
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



***More Information About Payment Options in
Redesigned Notices Contributes to More
Cases Closing, but More Analysis and
Collaboration With Stakeholders Are Needed***

August 25, 2015

Reference Number: 2015-30-069

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

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HIGHLIGHTS

MORE INFORMATION ABOUT PAYMENT OPTIONS IN REDESIGNED NOTICES CONTRIBUTES TO MORE CASES CLOSING, BUT MORE ANALYSIS AND COLLABORATION WITH STAKEHOLDERS ARE NEEDED

Highlights

Final Report issued on August 25, 2015

Highlights of Reference Number: 2015-30-069 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and Wage and Investment Divisions.

IMPACT ON TAXPAYERS

Collection notices provide the IRS the opportunity to maximize collections while minimizing costs in pursuing a taxpayer's tax debts. In Fiscal Year 2013, the IRS sent approximately 24 million balance due notices to delinquent taxpayers. The IRS redesigned balance due notices with goals such as improving IRS efficiency, improving taxpayer satisfaction, and reducing taxpayer burden.

WHY TIGTA DID THE AUDIT

In July 2008, the IRS Commissioner started a taskforce to improve the clarity, accuracy, and effectiveness of the IRS's written communications to taxpayers that included the redesign of collection notices. The IRS paid a contractor approximately \$3 million and also used IRS staff in the overall redesign effort. This audit was performed to evaluate the impact of the redesigned collection notices.

WHAT TIGTA FOUND

TIGTA's analysis of balance due notices issued to individual taxpayers showed that the percentage of cases closed during the notice stream increased after the redesign. A significant change in the notice redesign was to provide information about payment options if taxpayers cannot afford to pay. The notice redesign added information about installment agreements when full payment is not possible. As a result, fewer cases had to be moved to

more costly collection efforts. In addition, results showed that the percentage of cases closed with an installment agreement was higher after the redesign.

However, results also showed that dollars collected as a percentage of total liabilities decreased after redesign, as did the percentage of fully paid closures. This would naturally follow if some of the taxpayers that would have fully paid their liabilities instead opted to pay through an installment agreement.

While the IRS has included information about payment alternatives in some redesigned notices, it has not done so for all redesigned collection notices. Moreover, the IRS also learned as part of this effort that the majority of taxpayers who receive its collection notices in the notice stream are low-income taxpayers, although no additional information was included to address their needs. Because additional information in collection notices led to more case closures, the IRS needs to collaborate with stakeholders on providing additional information in the notices.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS consider including more information in collection notices about payment alternatives and the consequences of not responding and that it collaborate with stakeholders about additional information which could be provided that would result in more case closures and in taxpayers receiving information that they need.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 25, 2015

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – More Information About Payment Options
in Redesigned Notices Contributes to More Cases Closing, but
More Analysis and Collaboration With Stakeholders Are Needed
(Audit #201330012)

This report presents the results of our review to evaluate the impact of the Internal Revenue Service's redesigned collection notices. This audit is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

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

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



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Abbreviations

CP	Computer Paragraph
CY	Calendar Year
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
MF	Master File
OTC	Office of Taxpayer Correspondence
TDA	Taxpayer Delinquent Account
TIGTA	Treasury Inspector General for Tax Administration



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Background

The collection notice stream provides the Internal Revenue Service (IRS) with an opportunity to maximize collections while minimizing costs in pursuing a taxpayer's tax debts.¹ Computer Paragraph (CP) notices are computer generated and mailed to taxpayers with little direct involvement by IRS employees, which minimizes costs. To the extent that taxpayers take action to pay or otherwise resolve their debts, collections can occur with relatively little additional investment. This is in contrast to more costly collection efforts such as assigning cases to the Automated Collection System or to revenue officers to attempt telephone or face-to-face collections.

In July 2008, the IRS Commissioner launched a taskforce (now the Office of Taxpayer Correspondence (OTC)) to improve the clarity, accuracy, and effectiveness of the IRS's written communications to taxpayers. The OTC found that CP notices had different looks and messages and did not use consistent language, resulting in unnecessary confusion for taxpayers. As a result, the OTC began to redesign a significant number of CP notices, including collection notices, in an effort to improve communication with taxpayers.

In September 2009, the OTC issued their Strategic Roadmap for Taxpayer Correspondence, which reported that redesigned notices were intended to clearly communicate their purpose and the actions the taxpayer should take. Specifically, the redesigned notices were to:

- Ensure that consequences of nonresponse are clear.
- Provide taxpayers with a standard set of payment options to achieve case resolution.
- Remove unused IRS codes and notices/stubs.
- Refer to other resources and publications, helping to ensure a seamless taxpayer service experience.

Additionally, the roadmap stated that improvements in taxpayer correspondence should lead to both taxpayer- and business-focused outcomes, such as a reduction in taxpayer burden, faster resolutions of taxpayer cases, and improved taxpayer compliance and satisfaction. IRS Collection function involvement was requested and used by the OTC to provide consistency, quality, and plain language for collection notice redesign.

The IRS is required by law to first send a statutory notice to delinquent taxpayers that contains at least the amount of the unpaid tax and a demand for payment.² No other content is statutorily

¹ See Appendix VI for a glossary of terms.

² Internal Revenue Code (I.R.C.) Section (§) 6303(a).

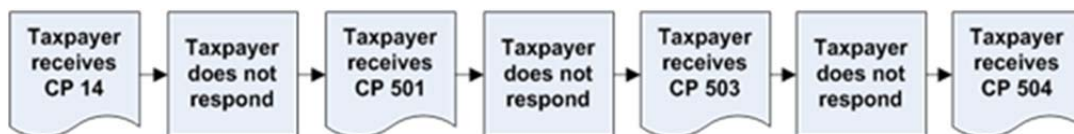


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required in this notice; however, the IRS has adopted a Taxpayer Bill of Rights, the first of which is that taxpayers have the right to be informed.³

Generally, if there is no response from the taxpayer to the statutory notice, a series of subsequent reminder notices are sent (referred to as a “notice stream”). These reminder notices are sent requesting a taxpayer’s voluntary compliance before any collection enforcement actions, such as liens or levies, are taken. Figure 1 illustrates the notice stream for a taxpayer who files an individual tax return with a balance due.

Figure 1: IRS Balance Due Notice Stream for Individuals – Normal Path



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the notice stream.

The Master File (MF) generates a CP 14 notice (Balance Due – No Math Error) and sends it to the taxpayer. If the taxpayer does not respond to this notice, the Integrated Data Retrieval System will generate a CP 501 notice (First Notice – Follow-Up Balance Due) as the first reminder notice. If the taxpayer does not respond to this notice, then the CP 503 notice (Second Notice – Follow-Up Balance Due) is issued as the second reminder notice. If the taxpayer still has not responded, the Integrated Data Retrieval System generates the CP 504 notice (Final Notice of Intent to Levy), which is sent as an urgent notice to remind a taxpayer of a balance due. The CP 504 notice is the final balance due notice and includes information on the IRS’s right to levy the taxpayer’s State income tax refund⁴ and on how the taxpayer can prevent collection action. If the taxpayer does not respond to the CP 504 notice, a Taxpayer Delinquent Account (TDA) is issued for the taxpayer’s module. While this notice stream description is the normal path for balance due notices, the IRS may skip one or more of the reminder notices and accelerate the notice process, depending on the specific circumstances of the taxpayer (such as a prior period liability).

The IRS redesigned the balance due and delinquent return CP notices for both individual and business taxpayers. Our review focused on the redesigned balance due notices for individual taxpayers, which are shown in Figure 2.

³ IRS Publication 5170 (July 2014).

⁴ I.R.C. § 6330(f).



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Figure 2: Individual TDA Notices

Notice	Description
CP 14	Balance Due – No Math Error - Statutory
CP 501	First Notice – Follow-Up Balance Due
CP 503	Second Notice – Follow-Up Balance Due
CP 504	Final Notice of Intent to Levy

Source: Internal Revenue Manual 3.14.1-2 CP Notices by Type (January 1, 2015).

