



*Planned Improvements Have Not Been Made  
to Manage and Track Correspondence With  
International Taxpayers*

**September 8, 2015**

**Reference Number: 2015-30-072**

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.

**Redaction Legend:**

1 = Tax Return/Return Information

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## HIGHLIGHTS

### **PLANNED IMPROVEMENTS HAVE NOT BEEN MADE TO MANAGE AND TRACK CORRESPONDENCE WITH INTERNATIONAL TAXPAYERS**

## Highlights

**Final Report issued on  
September 8, 2015**

Highlights of Reference Number: 2015-30-072 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

As of May 2014, the U.S. State Department estimated that approximately 7.6 million U.S. citizens live in a foreign country. The rules for filing income, estate, and gift tax returns, as well as paying income taxes, are generally the same for international taxpayers as for those taxpayers living in the United States. The IRS heavily relies upon its many notices and letters as its primary means of communication with taxpayers.

### **WHY TIGTA DID THE AUDIT**

As globalization trends continue, so too do the challenges to the IRS's ability to provide services to and enhance the tax compliance of U.S. taxpayers living in other countries. This audit was initiated to evaluate the process for sending tax correspondence (notices and letters) to business and individual taxpayers who reside outside the United States, analyze how the taxpayers responded, and determine whether the correspondence resulted in improved compliance.

### **WHAT TIGTA FOUND**

Even though the IRS sent approximately 855,000 notices and letters to U.S. taxpayers living in other countries during Calendar Year 2014, it cannot determine taxpayer response rates. The lack of data on response rates for international taxpayers is problematic because this information is needed to determine the effectiveness of international correspondence on increasing taxpayer

compliance and to make program improvements.

IRS data systems are not designed to accommodate the different styles of international addresses, which can cause notices to be undeliverable. Other factors complicate the delivery of international mail, making its delivery less certain than domestic correspondence.

In addition, the IRS generally does not know if international taxpayers receive the tax correspondence sent to them. Without specific controls to monitor and metrics to measure international tax correspondence, the IRS cannot determine the impact of its international tax correspondence on taxpayer compliance.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS: 1) develop a systemic process that identifies undelivered international mail volumes, as well as tracks international tax correspondence and receipt trends; 2) develop specific performance measures to monitor the compliance impact of sending international tax correspondence to taxpayers residing outside the United States; 3) use the Postal Service Form 2865, *Return Receipt for International Mail*, for the countries that currently support return receipts for registered foreign mail; 4) expand the *International Submission Processing Individual Master File Foreign Address Job Aid* to include abbreviated address formats for all foreign countries as needed; and 5) coordinate with the other business operating divisions to make the job aid available to all IRS employees who are responsible for the input of addresses into IRS computer systems.

The IRS disagreed with four of the five recommendations. While the IRS generally agreed that TIGTA's recommendations could provide additional insight into the factors contributing to undeliverable international mail, it does not believe this information would permit the IRS to overcome budgetary, statutory, and operational constraints as needed to achieve appreciable improvement in its current processes. TIGTA does not believe that the IRS's response is adequate because current IRS processes for addressing international mail issues are ineffective or nonexistent.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 8, 2015

**MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION**

*Michael E. McKenney*

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

**SUBJECT:** Final Audit Report – Planned Improvements Have Not Been Made to  
Manage and Track Correspondence With International Taxpayers  
(Audit #201330022)

This report presents the results of our review to evaluate the process for sending tax correspondence (notices and letters) to business and individual taxpayers who reside outside the United States, analyze how the taxpayers responded, and determine whether the correspondence resulted in improved compliance. This review is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Globalization.

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

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*

|        |   |
|--------|---|
| I.R.C. | Internal Revenue Code                             |
| IRS    | Internal Revenue Service                          |
| OTC    | Office of Taxpayer Correspondence                 |
| TIGTA  | Treasury Inspector General for Tax Administration |
| UAA    | Undeliverable as Addressed                        |
| USPS   | United States Postal Service                      |
| W&I    | Wage and Investment                               |



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## *Planned Improvements Have Not Been Made to Manage and Track Correspondence With International Taxpayers*

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### *Background*

In recent years, globalization has prompted an increasing number of U.S. taxpayers (including small- and medium-sized businesses and individuals) to seek economic opportunities abroad.<sup>1</sup> As of May 2014, the U.S. State Department estimated that approximately 7.6 million U.S. citizens live in a foreign country. The rules for filing income, estate, and gift tax returns, as well as paying income taxes, are generally the same for U.S. citizens and resident aliens living in a foreign country as for those taxpayers living in the United States.<sup>2</sup> Their worldwide income is subject to U.S. taxation, regardless of where they reside.

The Internal Revenue Service (IRS) heavily relies upon its many notices and letters (hereafter referred to as tax correspondence) as its primary means of communication with taxpayers. Each year, the IRS sends millions of pieces of tax correspondence to individual and business taxpayers in the United States, along with individuals and businesses residing in a foreign country.

The Office of Taxpayer Correspondence (OTC) was established in the Wage and Investment (W&I) Division in April 2010 to centralize Service-wide responsibility for taxpayer correspondence. The OTC is the IRS hub for comprehensive correspondence services. According to data provided by the OTC from the Correspondence Management Information System, there were more than 669,000 tax notices and more than 186,000 tax letters that required foreign postage in Calendar Year 2014.

As globalization trends continue, so too do the challenges to the IRS's ability to provide services to and enhance the tax compliance of U.S. taxpayers living in other countries. To address these challenges, the IRS developed the Service-Wide Approach to International Tax Administration. This "Service-wide approach" emphasizes the need for cross-functional cooperation in addressing emerging international issues, and includes the following three strategic goals:

- Improving taxpayer service.
- Enhancing enforcement of tax laws.
- Modernizing the IRS through its people, processes, and technology.

An IRS study of taxpayer needs and preferences showed that U.S. taxpayers living in foreign countries may have a greater need for IRS services than similarly situated taxpayers living in the

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<sup>1</sup> See Appendix V for a glossary of terms.

<sup>2</sup> An individual who is not a U.S. citizen who meets either the "green card" test of holding an immigrant visa or the physical presence of being in the United States for at least 31 calendar days during the current calendar year and a total of 183 calendar days during the three-year period that includes the current year and the two preceding years.



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United States.<sup>3</sup> This is due in part to the complexity of international tax laws and treaties, as well as the limited IRS face-to-face and toll-free telephone service options available to taxpayers living outside the United States.

The IRS announced on January 14, 2015, that because of repeated budget cuts, it will close the last of its overseas offices in Paris, France; Frankfurt, Germany; and London, United Kingdom, further reducing its international taxpayer service footprint. These offices perform face-to-face IRS enforcement and customer service functions related to tax administration and are attached to U.S. embassies or consulates in those countries.

Given these circumstances, tax correspondence is even more important for U.S. taxpayers living in foreign countries. The IRS should make every effort to ensure that its tax correspondence reaches these taxpayers and that the correspondence effectively communicates what actions taxpayers need to take, if any. In addition, the impact of these notices and letters should be monitored to ensure that the IRS is meeting its Service-wide Approach to the International Tax Administration strategic goal of improving taxpayer service.

This review was performed in the W&I Division's Submission Processing sites, as well as the OTC offices in Austin, Texas, and Ogden, Utah; the Accounts Management function in Philadelphia, Pennsylvania; the Large Business and International and Small Business/Self-Employed Divisions' Examination offices in Austin, Texas; the Small Business/Self-Employed Division's Examination and Collection offices in Ogden, Utah; and with information obtained from the W&I Division Headquarters in Atlanta, Georgia, during the period August 2013 through February 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> IRS, W&I Division Research and Analysis, *2012 Taxpayer Experience of Individuals Living Abroad: Service Awareness, Use, Preferences, and Filing Behaviors, Research Study Paper* presented at the IRS Tax Policy Center Research Conference (June 2012).



