Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

September 16, 2019

Reference Number: 2019-30-069
To report fraud, waste, or abuse, call our toll-free hotline at:
1-800-366-4484

By Web:
www.treasury.gov/tigta/

Or Write:
Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.
BILLIONS OF DOLLARS OF NONFILER EMPLOYMENT TAXES WENT UNASSESSED IN THE AUTOMATED 6020(b) PROGRAM DUE PRIMARILY TO RESOURCE LIMITATIONS

Highlights

Final Report issued on September 16, 2019

Highlights of Reference Number: 2019-30-069 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

When a taxpayer that has a filing requirement fails to file a tax return, the IRS is authorized under Internal Revenue Code Section 6020(b) to determine and assess a tax liability. For certain business nonfilers with unfiled employment tax returns, the IRS can systemically prepare a substitute return using the Automated 6020(b) program.

WHY TIGTA DID THE AUDIT

A6020(b) program closures decreased by 92 percent, from 261,582 in Fiscal Year (FY) 2013 to 21,746 in FY 2017, caused by a reduction in resources assigned to the program. This audit was initiated to determine whether the IRS is using the A6020(b) program to improve the filing compliance and revenue collection for business return nonfiler taxpayers.

WHAT TIGTA FOUND

The nonfiler case creation process for business returns has been declining since FY 2011 and virtually stopped in October 2016 due to significant reductions in staffing. The creation of fewer nonfiler cases resulted in a reduction of potential inventory to select work from for the A6020(b) program. Because of resource limitations, A6020(b) program new case starts have been declining since FY 2014 and were halted November 7, 2016. As a result, the A6020(b) program secured fewer returns and collected less revenue on a portion of employment tax nonfiler cases during the time period that new cases were not started.

High-dollar nonfiler employment tax cases currently have to be manually assigned to the A6020(b) program to be worked, due to a low dollar threshold used for systemic assignment. If the IRS removed the dollar threshold associated with systemic and manual case selection, hundreds of thousands of high-dollar cases could be worked by the A6020(b) program.

TIGTA identified 243,210 standalone nonfiler employment tax modules (taxpayers with unfiled tax returns but no balances due) that were assigned to other Collection functions as of January 2019. If the IRS assigned the top 86,554 modules to the program, based on the highest dollar proposed assessments, the IRS could potentially assess more than $10.2 billion and potentially collect more than $3.3 billion.

From A6020(b) cases closed between FYs 2011 and 2017, TIGTA also identified 6,784 cases for which the A6020(b) program did not post a tax assessment when it should have, resulting in a loss of proposed assessments of $19.7 million and potentially $6.4 million of revenue collected.

WHAT TIGTA RECOMMENDED

TIGTA made six recommendations, including that the IRS consider: allocating additional resources to the A6020(b) program for FY 2020; updating the systemic and manual case selection criteria to work high-dollar cases; transferring the highest dollar standalone nonfiler inventory from other Collection functions to be worked by the A6020(b) program; and implementing system fixes to ensure that A6020(b) default assessments post as they should.

In response to the report, IRS management agreed with three of six recommendations and plans to take corrective action. Management partially agreed with three recommendations, stating that a research project aimed at improving inventory and resource allocation across the business nonfiler programs is needed prior to making any A6020(b) case selection changes.
MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations (Audit # 201830033)

This report presents the results of our review to determine whether the Internal Revenue Service is using the Automated 6020(b) program to improve the filing compliance and revenue collection for business return nonfiler taxpayers. This review is included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenges of Improving Tax Reporting and Payment Compliance.

Management’s complete response to the draft report is included as Appendix VII.

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Table of Contents

Background ........................................................................................................................................ Page 1

Results of Review ......................................................................................................................... Page 6

The Automated 6020(b) Program Declined Significantly Since Fiscal Year 2014 ........................................ Page 6

Recommendation 1: ...................................................................................................................... Page 8

The Automated 6020(b) Case Selection Upper Dollar Thresholds Should Be Removed to Work High-Dollar Cases More Efficiently ......................................................... Page 8

Recommendations 2 through 4: ................................................................................................. Page 13

Assessments Are Not Always Posting When a Case Defaults From the Automated 6020(b) Program .............................................................. Page 14

Recommendations 5 and 6: ....................................................................................................... Page 15

Appendices

Appendix I – Detailed Objective, Scope, and Methodology ........................................... Page 16

Appendix II – Major Contributors to This Report ............................................................ Page 18

Appendix III – Report Distribution List ........................................................................ Page 19

Appendix IV – Outcome Measure .......................................................................................... Page 20

Appendix V – Small Business/Self-Employed Division Nonfiler Strategic Plan: Goals and Objectives .......................................................... Page 22

Appendix VI – Glossary of Terms ........................................................................................ Page 23

Appendix VII – Management’s Response to the Draft Report ........................................ Page 24
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Abbreviations

A6020(b) Automated 6020(b)
ACS Automated Collection System
BMF Business Master File
FTE Full-Time Equivalents
FY Fiscal Year
IRS Internal Revenue Service
SB/SE Small Business/Self-Employed
TDI Taxpayer Delinquency Investigation
TIGTA Treasury Inspector General for Tax Administration
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Background

The nonfiler portion of the gross Tax Gap is defined as the amount of true tax liability that is not paid on time by taxpayers that do not file a required return on time (or not at all). The Internal Revenue Service (IRS) estimates that the nonfiler portion (based on Tax Years 2008 through 2010) of the gross Tax Gap is $32 billion (7 percent of the total $458 billion gross Tax Gap) each year. However, the IRS informed us that employment tax is not part of the $32 billion nonfiler Tax Gap, and it does not have sufficiently reliable information to estimate that portion. We completed an analysis of Business Master File (BMF) data as of January 2019 and identified 379,982 employment tax nonfiler modules with an estimated $14.7 billion worth of proposed assessments. The IRS Collection function’s strategic objectives include promoting filing compliance and reducing the Tax Gap. The Automated 6020(b) [A6020(b)] program could be used to work a portion of the employment tax nonfiler inventory.

When a taxpayer that has a filing requirement fails to file a tax return, the IRS is authorized under Internal Revenue Code Section 6020(b) to determine and assess a tax liability. For certain business nonfilers with unfiled employment tax returns, the IRS can systemically prepare a substitute return using the Automated 6020(b) program.