Some of the significant revisions to these notices as a result of the redesign included:

- Adding wording in all of the notices about the options the taxpayer can take if full payment is not possible.
- Adding wording in the CP 501 and 503 reminder notices about future enforcement actions, such as liens and levies, if the taxpayer does not pay.
- Adding address change instructions to the notice response form in all of the notices.
- Adding an IRS notice-specific website address to all of the notices.⁵

The IRS began sending the redesigned balance due reminder notices (CP 501, 503, and 504) to delinquent taxpayers in January 2011 and started sending the redesigned statutory CP 14 notice in July 2011. The IRS spent approximately \$3 million on contractor involvement in the overall redesign effort as well as the time and effort of IRS employees.⁶

This review was performed at the Small Business/Self-Employed and Wage and Investment Divisions in New Carrollton, Maryland, during the period September 2013 through April 2015. 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.

⁵ See Appendix IV for examples of collection CP notices after redesign.

⁶ As part of this audit, TIGTA requested information on the amount of time IRS employees devoted to the effort; however, the IRS did not keep track of this information.



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Results of Review

The IRS redesigned CP notices to more effectively engage taxpayers and encourage them to respond to the notices quickly, facilitate earlier resolution of taxpayer cases, and improve taxpayer compliance. TIGTA's review of the wording of CP notices 14, 501, 503, and 504 before and after redesign identified positive changes. For example, all of these redesigned notices now provide the taxpayer with information about payment options, including an installment agreement, when full payment is not possible. In addition, each of the redesigned notices now states that if the taxpayer does not respond to the notice, enforcement actions such as a levy or lien may be taken by the IRS and provides an explanation of how the actions will affect the taxpayer and his or her credit report.

TIGTA performed an analysis of notice results for the individual statutory notice (CP 14) and the series of balance due reminder notices issued before and after the redesign. Figure 3 shows the total number of unique balance due modules (cases)⁷ and total balance due amounts analyzed for Calendar Year (CY) 2010,⁸ before redesign, and CYs 2012 and 2013, after redesign.

Figure 3: Number of Cases Analyzed⁹

Calendar Years	Number of Cases	Balance Due on CP 14 Notice (in Billions)
2010	3,891,419	\$13.1
2012	4,525,492	\$15.0
2013	4,825,611	\$16.3

Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CYs 2010, 2012, and 2013.

TIGTA's overall analysis of the balance due notices issued to individual taxpayers showed that the percentage of cases closed during the notice stream process increased after the redesign. In addition, results showed that the percentage of cases closed to installment agreements was higher after the redesign. However, results also showed that dollars collected as a percentage of total

⁷ A module will be referred to as a case throughout this report.

⁸ CY 2010 will be referred to as the base year for comparison purposes. The IRS Collection Database did not have complete data for prior years. The IRS effectiveness assessment also used CY 2010 data (partial year) for the CP 500 series notices. See Appendix V for a breakdown of case resolution numbers by notice stream path.

⁹ The results from CY 2011 are not shown in this analysis because redesigned notices were implemented at various times during CY 2011. CY 2012 was the first full year after implementation for CP 14.



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outstanding liabilities decreased after the redesign, as did the percentage of fully paid closures. Further analysis of the individual CP notice results showed that more cases were closed later in the notice stream rather than earlier, as expected. The IRS needed to send more reminder notices to close these cases.

An IRS effectiveness assessment¹⁰ of the redesigned balance due notices was completed in Fiscal Year 2012, which recommended that management continue to make annual assessments of the results. However, management did not continue with further assessments. The results of our analysis suggest that the IRS could benefit by tracking and monitoring future results of the notice redesigns.

Providing More Information on Payment Options Contributed to More Case Resolutions

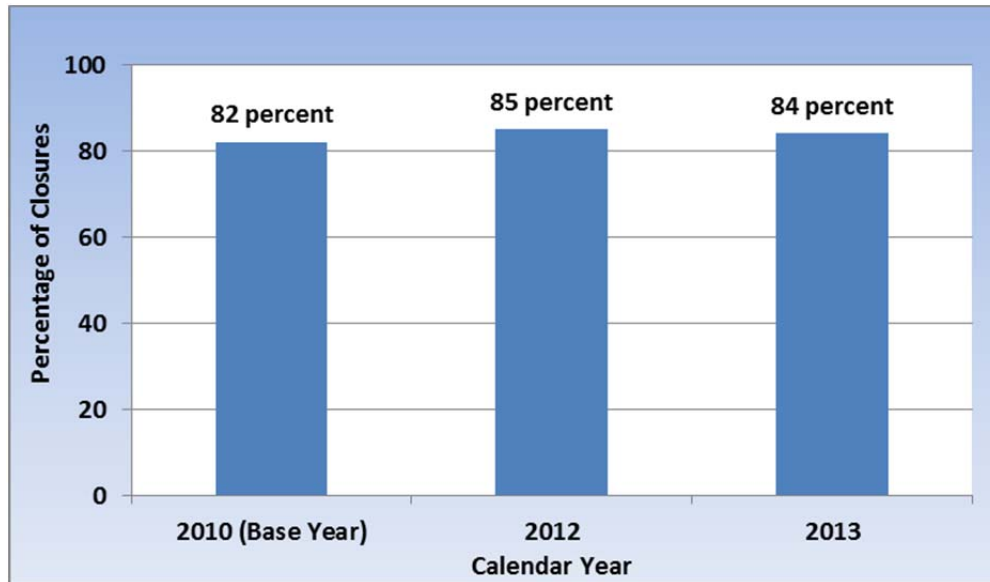
A significant majority of case closures from balance due CP notices occur during the notice stream process, which is preferable to cases moving to TDA status. Once a case moves to TDA status, the Automated Collection Service or revenue officers may make further collection attempts, which is a more costly process. Additionally, cases that are not resolved in the notice stream may stay in the IRS's collection Queue waiting to be worked and may ultimately be written off by the IRS as uncollectible. In Fiscal Year 2014, \$7.8 billion was written off by the IRS as uncollectible. Figure 4 shows the percentage of total case closures occurring during the notice stream, before and after the redesign.

¹⁰ The IRS effectiveness study included all notices (CP 14, 501, 503, and 504) issued in the period analyzed, even if the same notice was issued more than once to the same tax module in the period analyzed. The TIGTA analysis measured the results of these notices by unique tax module. Our criteria included modules in which a CP 14 statutory notice was issued and the first case resolution occurred in the same calendar year. See Appendix I for more details on our data methodology.



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Figure 4: Percentage of Total Cases Closed During the Notice Stream



Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CYs 2010, 2012, and 2013.

Between CY 2010 (the base year before the redesign) and CY 2012, total notice stream closures increased by three percentage points. A three percentage point increase represents approximately 117,000 more closures, based on the percentage of Fiscal Year 2010 closures.¹¹ While decreasing slightly in CY 2013, results still remained higher in CY 2013 than in CY 2010. This increase is positive because it means a smaller percentage of the cases had to move into TDA status to be worked by more costly collection functions.

Most of the closures that occur during the notice stream are a result of taxpayers who entered into an installment agreement or fully paid their tax obligations, although other collection alternatives, which are subsequently discussed, are available to taxpayers.¹² Figure 5 compares the percentage of cases closed to installment agreements and fully paid before and after the redesign.

