Trends in Compliance Activities Through Fiscal Year 2014

November 10, 2015

Reference Number: 2016-30-004

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HIGHLIGHTS

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2014

Highlights

Final Report issued on November 10, 2015

Highlights of Reference Number: 2016-30-004 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

This report is a compilation of statistical information reported by the IRS. The data presented in this report provide taxpayers and stakeholders with information about how the IRS focuses its compliance resources and the impact of those resources on revenue and compliance over time.

WHY TIGTA DID THE AUDIT

TIGTA conducts this review annually in response to continuing stakeholder interest in the analysis and trending of Collection and Examination function activities. The overall objective was to provide various statistical information regarding Collection and Examination function activities.

WHAT TIGTA FOUND

The IRS has faced declining funding levels in three of the last four fiscal years. These budget reductions resulted in decreases in the number of employees available to provide services to taxpayers and enforce the tax laws. Overall IRS employment (all employees who are on permanent, temporary, and term appointments) has declined 15 percent from 107,622 in Fiscal Year (FY) 2010 to 91,018 in FY 2014. The number of enforcement personnel decreased by nearly 1,000 employees during FY 2014.

As resources decreased, the IRS's responsibilities have expanded. For example, in FY 2014, the IRS continued implementing tax-related portions of the Affordable Care Act and the Foreign Account Tax Compliance Act.

Despite these challenges, total dollars received and collected (gross collections) increased for the fourth straight year, to $3.1 trillion (a 6.8 percent increase) in FY 2014. Enforcement revenue collected also increased from $53.3 billion in FY 2013 to $57.1 billion in FY 2014 due, in part, to a relatively small number of large dollar examination cases. Tax return filings remained steady while gross accounts receivable increased to $412 billion.

FY 2014 Collection function activities showed mixed results. The amount collected on delinquent accounts by both the Automated Collection System and the Compliance Services Collection Operations increased while the amount collected by Field Collection decreased. The Collection function continued to receive more delinquent accounts than it closed, although the number of delinquent accounts in the Collection queue decreased due, in part, to the removal of millions of accounts that were not resolved. While the use of levies increased, fewer Notices of Federal Tax Lien were filed and fewer seizures were made. Meanwhile, taxpayers' use of the offer in compromise payment option decreased for the first time in the past five years.

The Examination function conducted 11 percent fewer examinations in FY 2014 than in FY 2013. The decline in examinations occurred across almost all tax return types, including individual, corporation, and S corporation. Seventy-one percent of return examinations were conducted via correspondence. In addition to the decline in the number of tax return examinations, productivity indicators also declined. The dollar yield per hour for most return types decreased. Also, the no-change rates increased for most types of examinations (individuals, corporations, and partnerships).

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. IRS officials were provided an opportunity to review the draft report and did not provide any comments.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

November 10, 2015

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2014 (Audit # 201530015)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This review was included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Although we made no recommendations in this report, we provided Internal Revenue Service (IRS) officials an opportunity to review the draft report. IRS management did not provide us with any report comments.

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

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Abbreviations

ACS	Automated Collection System
CSCO	Compliance Services Collection Operations
FATCA	Foreign Account Tax Compliance Act
FY	Fiscal Year
IRS	Internal Revenue Service
NFTL	Notice of Federal Tax Lien
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration

Background

Given the responsibility for administration of the Nation's tax code, the Internal Revenue Service (IRS) must consider its mission in planning and executing various legislative changes as well as in evaluating its performance and the results of its programs. The IRS's mission is to:

> *Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.*

Each year, the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the IRS's Collection and Examination function activities.[1] Our data analyses were performed in TIGTA's Philadelphia, Pennsylvania, office during the period April through June 2014. Nationwide data from IRS management information systems were used during our review. Due to time and resource constraints, we did not audit the IRS systems to validate the accuracy and reliability of that information. We did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of this report are included in Appendix IV. A glossary of terms is included in Appendix VI.

Most of the calculations throughout the report and Appendix IV are affected by rounding. All initial calculations were performed using the actual numbers rather than the rounded numbers that appear in the report. Much of the data included in this report update prior TIGTA reports on compliance trends. Appendix V presents a list of those reports.

[1] TIGTA did not perform this review in Fiscal Year 2012.

Results of Review

Challenges Affecting the Internal Revenue Service During Fiscal Year 2014

In Fiscal Year (FY) 2014, the IRS continued working to fulfill its mission with declining resources. Between FYs 2010 and 2013, the IRS operated under multiple continuing resolutions. Although continuing resolutions allow agencies to continue operating, they do so in a more restricted manner than under regular appropriations. Additionally, sequestration provisions in the Balanced Budget and Emergency Deficit Control Act, as amended by the Budget Control Act of 2011 (which went into effect in FY 2013), significantly reduced the IRS's budget, which created additional management challenges for the IRS in achieving its mission.[2]

The reduced budget has resulted in decreases in the number of employees available to provide services to taxpayers and those needed to enforce the tax laws.

During FY 2014, the decline in personnel contributed to a decrease in the number of examinations and an increase in the dollar value of delinquent taxes being assigned to an inactive status. However, enforcement revenue increased during FY 2014 due, in part, to a few large dollar examination cases. Between FY 2010 and the end of FY 2014, the number of IRS employees has been reduced by approximately 12,000 full-time positions, with about 5,000 coming from front-line enforcement personnel.

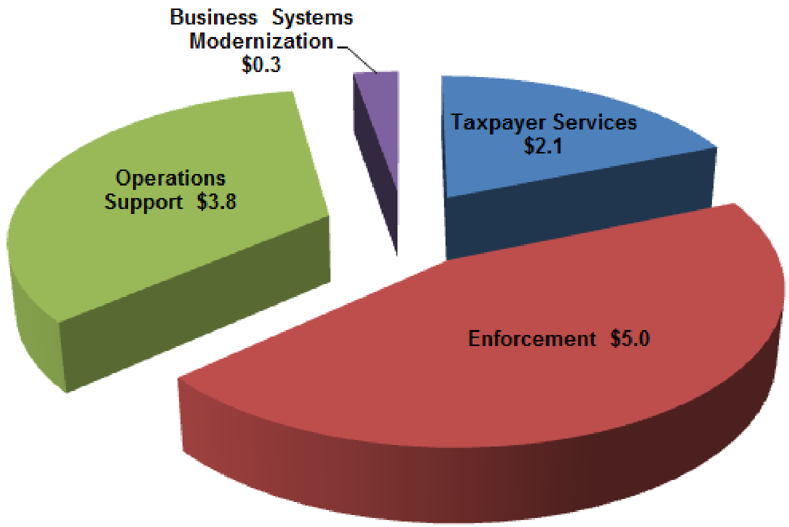
The IRS has faced declining funding levels in three of the last four fiscal years. The IRS's appropriated budget increased in FY 2014 to $11.3 billion, up from $11.2 billion in FY 2013. However, the IRS was one of only a few Government agencies in FY 2014 that did not have its funding restored to pre-sequestration levels under the Consolidated Appropriations Act of 2014.[3]

FY 2014's $11.3 billion in funding included $92 million specifically to address taxpayer service, identity theft, fraud, and international compliance issues.[4] IRS appropriations for FY 2014 were categorized in the following core areas: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization.

[2] Pub. L. No. 112-25, 125 Stat. 240 (2011).
[3] Pub. L. No. 113-76, 128 Stat. 5 (2014).
[4] While the budget had $92 million specifically earmarked to address taxpayer service, identity theft, fraud, and international compliance issues, the IRS was authorized to spend in excess of $92 million in these areas.

Figure 1 shows the amount of appropriation by core area.[5]

Figure 1: FY 2014 Funding by Core Appropriation (in Billions)



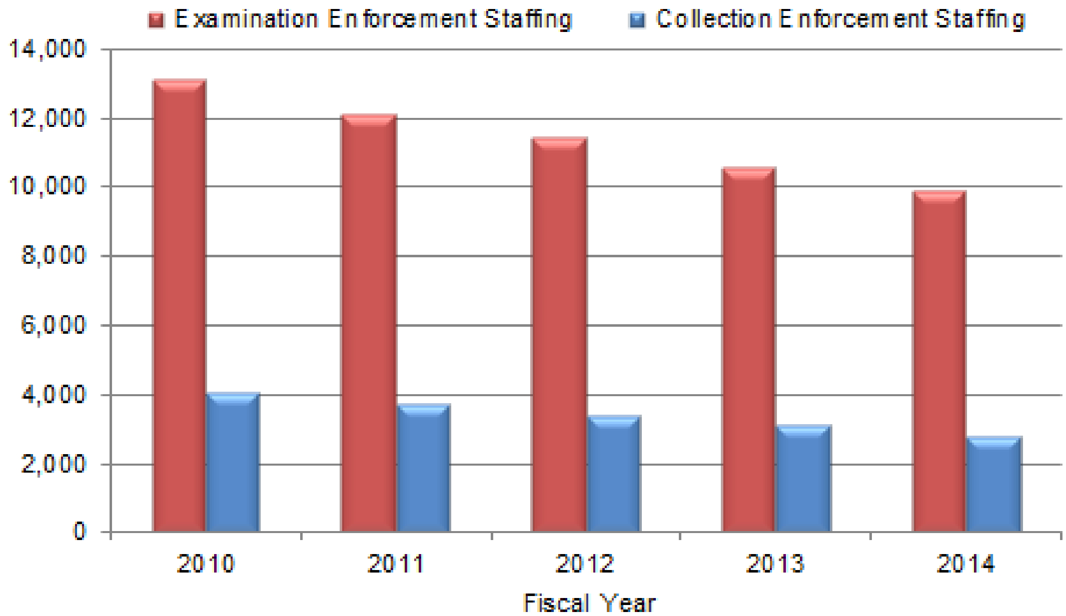
Source: TIGTA analysis of IRS budget appropriations.