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## *Results of Review*

### ***Separate Performance Measures and Quantifiable Compliance Results Are Needed to Determine the Success of International Tax Correspondence Efforts***

According to data provided by the IRS, approximately 855,000 notices and letters were sent to U.S. taxpayers living in foreign countries during Calendar Year 2014. However, the IRS is unable to determine the number of international taxpayers who responded to its tax correspondence. In addition, the IRS generally does not know if international taxpayers received the tax correspondence sent to them. Because the IRS combines the volume and results of international tax correspondence with its domestic tax correspondence, without specific controls to track and monitor international tax correspondence, it cannot determine international taxpayer response rates. The lack of data on response rates of international taxpayers is problematic because this information is needed to determine the effectiveness of international correspondence on increasing taxpayer compliance and to make program improvements.

Data need to be captured and evaluated to ensure that the IRS has a viable process to monitor all phases of the international tax correspondence process, as well as to determine the impact of its tax correspondence on international taxpayer compliance.

### ***Previous reports on undelivered international tax correspondence identified some problems that still have not been corrected***

The Treasury Inspector General for Tax Administration (TIGTA) reported in Fiscal Year 2001 that the IRS did not have a reliable method for tracking undeliverable mail and was unable to determine the composition of its undeliverable mail inventory.<sup>4</sup> Based on information gathered during this review, these conditions still exist.

The IRS sends international tax correspondence to the taxpayer's last known address of record on the Master File. Due to a variety of reasons, which include address character space limitations within the Master File and the absence of systemic foreign address perfection/standardization processes, international tax correspondence that is unable to be delivered to its intended recipient should be returned to the IRS as undeliverable as addressed (UAA). UAA mail is classified by the U.S. Postal Service (USPS) as any piece of mail that cannot be delivered to the name and address specified on it.

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<sup>4</sup> TIGTA, Ref. No. 2001-30-168, *Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail* (Sept. 2001).



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While the IRS does not know how much of its international tax correspondence is returned as UAA, the IRS has stated that it is widely accepted that 50 to 60 percent of all mail returned as UAA can be attributed to poor address quality. The result is that tax correspondence is not delivered to its intended recipients, and postage expense is incurred unnecessarily. Additional negative effects include additional handling costs, printing costs, re-mailing costs, and potentially decreased collection revenue.

In July 2007, the IRS issued a report based on a study it conducted to determine the impact of incorrect foreign addresses on the IRS's international mailing operation and identify opportunities to improve this process.<sup>5</sup> Part of the IRS's approach to this study was establishing a benchmark to identify the extent of problems associated with foreign addresses. The decision was made that address perfection software would provide the best benchmarks to identify and measure the problems associated with foreign addresses. The IRS tested this software on more than 1.9 million foreign addresses and reported that 65 percent of them could have been corrected and validated had the software been allowed to update the address errors on the Master File. However, the IRS subsequently decided to hold off pilot testing and implementation of this software due to other work priorities, and now with increasing budget constraints, the IRS has decided to not pursue it at all.

A poor quality address has consequences beyond the cost of the postage and the correspondence failing to reach its intended recipient. These consequences can include: inability to collect revenue, decreased customer satisfaction, sensitive data delivered to the wrong address, identity theft, and failure to reach taxpayers at a critical point in resolving their tax problems.

### **International taxpayer response rates are not tracked**

Generally, the IRS's legal obligation is to send correspondence to the last known address of a taxpayer.<sup>6</sup> Due to the official regularity of mail delivery in the United States, taxpayers are presumed to have received IRS notices if mailed to their last known address.<sup>7</sup> Because of this presumption, the IRS does not track overall delivery of its correspondence as the mail is presumed to have been received unless a taxpayer indicates otherwise. However, mail sent to other countries is dependent upon the postal delivery systems of those countries. Moreover, the styles of international addresses in terms of the number of lines of address information and the order of address information provided can vary significantly from the U.S. postal system. Because of limitations in the IRS's standardized address format, not all international address styles can be accommodated which results in correspondence containing incorrect international

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<sup>5</sup> IRS, Mail Management Project Office, *The International Mailing Impact Analysis Report* (July 2007).

<sup>6</sup> For example, the following notices required by law are deemed legally effective if sent to the taxpayer's last known address: Internal Revenue Code (I.R.C.) Section (§) 6212(b) as to the notice of deficiency; I.R.C. § 6331(d) as to a notice of intent to levy; and I.R.C. §§ 6320(a) and 6330(a) as to the notice and opportunity for a hearing upon the filing of a Federal tax lien and prior to a levy.

<sup>7</sup> *Sego v Comm'r*, 114 T.C. 604, 611 (2000).



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addresses. For these reasons, mail sent internationally has a higher risk of nondelivery than mail sent domestically.

In an effort to determine the effectiveness of the IRS's international notice process, we analyzed taxpayer response rates to the IRS's international tax correspondence. Using IRS data from the Notice Delivery System, we extracted information on all international tax correspondence sent by either regular foreign mail or registered foreign mail in Calendar Year 2012, and identified which types of the tax correspondence would require a response from the taxpayer. Types of correspondence requiring the taxpayer to respond include collection notices, requests for information or tax returns, and information concerning pending adverse actions, *i.e.*, assessments, liens, or levies. Tax correspondence not requiring a reply generally provides information to taxpayers that they may need or may have requested, such as account transcripts, return transcripts, identification of potential error conditions on a taxpayer's return, *etc.*

For the correspondence that would require the taxpayer to respond, we analyzed the taxpayer's account data for Calendar Year 2012 through February 28, 2013, for any transactions directly related to the intended purpose of the tax correspondence that may have occurred after the mailing date. Examples of the types of transactions we identified as response indicators include:

- Payments or credits posting to the taxpayer's account for collection notices.
- Tax returns or return closing codes posting to the taxpayer's account for tax return requests.
- Transactions indicating that an adverse action was prevented, *i.e.*, no assessment made on the taxpayer's account, or reversed, *i.e.*, an abatement posting to the taxpayer's account.

Using the pertinent transactions dated within the associated time frame for those tax accounts, we were able to determine to some degree whether or not the taxpayer had responded to the IRS's international tax correspondence.<sup>8</sup> As a result of our analysis, we estimate that the overall foreign mail response rate by international taxpayers was approximately 37 percent. Figure 1 shows the results of our analysis.

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<sup>8</sup> Because the IRS does not track undelivered mail, our analysis focused on taxpayer responses. However, our analysis would not identify taxpayers who actually received the IRS's correspondence, but failed to respond. As a result, the undelivered mail rate of the IRS's international tax correspondence would likely be lower.



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**Figure 1: Estimated Taxpayer Response Rates for International Tax Correspondence Mailed in Calendar Year 2012 Requiring a Response<sup>9</sup>**

|  | All Foreign Mail Sent | Regular Foreign Mail | Registered Foreign Mail |
|--|-----------------------|----------------------|-------------------------|
| <b>Total Tax Correspondence Sent by Category</b>               | 284,417               | 250,652              | 33,765                  |
| <b>Total Estimated Taxpayer Responses Received by Category</b> | 105,653               | 95,683               | 9,970                   |
| <b>Average Estimated Taxpayer Response Rate</b>                | 37%                   | 38%                  | 30%                     |

*Source: TIGTA analysis of international correspondence sent during Calendar Year 2012, and taxpayer account activity during Calendar Year 2012 obtained from the Business and Individual Return Transaction Files and the Business and Individual Master Files.*

Our analysis found that U.S. taxpayers living in other countries are generally not responding to international tax correspondence sent by the IRS. Specifically, Figure 1 reflects that on average the IRS received only 3.7 responses for every 10 international notices or letters it sent out in Calendar Year 2012 that required a taxpayer response. Because the IRS does not track undelivered mail or correspondence response rates, it is difficult to determine the impact international tax correspondence has had on taxpayer noncompliance.

