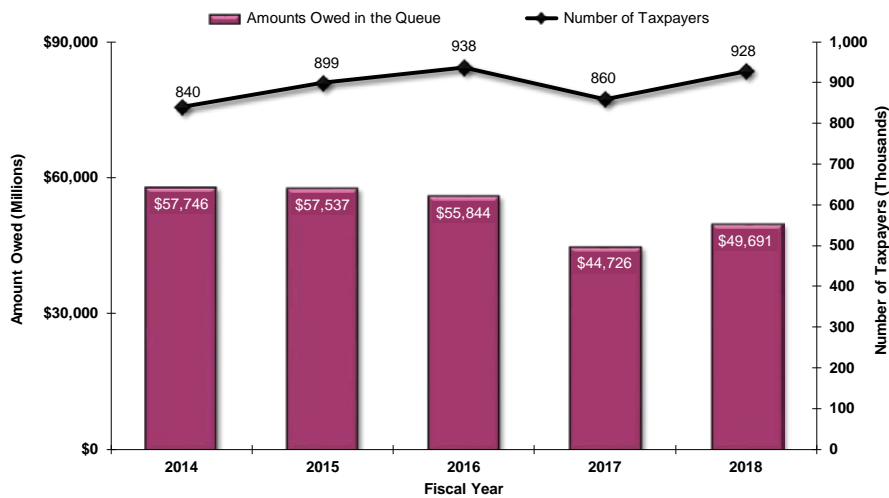
Source: Collection Activity Reports 5000-2 and 5000-4.

<sup>2</sup> The number of TDAs issued to Compliance Services Collection Operations (CSCO) in FY 2018 represented less than 1 percent of the total and are too small to be represented as part of the FY 2018 figure.



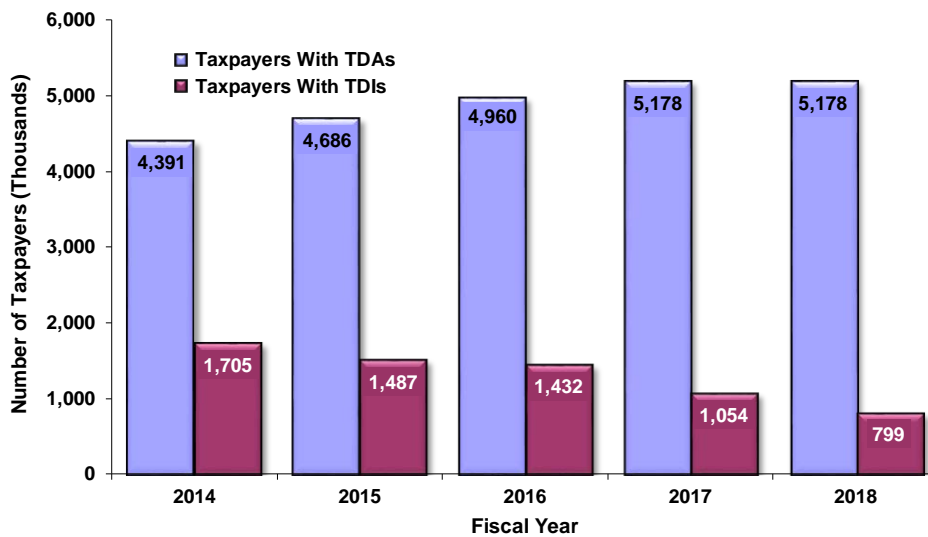
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**Figure 5: Number of Taxpayers With Delinquent Accounts and Amounts Owed in Queue Inventory**



Source: TIGTA analysis of Collection Activity Report 5000-2.