Decreases in funding continue to affect the number of IRS employees available to meet the IRS mission. The number of IRS Full-Time Equivalents decreased from 94,618 at the end of FY 2010 to 82,985 at the end of FY 2014.[6] Full-time equivalents have been reduced by 12 percent over this time period, including a 4 percent reduction from FY 2013's total of 86,310. Overall IRS employment (all employees who are on permanent, temporary, and term appointments) has declined 15 percent from 107,622 in FY 2010 to 91,018 in FY 2014.

Figure 2 shows that the number of enforcement personnel (revenue officers, revenue agents, and tax compliance officers) has declined since FY 2010.[7] Prior to FY 2011, hiring initiatives during FYs 2009 and 2010 led to the largest increase in the number of IRS enforcement personnel since FY 1999.[8]

[5] Taxpayer Services included processing tax returns and related documents and assistance for taxpayers in filing returns and paying taxes. Enforcement included examination of tax returns, collection of delinquent balances, and the administrative and judicial settlement of taxpayer appeals of examination findings. Operations Support included administrative services, policy management, and IRS-wide support. Business Systems Modernization included capital asset acquisitions of information technology systems to modernize key tax administration systems.
[6] A full-time equivalent is a figure calculated from the number of full-time and part-time employees in an organization that represents these workers as a comparable number of full-time employees.
[7] Collection and Examination functions staff located in field offices, excluding management and overhead staff.
[8] TIGTA, Ref. No. 2011-30-071, *Trends in Compliance Activities Through Fiscal Year 2010* p. 4 (July 2011).

Figure 2: Enforcement Personnel by Fiscal Year



Source: TIGTA analysis of Collection Activity Report 5000-2 and Table 37 Examination Time Reports.

Enforcement personnel decreased almost 7 percent from 13,696 in FY 2013 to 12,738 in FY 2014. Since FY 2010, the combined number of enforcement personnel has decreased by 26 percent, down from 17,206 in FY 2010.

Resources were used to implement new tax legislation during FY 2014

The Patient Protection and Affordable Care Act of 2010 contains numerous tax law changes that continue to present budgetary challenges for the IRS.[9] The IRS is charged with administering many of the key components of this Act, including the premium tax credits, which are the subsidies that millions of near-poor and middle-income taxpayers receive to help them afford coverage in the Health Insurance Marketplaces;[10] the individual shared responsibility payment, which is the payment due from taxpayers who do not maintain health insurance;[11] the small business health tax credit for small employers;[12] and the employer mandate for applicable large employers who must offer health coverage or pay a penalty.[13] The IRS also must provide assistance with health insurance deductibles and the cost of premiums for taxpayers with modest incomes. Specifically, the IRS is required to provide information to assist the Health Insurance

[9] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered section of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.
[10] Internal Revenue Code (I.R.C.) § 36B.
[11] I.R.C. § 5000A.
[12] I.R.C. § 45R.
[13] I.R.C. § 4980H.

Marketplace with determining eligibility and enrollment, develop calculations such as the maximum Advance Premium Tax Credit, and reconcile the credit with reported taxable income.[14]

Another major set of responsibilities for the IRS concerns implementation of the Foreign Account Tax Compliance Act (FATCA).[15] Enacted in 2010, the FATCA seeks to improve tax compliance by requiring filers and financial institutions to report certain information to the IRS about assets held in foreign accounts. More than 150,000 financial institutions in 112 countries have already registered under the FATCA. To administer it, the IRS needs personnel and information technology resources to collect and analyze the large amounts of information that the FATCA will generate and to conduct enforcement activities when warranted. TIGTA recently reported that the Financial Institution Registration System that supports provisions of the FATCA has not had its system-specific security requirements completely traced to security controls, test cases, and test results.[16] In addition, the IRS has not fully evaluated the risks of using electronic signatures for registration forms.

In addition to new tax legislation, there are other priorities that the IRS must administer, including addressing the growth of identity theft and refund fraud. However, a shrinking workforce and aging technology infrastructure consume valuable resources. For example, last fiscal year, TIGTA reported that the Information Reporting and Document Matching Case Management system was placed on a "strategic pause" due to budget constraints and difficulties users encountered during user acceptability testing.[17]

Moreover, the IRS previously reallocated Automated Collection System (ACS) staff, who are normally responsible for collecting taxes through telephone contact with taxpayers, to work the growing inventory of identity theft cases. Specifically, TIGTA reported that 39 percent of the ACS workforce had been lost due to attrition or reassignment to work identity theft cases.[18] The combination of fewer resources and the need to continue answering telephone calls has led to unfavorable ACS business results over the past four years. Because ACS resources are needed to answer telephone calls, fewer resources are available to work inventory. However, new inventory continued to be sent to the ACS without interruption, even though inventory was infrequently worked.

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[14] The Health Insurance Marketplace simplifies an applicant's search for health coverage by providing multiple options in one place and comparing plans based on price, benefits, quality, and other important features that help consumers make a choice.

[15] Pub. L. No. 111-147, Subtitle A, 124 Stat 71, *96-116 (2010)(codified in scattered sections of 26 U.S.C.).

[16] TIGTA, Ref. No. 2014-20-094, *While the Financial Institution Registration System Deployed on Time, Improved Controls Are Needed* p. 11 (Sept. 2014).

[17] TIGTA, Ref. No. 2014-20-095, *Annual Assessment of the Internal Revenue Service Information Technology Program* p. 20 (Sept. 2014).

[18] In this report, TIGTA found that three ACS call sites were taken offline from February 2013 to June 2014 to work Accounts Management function inventory so that Accounts Management function employees were available to address the IRS's growing inventory of identity theft cases. TIGTA, Ref. No. 2014-30-080, *Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results* p. 4 (Sept. 2014).

TIGTA determined that:

- The ACS inventory is growing because new inventory is outpacing case closures.
- Cases in inventory are aging because inventory is taking longer to close.
- Revenue declined while more cases were closed as uncollectible.
- Fewer enforcement actions (liens and levies) were taken.

For Field Collection, TIGTA also reported that the decrease in the number of revenue officers and downtime due to revenue officers' computer problems resulted in Field Collection closing 34 percent fewer cases and collecting $222 million (7 percent) less in FY 2014 than in FY 2011.[19] With a significant growth in delinquent accounts and a reduction in the number of employees, it is essential that the Field Collection inventory selection process identifies the cases that have the highest risk and potential for collection. This requires IRS officials to make decisions about how to ensure that the cases in the queue[20] with the best collection potential are identified, selected, and assigned to be worked.

However, in FY 2014, TIGTA reported that the inventory processes for Field Collection are not designed to do this.[21] For example, selection criteria for Field Collection cases do not consider some key information that could be used to improve the probability that assigned cases will result in revenue. Specifically, Field Collection selection criteria do not consider the financial condition (such as income) of the delinquent taxpayers, so many of the assigned cases involve taxpayers with no ability to make payments. Further, many of the cases are older with less collection potential because they were first routed to the ACS but were not resolved before assignment to the field. In addition, TIGTA reported this year that in a sample of closed cases involving defunct corporations, 66 percent were already out of business before the case was assigned, and 15 percent of those cases did not involve employment taxes, so there was no possibility of assessing the Trust Fund Recovery Penalty.[22]

Nevertheless, some efforts are underway to help improve Field Collection's workload selection process. For example, as part of the concept of operations for the new Collection organization, management is reviewing the ACS processes to determine if expanding the authority of ACS employees will yield better results and optimize the use of these resources and reviewing the methods for measuring the effectiveness of the manner in which Collection resources are used.

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[19] TIGTA, Ref. No. 2015-30-035, *Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected* p. 13 (May 2015).
[20] The queue is an automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.
[21] TIGTA, Ref. No. 2014-30-068, *Field Collection Could Work Cases With Better Collection Potential* p. 4 (Sept. 2014).
[22] TIGTA, Ref. No. 2015-30-028, *Required Actions Were Not Always Completed Prior to Closing Defunct Corporation Cases As Currently Not Collectible* p. 11 (Apr. 2015).

Enforcement Revenue and Gross Collections Increased During Fiscal Year 2014

Since FY 1990, the Government Accountability Office has included enforcement of tax laws as one of the 30 high-risk areas in the Federal Government.[23] The Government Accountability Office states:

> *Given that the Tax Gap has been persistent and dispersed across different types of taxes and taxpayers, coupled with tax code complexity and a globalizing economy, reducing the Tax Gap will require applying multiple strategies over a sustained period of time.*

In FY 2012, the IRS estimated the Net Tax Gap for Tax Year 2006 to be $385 billion, which was $95 billion more (33 percent) than the $290 billion Net Tax Gap estimated for Tax Year 2001.[24] The IRS attributed the increase primarily to the underreporting and underpayment components, with the underreporting gap growing by 32 percent and the underpayment gap growing by 38 percent. The nonfiling gap grew by 4 percent.

Enforcement revenue collected increased by $3.8 billion (7 percent), from $53.3 billion in FY 2013 to $57.1 billion in FY 2014.[25] This is the highest enforcement revenue collected since FY 2010. However, $2.7 billion (71 percent) of the $3.8 billion increase was due to a relatively small number of large dollar examination cases. Specifically, the 24 examination cases with the highest dollar amounts collected accounted for nearly $5 billion of the $12.5 billion collected by the Examination function. Revenues from the IRS's Examination function increased $2.7 billion (28 percent) from $9.8 billion in FY 2013 to $12.5 billion in FY 2014.