When a taxpayer that has a filing requirement fails to file a tax return, the IRS is authorized under Internal Revenue Code Section 6020(b) to determine and assess a tax liability. For certain business nonfilers with unfiled employment tax returns, the IRS can systemically prepare a substitute return using the Automated 6020(b) program. The objective of the program is to promote filing compliance for taxpayers liable for employment taxes.

Employment tax returns worked by the A6020(b) program include:

- Form 940 – Employer’s Annual Federal Unemployment (FUTA) Tax Return.
- Form 941 – Employer’s QUARTERLY Federal Tax Return.
- Form 943 – Employer’s Annual Federal Tax Return for Agricultural Employees.
- Form 944 – Employer’s ANNUAL Federal Tax Return.

1 See Appendix VI for a glossary of terms.
2 This is not an estimate of the employment tax nonfiler Tax Gap. The results are a snapshot of employment tax nonfiler inventory.
3 There is no Assessment Statute Expiration Date for unfiled tax returns.
Unfiled returns must meet certain threshold criteria to be systemically selected by the A6020(b) program. The A6020(b) program selects Taxpayer Delinquency Investigation (TDI) nonfiler cases only if the taxpayer does not also have a Taxpayer Delinquent Account balance due module already present on the account. TDI nonfiler cases for taxpayers without a Taxpayer Delinquent Account balance due are known as standalone cases. Taxpayers with both TDIs and Taxpayer Delinquent Accounts are known as combo cases and are generally worked by the Automated Collection System (ACS) and Field Collection. Additionally, cases are only systemically sent to the A6020(b) program if they do not meet the case selection criteria for Field Collection, the ACS, or the Collection queue. Because the A6020(b) program is the last in line to receive TDI inventory, sometimes eligible cases are pulled into one of the other inventories before it can be assigned to the A6020(b) program. A6020(b) analysts can manually transfer standalone TDI cases from the Collection queue or the ACS in order to increase inventory for the A6020(b) program when needed.

After inventory is systemically or manually selected, the A6020(b) system automatically prepares a Letter 1085-A, 30 Day Letter – Proposed A6020(b) Assessment, and a completed tax return to inform taxpayers that the IRS will file a return for them if they do not submit a signed return, mail additional information for consideration, or request a conference within 45 days from the date of the notice. Taxpayers may respond by submitting their own return if they do not accept the prepared return or explain why there is no filing requirement. If no response is received within 45 days, the IRS has the authority to create an assessment for the potential taxes and penalties due. However, the IRS waits 120 days until the A6020(b) system generates a return for the taxpayer, which creates an assessment based on the last return assessed amount or any credits on the module.

**A6020(b) program trends**

Historically, the majority of cases closed in the A6020(b) program were with a default assessment. This occurs when the IRS prepares a return for the taxpayer indicating the taxes that are due and the taxpayer does not respond within the required time frame. If the taxpayer submits a return in response to the initial A6020(b) letter, the case will close as return secured. If the taxpayer responds denying liability for the potential tax assessment, the case can be closed as

---

5 Document 6209, Chapter 11.7.
6 Internal Revenue Manual 5.18.2.4 (January 1, 2008).
not liable. Figure 1 shows the historical case closures in relation to the number of full-time equivalent (FTE) employees assigned to the program each fiscal year.

**Figure 1: A6020(b) Closures and FTEs for Fiscal Years (FY) 2013–2017**

<table>
<thead>
<tr>
<th>FY</th>
<th>FTEs</th>
<th>Total Closures</th>
<th>Closures per FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>12.11</td>
<td>261,582</td>
<td>21,600</td>
</tr>
<tr>
<td>2014</td>
<td>12.17</td>
<td>189,627</td>
<td>15,582</td>
</tr>
<tr>
<td>2015</td>
<td>7.98</td>
<td>129,233</td>
<td>16,195</td>
</tr>
<tr>
<td>2016</td>
<td>4.4</td>
<td>64,973</td>
<td>14,767</td>
</tr>
<tr>
<td>2017</td>
<td>1.88</td>
<td>21,746</td>
<td>11,567</td>
</tr>
<tr>
<td>Average</td>
<td>7.71</td>
<td>133,432</td>
<td>17,311</td>
</tr>
</tbody>
</table>

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Enforcement Revenue Information System data provided by the IRS.

The A6020(b) program closures decreased by 92 percent, from 261,582 in FY 2013 to 21,746 in FY 2017. This was caused by a reduction in the FTEs assigned to the program of 84 percent, from 12.11 FTEs in FY 2013 to 1.88 FTEs in FY 2017. During this time, the IRS allocated employee resources to work other inventory such as installment agreement requests that came in from taxpayers responding to balance due notices. Despite this reduction, the A6020(b) program continued to close cases productively. Figure 2 shows the number and percentages of the historical types of A6020(b) case closures.

**Figure 2: A6020(b) Types of Closures for FYs 2013–2017**

<table>
<thead>
<tr>
<th>FY</th>
<th>Total Closures</th>
<th>Default Assessments</th>
<th>Percentage Default</th>
<th>Secured Returns</th>
<th>Percentage Secured</th>
<th>Other Closures</th>
<th>Percentage Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>261,582</td>
<td>172,995</td>
<td>66.13%</td>
<td>21,935</td>
<td>8.39%</td>
<td>66,652</td>
<td>25.48%</td>
</tr>
<tr>
<td>2014</td>
<td>189,627</td>
<td>125,010</td>
<td>65.92%</td>
<td>18,968</td>
<td>10.00%</td>
<td>45,649</td>
<td>24.07%</td>
</tr>
<tr>
<td>2015</td>
<td>129,233</td>
<td>97,778</td>
<td>75.66%</td>
<td>14,696</td>
<td>11.37%</td>
<td>16,759</td>
<td>12.97%</td>
</tr>
<tr>
<td>2016</td>
<td>64,973</td>
<td>49,267</td>
<td>75.83%</td>
<td>9,239</td>
<td>14.22%</td>
<td>6,467</td>
<td>9.95%</td>
</tr>
<tr>
<td>2017</td>
<td>21,746</td>
<td>16,476</td>
<td>75.77%</td>
<td>3,455</td>
<td>15.89%</td>
<td>1,815</td>
<td>8.35%</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of Enforcement Revenue Information System data provided by the IRS.

