TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Trends in Compliance Activities Through Fiscal Year 2020

May 6, 2022

Report Number: 2022-30-033

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HIGHLIGHTS: Trends in Compliance Activities Through Fiscal Year 2020

Final Audit Report issued on May 6, 2022 **Report Number 2022-30-033**

Why TIGTA Did This Audit

TIGTA conducts this review 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.

Impact on Tax Administration

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.

What TIGTA Found

The IRS faced many challenges during Fiscal Year (FY) 2020, including the Coronavirus Disease 2019 (COVID-19) pandemic, implementation of provisions associated with major tax reforms, and continued fluctuations in staffing. During FY 2020, U.S. taxpayers filed 157 million individual and 11.3 million business income tax returns. Return filings resulted in about $3.5 trillion of total revenue collected during FY 2020.

The IRS budget increased approximately 2 percent, from $11.2 billion in FY 2016 to $11.5 billion in FY 2020. Overall, the IRS ended FY 2020 with 75,612 full-time equivalent employees, a 1,416 increase from the 74,196 full-time equivalent employees in FY 2019.

The IRS collected $51.1 billion in enforcement revenue in FY 2020, less than the all-time high amount of $59.4 billion in FY 2018. The revenue collection was driven substantially by systemic processes, such as the notice stream. About 74 percent of FY 2020's enforcement revenue was collected within the IRS's systemic collection processes.

The Automated Collection System supported the IRS's enforcement operations by collecting $2.8 million per full-time equivalent in FY 2020, while revenue officers within Field Collection collected on average $1.8 million each.

During FY 2020, the IRS completed a total of 509,917 examinations, of which 370,175 (73 percent) were via correspondence and the remaining 139,742 (27 percent) were field examinations. Comparing FYs 2016 and 2020, there were 55 percent fewer correspondence examinations and 59 percent fewer field examinations conducted in FY 2020. The decrease in staffing within the Examination functions has contributed to the decline in examinations. The number of Examination staff decreased 9.75 percent from 10,101 in FY 2017 to 9,116 in FY 2020.

The trending decline in enforcement activity is likely causing growth in the overall Tax Gap as taxpayers are less likely to be subject to an examination.

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 any comments.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 6, 2022

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 2020 (Audit # 202230033)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities as they relate to the Internal Revenue Service's (IRS) efforts to bring taxpayers into compliance with their tax obligations. This review is part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap*.

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.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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Background

Given the responsibility for administering 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 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.*

The Treasury Inspector General for Tax Administration (TIGTA) conducts a review of all IRS fiscal year-end nationwide compliance statistics for Collection and Examination function activities available.[1] Our review used nationwide data from IRS management information systems. Our data analyses were limited to identifying changes and trends in IRS data.

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 updates prior TIGTA reports on compliance trends. Appendix III presents a list of those recent reports.

Results of Review

The Coronavirus Pandemic Significantly Affected the Amount of Taxes Paid in Fiscal Year 2020

During Fiscal Year (FY) 2020, U.S. taxpayers filed more than 157 million individual and 11.3 million business income tax returns. These filings made up approximately 70 percent of the 240 million returns and forms that the IRS received from taxpayers in FY 2020. Return filings resulted in $3.5 trillion of total revenue collected during FY 2020, which is $71.5 billion less tax revenue than FY 2019. Although this is a review of FY 2020 trends, we also note that, in FY 2021, this trend reversed significantly, with over $4 trillion received into the Treasury—the most revenue ever collected in the history of the United States.[2]

Return filings resulted in about $3.5 trillion of total revenue collected during FY 2020, which is $71.5 billion less tax revenue than FY 2019.

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 to timely meet their tax obligations. Taxpayers that do not meet their tax obligations timely contribute to the Tax Gap. The IRS estimates the average annual gross Tax Gap for Tax Years (TY) 2011 through 2013 to be $441 billion. The Tax Gap is generally comprised of three components: nonfiling, underreporting, and underpayment. The IRS estimates that these components contribute $39 billion, $352 billion, and $50 billion, respectively, to the gross Tax Gap. On April 13, 2021, the IRS Commissioner indicated during a 2021 hearing before the Senate Finance

[1] See Appendix IV for the Glossary of Terms.

[2] Congressional Budget Office Monthly Budget Review, Sept. 2021 (Oct. 8, 2021).

Committee that the Tax Gap may have grown since the last Tax Gap estimate. The Commissioner pointed to the evolution of cryptocurrency markets with multitrillion-dollar market capitalizations of assets and some recently released studies that suggest a possibly larger undetected Tax Gap amount.[3]

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 Tax Cuts and Jobs Act of 2017 was enacted.[4] This act contains 119 tax provisions administered by the IRS that affect both domestic and international taxes.[5] It was the first major tax reform legislation in nearly 20 years.

The Taxpayer First Act, which consists of 45 provisions, was enacted on July 1, 2019, to reimagine and enhance the way the IRS serves taxpayers.[6] It emphasized putting taxpayers first and enforcing tax laws in a fair and impartial manner, including training IRS employees to deliver a world-class customer experience.

Events that affected compliance efforts in FY 2020.

The Congressional Budget Office reported that the disruptions stemming from the coronavirus pandemic would further reduce the IRS's ability to enforce tax laws.[7] On March 25, 2020, the IRS announced the *People First Initiative,* which included a series of steps to help taxpayers by offering temporary relief on a variety of issues ranging from easing payment guidelines to postponing compliance actions from April 1 to July 15, 2020.

The *People First Initiative* paused many enforcement activities during the April 1 to July 15, 2020, period. Specifically, the IRS:

- Suspended the issuance of new notices of liens and levies (except for exigent circumstances).
- Stopped initiating new field or correspondence examinations.
- Extended deadlines to make monthly payments on existing installment agreements.
- Extended deadlines for submitting supporting documentation for Earned Income Tax Credit (EITC) claims.

In addition, the closure of IRS facilities during this time interrupted the processing of paper correspondence from taxpayers, including documents related to audit and collection activities.

According to the IRS, when it shut down offices, it immediately worked on enabling telephone assistors to telework in order to provide live telephone assistance. By mid-April 2020, the Small Business/Self-Employed (SB/SE) Division Collection function began reopening its telephone lines with available staff and increased the staffing levels with the passing of time.

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[3] *The 2021 Filing Season and 21st Century IRS, Hearing Before the Senate Committee on Finance,* 117th Cong. (Apr. 13, 2021) (Statement of Charles P. Rettig, Commissioner, Internal Revenue Service).

[4] Pub. L. No. 115-97, 131 Stat. 2054 (codified in scattered sections of 26 U.S.C.). 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."

[5] TIGTA, Report No. 2019-44-030, *Interim Results of the 2019 Filing Season* (Apr. 2019).

[6] Pub. L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

[7] Congress of the United States, Congressional Budget Office, *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020).

Additionally, Field Collection employees were already telework-enabled, so they remained available to the taxpayers with whom they were already working.

During this time, the IRS also closed the walk-in Taxpayer Assistance Centers. The closure reduced the resources available to help taxpayers comply with the law. This closure also hindered taxpayers seeking assistance with new issues from recent legislative and administrative changes as well as taxpayers whose issues predated the coronavirus pandemic. The Taxpayer Advocate Service also suspended face-to-face meetings and limited assistance to telephone only.

Implementation of new legislation placed additional demands on IRS resources. For instance, the Families First Coronavirus Response Act added tax credits for paid sick, family, and medical leave.[8] In addition, the Coronavirus Aid, Relief, and Economic Security Act added numerous provisions, including a retention credit for employers that closed due to the Coronavirus Disease 2019 (COVID-19) pandemic.[9] With the implementation of these new credits, the IRS had to determine which department would process the work, write procedures for processing this work, and then find and train employees to handle the additional workload.

Resources and Their Potential Impact on Enforcement Revenue

The IRS's budget increased approximately 2 percent, from $11.2 billion in FY 2016 to $11.5 billion in FY 2020. Despite this increase over the last five years, when adjusted for inflation, the budget for FY 2020 was still 16 percent less than it was in FY 2010. That equates to purchasing power of about 84 cents for every dollar the IRS was able to spend on compliance/enforcement activities in FY 2010. Figure 1 shows that funding for each of the IRS's main budget activities and number of full-time equivalent (FTE) employees has varied.

Figure 1: Change in Appropriations and FTE Employees by Budget Activity From FY 2016 to FY 2020

Budget Activity	Amount (in Millions)		Amount Percentage Increase (Decrease)	Number of FTE Employees		FTE Percentage Increase (Decrease)
	FY 2016	FY 2020		FY 2016	FY 2020	
Taxpayer Services	$2,333	$2,536	9%	30,370	26,760	(12%)
Enforcement	$4,865	$4,909	1%	38,840	35,388	(9%)
Operations Support	$3,747	$3,885	4%	11,922	11,970	<1%
Business Systems Modernization	$290	$180	(38%)	440	426	(3%)
Totals	$11,235	$11,510	2%	81,572	74,544	(9%)

Source: IRS FY 2017 President's Budget and Department of the Treasury and IRS, Congressional Budget Justification and Annual Performance Report and Plan FY 2021.