Figure 4 shows that the total dollars received and collected increased for the fourth straight year.[26] Total tax revenue increased by 6.8 percent in FY 2014, to $3.1 trillion, which is more than $200 billion higher than the prior high of $2.9 trillion in FY 2013.

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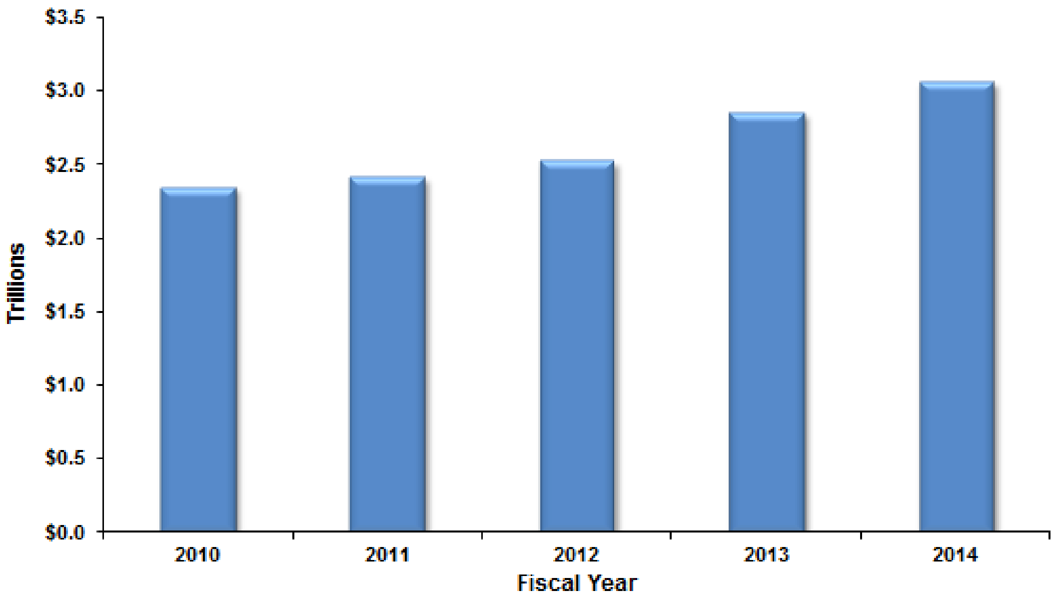
[23] Government Accountability Office, GAO-13-283, *HIGH RISK SERIES: An Update* (Feb. 2013).
[24] The Gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. The Gross Tax Gap was estimated to be $450 billion in 2006 and $345 billion in 2001. The Net Tax Gap is defined as the amount of true tax liability that is not paid on time and is not collected subsequently, either voluntarily or as the result of enforcement activities. The Net Tax Gap represents the amount of tax liability that is never paid. Internal Revenue Service, Tax Gap for Tax Year 2006, *Overview* (Jan. 6, 2012), available at: http://www.irs.gov/uac/IRS-The-Tax-Gap.
[25] See Appendix IV, Figure 2.
[26] The amount taxpayers voluntarily paid and what the IRS collected through its enforcement efforts or "total tax revenue."

Figure 4: Total Tax Revenue by Fiscal Year



Source: TIGTA analysis of the IRS Data Book.

Collection Function Compliance Activities Showed Mixed Results

Collection is an important aspect of maintaining a voluntary tax compliance system. During FYs 2009 and 2010, the IRS hired more than 1,500 revenue officers. However, since then, the number of revenue officers has decreased 31 percent, from 4,068 in FY 2010 to 2,809 at the end of FY 2014.[27]

In addition, the number of collection representatives within the ACS has decreased 34 percent, from 2,824 in FY 2010 to 1,853 in FY 2014. Total dollars collected on Taxpayer Delinquent Accounts (TDA) by the ACS and Compliance Services Collection Operations (CSCO) increased in FY 2014, while collections fell in the queue and Field Collection.

Closures of fully paid TDAs also increased slightly for the first time since FY 2011, but fewer Taxpayer Delinquency Investigations (TDI) were closed for the third straight year and are down 34 percent (3.3 million) from their previous high of 5.1 million in FY 2010. The number of taxpayers with TDAs and TDIs in the queue decreased for the second year in a row, which continued to be largely due to the number of TDAs and TDIs shelved and surveyed (during both FY 2013 and FY 2014). Shelved and surveyed cases are delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of Collection function inventory because they are lower priority than other available cases.

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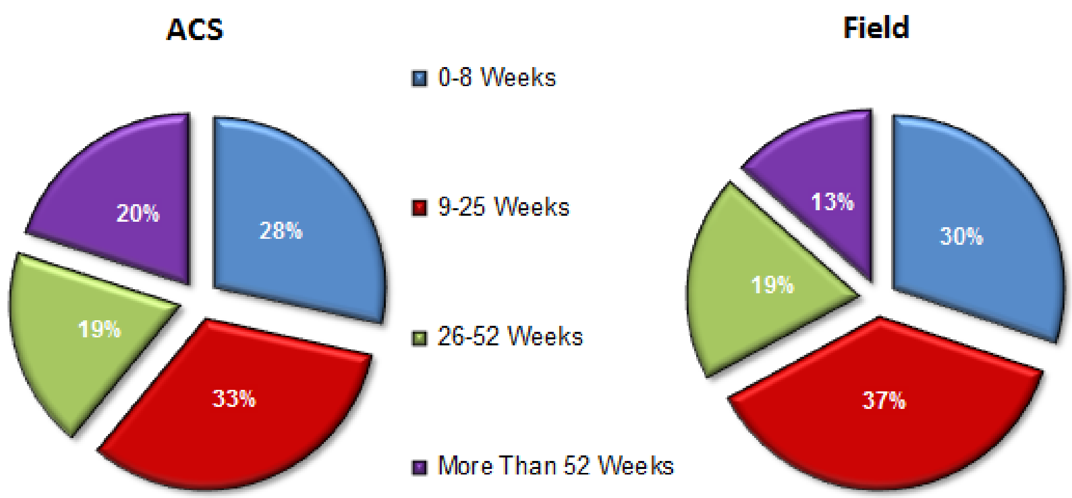
[27] See Appendix IV, Figure 6.

New TDA receipts continued to outpace closures. The IRS also reduced its use of Notices of Federal Tax Lien (NFTL) and seizures. Given the trend in decreasing resources and increasing TDAs, the Collection function will need to improve efficiency and productivity to ensure that tax compliance does not further erode and the Tax Gap does not widen.

TDA collections

An increase in TDA collections was driven by the ACS and CSCO. Conversely, Field Collection TDA collections declined for the second straight fiscal year, decreasing from $3.1 billion in FY 2013 to $3.0 billion in FY 2014, and down a total of 3 percent overall since FY 2010.[28] TDA collections by the ACS increased 10 percent to $3.1 billion during FY 2014.[29] Figure 5 shows that both the ACS and Field Collection continued to make the majority of collections within the first year of receipt.[30] Collections early in the life of a debt are critical because the probability of collecting funds diminishes over time. There is a widely accepted principle in the collection industry referred to as the collectability curve, which measures the probability of collecting funds over time. In the collection industry, the probability of settling unpaid accounts falls dramatically over time. Specifically, after six months, collectability falls to 52 percent, and after 36 months collectability nears zero. The majority of IRS collections were made within the first 25 weeks (six months).[31]

Figure 5: Percentage of Dollars Collected During FY 2014 by the Number of Weeks the TDA Was Assigned to the ACS and the Field



Source: IRS Collection Activity Report 5000-2.

[28] See Appendix IV, Figure 8.
[29] See Appendix IV, Figure 8.
[30] Time in function does not include time that each tax module may have spent in another IRS function.
[31] See Appendix IV, Figures 9 and 10.

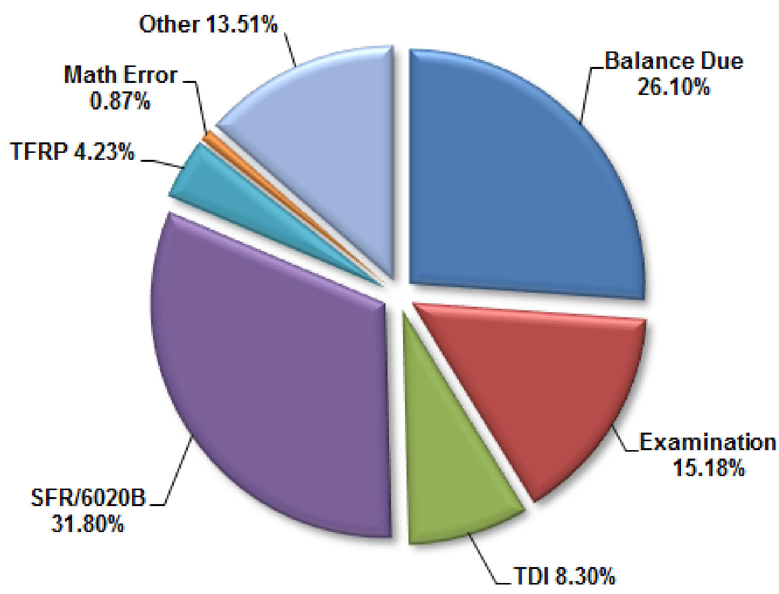
Compared with FY 2013, there were decreases in both the number of TDA receipts (1.9 percent) and closures (3.1 percent) during FY 2014, but the total TDA dollars increased (0.4 percent). In addition, the IRS continues to receive more new TDAs than it closes. In FY 2014, TDA closures (as a percentage of TDA receipts) decreased one percentage point to 75 percent and are down from 80 percent in FY 2012.[32]

IRS accounts receivable[33]

The amount of gross accounts receivable increased 3 percent (to $412 billion) in FY 2014 and is up 15 percent since FY 2010. While accounts receivable has grown in each of the past five years, the percentage of these increases have been smaller in recent years.[34] These smaller increases are due, in part, to increases in gross collections.