Small Business/Self-Employed Division management informed us that there was no easy or effective way under current processes for the IRS to determine the notice response rates for either international or domestic tax correspondence. When the responses are received, they are sorted in the mail function and distributed to the different functions in accordance with the action that the taxpayer is requesting. In the case of correspondence for which no notice is attached, the IRS does not perform any research to determine if the response was due to a possible balance due notice, nonfiler notice, *etc.*

In addition, the OTC is responsible for the design and development of IRS correspondence, as well as ensuring its effectiveness and downstream impact. The Data Metrics and Error Resolution function of the OTC performs Service-wide correspondence trend analyses and coordinates research projects on correspondence effectiveness. While efforts have been made to make tax correspondence easier to read, it is still unknown in the majority of cases if international tax correspondence actually reaches the intended taxpayers.

<sup>9</sup> Appendix IV shows the estimated response rates of all the countries included in our review of international tax correspondence during Calendar Year 2012.



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**Some international tax correspondence sent by registered mail may not be delivered to its intended recipients**

Numerous types of correspondence with important information for taxpayers (such as notification of impending IRS compliance actions) are required to be sent by certified or registered mail. For example, Notices of Deficiency, which inform taxpayers of the IRS's intention to assess additional tax as well as of their rights to file a petition in the U.S. Tax Court, are required to be sent by either registered or certified mail.<sup>10</sup> Additionally, Internal Revenue Code (I.R.C.) Sections 6320 and 6330 require the IRS to serve a Notice of Intent to Levy or Notice of Federal Tax Lien informing taxpayers of their right to a Collection Due Process hearing. These notices must be sent to the taxpayers' last known address by certified or registered mail.

Registered mail is used to ensure that an unbroken chain of custody is followed from receipt by the USPS to delivery to the taxpayer. It provides proof of mailing, as well as the date and time of delivery or attempted delivery. Similarly, certified mail provides proof of mailing, as well as the date and time of delivery or attempted delivery. However, certified mail does not have as many custody control requirements as registered mail. A return receipt can be added for both types of mail.

When the IRS sends enforcement tax correspondence, *i.e.*, Notices of Intent to Levy or Notices of Federal Tax Lien, to a taxpayer living in the United States, it is sent certified mail with a return receipt. When enforcement tax correspondence is sent to an international taxpayer, it is required to be sent registered mail because certified mail is not an option for international mailing; however, generally no return receipt is requested.

The IRS relies upon the foreign mailing authorities to deliver its correspondence to international taxpayers. Once the registered mail is received by the foreign destination country, it is processed according to that country's postal guidelines, which may not guarantee the same security and deliverability as U.S. registered mail. The delivery information, if any, is maintained at the local office of the foreign destination. The USPS would have to correspond with the foreign postal authorities to obtain a status of the delivery. According to the IRS, as a general rule, it does not make inquiries on undelivered tax correspondence sent to foreign countries.

Unlike the United States, some countries do not have efficient postal systems. We found that most countries' postal systems accept registered mail from the United States. However, many developing countries are unable to provide even minimal postal services. In addition, corporations may receive and open mail on behalf of their employees working in a foreign country. As a result, the IRS in many instances has no way of knowing if the international taxpayer actually receives the registered mail unless the taxpayer contacts the IRS.

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<sup>10</sup> I.R.C. § 6212 allows taxpayers 90 calendar days to file a petition with the Tax Court; however, if the Notice of Deficiency is addressed to someone outside of the United States, the taxpayer has 150 calendar days to file a petition.



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According to USPS procedures on the use of return receipts for international mail, the return receipts are completed in the country of destination in accordance with its internal regulations, which may not require the addressee's signature except under special circumstances. Countries are not obligated to inform the United States of their internal regulations, and the USPS has no control of the international mail once it leaves the United States.

For international registered mail, a return receipt can be requested with Postal Service Form 2865, *Return Receipt for International Mail*, as shown in Figure 2. This is attached at the time of mailing and is removed and signed at the point of delivery and returned to the sender as evidence of delivery. These receipts are returned to the sender by airmail. The mailing procedures for certain automated collection tax correspondence, such as a final Notice of Intent to Levy, require a Form 2865. This type of tax correspondence is sent from the Collection Correspondence and Compliance Services Collection Operations functions in the Small Business/Self-Employed Division's Campus Compliance Operations. In addition, according to the IRS, international revenue officers use the Form 2865 when sending certain collection tax correspondence.



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**Figure 2: Postal Service Form 2865**

| Return Receipt for International Mail<br>(Registered Mail™ and Insured Mail)  |  |  |
|---|--|--|
| UNITED STATES POSTAL SERVICE®<br><i>Administration des Postes des Etats-Unis d'Amérique</i><br><b>A.R. Par Avion</b>  |  |  |
| Postmark of the office returning the receipt<br><i>(Timbre du bureau renvoyant l'avis)</i>  |  |  |
| Sender: Please print your name, address, and ZIP + 4®.<br><i>(Expéditeur: S'il vous plaît, fournir votre nom, adresse, et code postal.)</i>   |  |  |
| Name or Firm <i>(Nom ou raison sociale)</i>   |  |  |
| Street and Number <i>(Rue et no.)</i>   |  |  |
| City, State, and ZIP + 4 <i>(Localité et code postal)</i>   |  |  |
| UNITED STATES OF AMERICA <span style="float: right;">Etats-Unis d'Amérique</span><br>PS Form <b>2865</b> , July 2013 <span style="margin-left: 100px;"><b>Avis de réception</b></span> <span style="float: right;"><b>CN07</b></span> |  |  |
| Completed by the office of origin.<br><i>(A remplir par le bureau d'origine.)</i>   | Item Description <i>(Nature de l'envoi)</i> <input type="checkbox"/> Registered Article <i>(Envoi recommandé)</i> <input type="checkbox"/> Insured Parcel <i>(Colis avec valeur déclarée)</i>  |  |
|   | Article Number <i>(Numéro d'article)</i> Insured Value <i>(Valeur déclarée)</i>  |  |
|   | Office of Mailing <i>(Bureau de dépôt)</i> Date of Posting <i>(Date de dépôt)</i>  |  |
|   | Name of Person or Firm Receiving the Article <i>(Nom ou raison sociale du destinataire)</i>  |  |
|   | Street and No. <i>(Rue et no.)</i>   |  |
|   | Place and Country <i>(Localité et pays)</i>  |  |
| Completed at destination.<br><i>(A compléter à destination.)</i>  | This receipt must be signed by: (1) the addressee; or, (2) a person authorized to sign under the regulations of the country of destination; or, (3) if those regulations so provide, by the employee of the office of destination. This signed form will be returned to the sender by the first mail.<br><i>(Cet avis doit être signé par le destinataire ou par une personne y autorisée en vertu des règlements du pays de destination, ou, si ces règlements le comportent, par l'agent du bureau de destination, et renvoyé par le premier courrier directement à l'expéditeur.)</i> |  |
|   | Office of Destination Employee Signature <i>(Signature de l'agent du bureau du destination)</i> Date   |  |
|   | Signature of Addressee <i>(Signature du destinataire)</i>  |  |
| Postmark of the office of destination <i>(Timbre du bureau de destination)</i>  |  |  |
| PS Form <b>2865</b> , July 2013 <i>(Reverse)</i> PSN 7530-01-000-9775 <span style="float: right;">UNITED STATES POSTAL SERVICE®</span>  |  |  |

Source: Postal Service Form 2865 for international mail receipts.

Ultimately, the IRS should work toward a systemic process that provides actual volumes of undelivered international mail and tracks international taxpayer receipt and response trends to measure the effect of international tax correspondence on taxpayer compliance. However, in the interim, the IRS needs to establish performance measures specifically related to international tax correspondence. Performance measures provide a way to determine what has been accomplished and whether or not an organization is meeting its stated goals and objectives. Without statistics



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and specific performance measures for international tax correspondence, the IRS cannot establish effective performance goals or measure its success in achieving them.