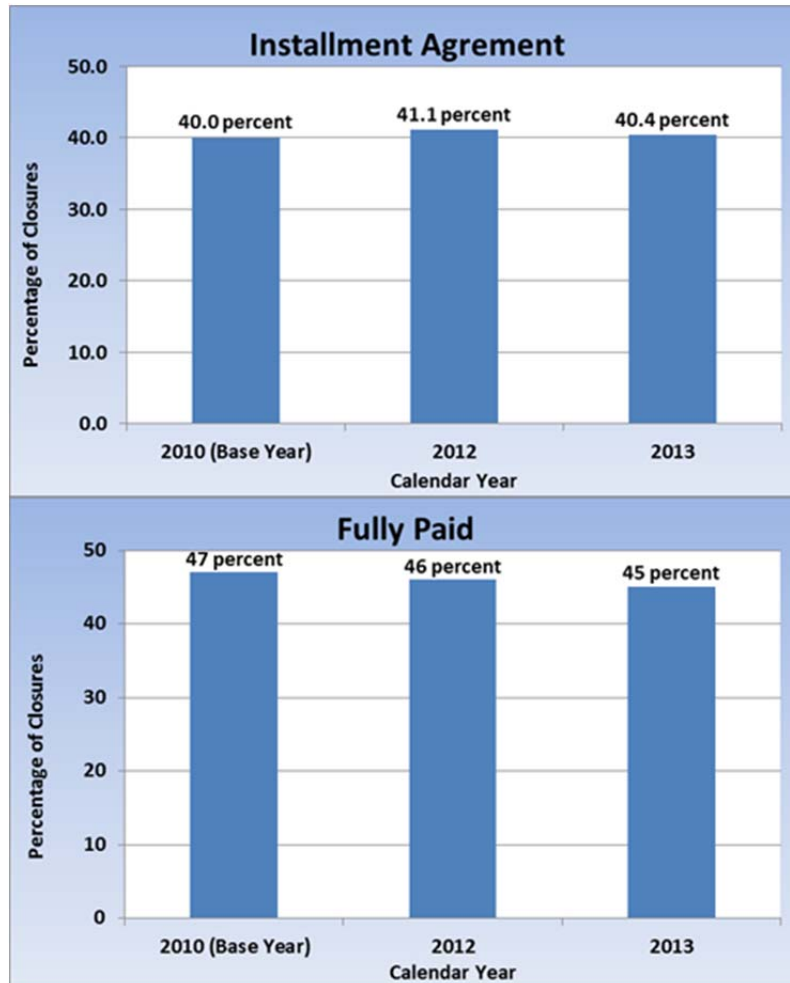
¹¹ Because the number of cases entering the notice stream varies year to year, comparing the number of closures will not provide an accurate measure of productivity.

¹² I.R.C. § 6159 authorizes the IRS to enter into installment agreements with taxpayers.



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Figure 5: Notice Stream Closures to Installment Agreement and Fully Paid



Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CY 2010, 2012 and 2013.

Results show that installment agreement closures increased by one percentage point from the base year to CY 2012 and remained higher than the base year in CY 2013. A one percentage point increase represents approximately 40,600 more closures, based on the percentage of Fiscal Year 2010 installment agreement closures. Similarly, the IRS's redesign study showed that installment agreement closures increased significantly after issuance of the redesigned CP 14, 501, and 503 balance due notices. The increase was after the following language was added to the collection notices:

If you can't pay the amount due, pay as much as you can now and make payment arrangements that allow you to pay off the rest over time. Visit www.irs.gov/Payments for more information about:



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- *Installment and payment agreements – download required forms or save time and money by applying online if you qualify*
- *Automatic deductions from your bank account*
- *Payroll deductions*
- *Credit card payments*

For taxpayers who qualify, there are various collection alternatives other than immediate full payment of a tax delinquency. Collection alternatives include installment agreements, partial pay installment agreements, offers in compromise, and forbearance from collection for taxpayers experiencing an economic hardship.¹³ At this time, the only collection alternatives that the IRS has addressed in the redesigned notices are installment agreements.

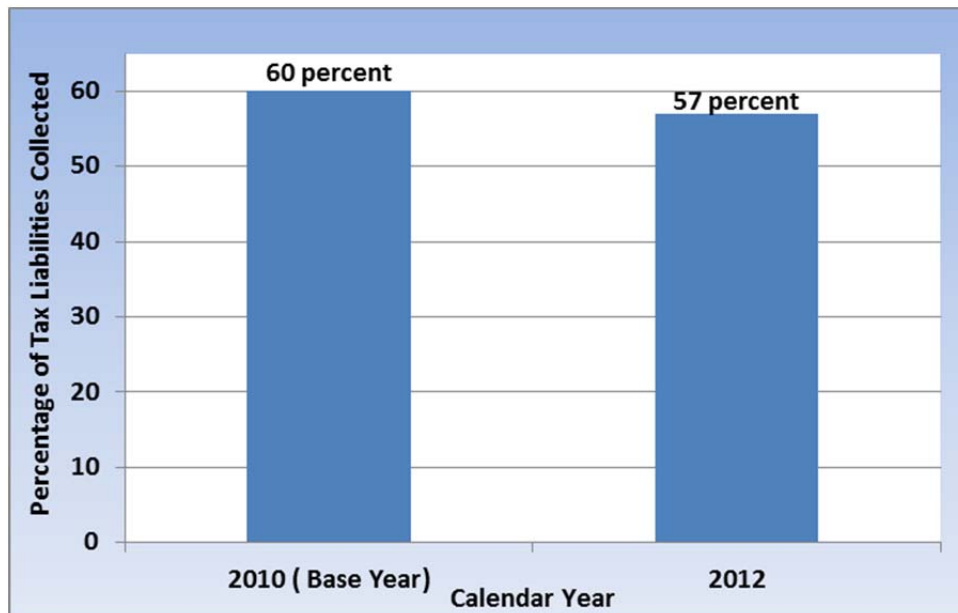
While overall closures and installment agreements increased for cases in the notice stream, the fully paid closures decreased by one percentage point from the base year to CY 2012 and decreased another percentage point in CY 2013. In addition, results showed that dollars collected throughout the notice stream after the initial CP 14 notices decreased the first year after redesign, as shown in Figure 6.

¹³ I.R.C. § 6159 provides for installment agreements that allow taxpayers to make monthly payments of the delinquency over time and for partial pay installment agreements that allow taxpayers to make monthly payments of what the taxpayer can afford and do not satisfy the entire liability. I.R.C. § 7122 allows the IRS to settle a tax debt for less than is owed with an offer in compromise. I.R.C. § 6343 prohibits the IRS from levying against a taxpayer who is experiencing an economic hardship, and IRS procedures allow for a delinquent account to be designated as Currently Not Collectible. Internal Revenue Manual 5.19.1.7.1.3 (Oct. 18, 2013).



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Figure 6: Percentage of Tax Liabilities Collected for Overall Closures¹⁴



Source: Our analysis of the IRS Collection Database of individual modules entering the balance due notice stream in CYs 2010 and 2012.

Specifically, \$5.3 billion was collected during the notice stream in the base year after the CP 14 notices were issued, which represented 60 percent of the total balance due amounts on the CP 14 notices. In CY 2012, after the redesign, although the amount collected increased to \$6.2 billion, it represented 57 percent of the total balance due amounts, which is a decrease of three percentage points.

Changes to CP notice language to include taxpayer payment options when full payment is not possible likely influenced the number of closures during the notice stream, including more installment agreements. Therefore, decreases in fully paid closures and dollars collected are likely the result of more taxpayers opting to pay their liabilities through an installment agreement. Moreover, fewer dollars are collected up front from taxpayers who enter into installment agreements instead of fully paying their liabilities.

An increase in case resolutions during the notice stream process is a beneficial change after notice redesign. In addition, more installment agreement closures show that more delinquent taxpayers are taking advantage of alternative payment options. However, results also showed that a growing percentage of cases that closed during the notice stream process required more subsequent balance due reminder notices (CP 501, 503, and 504) issued after the notice redesign. These results indicate that more closures are occurring later in the notice stream, rather than earlier as expected.

¹⁴ Data for dollars collected in CY 2013 were incomplete at the time of our analysis due to the extraction cycle.