8 Pub. L. No. 116-127, 134 Stat. 178 (codified in scattered sections of 7, 26, 29, and 41 U.S.C.).

9 Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

As shown in Figure 1, the funding changes from FY 2016 to FY 2020 did not necessarily result in corresponding changes in the number of FTE employees. For example, the decrease of 38 percent in business systems modernization funding resulted in the number of FTEs decreasing by only 3 percent.

In April 2020, the Government Accountability Office (GAO) reported on open recommendations that could significantly improve the IRS's operations.[10] The report cited two recommendations in the "enhance strategic human capital management" area that would help position the IRS to systemically identify and recruit the workforce needed for the future and develop strategies for identifying and closing skill gaps. In March 2019, the GAO recommended that the IRS fully implement its workforce planning initiative and develop a work plan to help identify and close skill gaps. The IRS agreed with both recommendations and established a workforce plan with an enterprise strategy and conducted related workforce analysis. Further, the IRS implemented a work plan to address mission-critical occupations and skill gaps.

In May 2020, the IRS identified 14 mission-critical occupations. Based on available resources, the initial skill assessment effort is currently focusing on four mission-critical occupations, including information technology specialist, revenue agent, human resource specialist, and appeals officer. The result of this pilot will assist in developing enterprise workforce processes, *i.e.,* formulating labor budgets, hiring, and training plans. This effort is important because in a 2019 report the IRS stated that it anticipates up to 31 percent of its current workforce will retire within the next five years, creating a significant risk of a large knowledge and experience gap.[11]

Overall, the IRS ended FY 2020 with 75,612 FTEs, a 1,416 increase from the 74,196 FTEs in FY 2019.[12] Figure 2 shows staffing by compliance program and position through FY 2021.

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[10] GAO, GAO-20-548PR, *Priority Open Recommendations: Internal Revenue Service* (April 23, 2020).

[11] IRS, Publication 5382, *Internal Revenue Service Progress Update Fiscal Year 2019, Putting Taxpayers First* (Dec. 2019).

[12] Total FTEs for FY 2020 of 75,612 is based on adding 74,544 from Figure 1 to 1,068 (Other Resource employees).

Figure 2: FYs 2017 Through 2021 Examination and Collection Staffing[13]

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Collection					
Revenue Officers (Field Collection)	2,364	2,168	2,239	2,078	1,937
Campus Collection (including ACS Staff)	3,788	3,894	3,969	5,168	4,872
Wage and Investment (W&I) Division Examination					
Tax Examining Staff	930	843	908	1,142	995
SB/SE Division Examination					
Revenue Agents	4,364	4,026	3,995	3,402	3,522
Tax Compliance Officers	674	605	447	509	542
Tax Examiners	63	52	47	43	49
Large Business and International (LB&I) Division Examination					
Revenue Agents	3,016	2,802	2,754	2,798	2,931
Tax Compliance Officers	82	68	62	62	68
Tax Examiners	0	0	0	4	4
Tax Exempt and Government Entities (TE/GE) Division Examination					
Revenue Agents	875	826	811	973	900
Tax Examining Staff	97	109	174	183	185
Total Field Collection Revenue Officers and Campus Collection Staff	6,152	6,062	6,208	7,246	6,809
Total Examination Staff	10,101	9,331	9,198	9,116	9,196
Total Field Collection Revenue Officers and Campus Collection, and Examination Staff	16,253	15,393	15,406	16,362	16,005

Source: Revenue officer data obtained from Collection Activity Report 5000-23, SB/SE and LB&I Divisions' Examination data based on TIGTA analysis of IRS Tables 37, W&I Division management-provided data, and TIGTA analysis of HCO Division-provided data. ACS = Automated Collection System.

The Examination staff steadily declined from FY 2017 to FY 2020, whereas the Collection staff fluctuated during the five-year period of FY 2017 to FY 2021.

The IRS's research shows the greatest compliance impact comes from audits. Audits have a strong positive impact on reporting compliance and have the greatest impact on tax compliance.[14] The amount of total enforcement revenue related to the work performed by compliance employees decreased in total in FY 2019 when the IRS collected $57.5 billion

[13] We included FY 2021 staffing information in Figure 2 based on the most current IRS data available.

[14] IRS, *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results* (Nov. 2002).

compared to $59.4 billion for FY 2018. IRS enforcement revenue dropped to $51.1 billion in FY 2020.

Enforcement revenue is attributed to the function that initiated the collection of the revenue. The IRS attributes enforcement revenue to four "areas": Examination, Collection, Appeals, and the Automated Underreporter (AUR) Program.

- Examination – any revenue collected on an examination assessment. A case could go to Appeals and still have an examination assessment, *e.g.,* partial agreement.
- Appeals – revenue from cases that went through the Independent Office of Appeals, for which Appeals made the assessment.
- Collection – consists of returns filed with a balance due that initiates an assessment and delinquent return investigation.
- AUR Program – revenue from the AUR Program.

Figure 3 shows the amount of actual enforcement revenue collected by area for FYs 2016 and 2020.

Figure 3: Enforcement Revenue Collected During FYs 2016 and 2020 by Area (Amounts in Billions)

Area	FY 2016		FY 2020		Percentage Change From FY 2016 to 2020 Increase/(Decrease)
	Amount	Percentage	Amount	Percentage	
Examination	$9.9	18%	$6.3	12%	(36%)
Appeals	$2.1	4%	$1.9	4%	(7%)
Collection	$37.3	69%	$38.9	76%	5%
AUR Program	$5.0	9%	$3.9	8%	(22%)
Totals*	$54.3	100%	$51.1	100%	(6%)

*Source: TIGTA analysis of data provided by IRS management. *Totals may not calculate due to rounding.*

The IRS defines each of the enforcement revenue streams as follows:[15]

- Pre-Notice – accounts for anything collected before the case went into balance due status.
- Notice – in the notice stream, delinquent accounts are sent a series of notices.
- Automated Collection System (ACS) – a telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with the notice stream.
- Queue – holds collection cases awaiting assignment to field collection. Taxpayers sometimes voluntarily pay their case while in the queue.

[15] The enforcement revenue originated from the four areas that made the assessment (Figure 3), but the enforcement revenue is collected by these five streams (Figure 4).

- Field Collection – collection cases are worked through direct activities with taxpayers or their representatives.

Figure 4 shows actual enforcement revenue collected during FYs 2016 and 2020 by the collection stream.

Figure 4: Enforcement Revenue Collected During FY 2016 and FY 2020 by Collection Stream (Amount in Billions)

Collection Stream	FY 2016		FY 2020		Percentage Change From FY 2016 to 2020 Increase/(Decrease)
	Amount	Percentage	Amount	Percentage	
Pre-Notice	$9.1	17%	$7.2	14%	(21%)
Notice	$30.1	55%	$28.3	55%	(6%)
ACS	$9.1	17%	$9.7	19%	6%
Queue	$1.3	2%	$2.3	4%	72%
Field Collection	$4.7	9%	$3.7	7%	(21%)
Total*	$54.3	100%	$51.1	100%	(6%)

*Source: TIGTA analysis of IRS-provided data. *Totals may not calculate due to rounding.*

Figures 3 and 4 show that enforcement revenue collected decreased 6 percent from FY 2016 to FY 2020, from $54.3 billion to $51.1 billion. The revenue collection was driven substantially by systemic processes. During FY 2020, about 74 percent of the total enforcement revenue was collected within the systemic processes (Notice and ACS).

Total enforcement revenue collected measures when revenue was collected, which does not necessarily align with when the work was performed and can also be heavily influenced by a small number of very large cases. These factors are especially important in Examination, where large cases can span several years, but the revenue is generally recognized during the year the case closes.

Even though examination closures of a number of relatively few large taxpayers can have an impact on enforcement revenue, the IRS believes 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. 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 accounts, collections can occur with relatively little additional IRS investment. However, a portion of taxpayers may contact the IRS to discuss the notice, take action to pay, or otherwise resolve their delinquency. In those instances, the level of direct employee involvement may increase.

The collection notice stream brings in a high percentage of revenue because it occurs at the beginning of the collection process and newer debt is easier to collect than aged delinquent accounts. The notice stream reflects debt in the initial collection stage and the average notice balance tends to be lower.

Collection Function Compliance Activities

The mission of the IRS's Collection function is to help taxpayers understand and meet their tax obligations, while applying the tax law with integrity and fairness to all. The bulk of the IRS's Collection inventory is routed to the ACS when delinquent taxpayers do not respond to notices issued via the notice stream. 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 (TDA) and Taxpayer Delinquency Investigations (TDI). 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. The systemic actions include the issuance of notices, and if taxpayers are unresponsive or uncooperative, enforcement actions such as levies and Notices of Federal Tax Lien filings can be taken.