### **Recommendations**

The Commissioner, W&I Division, should:

**Recommendation 1:** Develop a systemic process that identifies undelivered international mail volumes, as well as tracks international tax correspondence and receipt trends. In the interim, the OTC should develop and implement a methodology to conduct periodic assessments to measure the downstream effect international tax correspondence has on taxpayer compliance.

**Management's Response:** The IRS disagreed with this recommendation. In context, correspondence mailed to foreign addresses represents less than one-half of one percent of the mail sent annually by the IRS. The IRS does not believe the resources required to implement this recommendation would be justified by the results to be obtained.

**Office of Audit Comment:** For IRS correspondence sent within the United States, courts have ruled that the official regularity of mail delivery is such that mail that is sent may be presumed to be delivered. This presumption does not hold for mail sent internationally. A basic analysis of its own undeliverable as addressed (UAA) mail could be performed at minimal expense and would be an important first step towards understanding the percentage of international mail that goes undelivered. The IRS's response that there are insufficient numbers of U.S. taxpayers living abroad to take basic steps to understand the scope of the problem is troubling. The IRS should make an effort to determine if its tax correspondence reaches these taxpayers, particularly when related to notification of impending IRS compliance actions. With the closure of the IRS's overseas offices, tax correspondence is even more critical for U.S. taxpayers living in foreign countries.

**Recommendation 2:** Develop specific performance measures to monitor the impact of international tax correspondence on tax compliance.

**Management's Response:** The IRS disagreed with this recommendation. The constraint on resources needed to make the requisite programming changes to expand the address fields in IRS processing and subordinate systems, combined with the statutory requirement for certain notices and documents to be mailed to the last known address for the taxpayer, severely limits the actions that could be taken to affect the measurement. The IRS does not believe such a performance metric would be useful in assessing the impact of international tax correspondence on tax compliance.

**Office of Audit Comment:** Performance measures could be developed using current resources at no cost or minimal cost. Mail sent to other countries is dependent upon the postal delivery systems of those countries and some of these mail systems are inefficient.



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TIGTA performed an analysis using tax correspondence data from the IRS to identify response rates by country. These same criteria could be used by the Data Metrics and Error Resolution function in the OTC to begin developing performance measures. The issues identified in this report have been ongoing for years and predate current IRS budgetary concerns.

**Recommendation 3:** For the countries that currently allow return receipt confirmations, use Postal Service Form 2865 for all IRS compliance functions to ensure that U.S. taxpayers in these countries are actually receiving the enforcement tax correspondence, *i.e.*, Notices of Intent to Levy, Notices of Federal Tax Lien, *etc.* intended for them.

**Management's Response:** The IRS disagreed with this recommendation due to budgetary constraints that limit the resources necessary to initiate this manual process.

**Office of Audit Comment:** U.S. taxpayers living in a foreign country are at a disadvantage because they may not receive IRS notices due to the inadequacy of some foreign postal systems. Because of the urgency of these types of tax correspondence, the IRS should ensure that taxpayers are being notified before compliance actions are taken.

### ***Typographical Errors and Systemic Address Limitations Cause International Tax Correspondence to Be Undeliverable***

The IRS reports that most undeliverable international tax correspondence has three principal causes:

- Taxpayers move and do not provide forwarding addresses to the IRS.
- The always changing postal regulations for more than 220 countries worldwide provide challenges in preparing properly addressed and formatted mail.
- The Master File record layout contains only four lines for the address field, whereas many foreign addresses can require up to eight lines of information.

In our analysis of data associated with international mailing addresses, we also identified multiple spelling errors of country names caused by taxpayers and/or IRS employees as an additional issue that could potentially result in taxpayers never receiving their tax correspondence.



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**Address field format limitations on IRS systems**

The Internal Revenue Manual provides guidance on the input of foreign addresses to the Master File Entity module.<sup>11</sup> However, the current address format on the Master File and many of the IRS's other computer systems is limited to four lines of data and is not designed to accommodate the additional lines that may be required for some foreign addresses.

The Internal Revenue Manual provides that both domestic and foreign taxpayer names are entered the same on the Primary Name Line. However, in some cases the input of a foreign address requires:

- Using the continuation name line for the foreign street address;
- Using the street address line for the foreign city, province, county, and/or foreign postal code; and
- Using the city and State line for the foreign country.

Once an address is input to one of the IRS's computer systems, it is uploaded to the Master File where address perfection software based on domestic address formats is used. However, because many foreign addresses do not fit into the standardized IRS address format, the address perfection software skips the foreign addresses. In December 2012, the IRS submitted an enhanced work request through the Work Request Management System to obtain a more cost-effective and proficient software product to provide improved foreign address perfection services. This approach would apply the updated perfection services to newly input addresses so they could be corrected before a bad address is posted to the Master File. This would be a web-based product so that regardless of the system, every time there is a new address, the address perfection software would be used at the point of initial input. In our discussions with IRS management, they stated that they would like to obtain this software, but do not have the resources due to budget constraints even though a formal business cost analysis to support this was not completed. As a result, they are in the process of closing the work request with no further actions taken, even though their July 2007 study showed that 65 percent of foreign addresses with errors could potentially be corrected and validated with more advanced address perfection software.

In addition, the IRS has no plans for expanding the address field format on the Master File to accommodate long foreign addresses. According to IRS management, they considered an initiative to expand the address field in the Master File in Fiscal Year 2014, but discovered it would require modifying not only the Master File, but all the various address systems that flow into it, which is not realistic with the current IRS resource limitations.

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<sup>11</sup> Internal Revenue Manual 2.4.9-8 (Jan. 1, 2009).



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**Taxpayer and IRS employee typographical errors**

Taxpayers and IRS employees may be responsible for some of the typographical errors found in the foreign addresses on the Master File. For example:

- Because of the address space limitations on IRS tax forms, taxpayers may not write legibly or may abbreviate cities and countries.
- City names may be used instead of country names or continent names may be used instead of country names.
- Taxpayers may have the correct foreign address on their paper-filed tax returns, but the data are incorrectly entered or improperly abbreviated by data transcribers into the IRS computer systems.

Errors in the input of a foreign address cause the taxpayer’s address to be incorrect on the Master File, and can result in deliverability issues in any tax correspondence sent from the IRS to that taxpayer. Typographical errors caused by taxpayers or IRS employees may have contributed to taxpayer nonresponses due to mail that was undeliverable. We identified 1,480 addressing errors that may be serious enough to cause notices and letters to go undelivered. Figure 3 includes some examples of the foreign country name errors we found. These examples include some countries listed on the Master File, which are not actually real countries, yet the IRS attempted to send mail to them.

**Figure 3: Examples of IRS Input Errors for Countries of Nonresponding Taxpayers**

| City Names Used as Countries | Geographic Areas | Misspellings | Partial Identifications | Former Nations and Non-existing Countries |
|------------------------------|------------------|--------------|-------------------------|---|
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |
| *****1*****                  | *****1*****      | *****1*****  | *****1*****             | *****1*****                               |

Source: TIGTA analysis of IRS records for international correspondence sent during Calendar Year 2012, and taxpayer account activity during Calendar Year 2012 obtained from the Business and Individual Return Transaction Files and Business and Individual Master Files.

The Internal Revenue Manual includes the *International Submission Processing Individual Master File Foreign Address Job Aid*.<sup>12</sup> This job aid is used to assist IRS employees with shortening foreign addresses to fit the format limitations on the IRS’s computer systems while

<sup>12</sup> Internal Revenue Manual 3.13 (Feb. 19, 2015) and Training Document 2413-703 (Rev. 10-2014).



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still maintaining the addresses' mailing integrity. It contains common words, abbreviations, and postal codes for subdivisions, *i.e.*, province, county, State, *etc.*, that help to distinguish the different regions of a country according to its administrative divisions and are abbreviated according to local postal standards. The job aid provides detailed instructions on how to shorten foreign addresses for 30 countries. It also contains examples of reformatted foreign addresses for seven countries as a reference.<sup>13</sup> Figure 4 is a hypothetical example of how a long foreign address on a tax return can be reformatted to fit the limited address field format on the IRS's computer systems.