All sources of assessments increased between FY 2013 and FY 2014 except for TFRP, which declined by 2.2 percent.[35] Figure 6 shows the accounts receivable by source of assessment.

Figure 6: FY 2014 Percentage of Accounts Receivable by Source of Assessment



Source: TIGTA analysis of data received from the Office of the Chief Financial Officer.
SFR = Substitute for Return. TFRP = Trust Fund Recovery Penalty.

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32 See Appendix IV, Figure 15 and 17.
33 Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.
34 See Appendix IV, Figure 2.
35 See Appendix IV, Figure 3.

TDI closures

The number of TDI tax periods closed because delinquent tax returns were received by the IRS decreased by 9 percent in FY 2014.[36] This decrease was preceded by a 15 percent decrease in FY 2013 and a 23 percent decrease in FY 2012.

The Collection queue

The number of taxpayers with TDAs in the queue decreased in FY 2014, with approximately 840,000 taxpayers in the queue—which is comparable to the number of taxpayers that were in the queue at the end of FY 2013 (848,000).[37] However, the dollar value of the taxes owed by taxpayers in the queue increased from $49.9 billion at the end of FY 2013 to $57.7 billion at the end of FY 2014. This is an increase of nearly 16 percent and is 25 percent more than the $46.2 billion owed at the beginning of FY 2010. Although many of the cases in the queue may be assigned to be worked, a significant number of taxpayers may be sent only an annual reminder notice in attempt to resolve the delinquency.[38]

The number of TDI tax periods shelved or surveyed from the queue increased for the fourth straight year, from 597,000 in FY 2013 to 602,471 in FY 2014. The number of TDA tax periods shelved and surveyed decreased 27 percent, from 1.2 million in FY 2013 to 864,979 in FY 2014. The $7.8 billion in delinquencies that were shelved or surveyed during FY 2014 was 28 percent less than the dollar value shelved or surveyed during FY 2013, which was $10.8 billion.

There is no specific reason for the declines in shelved cases. Shelved inventory flows are affected by routing decisions, resources, and taxpayer behavior. Changes in these factors affect the number of cases shelved, but with significant lagged effects. According to the IRS, the decline in FY 2013 was an anomaly that did not continue in FY 2014. Also, numerous changes have occurred since FY 2011 that are affecting the number of shelved cases. For example, in FY 2011, the dollar threshold for ACS cases was lowered to $100,000 (and then later increased to $250,000). This resulted in a significant number of cases being transferred to the queue from the ACS in FY 2011. This is a contributing factor for the increase in shelved cases in FY 2013.

The use of liens, levies, and seizures[39]

The IRS's use of liens continued its downward trend in FY 2014. The overall use of liens decreased 11 percent in FY 2014 compared to the use of liens in FY 2013. Liens issued by the ACS (199,000) and Field Collection (332,000) decreased 3 percent and 16 percent, respectively, in FY 2014. This represents the fewest number of NFTLs filed since FY 2005.

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[36] See Appendix IV, Figure 14.
[37] See Appendix IV, Figure 11.
[38] Before accounts get assigned to the queue, the IRS has already sent notices to the taxpayers about the delinquencies. After the notices process, some cases go directly to the queue, while others are worked in the ACS. Those cases in the queue that are not assigned may not receive contact aside from annual reminder notices.
[39] See Appendix IV, Figure 19, 20, and 21.

Recent changes in lien determination thresholds are the most likely cause for the decrease in this enforcement action. Field Collection increased the threshold for lien filing determinations from $5,000 to $10,000, and the ACS increased its lien filing determination threshold to $25,000. TIGTA recently reported that while the threshold increases were made to help individuals and small businesses meet their tax obligations without adding unnecessary burden, risk remains in potentially leaving taxpayer assets unprotected from other third-party creditors.[40]

The IRS's use of levies increased 7.6 percent from FY 2013, from 1.85 million to 1.99 million. The ACS increased its use of levies in FY 2014 by 17 percent from FY 2013. Field Collection decreased its use of levies by 10 percent in FY 2014, which is most likely the result of working fewer cases.

The IRS continues to limit its use of seizures. During FY 2014, the number of seizures decreased by 21 percent from FY 2013 (to 432). This is the fewest number of seizures since FY 2005, when there were 512 seizures. The number of seizures still remains far below the number prior to implementation of the IRS Restructuring and Reform Act of 1998.[41]

The use of payment options

When taxpayers cannot fully pay their tax obligations on time, the IRS offers alternate payment arrangements, such as installment agreements and offers in compromise. While taxpayers must meet certain criteria to participate in these options, the IRS recently expanded the criteria as part of its Fresh Start Initiatives to allow more taxpayers to participate. These Fresh Start Initiatives, implemented beginning in February 2011, were meant to help struggling taxpayers get a fresh start with their tax liabilities by providing more payment options to taxpayers.

The number of new offer in compromise receipts submitted by taxpayers decreased 6,282 from 74,217 in FY 2013 to 67,935 in FY 2014, a decrease of 8 percent. The number of offers in compromise accepted decreased for the first time in the past five years. Accepted offers decreased 13 percent, from 31,000 in FY 2013 to 27,000 in FY 2014. However, accepted offers in FY 2014 were still up more than 90 percent since FY 2010. The dollar value of accepted offers increased more than 38 percent in the same time frame, although they decreased 8 percent between FY 2013 ($195 million) and FY 2014 ($179 million).[42]

The total number of installment agreements increased for the first time since FY 2011, up 1 percent from the previous three million taxpayers entering installment agreements during FY 2013. In FY 2014, the dollar value of liabilities associated with taxpayers entering into installment agreements decreased for the second year in a row to $23.7 billion, a 3.4 percent

[40] TIGTA, Ref. No. 2015-30-005, *The Fresh Start Initiatives Have Benefited Many Taxpayers, but Additional Monitoring and Evaluation Is Needed* p. 10 (Dec. 2014).
[41] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[42] See Appendix IV, Figure 23.

decline.[43] In addition, the number of taxpayers establishing direct debit installment agreements increased more than 16 percent (to 507,682) in FY 2014, and the dollar value of direct debit installment agreements increased by more than 18 percent.

Collections made through installment agreements increased in each of the past five years. During FY 2014, more than $11.3 billion was collected from installment agreements, which is 33 percent more than the $8.5 billion collected in FY 2010 and nearly 2 percent more than the $11.1 billion collected in FY 2013. Of this amount, $2.8 billion was collected from direct debit installment agreements, which is 194 percent more than the $948 million collected during FY 2010.

Examination Function Compliance Activities Generally Decreased

Examination is a vitally important aspect of maintaining a voluntary tax compliance system, as 84 percent of the Net Tax Gap is comprised of underreported income.[44] In the FY 2014 IRS Oversight Board survey of taxpayer attitudes, 59 percent of taxpayers surveyed cited the fear of examination as a factor that influenced their voluntary compliance. This is a slight decrease compared to FY 2013, when 60 percent of taxpayers responded similarly. In this same survey, during FY 2013, 12 percent of taxpayers surveyed believed it was acceptable to cheat on their income taxes. In FY 2014, the percentage of taxpayers who believed this decreased to 11 percent.[45]

After hiring almost 3,300 revenue agents and tax compliance officers in FYs 2009 and 2010, there have been fewer than 225 hired in these positions over the last four fiscal years, which is the fewest number of new hires in more than 10 years. The reduced hiring coupled with attrition has contributed to a 25 percent reduction in the overall number of Examination function personnel who conduct examinations of tax returns.

From FY 2010 to FY 2014:

- The number of revenue agents decreased 24 percent (from 11,648 to 8,799).
- The number of tax compliance officers decreased 24 percent (from 1,390 to 1,052).