During FY 2020, approximately 84 percent of delinquent accounts (TDA modules) were routed to the ACS (3,853,896 modules).[16] Activity and results on delinquent accounts assigned to the ACS all decreased from FY 2019 to FY 2020:

- TDA closures decreased from 6,766,952 modules for FY 2019 to 4,552,050 for FY 2020.
- The amount collected on TDAs assigned to the ACS decreased 26 percent from FY 2019 ($4 billion) to FY 2020 ($3 billion).
- The number of closures for taxpayers coming into compliance by fully paying their delinquent account decreased from FY 2019 (1,462,084 modules) to FY 2020 (1,163,535 modules).[17]

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 $9.7 billion in enforcement revenue was attributed to ACS operations. With 3,416 FTEs, the ACS supported the IRS's enforcement operations by collecting approximately $2.8 million per FTE in FY 2020.

While the majority of Collection's inventory is routed to the ACS, the IRS's Field Collection 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 with taxpayers to bring them into compliance by obtaining delinquent returns and 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 2020, Field Collection closed 125,722 delinquent tax modules for which taxpayers fully paid their delinquent tax obligations.

As shown in Figure 4, enforcement revenue attributed to Field Collection totaled $3.7 billion for FY 2020, approximately $152 million less than FY 2019. IRS management reports noted that

[16] See Appendix II, Figure 3.

[17] Details on the number of taxpayers with tax delinquencies in the ACS are included in Appendix II, Figure 6.

there were 2,078 revenue officers working active inventory as of September in FY 2020. They collected, on average, $1.8 million each during FY 2020.[18]

Because Field Collection cases are labor intensive, the cost associated with working them is generally higher than activities in other collection operations. In FY 2020, the IRS's Cost Accounting and User Fees Office analyzed cost-based performance measures for Field Collection. These performance measures included determining a cost per dollar collected.[19] The IRS's analysis shows that in FY 2020 Field Collection costs were $0.16 for every dollar of enforcement revenue collected compared to $0.15, $0.14, $0.10, and $0.13 for FYs 2016 through 2019, respectively. The reason for the higher Field Collection cost in FY 2020 is most likely due to the IRS hiring more Collection staff in FY 2020, as shown in Figure 1, and that some collection activities were suspended due to COVID-19.

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."[20] As of September 2020, private collection agencies had 2,514,034 delinquent taxpayer accounts in their open inventory totaling $25.6 billion in outstanding tax liabilities.

From the launch of the Private Debt Collection program in 2016 through September 2020, the program generated revenue totaling $969 million ($580.6 million in commissionable payments, $43.3 million in non-commissionable payments, and $345.1 million in Special Compliance Personnel Program revenue). From FYs 2016 through 2020, the program's total cost was $236 million. Overall, net revenue to the Treasury was $678.7 million.[21] Private Debt Collection program collections reflected an average cost of $0.24 per dollar collected for all years combined, while the average collection cost for FY 2020 was $0.17. A recent TIGTA audit reported that delinquent accounts assigned to private collection agencies had an average age of 5.31 years. Cases this old are generally uncollectable.[22]

Nonfilers

The IRS's collection operations also have responsibility for 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

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[18] Average for year is based on the number of revenue officers as of September 2020.

[19] The cost per dollar collected represents how much the IRS spent on collecting one dollar, which is calculated by dividing net cost by Field Collection enforcement revenue.

[20] Pub. L. No. 114-94, Div. C, Title XXXII, § 32102, 129 Stat. 1312, 1733-36 (2015) (codified as Internal Revenue Code § 6306).

[21] Net revenue to the General Fund/Treasury is the total revenue (commissionable payments, noncommissionable payments, and Special Compliance Personnel Program revenue) minus retained earnings. Retained earnings are 50 percent of commissionable payments.

[22] TIGTA, Report No. 2021-30-010, *Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance* (Dec. 2020).

Process identifies business taxpayers that have an open filing requirement associated with Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return;* Form 941, *Employer's Quarterly Federal Tax Return;* Form 1065, *U.S. Return of Partnership Income;* and Form 1120, *U.S. Corporation Income Tax Return*. Similar to the Individual Master File process, the Business Master File delinquency check assimilates third-party information into the case creation program to identify productive Business Master File nonfiler cases.[23]

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. Collection function management paused its normal nonfiler process in FY 2017 to realign resources. Collection restarted the nonfiler programs in June 2018, and the IRS has increased its investment in nonfiler programs each year since FY 2018.

TIGTA recently reported, in May 2020, that the IRS has a new nonfiler strategy that attempts to approach nonfiling in a more strategic manner.[24] The SB/SE Division developed the nonfiler strategy during FY 2018, and it was turned over to the Directors of Examination and Collection in September 2018 to administer. The primary purpose of the new nonfiler strategy is to provide the SB/SE Division a strategic framework to address nonfilers. The new strategy established the following goals: identify and prioritize nonfiler work that maximizes dollars collected; promote continued filing compliance through programs built to encourage voluntary taxpayer filing; and increase operational efficiencies across existing nonfiler programs.

However, the new nonfiler program is spread across multiple functions with no one area being primarily responsible for oversight. The TIGTA report, issued in May 2020, noted that the IRS is missing out on opportunities to bring repeat high-income nonfilers back into compliance.[25] In the report, TIGTA identified the top 100 high-income nonfilers for TYs 2014 through 2016 that the IRS did not address or resolve, with an estimated tax due totaling $9.9 billion. In the management response to TIGTA's report, the IRS stated that all high-income nonfilers for TYs 2016 through 2018 were selected and that the IRS plans to continue to select all high-income nonfilers in the future. Also, at the beginning of Calendar Year 2020, IRS management created and completed specialized revenue officer compliance sweeps that focused on high-income nonfilers.

As of October 2021, the Nonfiler Inventory and Analysis group had an inventory of 49.7 million individual taxpayer TDI cases for TYs 2014 through 2018. During FY 2020, the IRS sent notices for 2.7 million nonfiler cases, which was a 6 percent decrease compared to FY 2019 (2.9 million notices). The identification of business nonfilers increased in FY 2020 (71.7 million) from FY 2019 (50.5 million). However, notices sent to business nonfilers decreased 71 percent

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[23] 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.

[24] TIGTA, Report No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* (May 2020).

[25] According to Internal Revenue Manual 5.19.2.8.1(1), a high-income nonfiler is any nonfiler with a total income greater than or equal to $100,000. Internal Revenue Manual 5.19.2.8.1(1) has been unchanged since Nov. 6, 2015.

from FY 2019 (2 million) to FY 2020 (588,649). The IRS has decreased the number of notices issued for both individual and business nonfilers.

Examination Function Compliance Activities

The IRS's primary objective in selecting returns for examination is to promote the highest degree of voluntary compliance.[26] Examination is a vitally important aspect of maintaining a voluntary tax compliance system because approximately 80 percent of the gross Tax Gap is comprised of underreported tax on timely filed returns.[27] Examinations are the means of detecting and assessing a portion of this tax that is not reported and paid voluntarily. These efforts have a direct impact on the Tax Gap.

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. During FY 2020, the IRS completed a total of 509,917 examinations, of which 370,175 (73 percent) were via correspondence and the remaining 139,742 (27 percent) were field examinations. Comparing FYs 2016 and 2020, there were 55 percent fewer correspondence examinations and 59 percent fewer field examinations conducted in FY 2020.

The decline in examinations is the result of decreases in staffing within the Examination functions. The IRS's Examination staff are organized in business units including LB&I, SB/SE, TE/GE, and W&I. Positions include revenue agents, tax compliance officers, and tax examiners. As shown in Figure 2, the number of the IRS's Examination staff decreased 9.75 percent from 10,101 in FY 2017 to 9,116 in FY 2020.

Even with the declines in staffing in FY 2020, as shown in Figure 3, examinations generated $6.3 billion (12 percent) of the IRS's total enforcement revenue of $51.1 billion. This is less than the $9.3 billion (16 percent) enforcement revenue that examination generated of the total $57.5 billion in FY 2019.

As Figure 5 reflects, recommended assessments have decreased substantially from almost $44 billion in FY 2011 to almost $13 billion in FY 2020.

[26] Internal Revenue Manual 1.2.1 (Jan. 2022). Internal Revenue Manual 1.2.1.5.10(2) has been unchanged since June 1, 1974.

[27] IRS, Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013* (Sept. 2019).

Figure 5: Recommended Additional Tax After Examination Over the Past Decade

Fiscal Year	Amount (In Billions)			Percentage Change Compared to FY 2011 Increase/(Decrease)		
	Total	Field Examinations	Correspondence Examinations	Total	Field Examination	Correspondence Examination
2011	$43.6	$34.9	$8.8			
2012	$38.7	$29.4	$9.3	(11%)	(16%)	6%
2013	$37.1	$28.5	$8.6	(15%)	(18%)	(3%)
2014	$33.1	$26.2	$7.0	(24%)	(25%)	(21%)
2015	$25.1	$17.8	$7.3	(42%)	(49%)	(16%)
2016	$26.9	$21.6	$5.4	(38%)	(38%)	(39%)
2017	$29.0	$23.9	$5.1	(34%)	(31%)	(42%)
2018	$26.5	$21.3	$5.2	(39%)	(39%)	(41%)
2019	$17.3	$13.8	$3.5	(60%)	(60%)	(60%)
2020	$12.9	$10.1	$2.8	(70%)	(71%)	(69%)

Source: TIGTA analysis of IRS Data Books, which contain data from the Audit Information Management System.