**Figure 6: Taxpayers With TDAs and TDIs Maintained in the ACS**



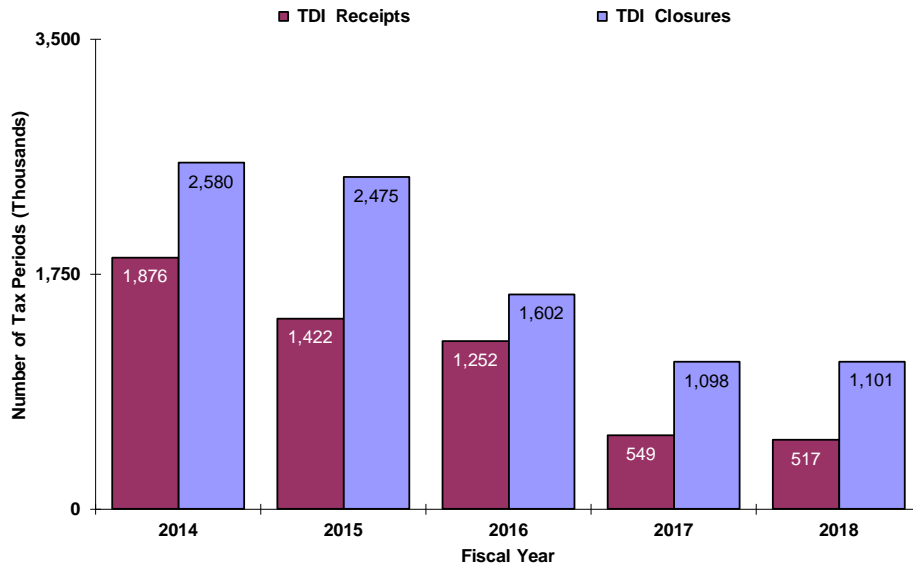
Source: Collection Activity Reports 5000-2 and 5000-4.





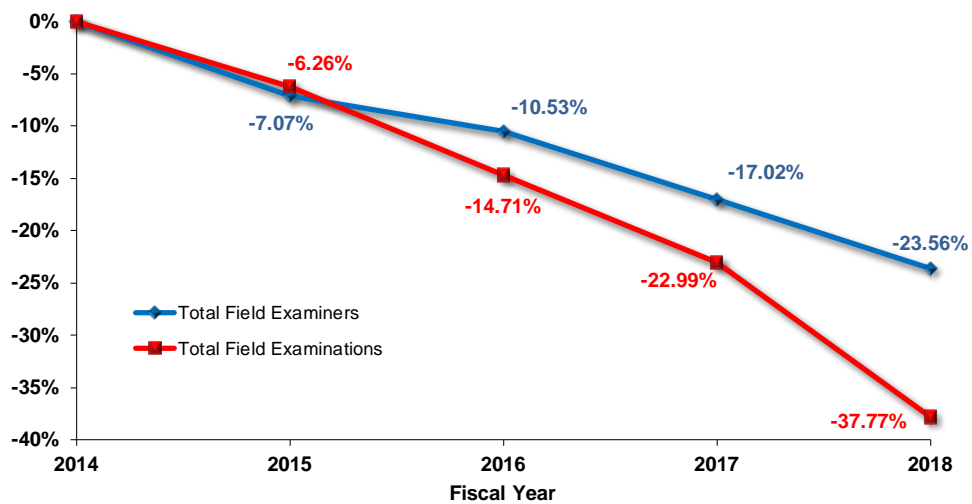
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**Figure 7: Total TDI Modules Issued and Closed**



Source: Collection Activity Report 5000-4.