The A6020(b) program secured thousands of employment tax returns each year from FYs 2013 through 2017, resulting in an average of 1,772 returns secured and 11,975 default assessments per FTE. Secured returns are valuable to the IRS because they mean that the taxpayer is back in

---

7 Other types of closures include those closed as Not Liable for the tax module, No Longer Liable for the taxpayer, Unable to Locate, Surveyed, Shelved, or Referred.
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

employment tax return filing compliance. The majority of cases closed as default assessments, averaging 69.2 percent of closures over the five fiscal years. Default assessments use the systemically prepared return to assess the employment tax and result in a balance due module that can move to the IRS Collection function workstreams. Once the assessment has posted, taxpayers are liable for the balance due unless they provide evidence that less or no tax is owed. In this case, the assessment could be partially or fully abated. If the assessment is not fully abated, the IRS may take actions to collect the revenue unless the taxpayer sends in payments voluntarily.

Figure 3 shows the total tax assessments, abatements, resulting revenue collected, and remaining balances due from the A6020(b) closures each fiscal year.  

**Figure 3: Total A6020(b) Tax Assessments, Abatements, Revenue Collected, and Balances Due for FYs 2013–2017**

<table>
<thead>
<tr>
<th>FY</th>
<th>Total Tax Assessments</th>
<th>Abatements</th>
<th>Percentage Abated</th>
<th>Resulting Revenue Collected</th>
<th>Percentage Revenue Collected</th>
<th>Remaining Balances Due</th>
<th>Percentage Balances Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$915,626,513</td>
<td>$456,479,350</td>
<td>49.85%</td>
<td>$154,244,920</td>
<td>16.85%</td>
<td>$304,902,243</td>
<td>33.30%</td>
</tr>
<tr>
<td>2014</td>
<td>$417,662,179</td>
<td>$156,010,350</td>
<td>37.35%</td>
<td>$145,804,212</td>
<td>34.91%</td>
<td>$115,847,617</td>
<td>27.74%</td>
</tr>
<tr>
<td>2015</td>
<td>$400,591,113</td>
<td>$133,332,739</td>
<td>33.28%</td>
<td>$169,462,636</td>
<td>42.30%</td>
<td>$97,795,738</td>
<td>24.41%</td>
</tr>
<tr>
<td>2016</td>
<td>$334,394,767</td>
<td>$79,353,862</td>
<td>23.73%</td>
<td>$186,651,251</td>
<td>55.82%</td>
<td>$68,389,654</td>
<td>20.45%</td>
</tr>
<tr>
<td>2017</td>
<td>$138,677,992</td>
<td>$48,809,895</td>
<td>35.20%</td>
<td>$63,303,914</td>
<td>45.65%</td>
<td>$26,564,183</td>
<td>19.16%</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of Enforcement Revenue Information System data provided by the IRS.

The A6020(b) program has created $2.2 billion in employment tax assessments over the last five fiscal years, resulting in $719 million in employment tax revenue collected. The IRS collected an average of $143,893,387 in revenue per year resulting from FYs 2013 through 2017 A6020(b) cases. Based on the average of the FTEs in Figure 1, this is an average of $18.7 million per FTE. Tax assessments are necessary for the IRS to be able to collect the taxes owed by these business taxpayers. Systemic programs, such as the A6020(b) program, can efficiently create the substitute returns to make the necessary tax assessments and then the IRS can collect on these delinquent nonfilers and work to close the nonfiler Tax Gap.

Although the dollar amount of assessments abated appears to be high, only 27 percent of the total closed A6020(b) cases from FYs 2013 through 2017 resulted in an abatement of the tax. Abatements require resources and are one of the costs of working substitute for return nonfiler cases; however, the program has the ability to bring thousands of taxpayers into employment tax

---

8 Resulting revenue collected includes revenue collected from the A6020(b) program as well as downstream revenue from other Collection functions such as the ACS and Field Collection.

9 The average collected per FTE includes revenue collected downstream by other Collection functions but does not consider the FTEs used to collect the revenue in those functions.
filing compliance and, if used strategically, could allow the IRS to focus more costly Collection function resources on more complex nonfilers or collecting balances due.

This review was performed at the Small Business/Self-Employed (SB/SE) Division Compliance Services Collection Operation function in Ogden, Utah, during the period August 2018 through July 2019. 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.
Results of Review

The Automated 6020(b) Program Declined Significantly Since Fiscal Year 2014

The BMF Case Creation Nonfiler Identification Process systemically identifies business taxpayers that are nonfilers and may be eligible to be worked by the A6020(b) program and other nonfiler programs. Case creation is the process of selecting volumes of nonfilers and creating tax module cases for the selected nonfilers on the BMF. Once nonfiler cases are selected, a number of notices are sent out to attempt to get the taxpayer to file a return. If the taxpayer does not respond to the notices, the IRS will create a TDI tax module. Once these tax modules are created, the IRS can work the case as a TDI and attempt to secure a return from the taxpayer or create a substitute return.

The BMF Case Creation Nonfiler Identification Process has been declining since FY 2011 and virtually stopped in October 2016 due to significant reductions in staffing at the call sites. Creating fewer nonfiler cases resulted in a reduction of potential inventory for nonfiler programs, such as the A6020(b) program, to select work from; therefore, new case starts for the A6020(b) program have been declining since FY 2014 and were halted November 7, 2016. In FY 2017, the A6020(b) program had only 6,421 case starts, compared with more than 30,000 in the prior year and many more before that. To address the overall reduction in resources across the compliance landscape, resources were directed from nonfiler programs to other priority work, such as balance due notices and installment agreement requests.

On May 31, 2018, the IRS established the SB/SE Division Nonfiler Strategic Plan, which is intended to help reduce the nonfiler portion of the Tax Gap at the earliest intervention with the least burden on taxpayers. One of the main goals of the plan is to promote continued filing compliance through programs built to encourage voluntary tax compliance. The A6020(b) program could be used to meet this goal because it is a mostly systemic program with the ability to touch hundreds of thousands of taxpayers and bring them into compliance with fewer resources.

The IRS resumed BMF nonfiler case creation in June 2018 and has started building a nonfiler inventory from which the nonfiler programs could pull cases. The FY 2019 work plan called for a resumption of the A6020(b) program in April 2019 with only 0.79 FTE. However, the transition of the program to a new site will delay resumption until September 2019.