The general declining trend of recommended assessments from FY 2011 to FY 2020 represents a 70 percent drop in the total recommended additional tax after an examination. Taxpayers may not agree with a portion of these recommended assessments and may appeal the results of the examination or may simply not pay the assessed tax. As such, a portion of these recommended 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 recommended assessed tax amount, subsequent reductions, and the final assessed tax amount.

Figure 6 provides a summary of the IRS consolidated assessment data directly from the Enforcement Revenue Information System (ERIS). The data reflect assessments within ERIS through August 2021 associated with cases closed in the applicable fiscal years. A breakdown by business operating division is shown in the next section of the report.

Figure 6: Number of Returns Examined and the Amount of Recommended and Final Assessments by Fiscal Year (Dollar Amounts in Billions)

Fiscal Year	Number of Returns (in Millions)	Examination Recommended Tax and Credit Change	Examination Unagreed	Examination Net Tax Assessed[28]	Appeals Net Tax Assessed[29]	Combined Net Tax Assessed*[30]
2016	1.1	$30.7	$12.5	$13.9	$3.7	$17.6
2017	1.1	$32.7	$11.0	$18.5	$3.5	$22.0
2018	1.0	$30.6	$10.2	$17.1	$1.9	$19.1
2019	0.8	$21.5	$6.5	$12.5	$2.3	$14.9
2020	0.5	$22.4	$9.8	$9.9	$1.0	$10.9
Totals*	**4.5**	**$137.8**	**$50.1**	**$72.0**	**$12.4**	**$84.4**

*Source: Provided by the IRS, via ERIS through August 2021. *Totals may not calculate due to rounding.*

Figure 6 shows a general declining trend from $30.7 billion in FY 2016 to $22.4 billion for Examination Recommended Tax and Credit Change in FY 2020. The difference between the recommended additional tax (in Figure 5) and recommended tax and credit change (in Figure 6) is due to data being obtained from different systems. The data in ERIS constantly change due to multiple feeder systems. Accordingly, the status of cases, tax assessments, and abatements results change 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.

IRS Examination functions generally use the Audit Information Management System for the source of examination results (Figure 5), whereas ERIS gathers data across the IRS, tracking a case from start to finish and incorporating information from various enforcement functions (Figure 6). Independent Office of Appeals officials noted that it does not produce sustention rates as a measure of productivity or success. They stated that cases are worked by applying the law to each taxpayer's unique facts and circumstances, and they attempt to resolve cases that are susceptible to resolution, considering hazards of litigation when appropriate. The Independent Office of Appeals also 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. It has no way to verify the accuracy of ERIS data depicted in Figure 6 because it uses a different official system (Appeals Centralized Database System) for tracking case records.

Given the ability of ERIS to provide data from various stages of a case's life cycle across IRS operations, we believe this provides a more comprehensive analysis as to the success of the Examination functions' compliance efforts. For TYs 2016 to 2020, the IRS Examination functions recommended approximately $137.8 billion in tax assessments. Taxpayers may not agree with all or a portion of these recommended assessments, at which point the IRS denotes these cases as unagreed assessments. For TYs 2016 to 2020, taxpayers disagreed with 36 percent of the recommended assessments, with FY 2020 having the highest unagreed rate at 43.75 percent.

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[28] Examination's tax assessments less abatements.

[29] Appeal's tax assessments less abatements.

[30] Sum of Examination and Appeal functions' tax assessments less abatements. Litigated cases are excluded and could impact these figures.

Taxpayers may formally protest the unagreed assessments through the Independent Office of Appeals and pursue further protests through the U.S. Tax Court.

The final net tax assessment for FYs 2016 through 2020 amounted to approximately $84.4 billion, which includes cases that were agreed to by the taxpayer and cases that may have been upheld by the Independent Office of Appeals after adjustments related to abatements, claims, and appealed assessments.

Examination results by business operating division

W&I Division – The W&I Division supports all tax processing, toll-free customer service for individual and business taxpayers, face-to-face assistance, development and delivery of tax and nontax products and correspondence services for the entire IRS, and identity theft victim assistance. W&I Division compliance efforts include strengthening revenue protection, prerefund compliance, and preventing and detecting tax-related identity theft. The profile of taxpayers served by the W&I Division are that most pay taxes through withholdings, prepare their own returns, interact with the IRS once a year, and receive refunds. The W&I Division's three key functional operations are: Customer Assistance, Relationships, and Education; Customer Account Services; and Return Integrity and Compliance Services.

Figure 7 shows the IRS's assessment data from ERIS for the W&I Division. The data reflect assessments within ERIS through August 2021, associated with cases closed in the applicable fiscal years.

Figure 7: W&I Division Number of Returns Examined and the Amount of Recommended and Final Assessments by Fiscal Year (Dollar Amounts in Millions)

Fiscal Year	Number of Returns (in '000)	Examination Recommended Tax and Credit Change	Examination Unagreed	Examination Net Tax Assessed	Appeals Net Tax Assessed	Combined Net Tax Assessed*
2016	474	$2,475.8	$18.2	$2,385.1	$8.3	$2,393.5
2017	456	$2,181.0	$36.1	$2,072.4	$7.3	$2,079.6
2018	461	$2,103.6	$45.3	$2,004.9	$7.1	$2,012.1
2019	336	$1,443.2	$10.1	$1,390.8	$5.3	$1,396.1
2020	209	$943.2	$9.1	$896.5	$2.4	$898.8
Totals*	**1,936**	**$9,146.5**	**$118.9**	**$8,749.7**	**$30.4**	**$8,780.1**

*Source: Provided by the IRS, via ERIS through August 2021. *Totals may not calculate due to rounding.*

According to the IRS data as summarized in Figure 7, the number of W&I Division examinations dropped 56 percent, from 474,355 in FY 2016 to 209,282 in FY 2020. At the same time, the amount of recommended additional tax decreased approximately 62 percent, from $2.5 billion in FY 2016 to $0.9 billion in FY 2020.

The W&I Division is responsible for most EITC examinations. Specifically, the Refundable Credits Examination Operations unit has a responsibility to fairly and effectively assist taxpayers in understanding refundable tax credits for which they are eligible.

The EITC is a refundable credit to help low- to moderate-income workers and families. The EITC was enacted by the Tax Reduction Act of 1975 to offset the impact of Social Security payroll taxes and rising food and energy prices and encourages individuals to seek employment rather than depend on welfare.[31]

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, increased Federal agencies' requirements to report improper payments.[32] The Office of Management and Budget defines an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The laws also required the Director, Office of Management and Budget, to work with agencies (*e.g.*, the IRS) on programs, including the EITC, that account for the majority of improper payments.

The IRS estimated that 23.5 percent ($16 billion) of EITC payments were improperly paid in FY 2020.[33] The IRS has the difficult task of balancing concerns about improper EITC payments with concerns about audit coverage rates for other taxpayers that don't claim the EITC.

To claim the EITC, taxpayers must meet certain rules. These rules include that the taxpayer and qualifying children must have Social Security Numbers by the due date of the return and qualifying children must meet the relationship, age, and residency tests. In addition, there are earned income limitations based on filing status. Each year, the IRS identifies taxpayers who may have erroneously claimed EITC benefits and audits them through a mail correspondence process to verify their claims.

According to the Congressional Budget Office, the focus during the past decade on reducing improper payments by Government programs has kept examination rates relatively high for returns with EITC claims. Some members of Congress have expressed concerns that EITC return filers are disproportionally among the most audited individuals despite being responsible for a small percentage of unpaid taxes, while other members of Congress have expressed concerns about the high rate of improper payments. The number of EITC examinations decreased 63 percent from 428,207 in FY 2016 to 157,803 in FY 2020.

SB/SE Division – The SB/SE Division's mission is to help small business and self-employed taxpayers understand and meet their tax obligations. It serves about 57 million taxpayers with the profile breakdown as follows:

- 47 million are Schedule C, *Profit or Loss From Business;* Schedule E, *Supplemental Income and Loss;* or Schedule F, *Profit or Loss From Farming*, filers.
- 6.8 million Corporate filers.
- 3.8 million Partnership filers.

In addition, the SB/SE Division serves about 26.8 million employment tax return filers, 1.1 million excise tax return filers, 250,000 gift return filers, and 27,000 estate return filers. The SB/SE

[31] Pub. L. No. 94-12, Section 204.

[32] Pub. L. No. 107-300, 116 Stat. 2350 (2018); Pub. L. No. 111-204, 124 Stat. 2224; and Pub. L. No. 112-248, 126 Stat. 2390.

[33] TIGTA, Report No. 2021-30-051, *The Earned Income Tax Credit Examination Compliance Strategy Can Be Improved* (Sept. 2021).

Division's Examination staff includes revenue agents, tax compliance officers, and tax examiners who perform examinations either in the field or at a campus via correspondence audit.

Figure 8 shows the IRS's assessment data from ERIS for the SB/SE Division. The data reflect assessments within ERIS through August 2021, associated with cases closed in the applicable fiscal years.