**Figure 8: Percentage Change in the Number of Field Examiners and Examinations Since FY 2014**

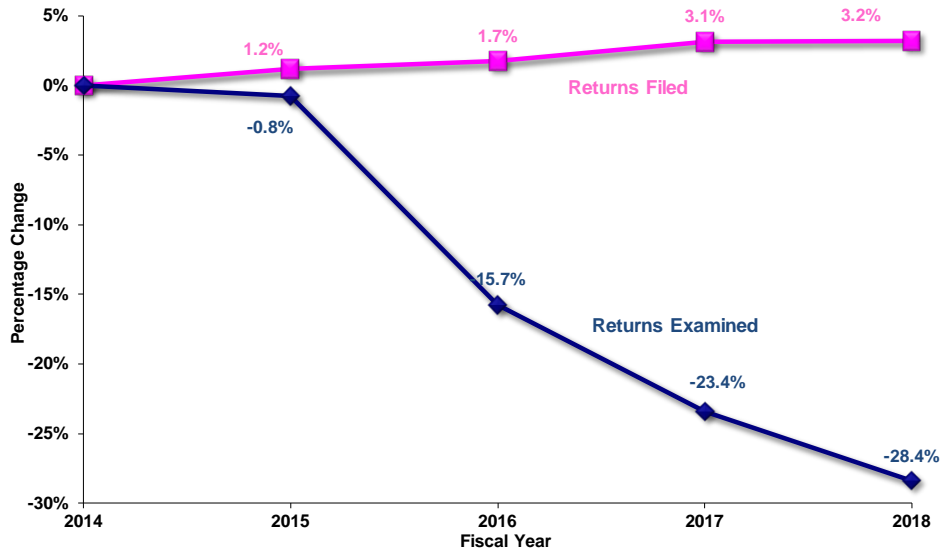


Source: IRS Data Book and Table 37 Examination Program Monitoring.



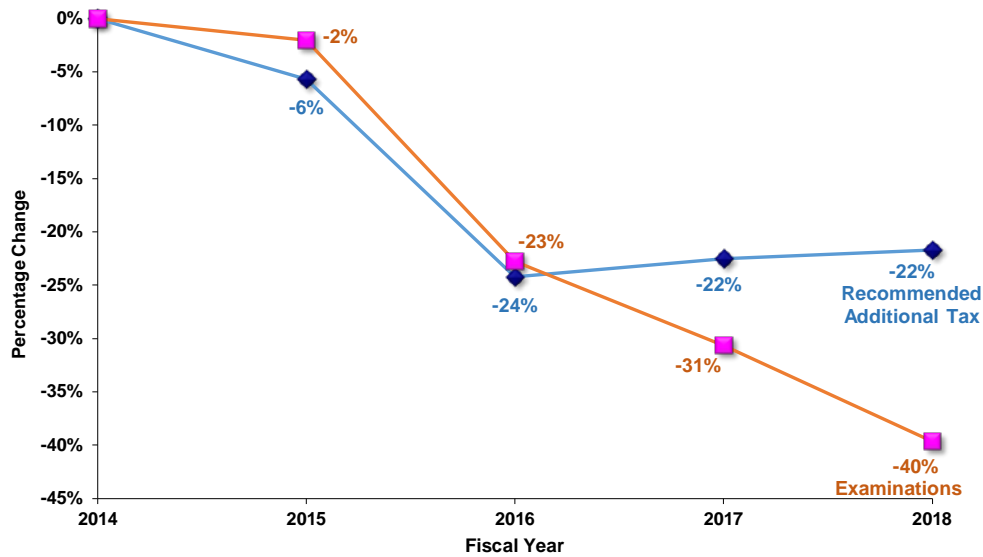
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**Figure 9: Percentage Change From FY 2014 of All Tax Returns Filed and Examined**



Source: TIGTA analysis of the IRS Data Book.