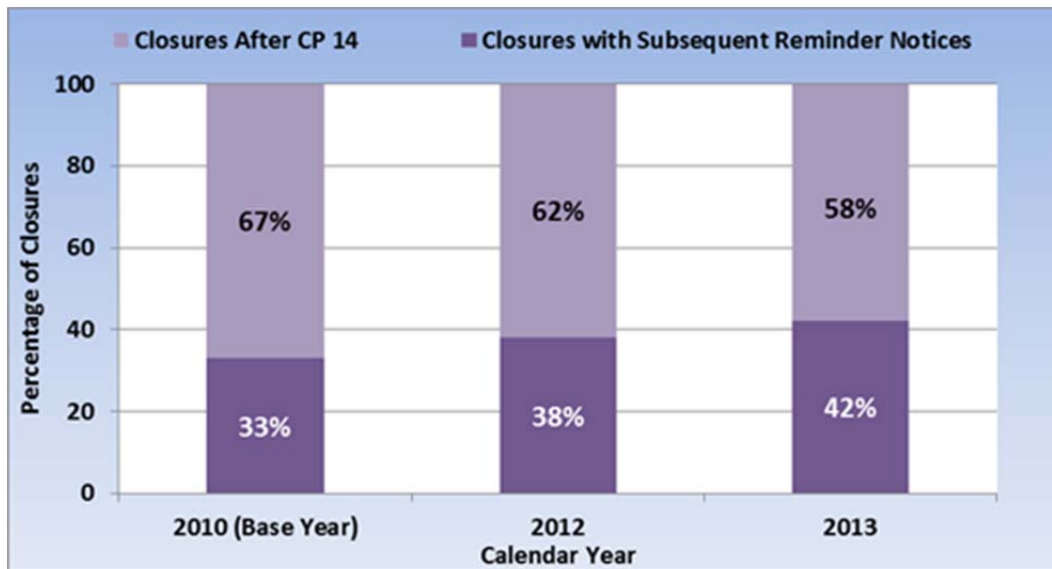
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Although more case resolutions were achieved after redesign, they occurred further along the notice stream

Generally, taxpayers with individual balance due tax modules receive a CP 14 statutory notice to remind them of their outstanding tax obligation.¹⁵ If the taxpayer does not respond to the CP 14 notice, one to three CP 500 series subsequent reminder notices are sent to the taxpayer. Early resolution of outstanding balances due benefits both the IRS and taxpayers. Taxpayers may avoid penalties and the accumulation of interest, and the IRS may receive payments sooner and use fewer resources. One of the IRS's expected outcomes from notice redesign was faster resolution of taxpayer cases. However, results from our analysis showed that while more overall closures were achieved in the notice stream after the notice redesign as was described above, cases tended to close further along in the notice stream such that the need to issue reminder notices significantly increased.

Figure 7 shows the percentage of notice stream closures attributable to the CP 14 statutory notice and the percentage of notice stream closures in which one or more subsequent reminder notices (each of these cases first received a CP 14 statutory notice) was issued prior to case resolution, before and after the notice redesign.

Figure 7: Notice Stream CP 14 Closures and Notice Stream Closures With Subsequent Reminder Notices Issued



Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CYs 2010, 2012, and 2013.

¹⁵ There are certain situations in which the first individual balance due notice is not a CP 14. For example, an individual return posting with a math error balance due would receive a CP 11 – Math Error, Balance Due of \$5 or More.



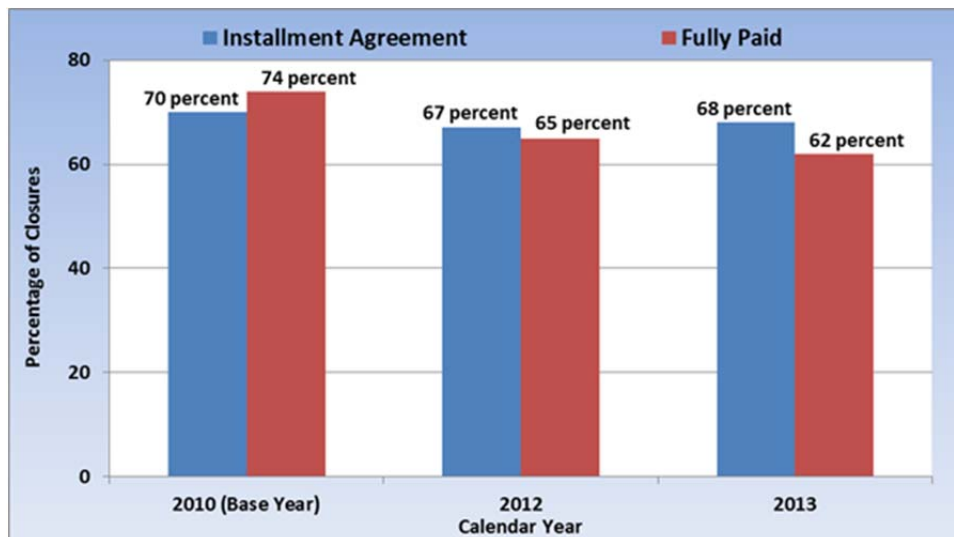
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A large volume of cases are resolved after the CP 14 statutory notice is sent, resulting in faster closure times and use of minimal resources. However, results showed that taxpayer responses from the CP 14 statutory notice decreased after redesign, rather than increased as expected. Specifically, the percentage of CP 14 taxpayer responses decreased by five percentage points from the base year to CY 2012 after redesign, followed by a four percentage point decrease in CY 2013.

Results also show that the percentage of cases that required subsequent reminder notices to be issued before the case was resolved increased by five percentage points from the base year to CY 2012 and then by another four percentage points in CY 2013. These increases correspond to the decreases in the percentage of cases closed after the CP 14 statutory notice, the first notice sent to the taxpayer when there is a balance due.

Predictably, installment agreement and fully paid closures after the CP 14 also decreased. Figure 8 shows the percentage of installment agreement and fully paid closures after CP 14 responses, before and after the redesign.

Figure 8: Closures Attributable to CP 14 Notices



Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CYs 2010, 2012, and 2013.

Specifically, the percentage of CP 14 cases closed with an installment agreement decreased three percentage points from the base year to CY 2012 and remained lower in CY 2013. In addition, fully paid CP 14 closures decreased by nine percentage points from the base year to CY 2012 and decreased by an additional three percentage points in CY 2013.

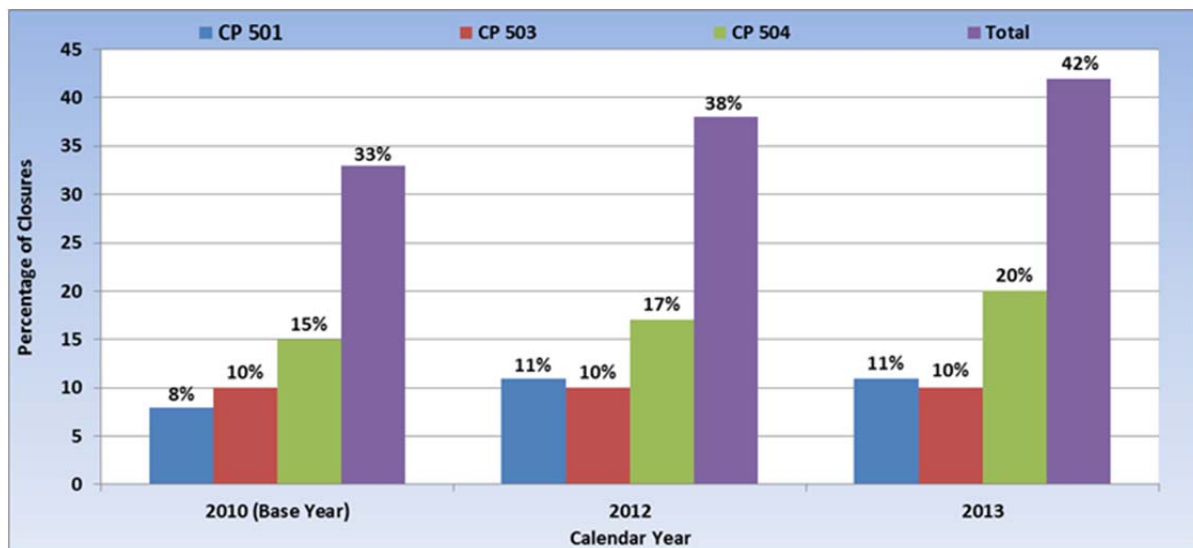
The decrease in CP 14 responses and types of closures results in an increasing need to send more CP 500 series balance due reminder notices, which are sent later in the notice stream. Figure 9



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illustrates the percentage of taxpayer responses after issuance of the CP 500 series notices, before and after notice redesign.

Figure 9: Responses to CP 500 Series Notices¹⁶



Source: TIGTA analysis of the IRS Collection Database of unique individual tax modules entering the balance due notice stream in CYs 2010, 2012, and 2013.

Specifically, results show that responses to total CP 500 notices increased by five percentage points from the base year to CY 2012, after redesign, and by four percentage points in the following year. Notably, the largest increases by individual notice type occurred after the CP 504 (final balance due reminder notice) was issued, showing that more taxpayers waited until later in the notice stream to resolve their accounts. In addition, there were corresponding increases for installment agreement and fully paid closures from CP 500 series notices. Overall, while the percentage of cases closed during the notice stream was higher after the redesign, the IRS needed to send more reminder notices to close them.

