Treasury Inspector General for Tax Administration

Inspections and Evaluations

Highlights

Highlights of Report Number: 2014-IE-R005 to the Internal Revenue Service Chief Financial Officer.

WHY TIGTA DID THIS STUDY

This project was initiated to determine whether the IRS has established guidance and procedures so senior executives and their managers know when overnight long-term travel is subject to taxes.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Financial Officer modify and document procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel. Furthermore, the Chief Financial Officer should annually inform or remind IRS employees of the policies and procedures related to long-term taxable travel and travelers' and managers' responsibility to accurately determine whether travel may be taxable.

IRS officials agreed with our recommendations. The IRS Chief Financial Officer plans to modify and document standard operating procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel. In addition, the IRS Chief Financial Officer plans to annually issue a reminder to employees reemphasizing existing long-term taxable travel procedures and reminding travelers and managers of their responsibility to accurately determine whether their travel may be taxable.

Issued on December 31, 2013

INTERNAL REVENUE SERVICE'S EXECUTIVE LONG-TERM TAXABLE TRAVEL

WHAT TIGTA FOUND

The IRS has policies in place to help senior executives and their managers know when overnight long-term travel reimbursements are subject to employment taxes. At the beginning of Calendar Year 2012, a quarterly review process was instituted to identify potential long-term taxable travel. In April 2013, the IRS instituted a new interim travel policy that reminds executives to comply with the long-term taxable travel requirements.

While the quarterly reviews have identified cases where employees may not have reported long-term taxable travel, TIGTA noted that the IRS has not documented the procedures for conducting the reviews. Additionally, the methodology for conducting the reviews could be enhanced to increase the likelihood of identifying unreported long-term taxable travel.

TIGTA reviewed the travel records for 31 executives to determine whether their travel appeared to be properly classified as taxable or nontaxable. TIGTA found that the tax classification of travel for nine executives appeared to be incorrect based on their travel patterns and the IRS's validation and that for three executives, the classification was not made in a timely manner.

Without an effective periodic assessment and management review of executives' travel activities, the IRS cannot verify that its executives' travel expenses are properly classified as long-term taxable travel when they should be. The inaccurate reporting of long-term taxable travel resulted in the executives' potentially underreporting income and Federal, State, Medicare, and Federal Insurance Contributions Act taxes.

READ THE FULL REPORT

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

http://www.treasury.gov/tigta/iereports/2014reports/2014ier005fr.pdf