**Figure 4: Hypothetical Example of Abbreviating an Address for Input Into IRS Computer Systems**

|   |  |   |           |                     |                   |   |
|---|--|---|-----------|---------------------|-------------------|---|
| <b>DRAFT</b>  |  | Form <b>1040</b> Department of the Treasury—Internal Revenue Service (99) |           | <b>2014</b>         | OMB No. 1545-0047 | IRS Use Only—Do not write or stamp in this space.   |
| For the year Jan. 1–Dec. 31, 2014, or other tax year beginning , 2014, ending , 20  |  |   |           |                     |                   | See separate instructions.  |
| Your first name and initial   |  |   | Last name |                     |                   | Your social security number   |
| If a joint return, spouse's first name and initial  |  |   | Last name |                     |                   | Spouse's social security number   |
| c/o Martin Qianshan   |  |   | Tower A   |                     |                   | ▲ Make sure the SSN(s) above and on line 6c are correct.  |
| Home address (number and street). If you have a P.O. box, see instructions.   |  |   | Apt. no.  |                     |                   |   |
| Beijing Jingpohu Plaza 7 Yalu Zhongdao  |  |   | 3301      |                     |                   | Presidential Election Campaign<br>Check here if you, or your spouse if filing jointly, want \$5 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse |
| City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). |  |   |           |                     |                   |   |
| 100018 Beijing P.R. China   |  |   |           |                     |                   |   |
| Foreign country name  |  | Foreign province/state/county   |           | Foreign postal code |                   |   |
|   |  |   |           |                     |                   |   |

Delete c/o (care of) information if the address cannot be shortened.

```
01NL2      TWR A JINGPOHU PLAZA 7 YALU ZHONGDAO
01ADD      APT 3301 BEIJING 100018
01C/S      /CHINA/ .
```

Source: *Hypothetical example from the International Submission Processing Individual Master File Foreign Address Job Aid, Training Document 2013-703 (Rev. 10-2014).*

There are many other countries with long address formats that require shortening that are not included in the *International Submission Processing Individual Master File Foreign Address Job Aid*. Figure 5 shows a hypothetical example of a lengthy address from Hong Kong that would not fit into the current IRS address format.

<sup>13</sup> China, India, Japan, Korea, Malaysia, Thailand, and Venezuela.



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**Figure 5: Hypothetical Example of a Foreign Address That Would Require Shortening for Input Into IRS Computer Systems**



Source: *International Address Formats, Informatica AddressDoctor at Informatica.com.*

Expanding this job aid to include abbreviated address formats for all foreign countries for which they are needed could be the most viable option to ensure that foreign addresses are properly formatted for IRS computer systems until the IRS has the resources to perform the programming needed to expand its address field format. Address information used by the IRS must be current, complete, accurate, and in the proper format to ensure that the tax correspondence reaches international taxpayers. International taxpayers may experience undue burden by not receiving their tax correspondence from the IRS due to an incorrect foreign address.

### **Recommendations**

The Commissioner, W&I Division, should:

**Recommendation 4:** Expand the *International Submission Processing Individual Master File Foreign Address Job Aid* to include abbreviated address formats for all foreign countries as needed.

**Management's Response:** The IRS disagreed with this recommendation. The *International Submission Processing Individual Master File Foreign Address Job Aid* is reviewed and updated annually. As part of the review process, the examples provided in the document are evaluated to ensure that they remain relevant and address those foreign location standards having the greatest need for guidance. The job aid is intended as a quick-reference guide that can be used to supplement the official guidance for employees, which is provided by Internal Revenue Manual 3.21.3.11, *General Instructions for Editing International Forms 1040/Form 1040A/Form 1040EZ/Form 1040PR/Form 1040SS/Form 1040NR/Form 1040NR-EZ*. Because the job aid is not official guidance, the IRS did not agree to implement a corrective action to expand it, beyond the content changes that may be identified as part of the annual review process.



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**Office of Audit Comment:** TIGTA believes this job aid is an excellent tool to help ensure that foreign addresses being input into IRS systems do not contain the errors we identified in our review. The Internal Revenue Manual cited here is also beneficial, but does not contain as much detail regarding address formats as the job aid. It would take minimal effort and cost to expand this job aid, which ultimately would improve the deliverability of tax correspondence to international taxpayers in addition to assisting IRS employees who have to input foreign addresses into the IRS computer systems.

**Recommendation 5:** Coordinate with the other business operating divisions to make this job aid available to all IRS employees who are responsible for the input of addresses into IRS computer systems.

**Management's Response:** The IRS agreed with this recommendation. The job aid is available to all IRS employees through the IRS Intranet; however, IRS management will promote its use and availability to all employees having address input responsibilities.



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## **Appendix I**

### *Detailed Objectives, Scope, and Methodology*

Our overall objectives were to evaluate the process for sending tax correspondence (notices and letters) to business and individual taxpayers who reside outside the United States, analyze how the taxpayers responded, and determine whether the correspondence resulted in improved compliance. To accomplish our objectives, we:

- I. Identified the controls and procedures that the IRS has in place to measure the responsiveness of taxpayers as a result of sending tax correspondence to business and individual taxpayers residing outside the United States.
  - A. Performed a walk-through of the tax correspondence issuance process at the Ogden, Utah, Submission Processing Site to evaluate the controls, procedures, and requirements for sending tax correspondence to international business taxpayers.<sup>1</sup>
  - B. Performed a walk-through of the tax correspondence issuance process at the Austin, Texas, Submission Processing Site to evaluate the controls, procedures, and requirements for sending tax correspondence to international individual taxpayers.
  - C. Interviewed IRS management in the Accounts Management, Automated Underreporter, Collection, and Examination functions to determine if they have any information/data on the usefulness of tax correspondence on international tax compliance. We obtained and reviewed any information/data they maintain.
  - D. Interviewed analysts in the OTC Data Metrics and Error Resolution functions to determine if any analyses have been performed on the impact of tax correspondence on international taxpayer compliance.
  - E. Determined what actions were taken by management on any analyses performed on the impact of tax correspondence on international taxpayer compliance.
- II. Determined whether international business and individual taxpayers are receiving their tax correspondence and what actions the IRS has taken if the correspondence is received or not received.
  - A. Obtained a list of tax notices and tax letters mailed with foreign postage for Calendar Year 2012 from the OTC and used the list to identify the types of notices and letters that require a response from the taxpayer. The notices and letters that did not require

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<sup>1</sup> See Appendix V for a glossary of terms.



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- a response, *i.e.*, math error, informational, *etc.*, were removed from the total population.
- B. Matched the populations from Step II.A. to the Business Master File and the Individual Master File at TIGTA's Data Center Warehouse to identify the countries in which the taxpayers reside, as well as any activity on the taxpayers' accounts after the notices were sent. These types of activities could include a tax return or amended tax return being filed, a payment agreement being established, *i.e.*, installment agreement, offer-in-compromise, *etc.*, an adjustment to the account, or a payment received.
  - C. Selected a random sample of 20 tax notices and 20 tax letters from Step II.A. and validated the information from the list and any related Business Master File or Individual Master File data to the Integrated Data Retrieval System.
- III. Determined whether sending tax correspondence to international business and individual taxpayers residing outside the United States by registered foreign mail improved taxpayer compliance.
- A. Identified which types of international tax correspondence should be sent registered mail based on legislative requirements.
  - B. Compared the list of tax notices and tax letters mailed with foreign postage for Calendar Year 2012 in Steps II.A. and II.B. to the types of notices and letters that should be sent registered mail to ensure that the notices were correctly classified.
  - C. Compared the countries on the list of tax notices and tax letters sent registered mail in Calendar Year 2012 to the USPS website for each country's requirements for receiving registered mail.
  - D. Stratified and compared the information obtained in Step II.B. to the tax notices and tax letters sent by registered mail/not sent by registered mail to determine if one method of mailing had a higher international taxpayer response rate.
  - E. Stratified and compared the information obtained in Step II.B. by country to determine which countries have higher international taxpayer response rates than others.