10 See Appendix V for the SB/SE Division Nonfiler Strategic Plan: Goals and Objectives.
11 Although the program is mostly systemic, cases may be added to the A6020(b) program manually from other Collection function inventories.
FY 2020 work plan allocates five FTEs to the A6020(b) program. The 0.79 FTE allocation for FY 2019 is fewer than the last time the A6020(b) program was functioning in FY 2017 with only 1.88 FTEs. In FY 2017, the A6020(b) program had 21,746 case closures, compared with 261,582 in FY 2013 when 12.11 FTEs were assigned.

Because the A6020(b) program has not started new cases for almost three years, the opportunity to secure returns and collect revenue on a portion of employment tax nonfiler cases was lost. If additional resources were allocated to the A6020(b) program to operate with the FY 2013 level of 12.11 FTEs, the program could potentially secure 21,459 employment tax returns and potentially make 145,020 default assessments resulting in the IRS potentially being able to collect about $226.1 million annually based on the program results from FY 2013 through FY 2017.12 The number of secured returns could increase 521 percent from the 3,455 returns that were secured in FY 2017. The number of default assessments could increase 780 percent from the 16,476 that posted in FY 2017. In addition, revenue collected could increase 257 percent from the $63.3 million collected in FY 2017.

As more taxpayers experience little to no consequences for nonfiling, the long-term impacts may include potential erosion of the voluntary compliance rate and a widening of the nonfiling Tax Gap. There will always be competing priorities for the limited resources provided to the IRS for compliance work; however, the IRS should utilize its systemic programs where possible to complete simpler work, such as standalone TDI employment tax nonfiler cases, so that manual programs can focus on more complex inventory.

The A6020(b) program has the ability to touch hundreds of thousands of taxpayers by proposing a tax assessment that will either bring taxpayers back into compliance or, if no response is received, create a tax assessment the IRS will attempt to collect (which often further incentivizes taxpayers to come back into compliance). Rather than working standalone TDI nonfiler employment tax cases in other, more costly functions such as Field Collection or the ACS or allowing the cases to sit in the Collection queue, the IRS could provide adequate resources to the A6020(b) program so that the standalone inventory can be worked by the automated system, leaving more complex cases to be worked by the ACS and Field Collection.

---

12 We used the five year average of 1,772 secured returns per FTE times 12.11 FTEs to get the potential secured returns of 21,459. We used the five year average of 11,975.25 default assessments per FTE times 12.11 FTEs to get the potential default assessments of 145,020. We used the five year average of $18,668,057.42 collected per FTE times 12.11 FTEs to get the potential revenue collection of $226.1 million. The average collected per FTE includes revenue collected downstream by other Collection functions but does not consider the FTEs used to collect the revenue in those functions.


**Recommendation**

**Recommendation 1:** The Commissioner, SB/SE Division, should consider allocating additional resources to the A6020(b) program, beginning with the five FTEs planned for in FY 2020, in conjunction with the SB/SE Division Nonfiler Strategic Plan and in consultation with the Nonfiler Executive Steering Committee.

*Management’s Response:* IRS management agreed with this recommendation. IRS management will consider allocating additional resources to the A6020(b) program if they become available.

**The Automated 6020(b) Case Selection Upper Dollar Thresholds Should Be Removed to Work High-Dollar Cases More Efficiently**

The A6020(b) program has specific criteria for systemic case selection, however, when we reviewed current and historical A6020(b) inventory, we found that cases with much higher dollar amounts above the systemic criteria are being worked by the A6020(b) system. These cases are being added to the A6020(b) inventory manually and result in higher dollar assessments and higher dollars collected.

Currently, higher dollar cases have to be manually selected and assigned to the A6020(b) program to be worked. The manual selection is needed due to the low systemic dollar threshold and the systemic routing order that assigns cases to other functions such as the ACS, Field Collection, and the Collection queue before a case can make it to the A6020(b) inventory. If the IRS were to remove the maximum dollar threshold associated with systemic case selection and change the routing order to assign standalone TDI employment tax inventory to the A6020(b) program rather than the ACS, Field Collection, and the Collection queue, hundreds of thousands of cases could be worked systemically through the A6020(b) program with less cost. This could result in billions of dollars of tax assessments, resulting in potentially billions of dollars of tax revenue.

**A6020(b) historical case selection and inventory**

When the A6020(b) program needs additional inventory to work beyond the cases that have been assigned systemically, A6020(b) analysts have the capability to manually obtain cases that are sitting in the ACS and Collection queue inventories and reassign them to be worked by the A6020(b) program. The analysts run a Microsoft Excel macro to select the additional cases, which do not always meet the case selection criteria of the systemically selected cases. IRS management did not have complete records of the criteria used for each manual selection of inventory that occurred in the past because the main A6020(b) analyst retired in December 2017. However, they were able to provide an estimate that manual selection of inventory occurred for at least 16 separate weeks during the period of FY 2014 through 2016.
Historically, there were no written procedures or criteria documented for analysts to use when selecting additional inventory. IRS management stated that procedures and criteria were documented in November 2017 after the A6020(b) program was essentially halted. **2**

However, based on our review, we determined that manually selected cases prior to November 2017, when no written criteria were in place, included cases with proposed assessments more than $100,000.

Working higher dollar cases in the A6020(b) program is an efficient way to address the noncompliance of employment tax nonfilers. Prior to November 2017, the A6020(b) system was manually assigned cases with proposed assessments more than the current manual threshold*2*** If the IRS were to remove the dollar thresholds for both systemically and manually selected A6020(b) cases, then higher risk cases could be worked and assessed efficiently through the systemic program.

We analyzed the cases worked by the A6020(b) program from FYs 2013 through 2017 and determined that the average assessment and revenue collected per case increased, as shown in Figure 4.

**Figure 4: Average A6020(b) Tax Assessments and Revenue Collected per Case for FYs 2013–2017**

<table>
<thead>
<tr>
<th>FY Closed</th>
<th>Average Assessment</th>
<th>Average Revenue Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$3,500</td>
<td>$590</td>
</tr>
<tr>
<td>2014</td>
<td>$2,203</td>
<td>$769</td>
</tr>
<tr>
<td>2015</td>
<td>$3,100</td>
<td>$1,311</td>
</tr>
<tr>
<td>2016</td>
<td>$5,147</td>
<td>$2,873</td>
</tr>
<tr>
<td>2017</td>
<td>$6,377</td>
<td>$2,911</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of Enforcement Revenue Information System data provided by the IRS.