**Figure 10: SB/SE Division Percentage Change in Tax Returns Examined and Recommended Additional Tax Since FY 2014**

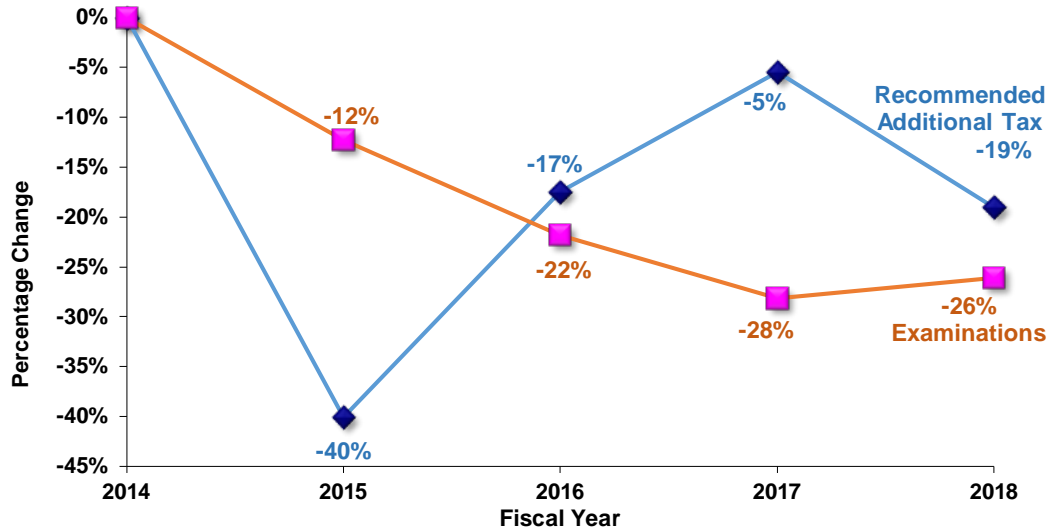


Source: TIGTA analysis of IRS Examination Data.



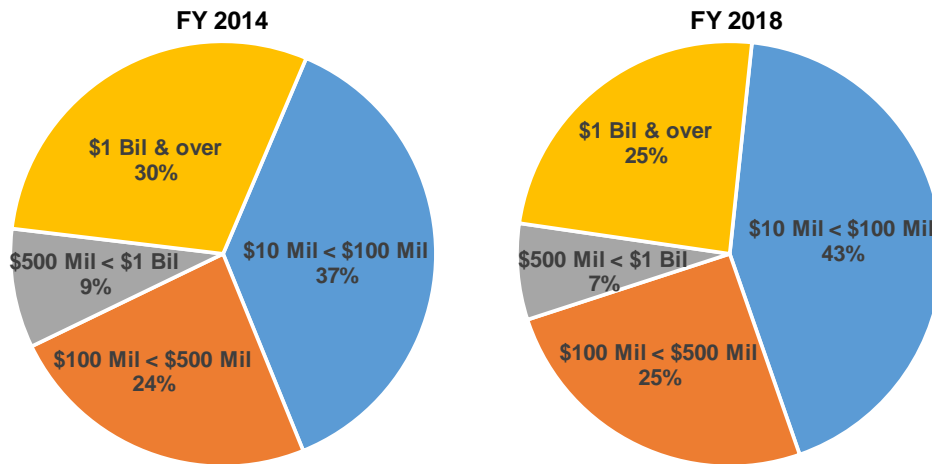
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**Figure 11: LB&I Division Percentage Change in Tax Returns Examined and Recommended Additional Tax Since FY 2014**



Source: TIGTA analysis of IRS Examination Data.

**Figure 12: LB&I Division Corporate Examinations by Size of Taxpayers' Total Assets**



Source: TIGTA analysis of IRS Examination Data.



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**Figure 13: LB&I Division Recommended Additional Tax for Corporate Examinations by Size of Taxpayers' Assets (in Thousands)**

	Fiscal Year				
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Corporate Assets</b>					
<b>\$10 Million &lt; \$100 Million</b>	1,087,237	366,125	282,580	211,039	228,107
<b>\$100 Million &lt; \$500 Million</b>	646,679	364,095	370,263	181,555	694,753
<b>\$500 Million &lt; \$1 Billion</b>	642,492	306,724	145,025	319,695	77,519
<b>\$1 Billion and Over</b>	<u>13,872,664</u>	<u>7,924,995</u>	<u>12,374,230</u>	<u>15,623,427</u>	<u>12,486,103</u>
<b>Total</b>	<b>16,249,072</b>	<b>8,961,939</b>	<b>13,172,098</b>	<b>16,335,716</b>	<b>13,486,482</b>

Source: TIGTA analysis of IRS Examination Data.