**Data validation methodology**

During this review, we relied on IRS correspondence data files for notices and letters sent during Calendar Year 2012 extracted by the IRS from its Compliance Data Warehouse. Additionally, we relied on taxpayer entity data extracted from the Business and Individual Return Transaction Files for Processing Year 2012 and taxpayer account data extracted from the Business and Individual Master Files for tax account transactions processed in Calendar Year 2012. These data were extracted by an auditor using TIGTA's Data Center Warehouse. To assess the reliability of computer-processed data, we validated the data extract files and ensured that each



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data extract contained the specific data elements requested and that the data elements were accurate. For example, we reviewed 40 cases and verified that the taxpayer entity and account data in the extracts analyzed were the same as the data captured in the IRS's Integrated Data Retrieval System, as well as identified in the IRS's correspondence files. As a result of our testing, we determined that the data used in our review were reliable.

### **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 objectives: IRS policies, procedures, and practices to evaluate the process for sending tax correspondence (notices and letters) to business and individual taxpayers who reside outside the United States. We evaluated these controls by interviewing IRS management and field employees, analyzing international tax correspondence data provided by the IRS, as well as analyzing related tax return data that were matched to the tax correspondence data.



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## **Appendix II**

### *Major Contributors to This Report*

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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  
Commissioner, Large Business and International Division SE:LB  
Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Media and Publications, Wage and Investment Division SE:W:CAR:MP  
Director, Return Integrity and Compliance Services, Wage and Investment Division SE:W:RICS  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
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, Large Business and International Division SE:LB  
    Commissioner, Small Business/Self-Employed Division SE:S  
    Commissioner, Wage and Investment Division SE:W



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**Appendix IV**

*Estimated International Tax Correspondence Response Rates by Country*

| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY <sup>1</sup> | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|---|--|
| <b>AFRICA (36%)</b>  | BOTSWANA  | 25%  |
|  | EGYPT   | 40%  |
|  | ETHIOPIA  | 48%  |
|  | GHANA   | 45%  |
|  | KENYA   | 46%  |
|  | MAURITIUS   | 38%  |
|  | MOROCCO   | 38%  |
|  | NIGERIA   | 31%  |
|  | SENEGAL   | 44%  |
|  | SOUTH AFRICA  | 32%  |
|  | TANZANIA  | 56%  |
|  | TUNISIA   | 44%  |
| UGANDA   | 23%   |  |
| <b>COUNTRIES INCLUDED IN THE OVERALL AFRICA RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: ALGERIA – ANGOLA – BENIN – BURKINA FASO – BURUNDI – CAMEROON – CAPE VERDE – CENTRAL AFRICAN REPUBLIC – CHAD – COMOROS – CONGO – DJIBOUTI – EQUATORIAL GUINEA – ERITREA – GABON – GAMBIA – GUINEA – GUINEA-BISSAU – IVORY COAST – LESOTHO – LIBERIA – LIBYA – MADAGASCAR – MALAWI – MALI – MAURITANIA – MAYOTTE – MOZAMBIQUE – NAMIBIA – NIGER – RWANDA – SAO TOME AND PRINCIPE – SEYCHELLES – SIERRA LEONE – SOUTH SUDAN – SUDAN – SWAZILAND – TOGO – ZAMBIA – ZIMBABWE</b> |   |  |

<sup>1</sup> To give a fair representation of a country's response rate based on taxpayer responses, we summarized the data only from specific countries receiving 50 or more pieces of tax correspondence that required a taxpayer's response during Calendar Year 2012. However, to calculate the overall Continent/Geopolitical Region response rate, we included all countries in that Continent/Geopolitical Region to which the IRS had sent tax correspondence requiring a response during Calendar Year 2012.



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| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|--|--|
| <b>ASIA (40%)</b>  | BANGLADESH   | 47%  |
|  | CAMBODIA   | 44%  |
|  | CHINA  | 33%  |
|  | HONG KONG  | 46%  |
|  | INDIA  | 34%  |
|  | INDONESIA  | 35%  |
|  | JAPAN  | 42%  |
|  | KAZAKHSTAN   | 28%  |
|  | MALAYSIA   | 34%  |
|  | MONGOLIA   | 42%  |
|  | PHILIPPINES  | 41%  |
|  | RUSSIAN FEDERATION   | 32%  |
|  | SINGAPORE  | 44%  |
|  | SOUTH KOREA  | 40%  |
|  | SRI LANKA  | 47%  |
| TAIWAN   | 42%  |  |
| THAILAND   | 42%  |  |
| VIET NAM   | 40%  |  |
| <b>COUNTRIES INCLUDED IN THE OVERALL ASIA RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: BHUTAN – BRITISH INDIAN OCEAN TERRITORIES – BRUNEI DARUSSALAM – LAOS – MACAU – MALDIVES – MYANMAR – NEPAL</b> |  |  |

| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|--|--|
| <b>AUSTRALIA AND THE SOUTH PACIFIC (43%)</b>   | AUSTRALIA  | 43%  |
|  | FIJI   | 54%  |
|  | NEW ZEALAND  | 47%  |
| <b>COUNTRIES INCLUDED IN THE OVERALL AUSTRALIA AND THE SOUTH PACIFIC RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: COOK ISLANDS – EAST TIMOR – FRENCH POLYNESIA – NEW CALEDONIA – NORFOLK ISLAND – PAPUA NEW GUINEA – SAMOA – SOLOMON ISLANDS – TONGA – VANUATU</b> |  |  |



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| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|--|--|
| <b>CARIBBEAN (30%)</b>   | ANGUILLA   | 33%  |
|  | ANTIGUA AND BARBUDA  | 31%  |
|  | ARUBA  | 35%  |
|  | BAHAMAS  | 29%  |
|  | BRITISH VIRGIN ISLANDS   | 22%  |
|  | CAYMAN ISLANDS   | 25%  |
|  | DOMINICAN REPUBLIC   | 36%  |
|  | GRENADA  | 61%  |
|  | HAITI  | 34%  |
|  | JAMAICA  | 29%  |
|  | NETHERLANDS ANTILLES   | 34%  |
|  | SAINT KITTS AND NEVIS  | 40%  |
| TRINIDAD AND TOBAGO  | 36%  |  |
| <b>COUNTRIES INCLUDED IN THE OVERALL CARIBBEAN RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: CUBA – DOMINICA – FRENCH ANTILLES – MONTSERRAT – SAINT LUCIA – SAINT VINCENT AND THE GRENADINES – TURKS AND CAICOS</b> |  |  |

| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|--|--|
| <b>CENTRAL AMERICA (37%)</b>   | BELIZE   | 47%  |
|  | COSTA RICA   | 44%  |
|  | EL SALVADOR  | 40%  |
|  | GUATEMALA  | 27%  |
|  | HONDURAS   | 38%  |
|  | NICARAGUA  | 33%  |
|  | PANAMA   | 30%  |
| <b>COUNTRIES INCLUDED IN THE OVERALL CENTRAL AMERICA RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: NONE</b> |  |  |