An increase in case resolutions during the notice stream process is a beneficial change that occurred after notice redesign. To the extent that cases can be resolved in the notice stream, the IRS can avoid either providing more costly case resolution treatments or writing off the delinquent accounts entirely. The impact of this notice redesign effort is significant, and the IRS is moving forward to redesign other collection notices for individual taxpayers once the cases move beyond the notice stream. For example, Letter 1058, which informs taxpayers of their rights to a collection due process hearing before the IRS's first levy on a delinquent account, is being revised to include the payment agreement information. However, while the IRS has redesigned some notices to business taxpayers, the installment agreement information has not been included in all notices. For example, the IRS redesigned collection notice CP 161 (Balance

¹⁶ The CY 2013 total adds up to 41 percent due to rounding; however, the actual number is 41.7 percent.



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Due – Request for Payment or Notice of Unpaid Balance) to business taxpayers but omitted collection alternative information.

Recommendation

Recommendation 1: The Director, Collection, Small Business/Self-Employed Division, should consider including more information in collection notices about payment alternatives as well as the possible consequences to taxpayers if they do not respond to the IRS in attempt to resolve the delinquency.

Management's Response: The IRS agreed with this recommendation. The IRS will consider updating additional notices and will consider including information about payment alternatives as well as the possible consequences to taxpayers if they do not respond to the IRS in attempt to resolve the delinquency.

Further Analysis, Monitoring, and Collaboration With Stakeholders Is Necessary

The IRS should continue to analyze the impact of the recent notice redesign changes and explore additional changes to the notices with internal stakeholders for several reasons. First, the IRS's initial action plan contemplated that additional analysis and continued monitoring may give insight to additional notice changes that would improve productivity. Second, the notice redesign study indicates that taxpayers respond to information about their collection alternatives; however, the information provided to taxpayers in the notice redesign was incomplete.

Continued analysis of redesigned notice results is needed

Performance measurement involves the ongoing monitoring and reporting of program effectiveness and the progress made towards achieving established goals and objectives. Sufficient management information needs to be obtained to evaluate the effectiveness of a program and allocate resources effectively. In addition, guidance for Federal internal control standards states that performance measures should be established for Government programs and be linked to the program's objectives.¹⁷

In April 2012, the Wage and Investment Division's Research and Analysis function partnered with the OTC to assess the effectiveness of the revised collection notices. The assessment compared taxpayer responses to the CP 501, 503, and 504 balance due notices before and after implementation of the revised notices. The statutory CP 14 notice was analyzed separately.

¹⁷ Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014)



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Initial results were mostly positive for both the series 500 and the statutory CP 14 notice after redesign. For example, CP 14 results showed that after notice redesign:

- Full payments were up approximately 1 percent.
- Partial payments were up 16 percent.
- Installment agreements were up 3 percent.
- Subsequent collection notice issuance was down less than 1 percent.

Results for the revised CP 501, 503, and 504 showed that the:

- CP 501 generated more payments, fewer subsequent collection notices, and more taxpayer telephone calls.
- CP 503 generated fewer payments, fewer subsequent collection notices, and fewer taxpayer telephone calls.
- CP 504 generated fewer payments, fewer accounts entering TDA status requiring further collection activity, and more taxpayer telephone calls.

Although the IRS's initial effectiveness assessment showed positive results, it also recommended a long-term plan to perform annual effectiveness assessments of the redesigned notices. OTC management informed us that because their initial Fiscal Year 2012 effectiveness assessment for the redesigned collection notices was positive, they did not continue with the recommended long-term plan to assess effectiveness in subsequent years. In addition, budget reductions in Fiscal Year 2010 left the OTC with fewer resources to conduct outcome measure studies, data analytics, or multiyear studies on redesigned notices.

IRS Collection function management told us that while they would like delinquent taxpayers to contact the IRS earlier and, when possible, resolve their collection issues, the Collection function does not measure the performance of specific notices in fostering such interaction. Rather, the Collection function processes taxpayer responses to notices according to the issue or the taxpayer's request, not by notice type.

TIGTA's analysis also showed that the need for subsequent reminder notices is increasing. Further analysis and monitoring could identify such trends, which would allow management to determine if further improvements to notices are needed. For example, the significant decrease in the number of taxpayer responses attributable to the CP 14 notice may be due to the fact that it is a longer process to enter into an installment agreement. If this is the case, further notice changes may not be needed. However, because taxpayer responses and results can change over time, long-term monitoring of notice stream results is important and can help ensure that the IRS maximizes the productivity of its most cost-effective collection processes. This is particularly important in today's environment of declining operational budgets.



More Information About Payment Options in Redesigned Notices Contributes to More Cases Closing, but More Analysis and Collaboration With Stakeholders Are Needed

Continued collaboration with stakeholders is needed

In redesigning its collection notices, the IRS provided information regarding installment agreements but no information about other collection alternatives. After the inclusion of this information, the number and percentage of installment agreements increased. Additional information on other collection alternatives, such as offers in compromise or information targeted to taxpayers experiencing economic hardships, may yield additional case resolutions in the notice stream and can also provide taxpayers with important information that they need to know. The IRS's own research in the notice redesign study indicates that more information may be necessary than just information on installment agreements. For example, as part of the notice redesign, the IRS collected demographic information on the taxpayers who receive notices in the notice stream and learned that the majority of recipients of the first collection notice (CP 14) are low-income taxpayers.¹⁸ In addition to fewer financial resources, low-income taxpayers are more likely to experience other hardships that affect their ability to pay tax.¹⁹ Additional information is needed by these taxpayers to understand their options.

The notice redesign effort commenced well before the IRS's July 2014 adoption of the Taxpayer Bill of Rights.²⁰ The first such right is the right of taxpayers to be informed about all of their rights with respect to the collection of tax, which provides:

Taxpayers have the right to know what they need to do to comply with the tax laws. They are entitled to clear explanations of the laws and IRS procedures in all tax forms, instructions, publications, notices, and correspondence. They have the right to be informed of IRS decisions about their tax accounts and to receive clear explanations of the outcomes.

The IRS should work with the Taxpayer Advocate Service and other stakeholders on additional information that should be included in IRS collection notices that may result in more case closures and provide information that taxpayers need and have a right to know.

Recommendation

Recommendation 2: The Director, Collection, Small Business/Self-Employed Division, should monitor and measure the impact of the redesigned notices to determine if the IRS is achieving expected taxpayer and business outcomes and collaborate with stakeholders, including the Taxpayer Advocate Service, about incorporating additional information in collection notices that may result in more case closures and provide information that taxpayers need and have a right to know.

¹⁸ For example, the typical CP 14 recipient has adjusted gross income of between \$0 and \$36,000, which the IRS considers to be low income.

¹⁹ Low-income taxpayers are more likely to have limited English proficiency, low literacy rates, and physical or mental disabilities. National Taxpayer Advocate, *2014 Annual Report to Congress*, Vol. II, p. 5.

²⁰ Taxpayer Bill of Rights, IRS Pub. 5170 (July 2014).



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Management's Response: The IRS agreed with this recommendation. The IRS will establish a standard method for monitoring and measuring the impact of the redesigned notices to determine if the IRS is achieving taxpayer and business outcomes and continue its practice of collaborating with stakeholders, including the Taxpayer Advocate Service, when it revises notices in the future.



***More Information About Payment Options in Redesigned Notices
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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the impact of the redesigned collection notices. To accomplish the objective, we:

- I. Conducted research and interviewed IRS management to obtain information about the redesigned notice effort.
 - A. Identified the objective of the redesigned notice effort.
 - B. Identified any research or studies conducted that influenced the redesign.
 - C. Identified the IRS's short- and long-term goals as a result of the redesigned collection notices.
 - D. Determined the costs associated with the effort (*i.e.*, contracting costs, training, external testing).
 - E. Identified the changes to notice language and specific design interventions that would streamline the notice process, specifically the statutory CP 14 and CP 500 series notices, and compared them to prior MF statutory CP 14 and CP 500 series notices.
 - F. Identified the process of issuing the statutory CP 14 and CP 500 series notices.
- II. Determined how the IRS measures and monitors the results of the redesigned collection notices.
 - A. Determined if the IRS established goals and metrics to measure and monitor the impact of the redesigned collection notices (CP 14 and CP 500 series).
 1. Interviewed IRS management in the OTC and the various Small Business/Self-Employed and Wage and Investment Divisions' Collection functions.
 2. Determined if the IRS established metrics (performance measures) for the expected taxpayer and business outcomes (goals) from the redesign of collection notices.
 - B. Identified and reviewed any effectiveness assessments conducted for the redesigned collection notices (balance due and/or delinquent return notices).
 1. Performed a site visit to New Carrollton, Maryland, to interview a manager from the OTC and an analyst from the Collection Policy function to determine how previous studies were conducted and how results were measured/calculated.