Overall, the number of tax returns examined decreased, and most examinations were conducted via correspondence

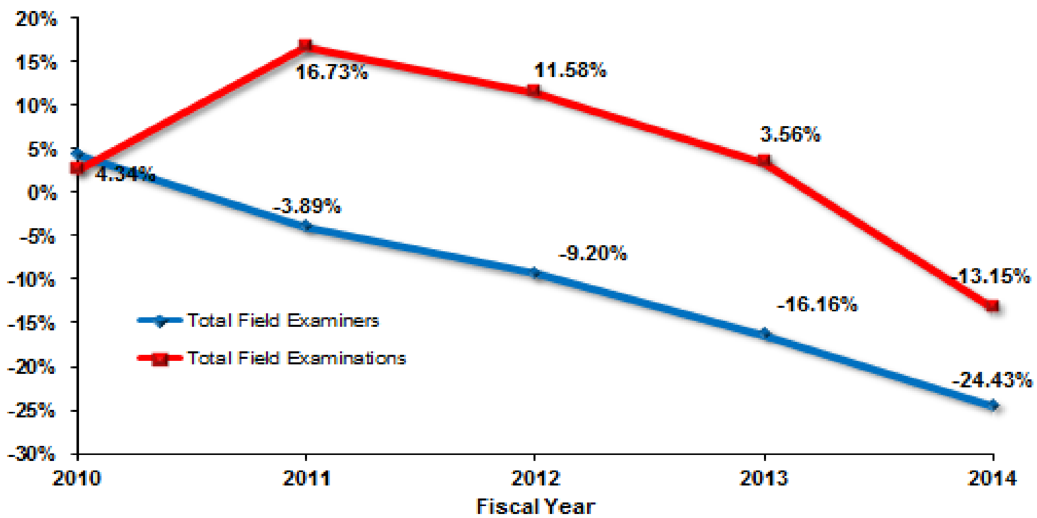
A decrease in the number of examinations of tax returns coincided with the reduction in examination employees. In FY 2014, the IRS conducted 11 percent fewer examinations than it conducted in FY 2013. The decline in examinations was consistent across all tax return types

[43] See Appendix IV, Figure 22.
[44] IRS, *Tax Gap for Tax Year 2006: Overview* (Jan. 2012), available at: http://www.irs.gov/uac/IRS-The-Tax-Gap.
[45] IRS Oversight Board 2014 Taxpayer Attitude Survey (Dec. 2014).

with two exceptions: partnership and gift returns examined increased by 6 percent and 11 percent, respectively.

Figure 7 shows that the total number of field examinations declined for the third straight year after reaching a five-year high in FY 2011. The decrease in employees beginning in FY 2010 continued to affect the number of field examinations in FY 2014.

Figure 7: Percentage Change in the Number of Field Examiners and Examinations Since FY 2010



Source: IRS Data Book and Examination Table 37.

IRS examinations can range from the issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer's records. Differentiating these two types of contact between the IRS and taxpayers is important when reviewing examination coverage rates, and caution should be taken in combining statistics from the various Examination function programs. Face-to-face examinations are generally more comprehensive and time-consuming for the IRS and taxpayers and typically result in higher dollar adjustments to the tax amounts. During FY 2014, 71 percent of all examinations were conducted via correspondence.

In addition to correspondence and face-to-face examinations, the IRS also uses several computer-matching and automated error-checking programs to verify the accuracy of tax returns.[46] These routines often identify adjustments to tax liabilities. However, these adjustments are not included in the traditional "audit rates" and are not reported separately as enforcement efforts. During FY 2014, the IRS continued to experience decreases in certain types of contacts associated with taxpayer math errors and underreporting.

[46] See Appendix IV, Figures 48 and 49.

Examination rates for most of the various types of tax returns decreased during FY 2014

The following paragraphs summarize examination coverage for various types of tax returns:

- *Individual Income Tax Return Examinations* – The number of individual income tax return examinations decreased for the fourth straight year. The IRS examined 1,242,479 (one of every 117) tax returns in FY 2014. This is approximately 21 percent fewer examinations than the five-year high reported in FY 2010 of 1,581,394 (one of every 90).[47] During FY 2014, 77 percent of the examinations of individuals were performed by correspondence.[48] One of every 646 individual income tax returns filed received a face-to-face examination, which is a 20 percent decrease compared with FY 2013, when one of every 541 individual returns received a face-to-face examination.

- *Corporate Income Tax Return Examinations* – Fewer corporate tax returns were examined during FY 2014 than any year since FY 2010.[49] The number of examinations decreased in FY 2014 to a five-year low of 25,115 (one of every 75 returns filed).[50] Also in FY 2014, there were fewer corporate tax filings than in any of the last five years (1,915,914).[51]

  Over the past five years, the number of corporate tax returns examined with assets of less than $10 million decreased 10 percent, from 19,127 in FY 2010 to 17,257 in FY 2014, and decreased by 2 percent in the past year. As examinations of these returns have reached five-year lows, total filings have also dropped over the past five years. Corporate tax return filings with assets of less than $10 million have decreased 11 percent since FY 2010, with a 2 percent decrease since FY 2013. During FY 2014, 8 percent of the examinations of corporate income tax returns were performed by correspondence.

- *S Corporation Tax Return Examinations* – The number of S corporation examinations decreased 13 percent from FY 2013 and 25 percent from the five-year high of 21,658 examinations in FY 2012. However, the number of S corporation examinations in FY 2014 (16,317) was nearly identical to the number examined in FY 2010 (16,327). In FY 2013, one of every 240 S corporation returns filed were examined, compared with one of every 276 filed in FY 2014.[52] S corporation return filings have increased every

[47] This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 32 and 33.
[48] We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.
[49] This information excludes returns for foreign corporations, S corporations, and cooperative associations.
[50] See Appendix IV, Figures 36, 37, 38, and 39 for coverage by size of corporation.
[51] This number includes Forms 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, in addition to the corporate returns.
[52] See Appendix IV, Figures 32 and 41.

year since FY 1988, reaching more than 4.5 million in FY 2014. During FY 2014, 9 percent of the examinations of S corporations were performed by correspondence.

- *Partnership Return Examinations* – The number of partnership returns examined increased 6 percent to 15,779 in FY 2014 after decreasing in FY 2013. One of every 231 returns filed in FY 2014 were examined, which was a decrease from FY 2013 in which one of every 239 were examined.[53] Partnership return filings increased to another record high of 3.6 million in FY 2014. During FY 2014, 33 percent of the examinations of partnership returns were performed by correspondence.

- *Other Tax Type Examinations (fiduciary, employment, excise, estate, and gift taxes)* – The overall number of examinations in these five classes marked a five-year low in FY 2014 of 80,547. This is an 8 percent decrease since FY 2013.

  Examinations of gift returns increased 12 percent due in part to an increase of 43 percent in gift return filings. Examinations of the remaining "other" tax type returns decreased, including the examination of estate returns. Examinations of estate returns decreased 12 percent despite an increase of 20 percent in estate return filings.

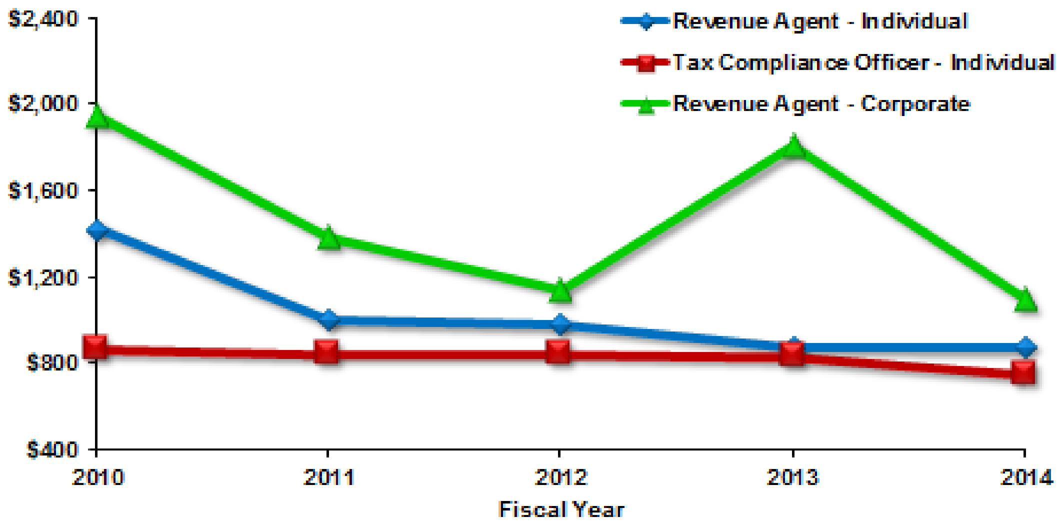
  During FY 2014, there were no examinations through correspondence conducted for estate, gift, or excise returns. Employment and fiduciary correspondence examination rates were 26 percent and 87 percent, respectively.

Examination function productivity indicators have decreased

Figure 8 shows the dollar yield per hour for FYs 2010 through 2014 for revenue agents and tax compliance officers.

[53] See Appendix IV, Figures 32 and 42.

Figure 8: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Examination Table 37.

The dollar yield per hour for the examination of individual returns examined by revenue agents decreased slightly (0.34 percent) and continued its decline for the sixth straight year. This contrasts with a 12 percent increase in the dollars per return during FY 2014. After staying fairly consistent over the previous five years, the dollar yield per hour for examinations of individuals by tax compliance auditors decreased by 10 percent from FY 2013 to FY 2014. This corresponds to a decrease of 8 percent in the dollars per return.[54]

The dollar yield per hour for the examination of corporate tax returns by revenue agents decreased by 39 percent in FY 2014 after increasing for the first time in five years during FY 2013, but it is 44 percent less than the dollar yield per hour in FY 2010. The decrease in this indicator is due to a 43 percent decline in the dollars per return from FY 2013 to FY 2014.[55]

In addition to the above return types, the dollars examined of partnerships and large corporations (those with assets of more than $10 million) also declined, while S corporation examinations increased in dollar yield per hour (17 percent) and dollars per return (25 percent).

Another important measure of audit productivity is the percentage of audited tax returns that result in recommended adjustments to the tax return. The IRS associates a high percentage of audited tax returns that result in recommended adjustments with greater audit productivity, while audits that result in no change are considered unproductive.

[54] See Appendix IV, Figures 26 and 29.
[55] See Appendix IV, Figure 27.