Figure 8: SB/SE Division Number of Returns Examined and the Amount of Recommended and Final Assessments by Fiscal Year (Dollar Amounts in Billions)

Fiscal Year	Number of Returns (in '000)	Examination Recommended Tax and Credit Change	Examination Unagreed	Examination Net Tax Assessed	Appeals Net Tax Assessed	Combined Net Tax Assessed*
2016	591.2	$9.5	$2.4	$5.8	$.6	$6.4
2017	540.1	$9.0	$2.4	$5.8	$.7	$6.6
2018	496.3	$10.1	$3.0	$6.4	$.6	$7.0
2019	412.1	$8.4	$2.1	$5.7	$.5	$6.2
2020	292.2	$6.4	$1.4	$4.6	$.2	$4.7
Totals*	**2,332.0**	**$43.4**	**$11.1**	**$28.3**	**$2.6**	**$30.9**

*Source: Provided by the IRS, via ERIS through August 2021. *Totals may not calculate due to rounding.*

According to IRS data, as summarized in Figure 8, the number of tax return examinations performed by the SB/SE Division continues to decline, having decreased 51 percent from FY 2016 (591,239) to FY 2020 (292,236). However, the SB/SE Division continued to perform more than one-half of the IRS's total examinations. During FY 2020, the SB/SE Division accounted for about 55 percent of the IRS's 529,236 total examinations. The amount of recommended additional tax in the SB/SE Division decreased by 33 percent, from $9.5 billion in FY 2016 to $6.4 billion in FY 2020.

LB&I Division – The LB&I Division is responsible for tax administration activities for domestic and foreign businesses with a U.S. tax reporting requirement and assets of $10 million or greater as well as the Global High Wealth and International Individual Compliance programs.

Figure 9 shows the IRS's assessment data from ERIS for the LB&I Division. The data reflect assessments within ERIS through August 2021 associated with cases closed in the applicable fiscal years.

Figure 9: LB&I Division Number of Returns Examined and the Amount of Recommended and Final Assessments by Fiscal Year (Dollar Amounts in Billions)

Fiscal Year	Number of Returns (in '000)	Examination Recommended Tax and Credit Change	Examination Unagreed	Examination Net Tax Assessed	Appeals Net Tax Assessed	Combined Net Tax Assessed*
2016	67.1	$18.5	$10.1	$5.7	$3.0	$8.7
2017	61.3	$21.1	$8.4	$10.5	$2.8	$13.3
2018	32.5	$18.2	$7.2	$8.6	$1.3	$9.9
2019	25.0	$11.5	$4.4	$5.4	$1.8	$7.2
2020	19.6	$15.0	$8.3	$4.4	$0.8	$5.3
Totals*	**205.5**	**$84.3**	**$38.4**	**$34.6**	**$9.7**	**$44.3**

*Source: Provided by the IRS, via ERIS through August 2021. *Totals may not calculate due to rounding.*

According to the IRS data as summarized in Figure 9, the number of examinations performed by the LB&I Division decreased 71 percent from FY 2016 (67,095) to FY 2020 (19,625). The amount of recommended additional tax in the LB&I Division decreased 19 percent, from $18.5 billion in FY 2016 to $15 billion in FY 2020.

TE/GE Division – TE/GE Division customers include small local community organizations, major universities, large pension funds, small business retirement plans, local and State governments, participants in complex tax-exempt bond transactions, and Indian Tribal Governments and tribal associations. The TE/GE Division divides its customers among three functions: Employee Plans, Exempt Organizations, and Government Entities.

Employee Plans is responsible for retirement plans and related trusts, Individual Retirement Arrangements, plan participants and beneficiaries, and retirement plan sponsors. To accomplish its mission, Employee Plans works on determination letter requests, voluntary correction submissions, return examinations, tax administration and enforcement activities, and Knowledge Management. Exempt Organizations and Government Entities areas of responsibility include organizations exempt from income tax under Internal Revenue Code § 501, including charities, private foundations, and other types of exempt organizations, such as business leagues, labor unions, and veterans' organizations; political organizations described in Internal Revenue Code § 527; issuers of tax-advantaged bonds; Indian Tribal Governments; and Federal, State, and local governments. To accomplish their missions Exempt Organizations and Government Entities work on determination letter requests for exempt organizations; voluntary correction programs for tax-advantaged bond issuers and governmental entities; examining returns, including employment returns, and compliance checks; tax administration and enforcement activities coordinating with other Federal and State agencies; and Knowledge Management.

Figure 10 shows the IRS's assessment data from ERIS for the TE/GE Division. The data reflect assessments within ERIS through August 2021 associated with cases closed in the applicable fiscal years.

Figure 10: TE/GE Division Number of Returns Examined and the Amount of Recommended and Final Assessments by Fiscal Year (Dollar Amounts in Millions)

Fiscal Year	Number of Returns (in '000)[34]	Examination Recommended Tax and Credit Change	Examination Unagreed	Examination Net Tax Assessed	Appeals Net Tax Assessed	Combined Net Tax Assessed*
2016	13.5	$137.7	$60.5	$59.2	$9.1	$68.4
2017	12.3	$340.1	$209.2	$65.1	$1.7	$66.8
2018	12.5	$228.8	$84.6	$134.2	$30.3	$164.4
2019	10.5	$171.8	$102.5	$50.2	$1.3	$51.5
2020	8.1	$97.9	$38.2	$39.7	$3.6	$43.3
Totals*	**56.8**	**$976.3**	**$495.0**	**$348.3**	**$46.0**	**$394.4**

*Source: Provided by the IRS, via ERIS through August 2021. *Totals may not calculate due to rounding.*

The total number of examinations in the TE/GE Division declined. Figure 10 shows that the number of examinations decreased 40 percent from FY 2016 to FY 2020, while the amount of total recommended additional tax from examinations declined 29 percent for the same period, from $138 million to $98 million.

Conclusion

The IRS faced many challenges during FY 2020, including the COVID-19 pandemic, implementation of provisions associated with major tax reforms, and continued fluctuations in staffing. Despite the challenges, the IRS's compliance operations collected $51.1 billion in enforcement revenue during FY 2020, a 6 percent decrease from FY 2016. The FY 2020 revenue collection was driven substantially by systemic processes. The IRS's Examination function continued its declining enforcement trend in terms of the number of examinations, which is resulting in lower recommended additional tax after examinations. The trending decline in enforcement activity is likely attributing to potential growth in the overall Tax Gap as taxpayers are less likely to have an examination.

However, the overall downward trend in revenue has now reversed, with a significant increase in receipts in FY 2021, when the IRS total receipts were approximately $4 trillion. The FY 2021 receipts increased 18 percent from FY 2020. It does not appear this increase is a result of IRS compliance activities. According to the Congressional Budget Office, the increase in revenue for FY 2021 appears to be driven by the strength in the economy over the past year.[35]

[34] According to the IRS, the number of returns reported in this table is less than what the IRS Data Books show largely because the ERIS did not pick up employee benefit plan examinations (Form 5500, *Annual Return/Report of Employee Benefit Plan*). The Form 5500 is an information return filed by a tax-exempt entity (a retirement plan) with the U.S. Department of Labor. Because tax assessments are not made on Forms 5500, there are no anticipated impacts to the dollar values reported in this table. Any TE/GE Division employee benefit plan adjustments for income taxes are done on Forms 1040, *U.S. Individual Income Tax Return;* Form 1120; or Form 5330, *Return of Excise Taxes Related to Employee Benefit Plans,* as appropriate.

[35] *Congressional Budget Office Monthly Budget Review* pg. 2, Sept. 2021 (Oct. 8, 2021).

Appendix I

Detailed Objective, Scope, and Methodology

The objective 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:

- Obtained and analyzed data, records, and other documentation related to voluntary compliance during the 2020 Filing Season.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to the IRS Collection functions' FY 2020 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to the IRS Examination functions' FY 2020 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to any other compliance data such as enforcement revenue, gross collections, or notice stream collections.
- Obtained and analyzed EITC filing and examination data to identify trends.
- Reviewed applicable TIGTA, Congressional Budget Office, GAO, and National Taxpayer Advocate reports for relevant information associated with trends or statistics identified in the programs referenced previously.
- Obtained the IRS's feedback regarding the impact of FY 2020 events, new legislation, and budget issues on its compliance functions.

Performance of This Review

This review was performed with information obtained from the LB&I, SB/SE, TE/GE, and W&I Divisions and Research, Applied Analytics, and Statistics during the period October 2021 through February 2022. 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 did not validate the accuracy or reliability of the information generated from the IRS's systems because this review is a statistical portrayal of the IRS's data results. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Christina Dreyer, Director; Lee Hoyt, Audit Manager; and Jesse Fenton, Senior Auditor.

Validity and Reliability of Data From Computer-Based Systems

We used nationwide data from various IRS management information systems. Due to time and resource constraints, we did not audit the IRS's systems to validate the accuracy and reliability of the information.