The average assessment per case increased 82 percent, from $3,500 in FY 2013 to $6,377 in FY 2017. In addition, the average revenue collected per case increased 394 percent, from $590 in FY 2013 to $2,911 in FY 2017. **13** The manually selected cases resulted in higher assessment and collection rates because the maximum threshold was higher. The A6020(b) program is therefore capable of working these higher dollar cases and should continue to work them.

**13** The percentage was calculated with unrounded amounts.
A6020(b) current case selection and inventory

In addition to reviewing historical A6020(b) cases, we looked at the current inventory for the A6020(b) program as of cycle 201903 (January 17, 2019). The current inventory shows cases of various dollar levels, including those above the systemic and manual case selection thresholds, as shown in Figure 5.

### Figure 5: Current A6020(b) Inventory by Proposed Assessment Amount

<table>
<thead>
<tr>
<th>Proposed Assessment Range</th>
<th>Cases</th>
<th>Percentage of Cases</th>
<th>Dollar Amount of Proposed Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $1,500</td>
<td>4,475</td>
<td>35.45%</td>
<td>$3,460,442</td>
</tr>
<tr>
<td>$1,500.01 - $10,000</td>
<td>6,405</td>
<td>50.74%</td>
<td>$27,794,710</td>
</tr>
<tr>
<td>$10,000.01 - $20,000</td>
<td>941</td>
<td>7.45%</td>
<td>$12,824,632</td>
</tr>
<tr>
<td>$20,000.01 - $50,000</td>
<td>504</td>
<td>3.99%</td>
<td>$15,515,345</td>
</tr>
<tr>
<td>$50,000.01 - $100,000</td>
<td>149</td>
<td>1.18%</td>
<td>$9,806,605</td>
</tr>
<tr>
<td>$100,000.01 and Above</td>
<td>150</td>
<td>1.19%</td>
<td>$47,108,154</td>
</tr>
<tr>
<td>Total</td>
<td>12,624</td>
<td>100%</td>
<td>$116,509,889</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of BMF data.

Current A6020(b) inventory shows that *****2***** cases meet the systemic case selection dollar criteria since inventory is being manually transferred to build up inventory to restart the program. It also shows that **********2********** cases in current inventory are above the manual case selection dollar criteria that was established in November 2017. The program is capable of efficiently working higher dollar cases and should not be limited by systemic or manual case selection dollar thresholds.

We also analyzed the current inventory of cases in Field Collection, the ACS, and the Collection queue as of January 2019 to identify cases that were employment tax standalone nonfilers (i.e., those cases that did not already have a balance due account or other types of TDI modules that do not qualify for the A6020(b) program). We calculated the potential proposed assessment amount using the last return assessed amount or credit amount for each case and applied an increase for inflation consistent with IRS procedures, just as the A6020(b) program does systemically.

---

14 The dollar amount of proposed assessments does not total due to rounding.
Using FYs 2013 through 2017 historical dollars collected data, as shown in Figure 3, we determined that an average of 32.6 percent of assessed dollars were collected over the period. We applied this average to the current ACS, Collection queue, and Field Collection inventories of standalone TDI employment tax modules that we identified, as shown in Figure 6.

**Figure 6: Current Employment Tax Standalone TDI Modules in the ACS, the Collection Queue, and Field Collection**

<table>
<thead>
<tr>
<th>Function</th>
<th>Count</th>
<th>Potential Proposed Assessments</th>
<th>Potential Revenue Collection Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACS</td>
<td>32,695</td>
<td>$312,067,245</td>
<td>$101,733,922</td>
</tr>
<tr>
<td>Collection Queue</td>
<td>188,104</td>
<td>$7,918,699,085</td>
<td>$2,581,495,902</td>
</tr>
<tr>
<td>Field</td>
<td>22,411</td>
<td>$2,940,306,788</td>
<td>$958,540,013</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>243,210</td>
<td><strong>$11,171,073,119</strong></td>
<td><strong>$3,641,769,837</strong></td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of BMF data.

If the IRS were to assign the 243,210 standalone TDI nonfiler employment tax modules currently in the ACS, Collection queue, and Field Collection to the A6020(b) program to be worked, it could potentially create more than $11.17 billion in employment tax assessments and potentially collect $3.64 billion in employment tax revenue. The ACS and Field Collection are equipped to work more complex cases than the A6020(b) program as well as balances due. Rather than spending higher skilled resources on simpler standalone employment tax nonfiler cases, the IRS could reallocate these types of cases to the A6020(b) program so that the ACS and Field Collection resources may be spent on more complex work unsuited for a systemic program.

Based on the IRS’s FY 2020 work plan to allocate five FTEs to the A6020(b) program, we estimate that 36 percent of the current inventory of employment tax standalone nonfiler cases (86,554 of 243,210) could be systemically worked within the A6020(b) program. If IRS management were to select the highest dollar cases from the current standalone employment tax TDI inventory, they could potentially assess and collect billions of dollars. Additionally, many of these taxpayers have prepaid credits, which the IRS could apply towards the resulting employment tax assessment. This could result in billions of dollars collected from the prepaid credits alone, as shown in Figure 7.

---

15 Resulting revenue collected used for the percentage calculation includes revenue collected from the A6020(b) program as well as downstream revenue from other Collection functions such as the ACS and Field Collection.  
16 Dollar totals may not sum due to rounding.  
17 Using the five year average of 17,311 closures per FTE (rounded), as reported in Figure 1, we estimate that in FY 2020, five FTEs could close 86,554 cases (rounded) using the A6020(b) system.
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Figure 7: Top 108,002 Highest Dollar Current Employment Tax Standalone TDI Modules in the ACS, the Collection Queue, and Field Collection

<table>
<thead>
<tr>
<th>Function</th>
<th>Count</th>
<th>Potential Proposed Assessments</th>
<th>Potential Revenue Collection Dollars</th>
<th>Actual Taxpayer Prepaid Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACS</td>
<td>3,124</td>
<td>$213,676,955</td>
<td>$69,658,687</td>
<td>$79,413,155</td>
</tr>
<tr>
<td>Collection Queue</td>
<td>73,291</td>
<td>$7,158,269,573</td>
<td>$2,333,595,881</td>
<td>$2,535,327,602</td>
</tr>
<tr>
<td>Field</td>
<td>10,139</td>
<td>$2,876,273,629</td>
<td>$937,665,203</td>
<td>$855,326,508</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>86,554</td>
<td><strong>$10,248,220,156</strong></td>
<td><strong>$3,340,919,771</strong></td>
<td><strong>$3,470,067,265</strong></td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of BMF data.