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- III. Determined if the collection CP 14 and CP 500 series redesigned notices are improving taxpayer response rates, facilitating the resolution of cases earlier in the notice stream, and improving taxpayer compliance rates.
- A. Conducted a data analysis using records obtained from the IRS Compliance Database to determine if the redesigned MF statutory CP 14 and CP 500 series notices for Individual MF balance due notices had improved taxpayer response rates following the notices.
1. Used the following criteria to obtain the data:
 - a) Unique modules of taxpayers' records in which the first MF statutory CP 14 notice was issued during CY 2010 (Cycles 201001–201052 before redesign) and during CYs 2012 and 2013 (Cycles 201201–201352 after redesign).
 - b) Records closed to the Automated Collection System, Field Collection function, and Queue or with other types of dispositions in the same calendar year in which the first MF statutory CP 14 was issued.
 - c) The first CP 501, CP 503, or CP 504 notice following the first MF statutory CP 14 notice for CYs 2010 (Cycles 201001–201052 before redesign) and 2012 and 2013 (Cycles 201201–201352 after redesign).
 - d) Identified and removed those records for which the earliest closure did not occur in the same calendar year as the MF statutory CP 14 was issued. We also removed records for which the subsequent notices CP 501, 503, or 504 took other than a normal path.¹
 2. Analyzed the notice path after the first CP 14 was issued for the records identified in Step III.A.1. For each record, we identified all of the subsequent notices (CP 501, CP 503, and CP 504) issued after the first MF statutory CP 14 notices until closure. See Appendix V for details.
 3. Conducted a comparison between the issuance of the MF statutory CP 14, CP 501, CP 503, and CP 504 notices that were sent during CY 2010 (before redesign) and CYs 2012 and 2013 (after redesign) to determine if there are any indications that taxpayer response rates have improved. Response rates were determined by identifying and analyzing the flow of the notices after a CP 14 was issued. We identified by individual taxpayers the various types of notices received before the case was closed.

¹ The normal path through the balance due notice stream is, in order, starting with a CP 14, followed by a CP 501, followed by a CP 503, followed by a CP 504. We removed records that did not follow a normal path; for example, if a record showed a CP 14 followed by a CP 504, followed by a CP 501, it was excluded.



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- B. Conducted a data analysis by using the data obtained in Step III.A.1 to determine if the redesigned MF statutory CP 14 and CP 500 series notices for Individual MF balance due accounts facilitated the resolution of cases earlier in the collection process and improved taxpayer collection rates.
 - 1. From the IRS Compliance Database, obtained data for accounts that were resolved through full payment or installment agreement arrangements and the dollars that were collected.
 - 2. Compared the accounts resolved through payments in full and installment agreements with dollars collected that occurred before and after the implementation of the revised notices to determine if there were any indications that cases were being resolved earlier and whether taxpayer collection rates had improved.
- C. Validated a random sample of 15 records (five for each year) from our original data extract in Step II.A.1 by verifying several fields, which included the MF statutory CP 14 issue date, CP 500 series issue dates, and collection status code on the Integrated Date Retrieval System to determine the reliability of the data.

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 business rules for sending balance due notices through the notice stream before and after the implementation of the revised notices. In addition, the IRS policies, procedures, and practices for monitoring and measuring the effectiveness of the redesigned notices. We evaluated these controls by interviewing IRS management as well as conducting a data analysis of the IRS Collection Database of individual modules entering the balance due stream in CYs 2010, 2012, and 2013. We determined the impact on taxpayers' compliance as a result of the redesigned notices.



***More Information About Payment Options in Redesigned Notices
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Appendix II

Major Contributors to This Report

Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Phyllis Heald London, Audit Manager
Doris Cervantes, Lead Auditor
Nicole DeBernardi, Auditor
Brian G. Foltz, Auditor
Heath Sollak, Auditor
Kevin O’Gallagher, Information Technology Specialist



***More Information About Payment Options in Redesigned Notices
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Media and Publications, Wage and Investment Division SE:W:CAR
Director, Return Integrity and Compliance Services, Wage and Investment Division SE:W:RICS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Audit Coordination OS:PPAC:AC
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W



More Information About Payment Options in Redesigned Notices
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Appendix IV

Examples of Computer Paragraph Notices
After Redesign
CP 14



Department of Treasury
Internal Revenue Service
PO BOX 249
Memphis, TN 38101-0249

s018999546711s
JAMES & KAREN Q. HINDS
22 BOULDER STREET
HANSON, CT 00000-7253

Notice CP14
Tax year 2011
Notice date June 2, 2012
Social Security number XXX-XX-9999
To contact us Phone 1-800-829-0922
Your caller ID 1234
Page 1 of 3

You have unpaid taxes for 2011
Amount due: \$25,000.00

Our records show you have unpaid taxes for the tax year ending on December 31, 2011 (Form [1040]).

Billing Summary

Tax you owed	\$22,000.00
Payments and credits	00
Failure-to-file penalty	1,500.00
Failure-to-pay penalty	1,000.00
Interest charges	500.00
Amount due by July 16, 2012	\$25,000.00

What you need to do immediately

Pay immediately

- Send us the amount due of \$25,000.00 by July 16, 2012, to avoid additional penalty and interest charges.

Continued on back...



James Q. Hinds
22 Boulder Street
Hanson CT 00000-7253

Contact information

INTERNAL REVENUE SERVICE
PO BOX 249
MEMPHIS, TN 38101-0249
s018999546711s

If your address has changed, please call 1-800-829-0922 or visit www.irs.gov.

Please check here if you've included any correspondence. Write your Social Security number [999-99-9999], the [tax year] [2011], and the form number [1040] on any correspondence.

<input type="checkbox"/> a.m.	<input type="checkbox"/> a.m.
<input type="checkbox"/> p.m.	<input type="checkbox"/> p.m.
Primary phone	Best time to call
Secondary phone	Best time to call

0000 0000000 0000000000 0000000 0000



*More Information About Payment Options in Redesigned Notices
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Notice	CP14
Tax year	2011
Notice date	June 2, 2012
Social Security number	XXX-XX-9999

Page 2 of 3

**What you need to do immediately—
continued**

Pay immediately—continued

- If you can't pay the amount due, pay as much as you can now and make payment arrangements that allow you to pay off the rest over time. Visit www.irs.gov/Payments for more information about:
 - Installment and payment agreements—download required forms or save time and money by applying online if you qualify
 - Automatic deductions from your bank account
 - Payroll deductions
 - Credit card payments
- Or, call us at 1-800-829-0922 to discuss your options. You will need to complete Form 9465-FS prior to setting up any long-term payment plan. Please have this form completed prior to your call to set up your installment agreement. This will assist us in handling your call more efficiently.

You will need to complete Form 433-F prior to setting up any long-term payment plan. Please have this form completed prior to your call to set up your installment agreement. This will assist us in handling your call more efficiently.

If you think there's been a mistake

- Call 1-800-829-0922 to review your account. You can also contact us by mail. Fill out the Contact information section, detach, and send it to us with any correspondence or documentation.

Continued on back...

James Q. Hinds
22 Boulder Street
Hanson CT 00000-7253

Notice	CP14
Notice date	June 2, 2012
Social Security number	XXX-XX-9999



- Make your check or money order payable to the United States Treasury.
- Write your Social Security number (XXX-XX-XXXX), the tax year (2006), and the form number (1040) on your payment and any correspondence.

Payment

INTERNAL REVENUE SERVICE
PO BOX 249
MEMPHIS, TN 38101-0249
s018999546711s

**Amount due by
July 16, 2012**

\$25,000.00



*More Information About Payment Options in Redesigned Notices
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Notice	CP14
Tax year	2011
Notice date	June 2, 2012
Social Security number	XXX-XX-9999
Page 3 of 3	

If we don't hear from you If you don't pay \$25,000.00 by July 16, 2012, interest will increase and additional penalties may apply.