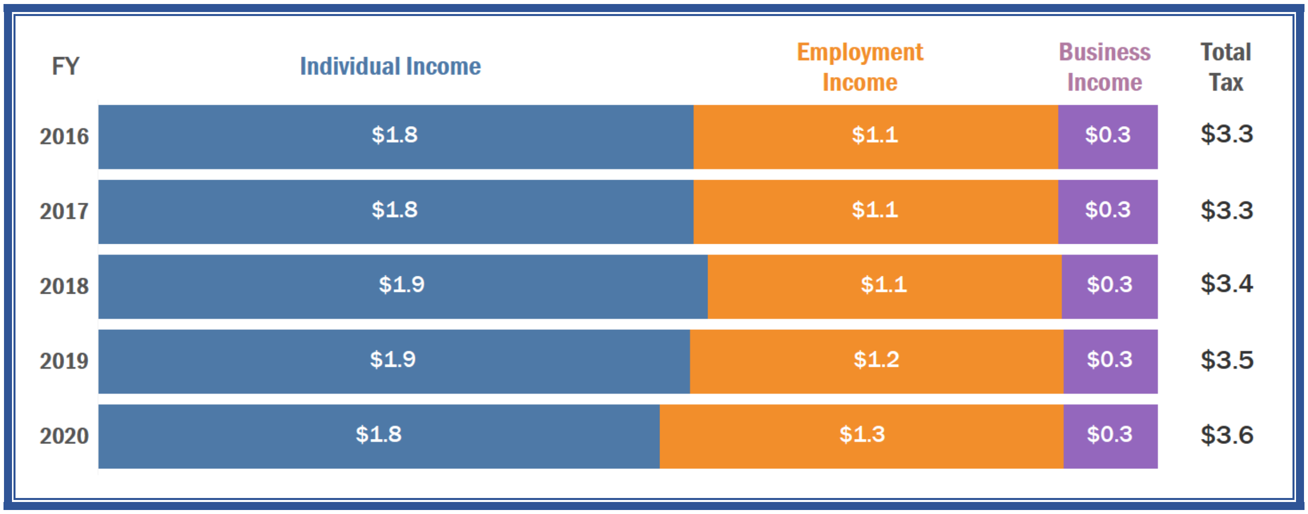
Internal Controls Methodology

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 IRS data.

Appendix II

Detailed Charts of Statistical Information

Figure 1: Gross Collections by Type of Tax (in trillions)[1]



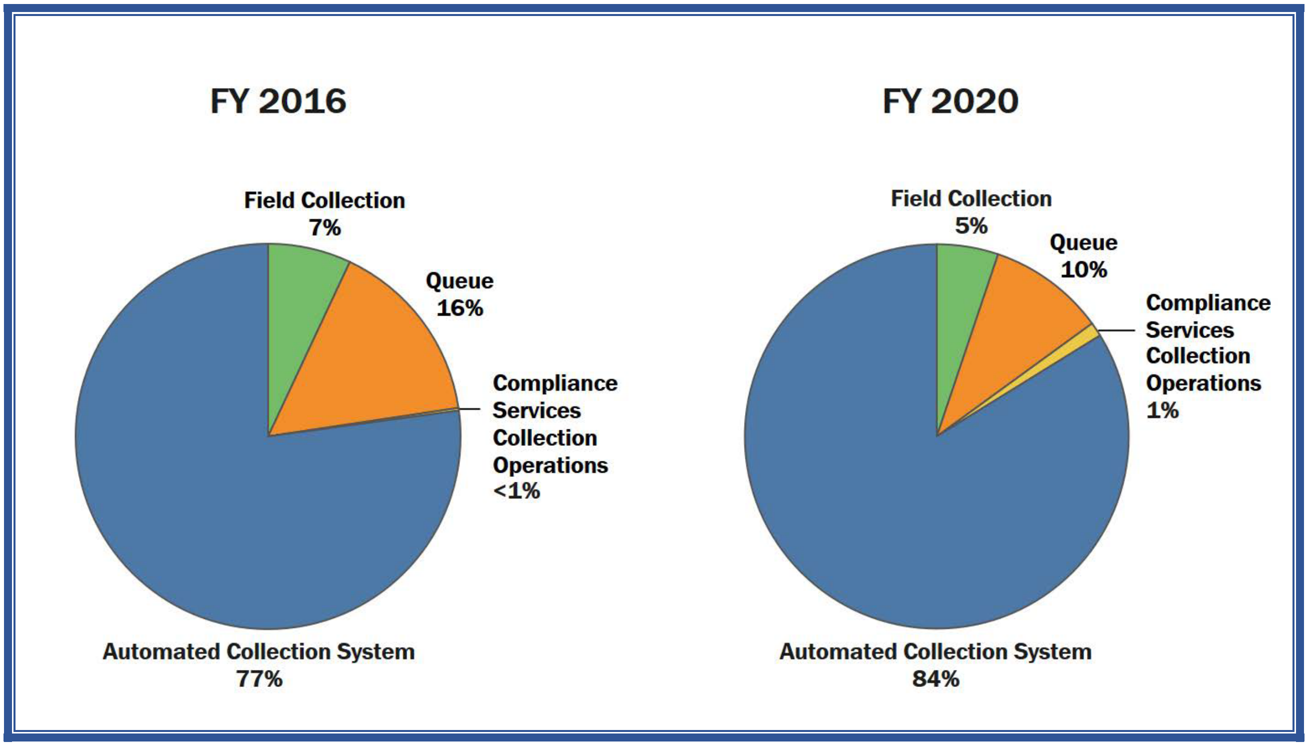
Source: TIGTA analysis of the IRS Data Books.

Figure 2: Amount of Enforcement Revenue Compared to Unpaid Assessments

Source: Office of Research, Applied Analytics, and Statistics for the enforcement revenue and the Chief Financial Officer for the unpaid assessment data.

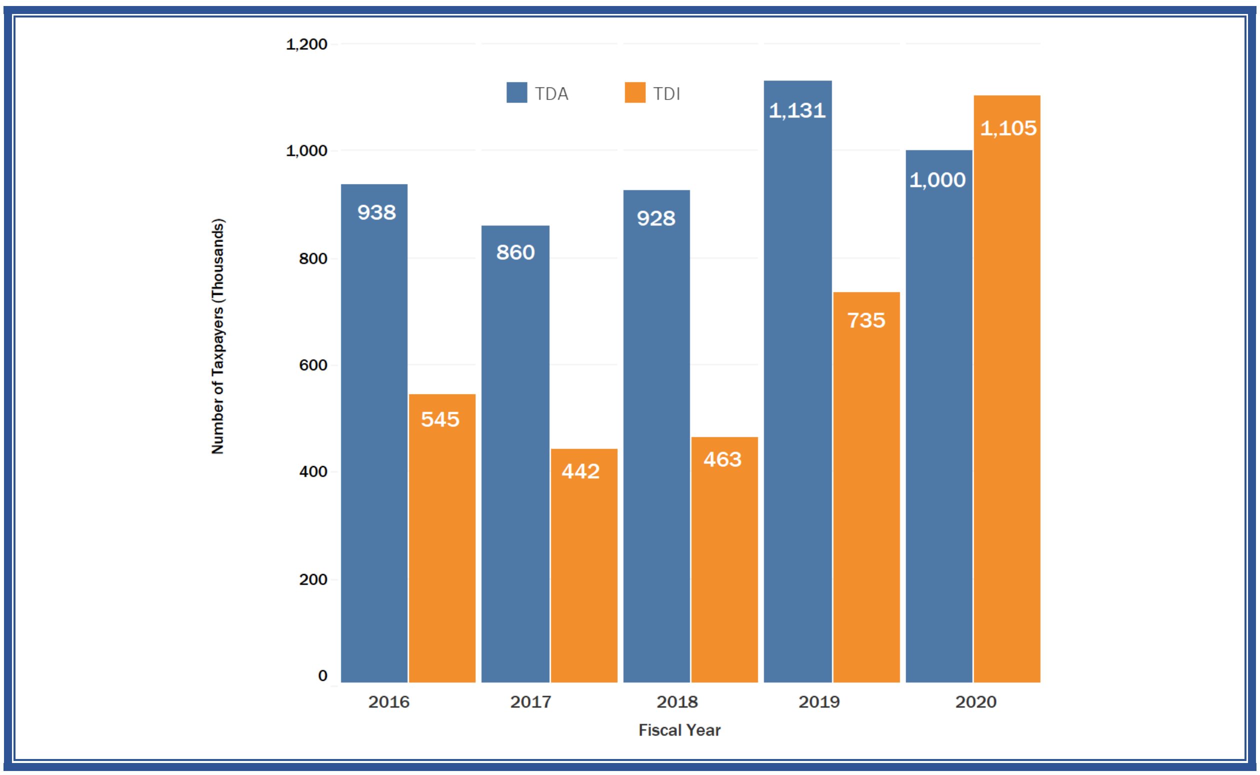
[1] Gross collections include taxes, penalties, and interest. The Business, Individual, and Employment income taxes in this figure may not calculate to the total amount because the total gross collections listed in the far right column include excise, estate and trust, and gift taxes (which are not included as a category in the chart).