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| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE  | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|---|--|--|
| <b>EUROPE (42%)</b>   | AUSTRIA  | 49%  |
|   | BELGIUM  | 41%  |
|   | BULGARIA   | 6%   |
|   | CHANNEL ISLANDS  | 37%  |
|   | CROATIA  | 40%  |
|   | CYPRUS   | 46%  |
|   | CZECH REPUBLIC   | 50%  |
|   | DENMARK  | 39%  |
|   | FINLAND  | 47%  |
|   | FRANCE   | 47%  |
|   | GERMANY  | 42%  |
|   | GREECE   | 46%  |
|   | HUNGARY  | 43%  |
|   | ICELAND  | 29%  |
|   | IRELAND  | 36%  |
|   | ISLE OF MAN  | 27%  |
|   | ITALY  | 47%  |
|   | LATVIA   | 42%  |
|   | LIECHTENSTEIN  | 29%  |
|   | LITHUANIA  | 17%  |
|   | LUXEMBOURG   | 41%  |
|   | MALTA  | 50%  |
|   | MONACO   | 48%  |
|   | NETHERLANDS  | 37%  |
|   | NORWAY   | 31%  |
|   | POLAND   | 40%  |
|   | PORTUGAL   | 53%  |
|   | ROMANIA  | 28%  |
|   | SERBIA   | 19%  |
|   | SLOVAKIA   | 46%  |
| SLOVENIA  | 36%  |  |
| SPAIN   | 43%  |  |
| SWEDEN  | 39%  |  |
| SWITZERLAND   | 48%  |  |
| UKRAINE   | 30%  |  |
| UNITED KINGDOM  | 41%  |  |
| <b>COUNTRIES INCLUDED IN THE OVERALL EUROPE RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: ALBANIA – ANDORRA – BELARUS – BOSNIA HERZEGOVINA – ESTONIA – FAROE ISLANDS – GIBRALTAR – KOSOVO – MACEDONIA – MOLDOVA – MONTENEGRO</b> |  |  |



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| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE  | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|---|--|--|
| <b>MIDDLE EAST (35%)</b>  | AFGHANISTAN  | 41%  |
|   | BAHRAIN  | 37%  |
|   | IRAN   | 17%  |
|   | IRAQ   | 9%   |
|   | ISRAEL   | 32%  |
|   | JORDAN   | 43%  |
|   | KUWAIT   | 28%  |
|   | LEBANON  | 39%  |
|   | OMAN   | 44%  |
|   | PAKISTAN   | 30%  |
|   | QATAR  | 37%  |
|   | SAUDI ARABIA   | 42%  |
|   | SYRIA  | 11%  |
|   | TURKEY   | 40%  |
| UNITED ARAB EMIRATES  | 42%  |  |
| <b>COUNTRIES INCLUDED IN THE OVERALL MIDDLE EAST RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: ARMENIA – AZERBAIJAN – GEORGIA – KYRGYZSTAN – TAJIKISTAN – TURKMENISTAN – UZBEKISTAN – WEST BANK AND GAZA – YEMEN</b> |  |  |

| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE   | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|--|--|--|
| <b>NORTH AMERICA (41%)<sup>2</sup></b>   | BERMUDA  | 39%  |
|  | CANADA   | 42%  |
|  | MEXICO   | 34%  |
| <b>COUNTRIES INCLUDED IN THE OVERALL NORTH AMERICA RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: NONE</b> |  |  |

<sup>2</sup> The United States and its territories and possessions were excluded from this analysis.



*Planned Improvements Have Not Been Made to Manage and Track Correspondence With International Taxpayers*

| CONTINENT/GEOPOLITICAL REGION AND OVERALL ESTIMATED INTERNATIONAL TAX CORRESPONDENCE RESPONSE PERCENTAGE  | COUNTRIES RECEIVING 50 OR MORE PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY | ESTIMATED COUNTRY RESPONSE PERCENTAGE FOR INTERNATIONAL TAX CORRESPONDENCE REQUIRING A REPLY |
|---|--|--|
| <b>SOUTH AMERICA (33%)</b>  | ARGENTINA  | 35%  |
|   | BOLIVIA  | 48%  |
|   | BRAZIL   | 34%  |
|   | CHILE  | 27%  |
|   | COLOMBIA   | 35%  |
|   | ECUADOR  | 35%  |
|   | PARAGUAY   | 24%  |
|   | PERU   | 36%  |
|   | URUGUAY  | 36%  |
|   | VENEZUELA  | 23%  |
| <b>COUNTRIES INCLUDED IN THE OVERALL SOUTH AMERICA RESPONSE RATE ESTIMATE RECEIVING LESS THAN 50 PIECES OF INTERNATIONAL TAX CORRESPONDENCE FROM THE IRS REQUIRING A REPLY: GUYANA – SURINAME</b> |  |  |

*Source: TIGTA analysis of IRS records for international correspondence sent during Calendar Year 2012, and taxpayer account activity during Calendar Year 2012 obtained from the Business and Individual Return Transaction Files and the Business and Individual Master Files.*



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**Appendix V**

*Glossary of Terms*

| <b>Term</b>   | <b>Definition</b>  |
|---|--|
| <b>Account Transcript</b>                           | An account transcript shows Master File transactions to the taxpayer's account and provides taxpayers with an account history such as payments, refunds, <i>etc.</i>   |
| <b>Accounts Management Function</b>                 | IRS function responsible for answering taxpayer tax law/account inquiries and adjusting tax accounts. In addition, it is responsible for providing taxpayers with information on the status of their returns/refunds, and for resolving the majority of issues and questions to settle their accounts. |
| <b>Address Perfection Software</b>                  | Computer software that validates, corrects, and standardizes customer address data.  |
| <b>Assessment</b>                                   | A legally enforceable claim against a taxpayer consisting of taxes, penalties, and interest.   |
| <b>Business Master File</b>                         | IRS computer system that consists of Federal tax-related transactions and accounts for businesses including employment taxes, income taxes, and excise taxes.  |
| <b>Business Return Transaction File</b>             | IRS database that contains data transcribed from initial input of the original business tax returns during return processing.  |
| <b>Calendar Year</b>                                | A 12-consecutive-month period beginning January 1st and ending on December 31st of each new year.  |
| <b>Compliance Data Warehouse</b>                    | The IRS's Compliance Data Warehouse provides access to a wide variety of tax return, enforcement, compliance, and other data to support the query and analysis needs of the IRS's research functions.  |
| <b>Correspondence Management Information System</b> | IRS system that tracks tax correspondence the IRS uses to communicate with taxpayers and tax practitioners.  |



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| Term                                      | Definition   |
|---|--|
| <b>Data Center Warehouse</b>              | A centralized storage and administration of files that provides IRS data and data access services to TIGTA auditors.   |
| <b>Enhanced Work Request</b>              | Work requests that should either improve an essential operational system, create a new capability to support the IRS mission, or improve processes and/or efficiencies of the current production environment to meet future needs.   |
| <b>Geopolitical Region</b>                | The combination of geographic and political factors influencing or delineating a country or region.  |
| <b>Globalization</b>                      | A process of interaction and integration among the people, companies, and governments of different nations. Specifically, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world. |
| <b>Individual Master File</b>             | IRS database that maintains transactions or records of individual tax accounts.  |
| <b>Individual Return Transaction File</b> | IRS database that contains data transcribed from initial input of the original individual tax returns during return processing.  |
| <b>Integrated Data Retrieval System</b>   | IRS computer system capable of retrieving or updating information. It works in conjunction with a taxpayer's account records.  |
| <b>Internal Revenue Code</b>              | The Federal Statutory Law enacted as Title 26 of the U.S. Code is organized according to topic and covers all relevant rules pertaining to gift, estate, payroll, and excise taxes. The IRS is its implementing agency.  |
| <b>Internal Revenue Manual</b>            | The primary official source of instructions to staff related to the organization, administration, and operation of the IRS.  |