Penalty We are required by law to charge any applicable penalties.

Failure-to-file

Description	Amount
Total failure-to-file	\$1,500.00

When you file your tax return after the due date, we charge a penalty of up to 5% of the unpaid tax per month for no more than 5 months or up to 25% of the unpaid amount. If the return is more than 60 days late, we may charge the minimum of \$100 or 100% of the unpaid tax, whichever is less, for tax returns due before December 31, 2008. We count part of a month as a full month. (Internal Revenue Code (IRC) Section 6651)

Failure-to-pay

Description	Amount
Total failure-to-pay	\$1,000.00

When you pay your taxes after the due date, we charge a penalty of 0.5% of the unpaid amount due per month, up to 25% of the amount due. We count part of a month as a full month. (IRC Section 6651)

Interest charges

We are required by law to charge interest on unpaid tax from the date the tax return was due to the date the tax is paid in full. The interest is charged as long as there is an unpaid amount due, including penalties, if applicable. (IRC Section 6601)

Additional Information

- Visit www.irs.gov/cp14.
- For tax forms, call 1-800-TAX-FORM (1-800-829-3676).
- Keep this notice for your records.

If you need assistance, please don't hesitate to contact us.



More Information About Payment Options in Redesigned Notices
Contributes to More Cases Closing, but More Analysis and
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CP 503



Department of Treasury
Internal Revenue Service
Austin, TX 73301-0030

01899954671
JAMES & KAREN Q. HINDS
22 BOULDER STREET
HANSON, CT 00000-7253

Notice	CP503
Tax Year	2014
Notice date	December 16, 2014
Social Security number	XXX-XX-XXXX
To contact us	Phone 1-800-829-0922
Your Caller ID	1234

Page 1 of 4

Second reminder: You have unpaid taxes for 2014

Amount due: \$9,533.53

As we notified you before, our records show you have unpaid taxes for the tax year ending December 31, 2014 (Form 1040). If you don't pay \$9,533.53 by February 26, 2006, interest will increase and additional penalties may apply.

Billing Summary

Amount you owed	\$9,444.07
Failure-to-pay penalty	34.98
Interest charges	54.48
Amount due by January 26, 2015	\$9,533.53

What you need to do immediately

Pay immediately

- Pay the amount due of \$9,533.53, by January 26, 2015 to avoid additional penalty and interest charges. **You can pay online now at www.irs.gov/directpay.**

Continued on back...



James & Karen Q. Hinds
22 Boulder Street
Hanson, CT 00000-7253

Notice	CP503
Notice date	December 16, 2014
Social Security Number	XXX-XX-XXXX

Payment

**Amount due by
January 26, 2015**

\$9,533.53

- Make your check or money order payable to the United States Treasury.
- Write your Social Security number (XXX-XX-XXXX), the tax year (2014), and the form number (1040) on your payment and any correspondence.

INTERNAL REVENUE SERVICE
AUSTIN, TX 73301-0030
01899954671

0000 00000000 0000000000 00000000 0000



*More Information About Payment Options in Redesigned Notices
Contributes to More Cases Closing, but More Analysis and
Collaboration With Stakeholders Are Needed*

Notice	CP503
Tax Year	2014
Notice date	December 16, 2014
Social Security number	XXX-XX-XXXX
Page 2 of 4	

What you need to do immediately—
continued

Pay immediately—**continued**

- If you can't pay the amount due, pay as much as you can now and make payment arrangements that allow you to pay off the rest over time. Visit www.irs.gov/payments for more information about:
 - Credit and debit card payments
 - Electronic payments
 - Possible consequences for non-payment
 - Installment and payment plans:
 - Automatic deductions from your bank account
 - Payroll deductions
- [Apply online or mail Form 9465, Installment Agreement Request.]
- Offer in Compromise- To see if you qualify for an offer, visit the Offer in Compromise Pre-Qualifier tool at www.irs.gov/Individuals/Offer-in-Compromise-1

Or, call us at 1-800-XXX-XXXX to discuss your options

If you need to pay your tax debt over time, we encourage you to apply for a Direct Debit Installment Agreement. These agreements save you time and money by having your monthly payment automatically withdrawn from your bank account. There are no checks to write and mail and these agreements have a reduced user fee.

[Apply for a payment plan using the Online Payment Agreement application at: www.irs.gov and search "online-payment".]
Apply for a payment plan by completing Form 433-F prior to calling us at 1-800-XXX-XXXX. This will assist us in handling your call more efficiently.]

[By setting up an agreement online now, you may be able to avoid the filing of a Notice of Federal Tax Lien, if one hasn't already been filed. If a Notice of Federal Tax Lien has been filed, certain taxpayers may request the notice be withdrawn after establishing a Direct Debit Installment Agreement. For more information on liens, visit: www.irs.gov and search "federal tax lien".]

If you already paid your balance in full within the past 14 days or made payment arrangements, please disregard this notice.



*More Information About Payment Options in Redesigned Notices
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Notice	CP503
Tax Year	2014
Notice date	December 16, 2014
Social Security number	XXX-XX-XXXX
Page 3 of 4	

If we don't hear from you

- If you don't pay \$9,533.53 by January 26, 2015, interest will increase and additional penalties may apply.
- If you don't pay the amount due or call us to make payment arrangements, we can file a Notice of Federal Tax Lien on your property at any time, if we haven't already done so.
- If the lien is in place, you may find it difficult to sell or borrow against your property. The tax lien would also appear on your credit report—which may harm your credit rating—and your creditors would also be publicly notified that the IRS has priority to seize your property.
- If you don't pay your tax debt, we have the right to seize ("levy") your property.

Penalties

We are required by law to charge any applicable penalties.

Penalties—continued

Failure-to-pay	Description	Amount
	Total failure-to-pay	\$34.98
	When you pay your taxes after the due date, we charge a penalty of 0.5% of the unpaid amount due per month, up to 25% of the amount due. We count part of a month as a full month. (Internal Revenue Code Section 6651)	
	For a detailed calculation of your penalty charges, call 1-800-829-0922.	



James & Karen Q. Hinds
22 Boulder Street
Hanson, CT 00000-7253

Notice	CP503
Notice date	December 16, 2014
Social Security Number	XXX-XX-XXXX

Contact information

If your address has changed, please call 1-800-829-0922 or visit www.irs.gov.

Please check here if you've included any correspondence. Write your Social Security number (XXX-XXX-XXXX), the tax year (2014), and the form number (1040) on any correspondence.

<input type="checkbox"/> a.m.	<input type="checkbox"/> a.m.
<input type="checkbox"/> p.m.	<input type="checkbox"/> p.m.
Primary phone	Best time to call
Secondary phone	Best time to call



*More Information About Payment Options in Redesigned Notices
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Notice	CP503
Tax Year	2014
Notice date	December 16, 2014
Social Security number	XXX-XX-XXXX
Page 4 of 4	

Removal of penalties due to erroneous written advice from the IRS

If you were penalized based on written advice from the IRS, we will remove the penalty if you meet the following criteria:

- If you sent a written request to the IRS for written advice on a specific issue
- You gave us complete and accurate information
- You received written advice from us
- You reasonably relied on our written advice and were penalized based on that advice

To request removal of penalties based on erroneous written advice from us, submit a completed Claim for Refund and Request for Abatement (Form 843) to the IRS service center where you filed your tax return.

For a copy of the form or to find your IRS service center, go to www.irs.gov or call 1-800-829-0922.

Removal or reduction of penalties

We understand that circumstances—such as serious illness or injury, a family member's death, or loss of financial records due to natural disaster—may make it difficult for you to meet your taxpayer responsibility in a timely manner.

If you would like us to consider removing or reducing any of your penalty charges, please do the following:

- Identify which penalty charges you would like us to remove or reduce (e.g., 2005 late filing penalty).
- For each penalty charge, explain why you believe removal or reduction is appropriate.
- Sign your statement, and mail it to us along with any supporting documents.

We will review your statement and let you know whether we accept your explanation as reasonable cause to reduce or remove the penalty charge(s).