The no-change rates for:

- Revenue agent examinations of individual tax returns gradually increased from 8 percent in FY 2011 to10 percent in FY 2014.
- Tax compliance officer examinations of individual tax returns decreased to 8 percent in FY 2014 from 9 percent in FY 2013.
- Revenue agent examinations of corporate tax returns increased to 30 percent from 29 percent during FY 2013.[56]
- Revenue agent examinations of partnership returns increased to 49 percent during FY 2014. The no-change rate had also increased in FY 2013 (to 47 percent) from a five-year low in FY 2012 of 44 percent.
- Revenue agent examinations of S corporations increased for the first time in three years to 35 percent in FY 2014, up from 31 percent in FY 2013.

Conclusion

The IRS faced a number of challenges during FY 2014, including operating with fewer resources and employees. Several indicators showed the negative effect of these challenges, including a continued increase in accounts receivable, an increase in the dollar value of the cases that might never be worked, and a decrease in the overall number of examinations of tax returns. While some indicators are positive, including increases in gross collections, enforcement revenue, and dollar yield per return on examinations of individuals, the negative trends are a continued cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.

[56] See Appendix IV, Figure 30.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide various statistical information regarding Collection and Examination function activities. To accomplish our objective, we:

I. Obtained and analyzed information relating to compliance activities.

A. Obtained and analyzed Collection function data.[1] This includes but is not limited to:

1. Staffing.
2. Direct and indirect time.
3. TDAs and TDIs.
4. Enforcement actions (NFTLs, levies, and seizures).

B. Obtained and analyzed Examination function data. This includes but is not limited to:

1. Staffing.
2. Direct and indirect time.
3. Coverage of individual and business tax returns compared to the number of returns filed for each type of return.
4. Productivity results for individual and business tax returns.

C. Obtained and analyzed other compliance-related data. This includes but is not limited to:

1. Enforcement revenue.
2. Gross collections and accounts receivable.
3. Math error, Automated Underreporter, and Automated Substitute for Return cases.

D. Reviewed applicable TIGTA and Government Accountability Office reports for relevant information.

E. Assessed the impact of new legislation and budget issues on compliance activities.

F. Discussed aberrations in the data with applicable IRS personnel.

[1] Due to time and resource constraints, we did not audit the IRS systems to validate the accuracy and 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 did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.

Appendix II

Major Contributors to This Report

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Charles Nall, Lead Auditor
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Appendix III

Report Distribution List

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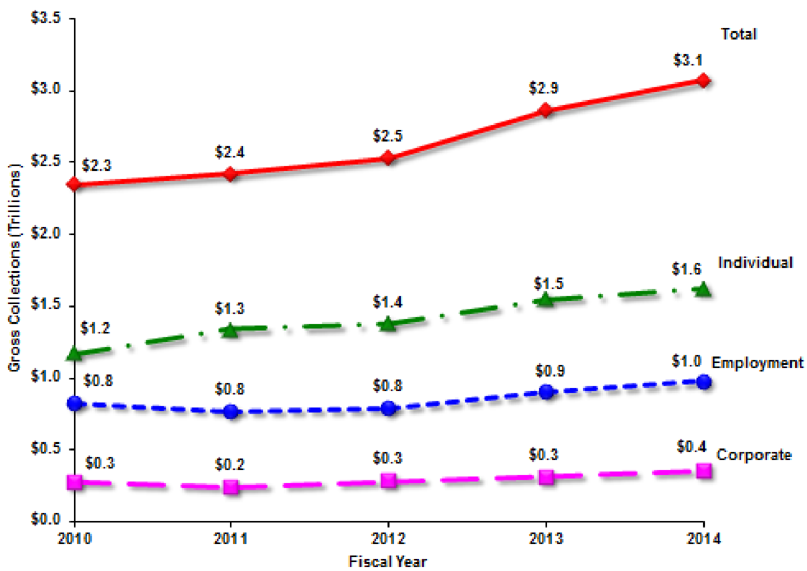
    Commissioner, Wage and Investment Division SE:W

Appendix IV

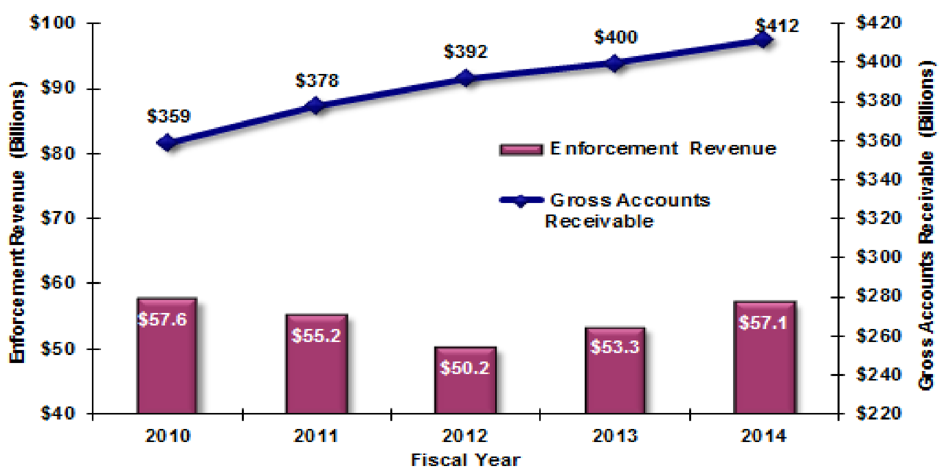
Detailed Charts of Statistical Information

Figure 1: Gross Collections by Type of Tax[1]



Source: TIGTA analysis of the IRS Data Book.

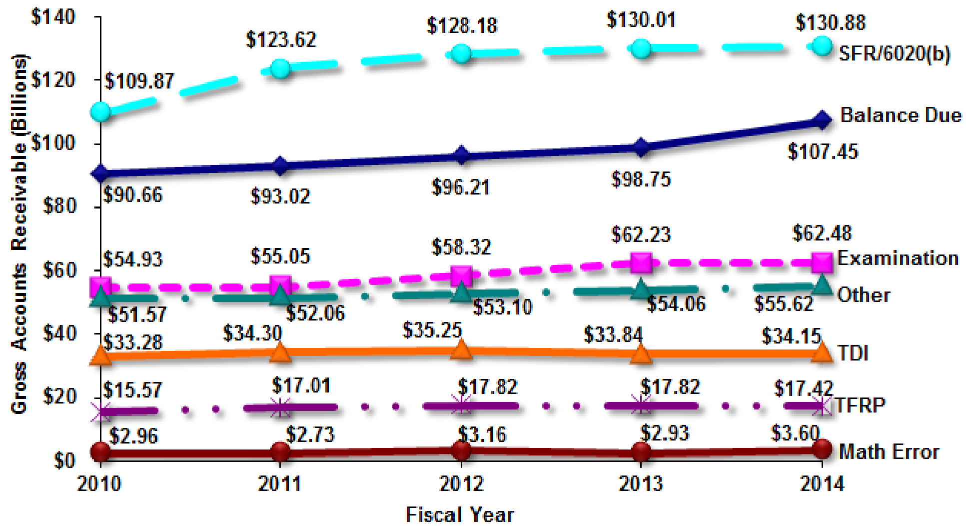
Figure 2: Amount of Enforcement Revenue Collected Compared to Gross Accounts Receivable



Source: Office of Research, Analysis, and Statistics and Chief Financial Officer.

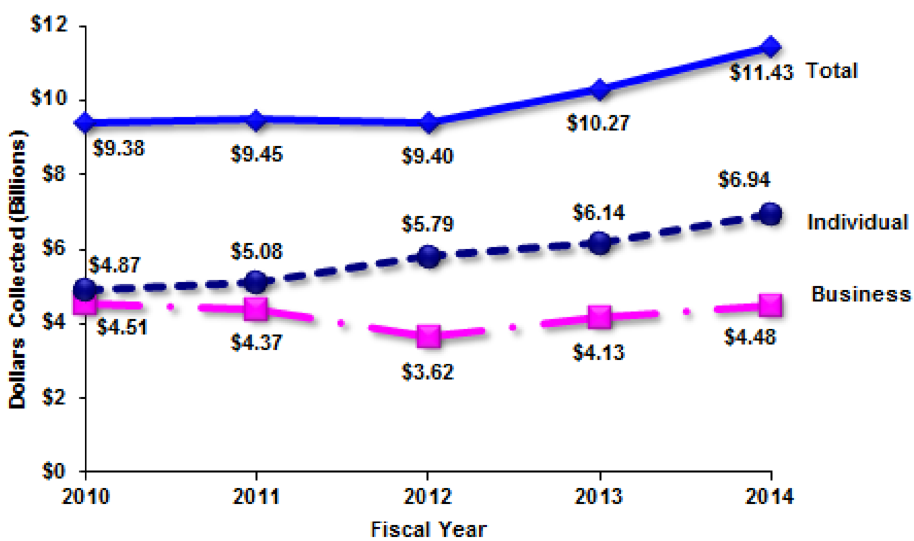
[1] Estate and trust income tax for FY 2013 equaled approximately $81 billion. The total line includes excise, estate, and gift taxes, not just individual, corporate, and employment taxes.