By working the top 86,554 highest dollar standalone TDI employment tax cases from the ACS, the Field, and the Collection queue with the five planned FTEs, the A6020(b) program could potentially assess more than $10 billion in employment taxes, and the IRS could potentially collect more than $3.3 billion in revenue based on the five-year historical average collection rate of 32.6 percent. If all taxpayer prepaid credits are applied without any abatements, more than $3.4 billion could potentially be collected.

The SB/SE Division Nonfiler Strategic Plan has a goal of identifying and prioritizing nonfiler work that maximizes dollars collected. The A6020(b) case selection criteria currently limits the dollar threshold of the cases that are chosen for the program, both systemically and manually. However, it is in the IRS’s best interest to select the highest risk cases, which frequently correspond with higher dollar assessment cases. If more high-risk standalone TDI employment tax cases could be selected and worked by the A6020(b) program, then the IRS could focus its limited employee resources on working more complex cases.

IRS management stated that in order to increase or change the criteria for systemic case inventory assignment, they would be required to request a research project aimed at improving inventory and resource allocation across the business nonfiler programs. The project would require executive approval from the IRS Research Analytics Council and the Nonfiler Executive Steering Committee to begin and to approve recommended changes. The research project is required because the IRS has limited resources for its nonfiler and collection programs and must consider any downstream effects that will result from the reallocation of resources. Additionally, the IRS does not know what its resources will be in future years and therefore must have done research to ensure that inventory across the business units can be worked strategically.

18 Dollar totals may not sum due to rounding.
19 See Appendix IV. Resulting revenue collected used for the percentage calculation includes revenue collected from the A6020(b) program as well as downstream revenue from other Collection functions such as the ACS and Field Collection.
Recommendations

The Commissioner, SB/SE Division, should:

Recommendation 2: Consider revising the A6020(b) systemic case selection criteria to remove the upper dollar threshold limit, revise the case assignment routing order, and update the prioritization to focus on the highest dollar cases.

Management’s Response: IRS management partially agreed with this recommendation. IRS management will request a research project aimed at improving inventory and resource allocation across the business nonfiler programs and make changes based on the results of the project.

Office of Audit Comment: It is a positive development that the IRS will request a research project to review the business nonfiler programs as a whole. We understand that the changes to the systemic criteria and the case assignment routing order may have an impact on other nonfiler inventories. However, we believe that high-dollar standalone nonfiler employment tax cases can be worked by the A6020(b) program efficiently and with minimal resources. As shown in Figure 7 of this report, there are over $3 billion in prepaid credits on the 86,554 high-dollar standalone nonfiler employment tax cases we recommend working, which could be collected by the A6020(b) program immediately through taxpayer-filed returns and A6020(b) default assessments.

Recommendation 3: Consider revising the A6020(b) manual case selection criteria to remove the upper dollar threshold limit.

Management’s Response: IRS management partially agreed with this recommendation. IRS management will request a research project aimed at improving inventory and resource allocation across the business nonfiler programs and make changes based on the results of the project.

Office of Audit Comment: We believe that the manual criteria can be changed without a research project so that high-dollar standalone nonfiler employment tax cases with prepaid credits can be worked by the A6020(b) program instead of low-dollar cases. Cases with prepaid credits can be worked by the A6020(b) program with a minimal impact on resources.

Recommendation 4: In preparation for the FY 2020 resumption of the program, consider transferring the highest dollar standalone TDI inventory from the ACS, the Collection queue, and Field Collection to be worked by the planned five FTEs in the A6020(b) program and continue to transfer higher dollar standalone TDI inventory manually to the A6020(b) program until the systemic criteria are revised.

Management’s Response: IRS management partially agreed with this recommendation. IRS management will request a research project aimed at improving
inventory and resource allocation across the business nonfiler programs and make changes based on the results of the project.

**Office of Audit Comment:** We believe that high-dollar standalone nonfiler employment tax cases with prepaid credits can be transferred to the A6020(b) program immediately to be worked with a minimal impact on resources.

### Assessments Are Not Always Posting When a Case Defaults From the Automated 6020(b) Program

When a taxpayer does not respond to the A6020(b) Letter 1085-A after 120 days, the A6020(b) system generates a tax return for the taxpayer based on the last return assessed amount or credits on the module that the IRS has, which is supposed to result in a tax assessment posting to the account. If an assessment does not post as it should, then the IRS cannot collect tax on the module and efforts to prepare the substitute return are wasted.

From A6020(b) cases closed between FYs 2011 and 2017, we identified 9,316 cases in which the module defaulted (because taxpayers did not respond by filing a return or providing information they were no longer liable for the tax); however, no tax assessment posted. Of the 9,316 cases, we determined that 6,784 (73 percent) may still be liable for the A6020(b) assessment amount. Using the proposed assessment for the modules provided to us by the IRS and potential revenue collection for A6020(b) cases of 32.6 percent, we estimate that if the default assessments had posted correctly, the 6,784 cases would have had total proposed assessments of $19.7 million, which could have resulted in $6.4 million in revenue collected. The IRS is no longer going to pursue these cases due to their age, so the potential revenue collection opportunity was lost.

When we brought this issue to the IRS’s attention, management reviewed the A6020(b) system documentation and concluded that there is no internal process that checks whether the default return sent by the A6020(b) program has posted to the BMF before the case closes as a default closure. IRS management noted that A6020(b) default returns that do not post are subject to BMF Submission Processing, which should address issues and correct or delete any default return that does not post. However, Submission Processing does not notify A6020(b) staff, and there is no system interface with the A6020(b) application whereby data on a rejected, corrected, or deleted return are shared.

Although the exact cause for these cases not being assessed is unknown at this time, IRS management stated they will request a programming change that prevents the A6020(b) system from closing a default case until it has verified that the default return posted to the BMF. This programming fix will not be implemented until FY 2021 because the cutoff for FY 2020 requests has already passed.

---

20 The remaining 27 percent of the cases were worked in another function, the taxpayer later filed a return, or the taxpayer was determined to be no longer liable or unable to locate.
Recommendations

The Commissioner, SB/SE Division, should:

Recommendation 5: Request a Unified Work Request to implement application changes that prevent the A6020(b) system from closing a default case until it has verified that the default return assessment posted to the BMF.