*More Information About Payment Options in Redesigned Notices
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Interest charges

We are required by law to charge interest on unpaid tax from the date the tax return was due to the date the tax is paid in full. The interest is charged as long as there is an unpaid amount due, including penalties, if applicable. (Internal Revenue Code section 6601)

Description	Amount
Total interest	\$54.48

The table below shows the rates used to calculate the interest on your unpaid amount due. For a detailed calculation of your interest, call 1-800-829-0922.

Period	Interest rate
July 1, 2013–December 31, 2013	8%
January 1, 2014–March 31, 2014	7%
April 1, 2014–June 30, 2014	6%
July 1, 2014–September 30, 2014	5%
October 1, 2014–December 31, 2014	6%
Beginning January 1, 2015	5%

Additional information

- Visit www.irs.gov/cp503.
- For tax forms, instructions, and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676).
- Paying online is convenient, secure, and ensures timely receipt of your payment. To pay your taxes online or for more information, go to www.irs.gov/directpay.
- Keep this notice for your records.

We're required to send a copy of this notice to both you and your spouse. Each copy contains the same information about your joint account. Please note: Only pay the amount due once. If you need assistance, please don't hesitate to contact us.



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Appendix V

Case Resolutions by Notice Stream Path

Notice Path After CP 14 to Closure	CY 2010 (Base Year)	CY 2012	CY 2013
Statutory Notice			
CP 14 – Closed	2,130,721	2,363,334	2,366,709
Subtotal	2,130,721	2,363,334	2,366,709
CP 500 Series Common Path			
CP 501 – Closed	264,341	429,622	454,988
CP 501 – CP503 – Closed	174,601	158,214	161,481
CP 501 – CP503 – CP 504 – Closed	254,127	282,172	442,795
Subtotal	693,069	870,008	1,059,264
CP 500 Series Accelerated After CP 14			
CP 501 – CP504 – Closed	3,586	6,724	8,181
CP 503 – Closed	152,591	226,384	242,956
CP 503 – CP504 – Closed	115,992	155,202	226,066
CP 504 – Closed	104,247	217,128	153,093
Subtotal	376,416	605,438	630,296
Moved to TDA Status			
CP 14 – TDA Status	88,344	50,573	52,535
CP 501 – TDA Status	432	612	740
CP 501 – CP 503 – TDA Status	252	276	386
CP 501 – CP 503 – CP 504 – TDA Status	135,982	128,990	135,002
CP 501 – CP 504 – TDA Status	7,594	6,707	10,755
CP 503 – TDA Status	828	1,161	1,877
CP 503 – CP 504 – TDA Status	175,280	165,480	253,388
CP 504 – TDA Status	282,501	332,913	314,659

Source: TIGTA analysis of the IRS Collection Database of individual modules entering the balance due notice stream in CYs 2010, 2012, and 2013.



***More Information About Payment Options in Redesigned Notices
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Appendix VI

Glossary of Terms

Term	Definition
Automated Collection System	A telephone contact system that maintains taxpayer's balance due accounts and return delinquency investigations through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Balance Due Module	Occurs when a taxpayer has an outstanding (unpaid) liability for taxes, penalties, and/or interest.
Computer Paragraph	Computer-generated notices and letters of inquiry that are mailed to taxpayers in connection with tax returns for the Business MF and Individual MF. CP numbers are located in the upper right corner of the notices and letters.
Delinquent	A tax account for which part or the entire amount owed to the IRS is overdue. These amounts can represent quarterly taxes such as employment taxes or annual taxes for unemployment taxes that are due once per year.
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.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time in smaller, more manageable payments.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



***More Information About Payment Options in Redesigned Notices
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Term	Definition
Internal Revenue Manual	The operations manual for employees of the IRS. It contains the policies, procedures, instructions, guidelines, and delegations of authority that direct the operation for all divisions and functions of the IRS. Topics include tax administration, personnel and office management, and others.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
Lien	An encumbrance on property or rights to property as security for outstanding taxes.
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.
Office of Taxpayer Correspondence	The OTC is the IRS hub for comprehensive correspondence services from design and development to effectiveness and downstream impact.
Revenue Officer	Employees in the Field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the Automated Collection System.
Small Business/ Self-Employed Division	The IRS organization that services self-employed taxpayers and small businesses by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable tax laws.
Taxpayer Delinquent Account	A balance due account of a taxpayer. A separate taxpayer delinquent account exists for each delinquent tax period of a taxpayer.
Wage and Investment Division	The IRS organization that services individual taxpayers by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable tax laws.



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Appendix VII

Management's Response to the Draft Report




COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

AUG 3 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Karen Schiller 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – More Information about Payment Options in
Redesigned Notices Contributes to More Cases Closing, but
More Analysis and Collaboration with Stakeholders is Needed
(Audit # 201330012)

Thank you for the opportunity to review the subject draft report which evaluated the impact of the redesigned collection notices. The IRS is committed to providing clear communications to taxpayers to assist them in meeting their tax obligations. In November 2008, the IRS launched the Taxpayer Communications Taskgroup (TACT) for the purpose of improving the clarity, accuracy, and effectiveness of IRS written communications to taxpayers. The work of the TACT culminated in the redesign of IRS notices, using plain language to provide clarity and consistency; with the goal of more effectively engaging taxpayers, encouraging prompt responses to notices, facilitating earlier resolution of taxpayers' cases and ultimately improving taxpayer compliance. We appreciate your acknowledgement of the positive changes and outcomes that resulted from this redesign effort.

The collection notice process provides the IRS with an opportunity to maximize collections while minimizing costs in pursuing a taxpayer's tax debts. Indeed, it is our most cost-effective collection process. Computer Paragraph (CP) notices are computer generated and mailed to taxpayers, a process that uses minimal employee resources. To the extent that taxpayers take action to pay or otherwise resolve their debts, collections occur with relatively little additional investment. Maximizing the productivity of this economically effective and efficient process is of particular importance as we continue to operate under the constraints of declining collection resources.

As explained in your report, our redesigned notices provide taxpayers with information about payment options, including an installment agreement, when full payment is not possible. Informing taxpayers of the availability of these options facilitates efficient and prompt resolution of taxpayer cases. And, to further leverage these efficiencies, the IRS implemented online payment agreement capability, providing taxpayers with an electronic and convenient avenue for electing and establishing these alternative payment arrangements.



***More Information About Payment Options in Redesigned Notices
Contributes to More Cases Closing, but More Analysis and
Collaboration With Stakeholders Are Needed***

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Because of the complexity of the notice development process, this is an ongoing endeavor. To date, the IRS has redesigned and rewritten 336 notices. In FY 2014, the 336 notices made up nearly 68 percent of the 193 million notices sent. We have made significant improvements to our collection notices, and your recommendations will help us achieve additional improvements in this area.

Attached is a detailed response with our corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Scott Prentky, Director, Collection, at (954) 423-7318.

Attachment



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Attachment

RECOMMENDATION 1:

The Director, Collection, Small Business/Self-Employed Division, should consider including more information in collection notices about payment alternatives as well as the possible consequences to taxpayers if they do not respond to the IRS in attempt to resolve the delinquency.

CORRECTIVE ACTION:

As we consider updating additional notices, similar to how we updated the balance due and delinquent return CP notices, Collection will consider including information about payment alternatives as well as the possible consequences to taxpayers if they do not respond to the IRS in attempt to resolve the delinquency.

IMPLEMENTATION DATE:

January 15, 2016

RESPONSIBLE OFFICIAL:

Director, Collection, Collection Policy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

The Director, Collection, Small Business/Self-Employed Division, should monitor and measure the impact of the redesigned notices to determine if the IRS is achieving expected taxpayer and business outcomes and collaborate with stakeholders, including the Taxpayer Advocate Service, about incorporating additional information in collection notices that may result in more case closures and provide information that taxpayers need and have a right to know.

CORRECTIVE ACTION:

Collection will establish a standard method for monitoring and measuring impact of the redesigned notices to determine if the IRS is achieving expected taxpayer and business outcomes and continue its practice of collaborating with stakeholders including the Taxpayer Advocate Service when it revises notices in the future.

IMPLEMENTATION DATE:

February 15, 2016

RESPONSIBLE OFFICIAL:

Director, Collection, Collection Planning & Performance Analysis, SB/SE Division



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CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.