Figure 3: Gross Accounts Receivable by Source of Assessment



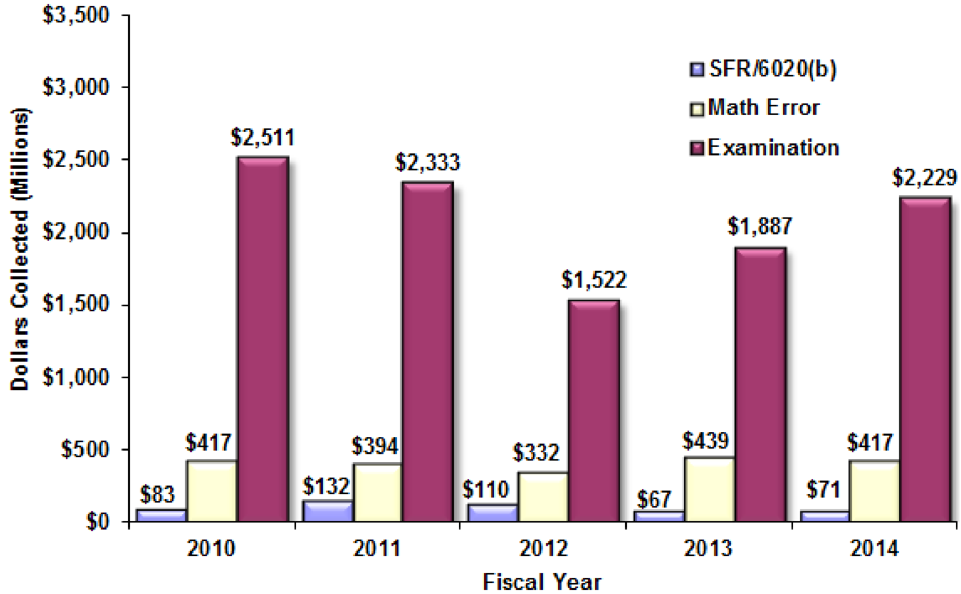
Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. SFR = Substitute for Return. TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status



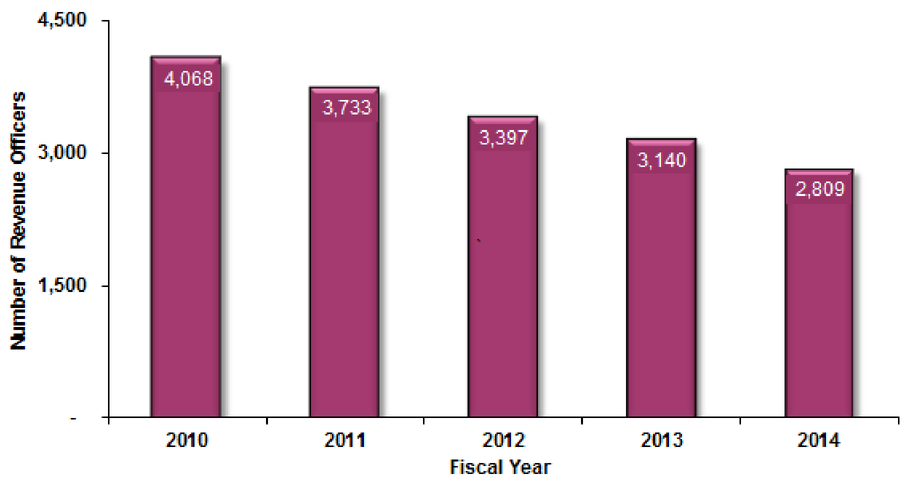
Source: Collection Activity Report 5000-2/242.

Figure 5: Amount Collected During Notice Status for Selected Sources of Assessment



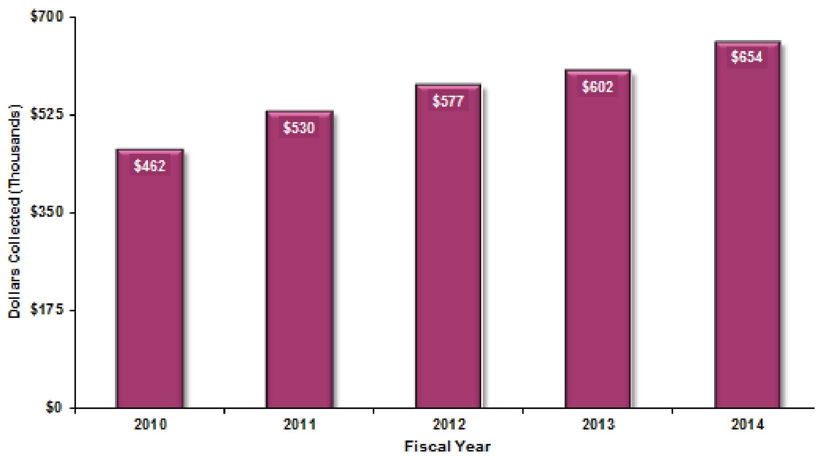
Source: Collection Activity Report 5000-2/242. SFR = Substitute for Return

Figure 6: Number of Revenue Officers in the Field Assigned Delinquent Cases at the End of Each Fiscal Year



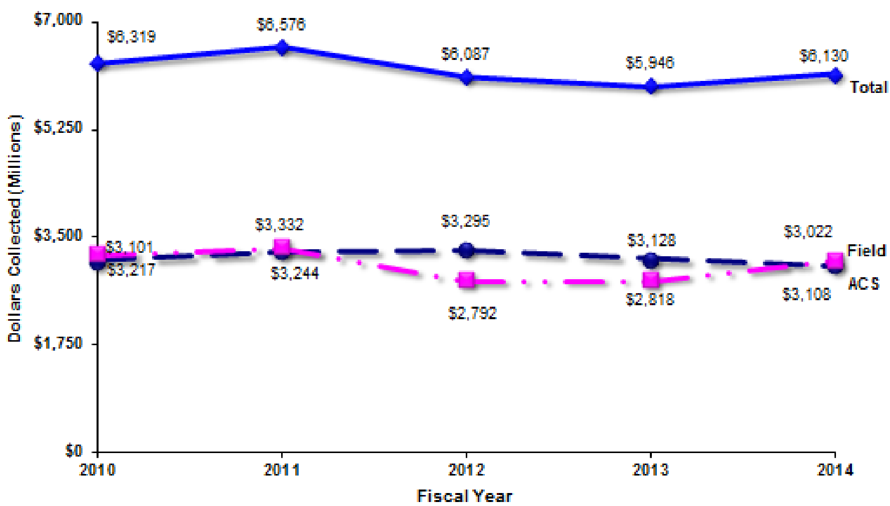
Source: Collection Activity Report 5000-23.

Figure 7: Average Dollars Collected Per Staff Year on TDA Tax Periods by the Field



Source: TIGTA analysis of Collection Activity Reports 5000-2 and 5000-23.

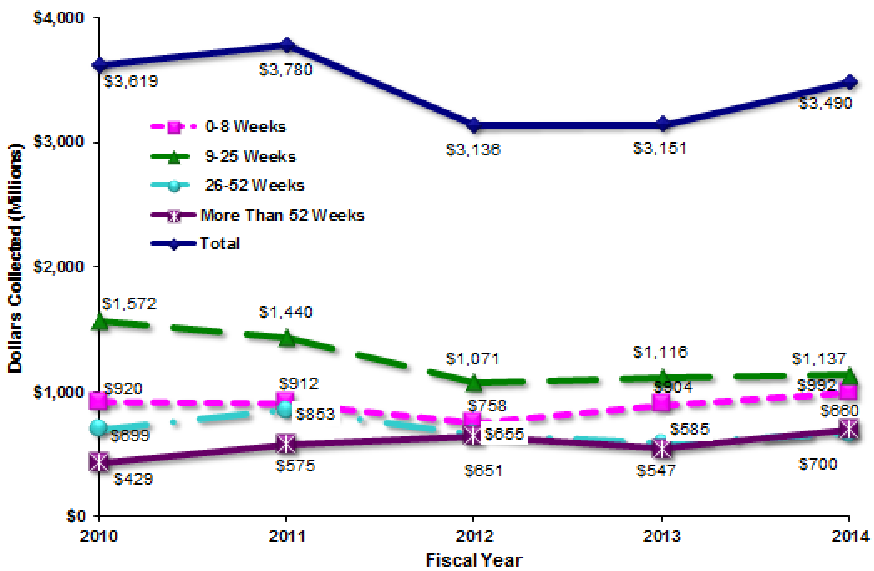
Figure 8: Net Amounts Collected on TDA Tax Periods by the Field and the ACS[2]



Source: Collection Activity Report 5000-2.

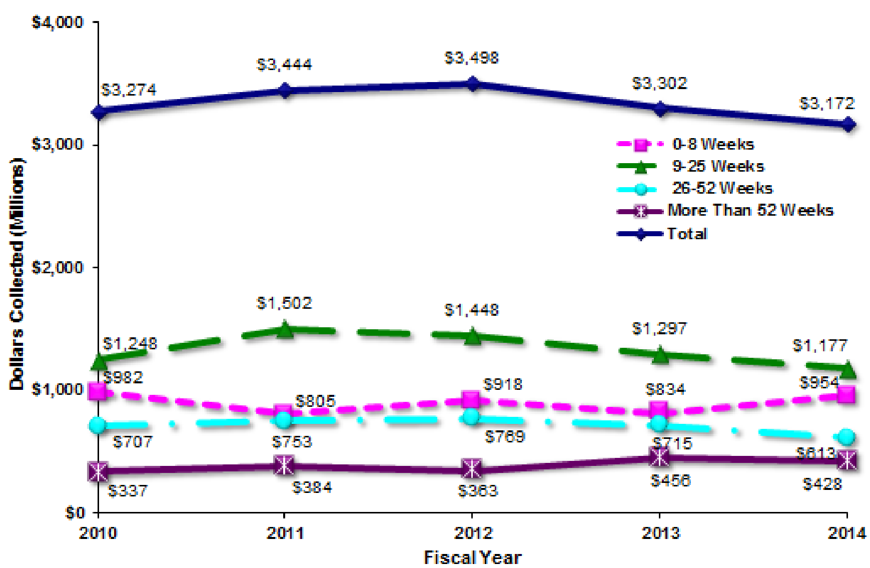
[2] The dollars collected shown in Figure 8 are the net amounts collected after adjustments, such as refunds, are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.