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**Figure 14: Numbers and Percentages of  
Individual and Business Tax Returns Examined**

	Fiscal Year				
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Individual Returns</b>					
<b>Individuals (Forms 1040)</b>	1,242,479	1,228,117	1,034,955	933,785	892,187
Coverage Rate	0.86%	0.84%	0.70%	0.62%	0.59%
<b>Business Returns</b>					
<b>Corporations &lt; \$10 Million</b>	17,257	16,460	14,136	12,157	9,674
Coverage Rate	0.95%	0.92%	0.80%	0.69%	0.57%
<b>Corporations \$10 Million and Greater</b>	7,858	7,410	6,453	6,109	6,050
Coverage Rate	12.23%	11.15%	9.53%	7.86%	8.08%
<b>S Corporations (Forms 1120S)</b>	16,317	18,595	15,869	13,448	10,575
Coverage Rate	0.36%	0.40%	0.34%	0.28%	0.22%
<b>Partnerships</b>	15,779	19,212	14,645	15,275	8,945
Coverage Rate	0.43%	0.51%	0.38%	0.38%	0.22%
<b>Fiduciaries</b>	3,694	5,288	3,284	3,284	1,524
Coverage Rate	0.12%	0.16%	0.10%	0.10%	0.05%
<b>Employment</b>	57,123	54,214	54,652	53,716	43,035
Coverage Rate	0.19%	0.18%	0.18%	0.18%	0.14%
<b>Excise</b>	13,779	13,153	13,440	13,961	12,908
Coverage Rate	1.50%	1.34%	1.35%	1.40%	1.28%
<b>Estates</b>	2,853	2,770	3,187	2,876	2,898
Coverage Rate	8.46%	7.78%	8.82%	8.21%	8.60%
<b>Gift</b>	3,098	2,539	1,843	1,886	2,090
Coverage Rate	0.83%	0.95%	0.77%	0.77%	0.86%

Source: TIGTA analysis of the IRS Data Book.



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**Appendix V**

*Recent Treasury Inspector General for Tax  
Administration Compliance Trends Reports*

TIGTA, Ref. No. 2011-30-071, *Trends in Compliance Activities Through Fiscal Year 2010* (July 2011).

TIGTA, Ref. No. 2013-30-078, *Trends in Compliance Activities Through Fiscal Year 2012* (Aug. 2013).

TIGTA, Ref. No. 2014-30-062, *Trends in Compliance Activities Through Fiscal Year 2013* (Sept. 2014).

TIGTA, Ref. No. 2016-30-004, *Trends in Compliance Activities Through Fiscal Year 2014* (Nov. 2015).

TIGTA, Ref. No. 2016-30-073, *Trends in Compliance Activities Through Fiscal Year 2015* (Sept. 2016).

TIGTA, Ref. No. 2017-30-072, *Trends in Compliance Activities Through Fiscal Year 2016* (Sept. 2017).

TIGTA, Ref. No. 2018-30-069, *Trends in Compliance Activities Through Fiscal Year 2017* (Sept. 2018).



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**Appendix VI**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
<b>Area Office</b>	A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.
<b>Automated Collection System</b>	A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers that have not complied with previous notices.
<b>Business Master File</b>	An IRS Critical Infrastructure asset. All tax data and related information pertaining to individual business income taxpayers are posted to the BMF so that the file reflects a continuously updated and current record of each taxpayer's account.
<b>Campus</b>	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
<b>Collection Activity Reports</b>	A group of reports providing management information to field and Headquarters Collection officials. The reports reflect activity associated with TDA and TDI issuances and installment agreements, including issuances, dispositions, and inventories as well as collection-related payments.
<b>Compliance Services Collection Operations</b>	An IRS function that mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence. This function was formerly known as the Service Center Collection Branch.
<b>Computing Centers</b>	IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.
<b>Corporate Income Tax Return</b>	Form 1120, <i>U.S. Corporation Income Tax Return</i> . It is used by corporations to report the corporate income tax.