Management's Response: IRS management agreed with this recommendation. IRS management will submit a Unified Work Request so the A6020(b) system will only close a case as default when it has verified that the default return has posted to the BMF.

Recommendation 6: Create procedures to monitor cases in which assessments do not post to a taxpayer’s account when a case defaults from the A6020(b) program until a systemic fix is implemented.

Management's Response: IRS management agreed with this recommendation. IRS management will implement procedures to track default cases.
Appendix I

**Detailed Objective, Scope, and Methodology**

The overall objective was to determine whether the IRS is using the Automated 6020(b) program to improve the filing compliance and revenue collection for business return nonfiler taxpayers. To accomplish the objective, we:

I. Determined whether the A6020(b) program supports the IRS strategies and goals for nonfiler compliance.
   A. Reviewed program work plans, nonfiler and A6020(b) studies, and other relevant documentation to determine whether IRS management has developed quantifiable objectives, goals, and operational priorities for the A6020(b) program that are linked to the strategic goals and mission of the overall nonfiler strategy and return delinquency objectives.
   B. Reviewed management information reports, A6020(b) program staffing, cost, and Enforcement Revenue Information System business results for FYs 2013 through 2018 and identified trends.¹

II. Determined the impact of reducing A6020(b) program resources.
   A. Calculated the revenue loss and loss of secured returns from reducing the A6020(b) program.
      1. Reviewed the Impact Analysis of Collection Stream Inventory provided by the IRS. We prepared an impact analysis for FYs 2013 through 2017 using the same criteria the IRS used for the FY 2014 impact analysis. We calculated the average revenue and returns secured per FTE for all five years.
      2. Multiplied the five-year average revenue per FTE by the number of FTEs lost to determine the revenue loss.
      3. Multiplied the five-year average returns secured per FTE by the number of FTEs lost to determine the loss in secured returns.

III. Determined the effectiveness of the case selection process for filtering and assigning cases to the A6020(b) program.
   A. Evaluated whether the dollar criteria for routing cases to the A6020(b) program is appropriate.

¹ See Appendix VI for a glossary of terms.
1. Quantified the number of cases above the dollar threshold that are not being worked by the A6020(b) by obtaining a population of employment tax TDI cases from the BMF.

2. Identified whether the cases were assigned to the ACS, Field Collection, or Collection queue.

3. Determined the impact of not working higher dollar cases by calculating the potential lost revenue from not having the A6020(b) program work cases in a higher dollar range.

IV. We assessed the reliability of the Enforcement Revenue Information System and BMF data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

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: the IRS policies, procedures, and practices for case selection and case processing in the A6020(b) program. We evaluated these controls by interviewing management and reviewing Internal Revenue Manual procedures.
Appendix II

**Major Contributors to This Report**

Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Phyllis Heald London, Director
Autumn Macik, Audit Manager
Heath Sollak, Lead Auditor
Marcus Sloan, Auditor
Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Small Business/Self-Employed Division
Director, Campus Collection, Small Business/Self-Employed Division
Director, Collection, Small Business/Self-Employed Division
Director, Collection Inventory Delivery and Selection, Small Business/Self-Employed Division
Director, Collection Policy, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division
Director, Headquarters Collection, Small Business/Self-Employed Division
Director, Enterprise Audit Management
Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

Increased Revenue – Potential; more than $3.3 billion that could be collected if 86,554 high-dollar standalone employment tax TDI cases are worked by the A6020(b) program; more than $16.7 billion forecast over five years (see page 8).1

Methodology Used to Measure the Reported Benefit:

During our review, we identified a population of 243,210 current standalone employment tax TDI cases that were assigned to the ACS, the Collection queue, and Field Collection that could be worked by the A6020(b) program (see Figure 6 in the Results of Review section of the report).2 Using the five-year historical average of 17,310.87 case closures per FTE and the IRS’s FY 2020 work plan to allocate five additional resources to the A6020(b) program in FY 2020, we determined that 86,554.36 (17,310.87 x 5) of the highest proposed assessment cases could be started and closed by the A6020(b) program.

The inventory of current standalone employment tax TDI cases was sorted so the highest dollar proposed assessment cases were at the top of the list. The top 86,554 highest dollar proposed assessment cases were selected from the list to obtain the following results, which include potential revenue collection dollars of $3,340,919,770.99 based on the five-year historical average collection rate of 32.6 percent from FYs 2013 through 2017.3

---

1 The five-year forecast is based on multiplying the base year by five and assumes, among other considerations, that economic conditions and tax laws do not change.
2 See Appendix VI for a glossary of terms.
3 If not assigned to the A6020(b) program, some of these cases may be worked in the other Collection functions and result in assessments and potential revenue. However, the majority of these cases are currently assigned to the Collection queue, where they are not guaranteed to be worked. We could not determine how much could potentially be assessed or collected from these cases if they remained in the other Collection functions.
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

<table>
<thead>
<tr>
<th>Function</th>
<th>Count</th>
<th>Potential Proposed Assessments</th>
<th>Potential Revenue Collection Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACS</td>
<td>3,124</td>
<td>$213,676,955</td>
<td>$69,658,687</td>
</tr>
<tr>
<td>Collection Queue</td>
<td>73,291</td>
<td>$7,158,269,573</td>
<td>$2,333,595,881</td>
</tr>
<tr>
<td>Field</td>
<td>10,139</td>
<td>$2,876,273,629</td>
<td>$937,665,203</td>
</tr>
<tr>
<td>Total</td>
<td>86,554</td>
<td>$10,248,220,156</td>
<td>$3,340,919,771</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of BMF data.