Figure 3: Percentage of TDAs Issued to Collection Functions



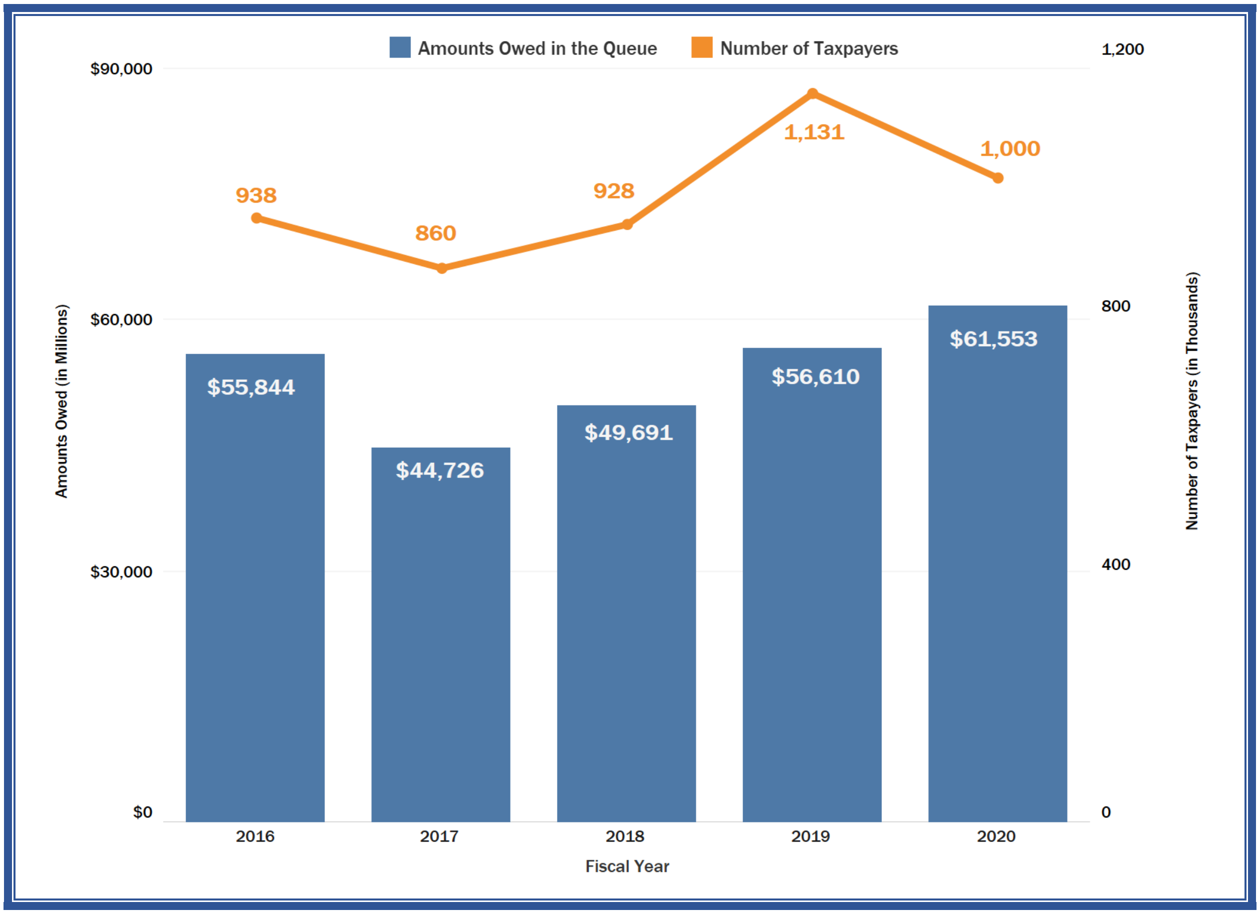
Source: Collection Activity Report 5000-2.

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



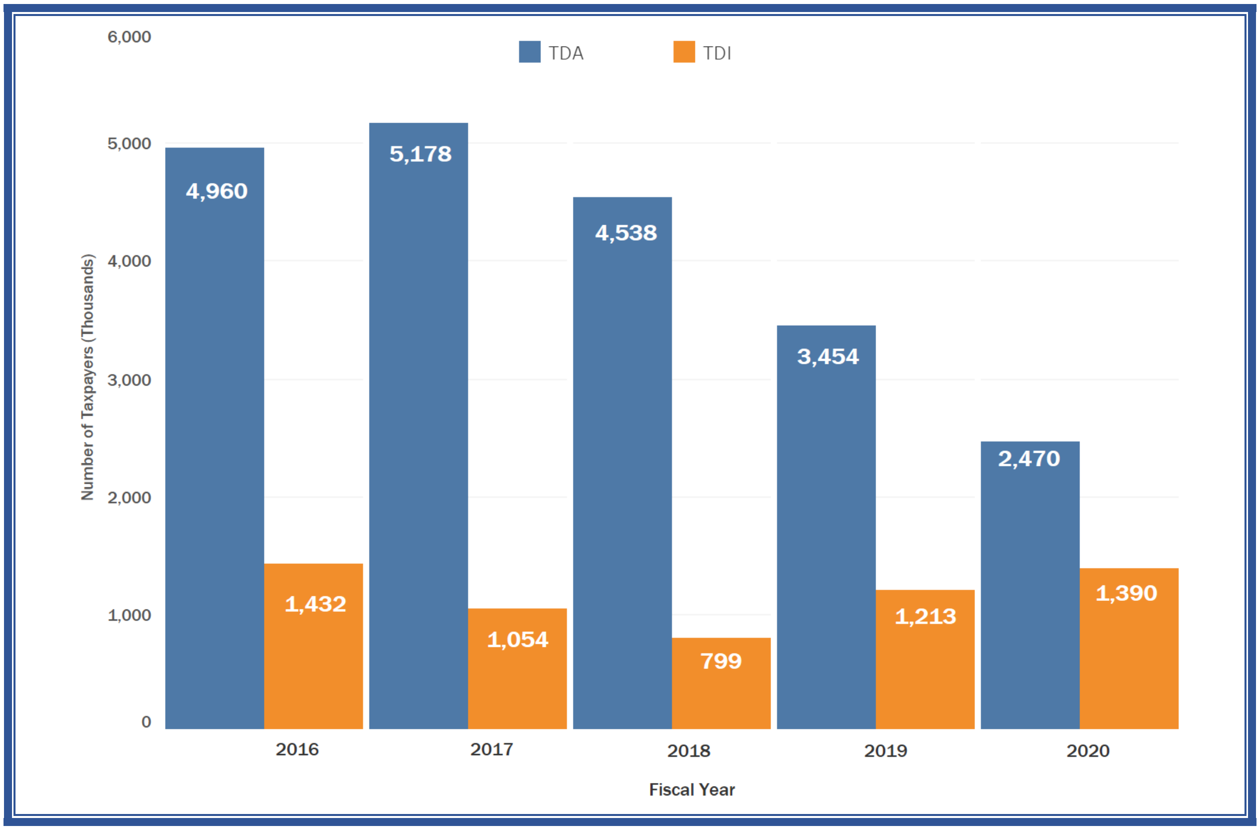
Source: Collection Activity Reports 5000-2 and 5000-4.

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



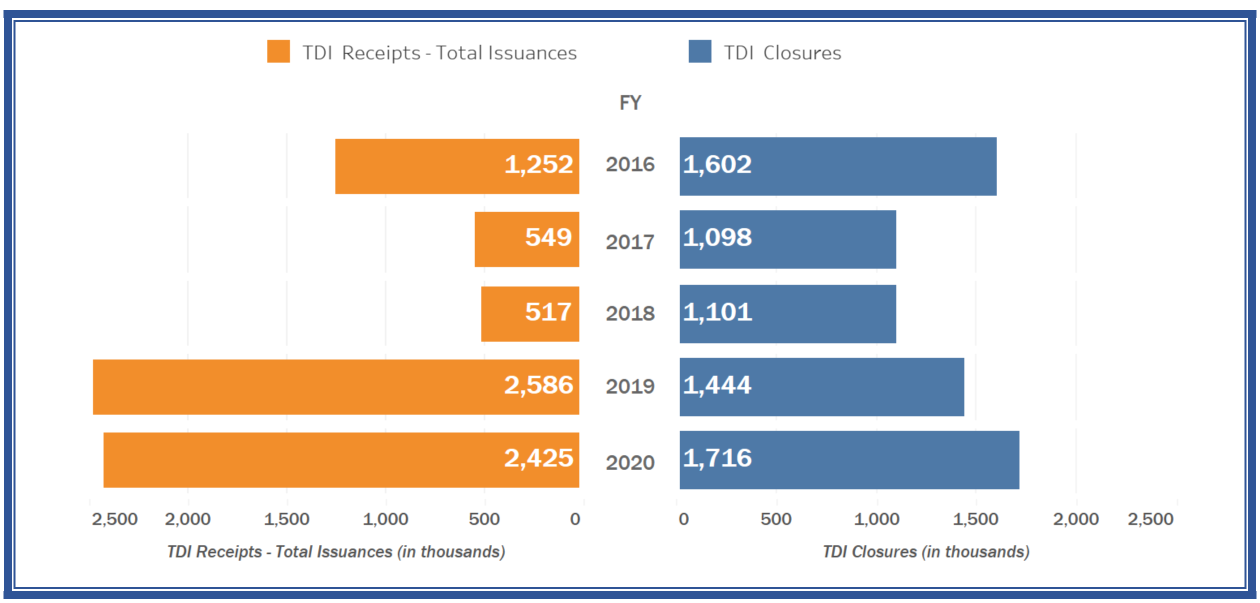
Source: Collection Activity Report 5000-2.