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<b>Term</b>	<b>Definition</b>
<b>Employment Tax Returns</b>	Various Form 94X return series (primarily Form 940, <i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i> , and Form 941, <i>Employer's QUARTERLY Federal Tax Return</i> ), filed by businesses to report things such as employer's Federal unemployment taxes and Federal taxes withheld.
<b>Enforcement Revenue</b>	Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).
<b>Estate Tax Return</b>	Form 706, <i>United States Estate (and Generation-Skipping Transfer) Tax Return</i> , is filed for estates of certain deceased persons.
<b>Examination (Face-to-Face)</b>	Field examinations of individuals, partnerships, or corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.
<b>Excise Tax Return</b>	Form 720, <i>Quarterly Federal Excise Tax Return</i> , is used to report and pay certain taxes, such as those on transportation and fuel.
<b>Fiduciary Income Tax Returns</b>	Income tax returns filed for estates and trusts.
<b>Field Collection</b>	The unit in the Area Offices consisting of revenue officers who handle face-to-face contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
<b>Field Office</b>	Examination function Area Offices, consisting of revenue agents and tax compliance officers who primarily perform examinations of individuals, partnerships, and corporations.
<b>Fiscal Year</b>	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
<b>Full-Time Equivalent</b>	A figure calculated from the number of full-time and part-time employees in an organization that represents these workers as a comparable number of full-time employees. It is a measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2018, one FTE was equal to 2,080 staff hours.





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<b>Term</b>	<b>Definition</b>
<b>Gift Tax Return</b>	Form 709, <i>United States Gift (and Generation-Skipping Transfer) Tax Return</i> , is used to report transfers subject to the Federal gift taxes and to calculate the taxes due on those transfers.
<b>Individual Income Tax Returns</b>	Form 1040, <i>U.S. Individual Income Tax Return</i> , series are annual income tax returns filed by citizens or residents of the United States.
<b>Individual Master File</b>	An application that receives data from an array of sources to aid the IRS with regard to those tax return submissions. The IMF system receives data from various systems that have their own verification process for data accuracy, timeliness and completeness. However, IMF also verifies the SSN and Name against Social Security records and verifies the address using 3rd party address software.
<b>Installment Agreement</b>	Arrangement in which taxpayers agree to pay their tax liability over time.
<b>IRS Data Book</b>	Provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.
<b>Levy</b>	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
<b>Lien</b>	An encumbrance on property or rights to property as security for outstanding taxes.
<b>Module</b>	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
<b>No-Change Rate</b>	Percentage of examinations for which the examiner closed the case with no recommended tax change.
<b>Notice of Federal Tax Lien</b>	A notice filed with the appropriate local government office, protecting the Federal Government's interest in the taxpayer's assets by providing public notice of the amount of unpaid tax.



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<b>Term</b>	<b>Definition</b>
<b>Partnership Return</b>	Form 1065, <i>U.S. Return of Partnership Income</i> , is used to report the income and expenses of domestic partnerships and the share distributed to each partner.
<b>Queue</b>	An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.
<b>Revenue Agent</b>	An employee in the Examination function who conducts face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes, <i>e.g.</i> , excise tax returns.
<b>Revenue Officer</b>	Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.
<b>S Corporation Tax Return</b>	Form 1120S, <i>U.S. Income Tax Return for an S Corporation</i> , is filed by qualifying small business corporations and includes amounts distributed to shareholders.
<b>Seizure</b>	The taking of a taxpayer's property to satisfy an outstanding tax liability.
<b>Shelved and Surveyed Cases</b>	Shelved and surveyed cases are delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of Collection function inventory because they are lower priority than other available cases.
<b>Tax Compliance Officer</b>	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
<b>Tax Examiner</b>	In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.
<b>Tax Gap</b>	The gross Tax Gap is the estimated difference between the amount of true tax liability and the amount that is paid voluntarily and on time. The net Tax Gap reflects the gross Tax Gap less other late payments and amounts collected through enforcement.



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<b>Term</b>	<b>Definition</b>
<b>Tax Period</b>	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.
<b>Tax Year</b>	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
<b>Unpaid Assessments</b>	Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.