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| Term                          | Definition   |
|-------------------------------|--|
| <b>Job Aid</b>                | A repository for information, processes, or perspectives that is external to the individual and that supports work and activity by directing, guiding, and enlightening performance.   |
| <b>Levy</b>                   | A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.  |
| <b>Lien</b>                   | An encumbrance on property or rights to property as security for outstanding taxes.  |
| <b>Master File</b>            | The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and tax exempt organizations data.   |
| <b>Notice Delivery System</b> | An IRS server-based system used to process taxpayer notice files.  |
| <b>Notices of Deficiency</b>  | A Notice of Deficiency, also called a “Statutory Notice of Deficiency” or “90 day letter,” is a legal notice in which the IRS Commissioner determines the taxpayer’s tax deficiency. The Notice of Deficiency is a legal determination that is presumptively correct and consists of the following: a letter explaining the purpose of the notice, the amount of the deficiency and the taxpayer’s options, a waiver to allow the taxpayer to agree to the additional tax liability, a statement showing how the deficiency was computed, and an explanation of the adjustments. |
| <b>Resident Alien</b>         | An individual who is not a U.S. citizen who meets either the “green card” test of holding an immigrant visa or the physical presence of being in the United States for at least 31 calendar days during the current calendar year and a total of 183 calendar days during the three-year period that includes the current year and the two preceding years.  |
| <b>Return Transcript</b>      | The return transcript contains significant data transcribed from the original tax return into the IRS’s computer system. This transcript is ordered when taxpayers need a computer printout of their tax return.   |



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| Term                                  | Definition   |
|---------------------------------------|--|
| <b>Submission Processing Site</b>     | IRS office that receives, processes, and archives tax information returns, issues tax notices, processes refunds, and accounts for all tax revenues.                                   |
| <b>Work Request Management System</b> | IRS system that tracks and controls Modernization and Information Technology Services Requests from submission through completion. It maintains the status and assignment information. |



*Planned Improvements Have Not Been Made to Manage and Track  
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**Appendix VI**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

**AUG 03 2015**

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland *Debra Holland*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Planned Improvements Have Not Been  
Made to Manage and Track Correspondence With International  
Taxpayers (Audit #201330022)

Thank you for the opportunity to review and comment on the subject draft audit report. We believe the report accurately presents the challenges the IRS faces when corresponding with taxpayers residing outside the United States. When sending correspondence to international addresses, the IRS, as is the case with any other individual, business, or government mailer, is dependent upon the postal delivery systems of the foreign countries to which the mailed item was addressed. Because this challenge is not unique to the IRS, we are working toward implementing solutions that have also been found to be effective for the private sector and other government agencies.

One of three pillar projects in support of the IRS' ongoing Services on Demand initiative, is implementing a Taxpayer Digital Communications platform that will permit secure two-way electronic communication and document delivery between the IRS and taxpayers. This project, which is dependent on adequate funding for completion, is expected to substantially reduce or eliminate the challenges associated with ensuring the informational content of notices, letters, and other correspondence addressed to taxpayers living abroad is received by them electronically, if not by physical mail. In addition to putting taxpayers living abroad on parity with those living within the United States, electronic delivery of those items of correspondence that do not require a physical mailing is also expected to yield appreciable savings in annual postage costs.

Regarding the recommendations included in the report, we generally agree that some could provide additional insight into the factors contributing to undeliverable international mail; however, we do not believe they would be effective in providing information that would permit the IRS to overcome budgetary, statutory, and operational



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*Planned Improvements Have Not Been Made to Manage and Track Correspondence With International Taxpayers*

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constraints that would result in appreciable improvement to current processes. Overall, international correspondence represents less than one-half of one percent of the volume of correspondence the IRS mails annually. In 2014, more than 197 million<sup>1</sup> pieces of correspondence were mailed to all taxpayers. Of that amount, approximately 855,000 pieces were destined for international addresses. In this context, we do not believe it would make good business sense to expend our limited resources to develop systemic processes to identify undelivered international mail volumes and track correspondence and receipt trends.

Further, as reflected in the report, a significant contributing factor is the limitation on the number of address lines that can be entered into the IRS processing systems. We have developed standard abbreviations to overcome this challenge to the greatest extent possible; however, the address standards of some foreign countries require more lines of data than can be entered despite the degree of abbreviation. Over the course of several decades, hundreds of subordinate downstream systems have been developed that are based on the current address data structure. In the current budgetary environment, updating the capacity of the address fields for each system would require resources that are not available. Coupled with the statutory requirement for certain tax notices and documents to be mailed to the last known address of the taxpayer, we do not believe performance measures could be developed that would provide meaningful or actionable information.

We agree that the use of the United States Postal Service Form 2865, *Return Receipt for International Mail*, would be helpful in ensuring mail sent to international addresses was received and, as noted in the report, it is used in our Correspondence and Compliance Services Collection Operations. However, applying that process, which requires manually affixing the form to each piece of correspondence being mailed, to the entire population of foreign correspondence would be a labor-intensive endeavor, requiring a resource commitment we cannot make.

Attached is our response to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Julie Garcia, Director, Customer Assistance, Relationships and Education, Wage and Investment Division, at (404) 338-7100.

Attachment

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<sup>1</sup> 197,295,018 pieces of foreign and domestic correspondence mailed during calendar year 2014; excludes Field Office and manually processed Service Center Campus mail.



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*Planned Improvements Have Not Been Made to Manage and Track  
Correspondence With International Taxpayers*

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Attachment

**Recommendations**

The Commissioner, W&I Division, should:

**RECOMMENDATION 1**

Develop a systemic process that identifies undelivered international mail volumes, as well as tracks international tax correspondence and receipt trends. In the interim, the OTC should develop and implement a methodology to conduct periodic assessments to measure the downstream effect international tax correspondence has on taxpayer compliance.

**CORRECTIVE ACTION**

We disagree with this recommendation. In context, correspondence mailed to foreign addresses represents less than one-half of one percent of the mail sent annually by the IRS. We do not believe the resources required to implement this recommendation would be justified by the results to be obtained.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 2**

Develop specific performance measures to monitor the impact of international tax correspondence on tax compliance.

**CORRECTIVE ACTION**

We do not agree with this recommendation. The constraint on resources needed to make the requisite programming changes to expand the address fields in IRS processing and subordinate systems, combined with the statutory requirement for certain notices and documents to be mailed to the last known address for the taxpayer, severely limits the actions that could be taken to affect the measurement. We do not believe such a performance metric would be useful in assessing the impact of international tax correspondence on tax compliance.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A



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*Planned Improvements Have Not Been Made to Manage and Track Correspondence With International Taxpayers*

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**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3**

For the countries that currently allow return receipt confirmations, use Postal Service Form 2865 for all IRS compliance functions to ensure that U.S. taxpayers in these countries are actually receiving the enforcement tax correspondence, i.e., Notices of Intent to Levy, Notices of Federal Tax Lien, etc. intended for them.

**CORRECTIVE ACTION**

We do not agree to implement a corrective action for this recommendation due to budgetary constraints that limit the resources necessary to initiate this manual process.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**Recommendations**

The Commissioner, W&I Division, should:

**RECOMMENDATION 4**

Expand the *International Submission Processing Individual Master File Foreign Address Job Aid* to include abbreviated address formats for all foreign countries as needed.

**CORRECTIVE ACTION**

The *International Submission Processing Individual Master File Foreign Address Job Aid* is reviewed and updated annually. As part of the review process, the examples provided in the document are evaluated to ensure they remain relevant and address those foreign location standards having the greatest need for guidance. The job aid is intended as a quick-reference guide that can be used to supplement the official guidance for employees, which is provided by Internal Revenue Manual 3.21.3.11, *General Instructions for Editing International Forms 1040 / Form 1040A / Form 1040EZ / Form 1040PR / Form 1040SS / Form 1040NR / Form 1040NR-EZ*. Because the job aid is not official guidance, we do not agree to implement a corrective action to expand it, beyond the content changes that may be identified as part of the annual review process.

**IMPLEMENTATION DATE**

N/A



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*Planned Improvements Have Not Been Made to Manage and Track  
Correspondence With International Taxpayers*

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**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 5**

Coordinate with the other business operating divisions to make this job aid available to all IRS employees who are responsible for the input of addresses into IRS computer systems.

**CORRECTIVE ACTION**

The job aid is available to all IRS employees through the IRS Intranet; however, we will promote its use and availability to all employees having address input responsibilities.

**IMPLEMENTATION DATE**

October 15, 2015

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.