The five-year forecast calculation is $3,340,919,770.99 x five years = $16,704,598,854.95.
Billions of Dollars of Nonfiler Employment Taxes Went
Unassessed in the Automated 6020(b) Program
Due Primarily to Resource Limitations

Appendix V

Small Business/Self-Employed Division
Nonfiler Strategic Plan: Goals and Objectives
## Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Collection System</td>
<td>A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers that have not complied with previous notices.</td>
</tr>
<tr>
<td>Business Master File</td>
<td>The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.</td>
</tr>
<tr>
<td>Collection Queue</td>
<td>An automated holding file for unassigned inventory of delinquent cases that the Collection function does not have enough resources to immediately assign for contact.</td>
</tr>
<tr>
<td>Enforcement Revenue Information System</td>
<td>A system that gathers data from across the IRS, collecting information about enforcement revenue. The system tracks a case from start to finish, incorporating information from various enforcement functions.</td>
</tr>
<tr>
<td>Field Collection</td>
<td>The unit consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>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.</td>
</tr>
<tr>
<td>Full-Time Equivalent</td>
<td>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.</td>
</tr>
<tr>
<td>Internal Revenue Manual</td>
<td>The primary, official source of IRS “instructions to staff” relating to the organization, administration, and operation of the IRS. It details the policies, delegations of authorities, procedures, instructions, and guidelines for daily operations for all divisions and functions of the IRS.</td>
</tr>
<tr>
<td>Last Return Assessed</td>
<td>The last return that has posted to the BMF for the same Master File Tax code.</td>
</tr>
<tr>
<td>Revenue Officer</td>
<td>An employee of Field Collection that attempts to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.</td>
</tr>
<tr>
<td>Tax Year</td>
<td>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.</td>
</tr>
</tbody>
</table>
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Appendix VII

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

August 28, 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations (Audit # 201830033)

Thank you for the opportunity to review and comment on the subject draft audit report. The Automated 6020(b) program is directed at nonfilers of employment tax returns and is a component of our strategy to promote filing compliance. Attempting to bring noncompliant taxpayers into compliance ensures fairness and reduces the burden on the taxpayers who fully pay their taxes on time.

We appreciate your recognition that the Automated 6020(b) program is effective and efficient. As you note in the report, from fiscal year (FY) 2013 through 2017 the Service generated Automated 6020(b) assessments totaling over $2.2 billion. Those assessments eventually led to collections of over $719 million and additional amounts may still be collected resulting from those assessments.

In recent years, resource constraints have forced us to make difficult decisions with respect to some of our programs even though they provide clear benefits to tax administration. New case starts for the Automated 6020(b) program were halted in November 2016 as resources were redirected from nonfiler programs to other priority work such as balance due notices and installment agreement requests. However, recognizing the importance of nonfiler programs in promoting overall compliance, in 2018 we established the Small Business/Self-Employed (SB/SE) Nonfiler Strategic Plan. The plan sets out the current SB/SE strategic framework for addressing nonfilers. As part of the Strategic Plan, we are transitioning the Automated 6020(b) program to a new location in FY 2019, and plan to allocate additional resources to it in FY 2020.

It is important to note that while the Automated 6020(b) program assesses liabilities, it does not collect them. Other IRS programs effect collection. Therefore Automated 6020(b) and our resource allocation decisions for the program cannot be viewed in
isolation, but rather must be viewed as part of a balanced approach between the Service’s balance due and nonfiler programs.

TIGTA made several recommendations aimed at broadening the use of the Automated 6020(b) program by revising thresholds, updating the case prioritization criteria, and moving certain employment tax return delinquency cases from other Collection workstreams into the 6020(b) program. We agree to request a research project aimed at improving inventory and resource allocation across the business nonfiler programs. The results of the research project will form the basis for any changes we implement to the program, including the manual assignment of cases. We agree with your other recommendations and with the outcome measures.

The Collection program will continue to fulfill its mission to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws. We appreciate your continued support and insight in this regard. If you have any questions, please contact me, or Paul Mamo, Director, Collection Operations, Small Business/Self-Employed Division.

Attachment
Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations

Attachment

RECOMMENDATION 1:
The Commissioner, SB/SE Division, should consider allocating additional resources to the A6020(b) program, beginning with the five FTEs planned for in FY 2020, in conjunction with the SB/SE Division Nonfiler Strategic Plan and in consultation with the Nonfiler Executive Steering Committee.

CORRECTIVE ACTION:
We agree with this recommendation. If additional resources become available, we will consider allocating them to the A6020(b) program along with our other programs that have experienced significant attrition.

IMPLEMENTATION DATE:
October 31, 2020

RESPONSIBLE OFFICIAL:
Director, Campus Collection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:
The Commissioner, SB/SE Division, should consider revising the A6020(b) systemic case selection criteria to remove the upper dollar threshold limit, revise the case assignment routing order, and update the prioritization to focus on the highest dollar cases.

CORRECTIVE ACTION:
We partially agree with this recommendation. We will request a research project aimed at improving inventory and resource allocation across the business nonfiler programs. The results of the research project will form the basis for any recommended changes.

IMPLEMENTATION DATE:
October 31, 2020

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division
CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:
The Commissioner, SB/SE Division, should consider revising the A6020(b) manual case selection criteria to remove the upper dollar threshold limit.

CORRECTIVE ACTION:
We partially agree with this recommendation. We will request a research project aimed at improving inventory and resource allocation across the business nonfiler programs. The results of the research project will form the basis for any recommended changes.

IMPLEMENTATION DATE:
October 31, 2020

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:
In preparation for the FY 2020 resumption of the program, the Commissioner, SB/SE Division, should consider transferring the highest dollar standalone TDI inventory from the ACS, the Collection queue, and Field Collection to be worked by the planned five FTEs in the A6020(b) program and continue to transfer higher dollar standalone TDI inventory manually to the A6020(b) program until the systemic criteria are revised.

CORRECTIVE ACTION:
We partially agree with this recommendation. We will request a research project aimed at improving inventory and resource allocation across the business nonfiler programs. The results of the research project will form the basis for any recommended changes.

IMPLEMENTATION DATE:
October 31, 2020
RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business / Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:
The Commissioner, SB/SE Division, should request a Unified Work Request (UWR) to implement application changes that prevent the A6020(b) system from closing a default case until it has verified that the default return assessment posted to the Business Master File (BMF).

CORRECTIVE ACTION:
We agree with this recommendation. By March 2020, we will submit an FY 2021 UWR requesting that the A6020(b) system only close a module when it has verified that the default return posted to BMF.

IMPLEMENTATION DATE:
March 31, 2020

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 6:
The Commissioner, SB/SE Division, should create procedures to monitor cases in which assessments do not post to a taxpayer's account when a case defaults from the A6020(b) program until a systemic fix is implemented.

CORRECTIVE ACTION:
We agree with this recommendation. By March 2020 when A6020(b) default processing resumes, we will implement procedures to track defaulted cases to ensure default return posting.
IMPLEMENTATION DATE:
March 31, 2020

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.