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



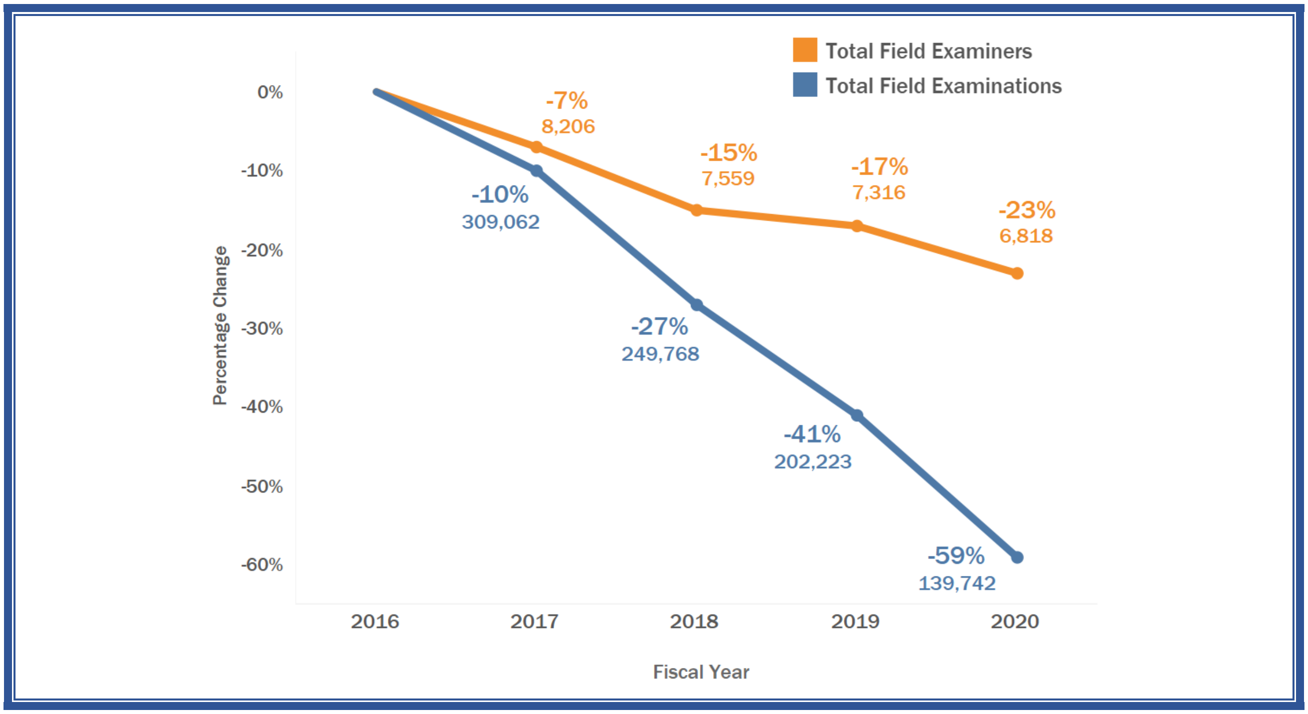
Source: Collection Activity Reports 5000-2 and 5000-4.

Figure 7: Total TDI Modules Issued and Closed



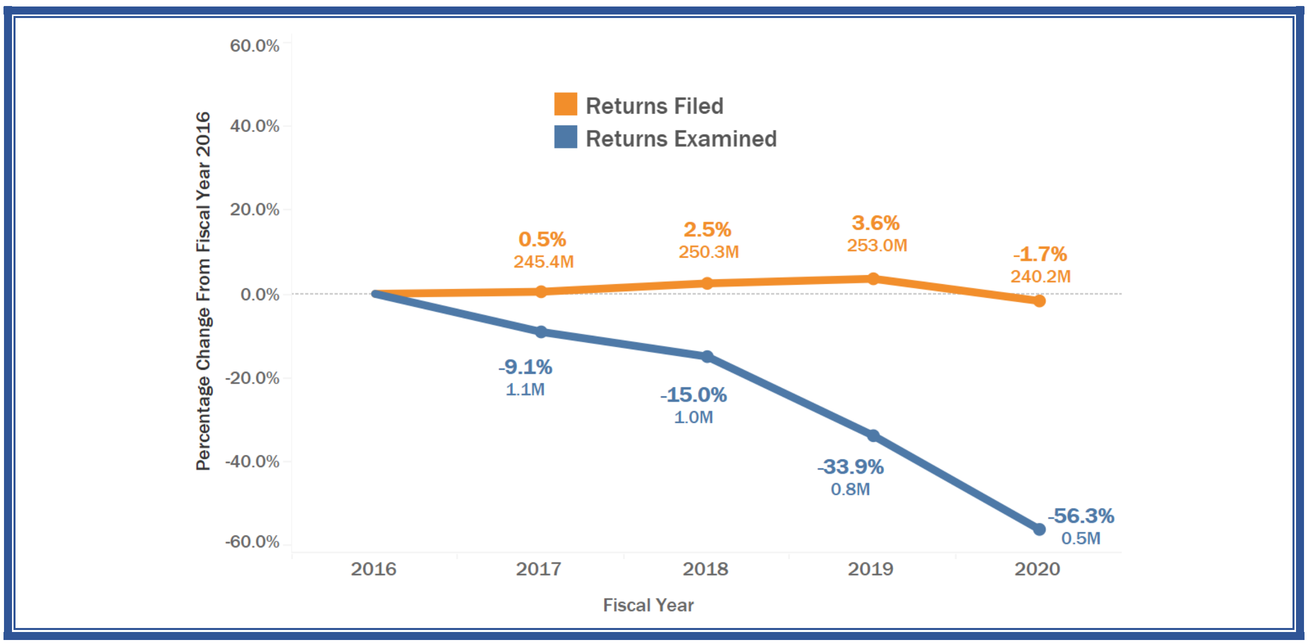
Source: Collection Activity Report 5000-4.

Figure 8: Percentage Change in the Number of Field Examiners and Examinations Since FY 2016



Source: IRS Data Books and Table 37 Examination Program Monitoring report.

Figure 9: Percentage Change From FY 2016 of All Tax Returns Filed and Examined



Source: TIGTA analysis of the IRS Data Books.

Appendix III

Recent Treasury Inspector General for Tax Administration Compliance Trends Reports

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

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

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

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

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

TIGTA, Report No. 2019-30-063, *Trends in Compliance Activities Through Fiscal Year 2018* (Sept. 2019).

TIGTA, Report No. 2021-30-011, *Trends in Compliance Activities Through Fiscal Year 2019* (Mar. 2021).

Appendix IV

Glossary of Terms

Term	Definition
Appeals Centralized Database System	An application used by employees in the Office of Appeals to create, maintain, and close an Appeals case inventory item throughout its life cycle.
Audit Information Management System	A computer system used by IRS Examination functions to control returns, input assessments/adjustments to the Master File, and provide management reports.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Campus	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.
Enforcement Revenue Information System	Tracks the direct hours spent on cases, the life span of enforcement cases, assessments, recommendations, collections, and the timing of revenue collected from all IRS enforcement actions.
Field Collection	An IRS function within the SB/SE Division that helps taxpayers understand and comply with all applicable tax laws and applies the tax laws with integrity and fairness. It is also responsible for protecting the revenue and the interests of the Government through direct collection and enforcement activity with taxpayers or their representatives.
Fiscal Year	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.
Full-Time Equivalent	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.
Internal Revenue Manual	The primary, official source of IRS instructions to staff related to the organization, administration, and operation of the IRS.
IRS Data Book	The Data Book (or IRS Data Book) is published annually by the IRS and contains statistical tables and organizational information on a fiscal year basis. It provides information on activities conducted by the IRS, such as taxes collected, enforcement, taxpayer assistance, budget, workforce, and other selected activities.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.

Revenue Agent	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, *e.g.*, excise tax returns.
Revenue Officer	An employee in the Collection function who provides customer service by explaining taxpayer rights and responsibilities, collects delinquent accounts, secures delinquent returns, counsels taxpayers on their tax filing and payment obligations, conducts tax investigations, files Notices of Federal Tax Lien, releases Federal tax liens, and performs seizures and sales of delinquent taxpayer assets.
Tax Compliance Officer	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
Tax Examiner	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.
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Taxpayer Delinquency Investigation	An account for which it appears a tax return has not been filed by a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer.

Appendix V

Abbreviations

ACS	Automated Collection System
AUR	Automated Underreporter
EITC	Earned Income Tax Credit
ERIS	Enforcement Revenue Information System
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
LB&I	Large Business and International
SB/SE	Small Business/Self-Employed
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
W&I	Wage and Investment

To report fraud, waste, or abuse,
call our toll-free hotline at:

(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.