Figure 9: Total TDA Dollars Collected by Number of Weeks Assigned to the ACS



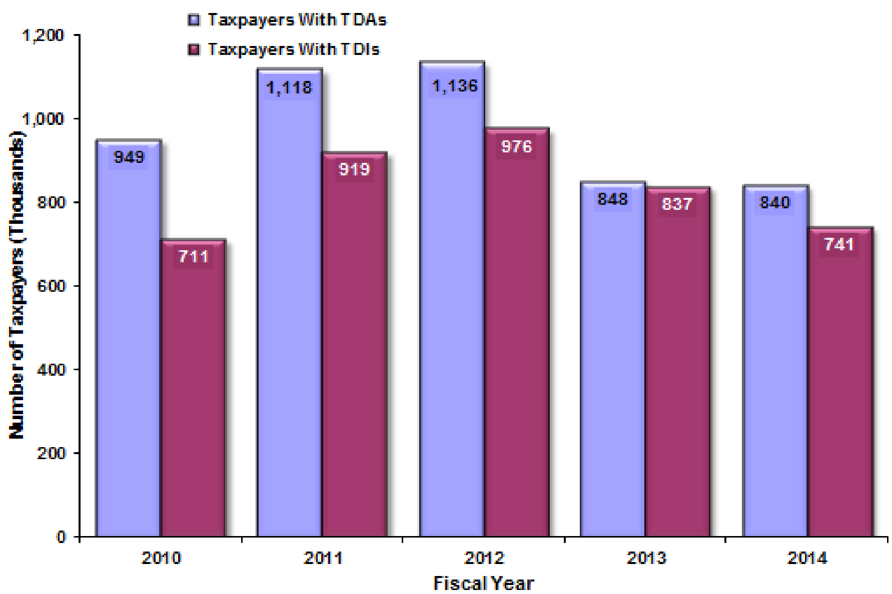
Source: Collection Activity Report 5000-2.

Figure 10: Total TDA Dollars Collected by Number of Weeks Assigned to the Field



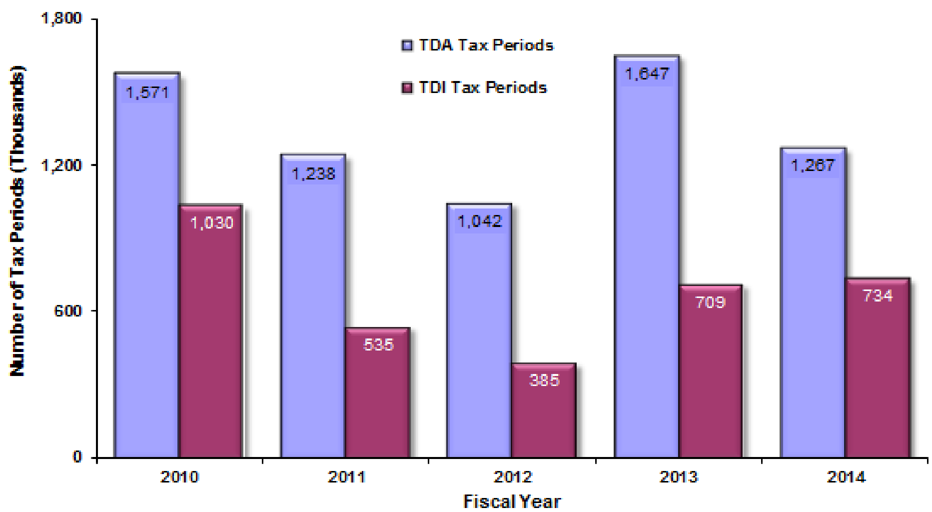
Source: Collection Activity Report 5000-2.

Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue



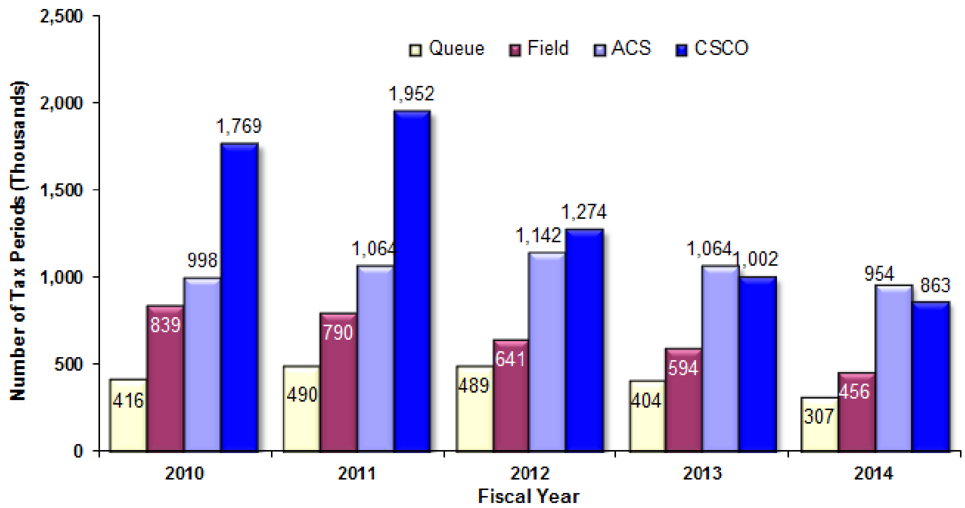
Source: Collection Activity Reports 5000-2 and 5000-4.

Figure 12: TDA and TDI Tax Periods Shelved or Surveyed



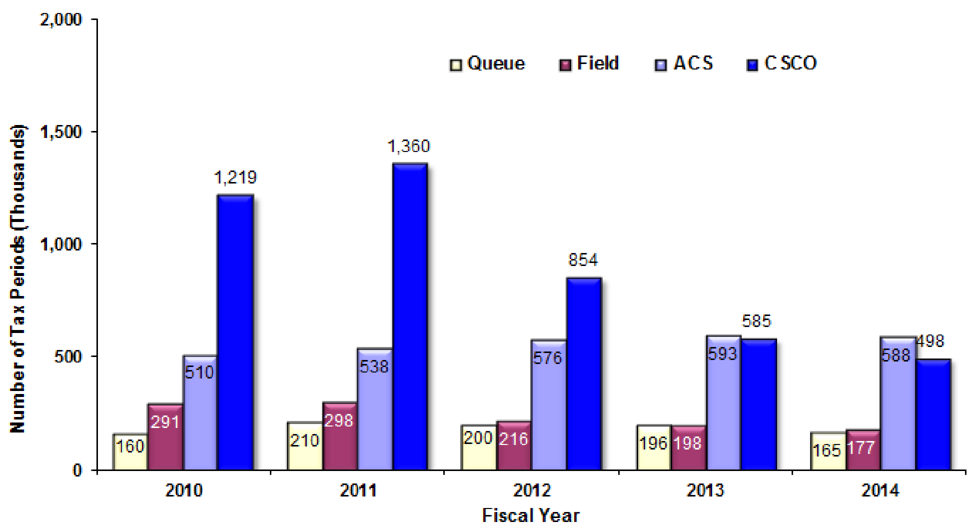
Source: TIGTA analysis of Collection Activity Reports 5000-2 and 5000-4.

Figure 13: Number of TDI Tax Periods Closed by Collection Functions



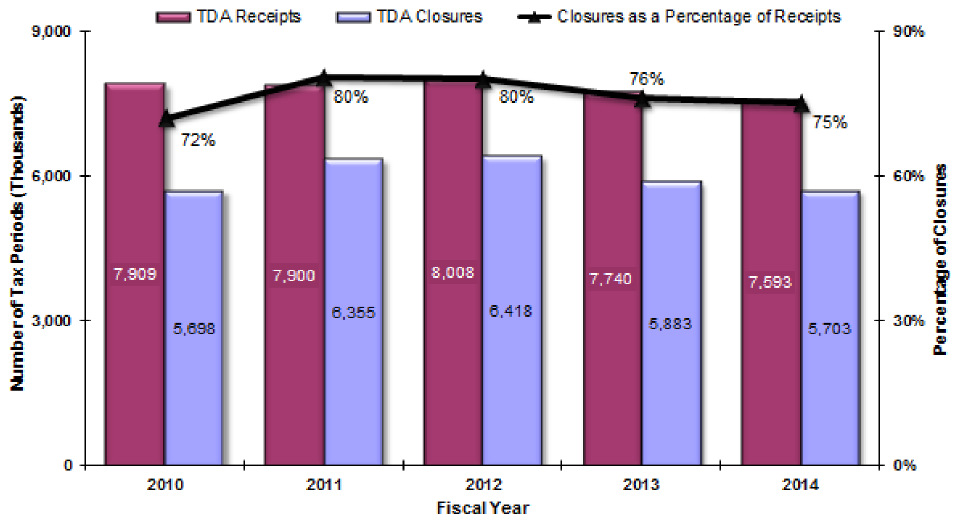
Source: TIGTA analysis of Collection Activity Report 5000-4.

Figure 14: Number of TDI Tax Periods Closed by Collection Functions With Receipt of a Delinquent Tax Return



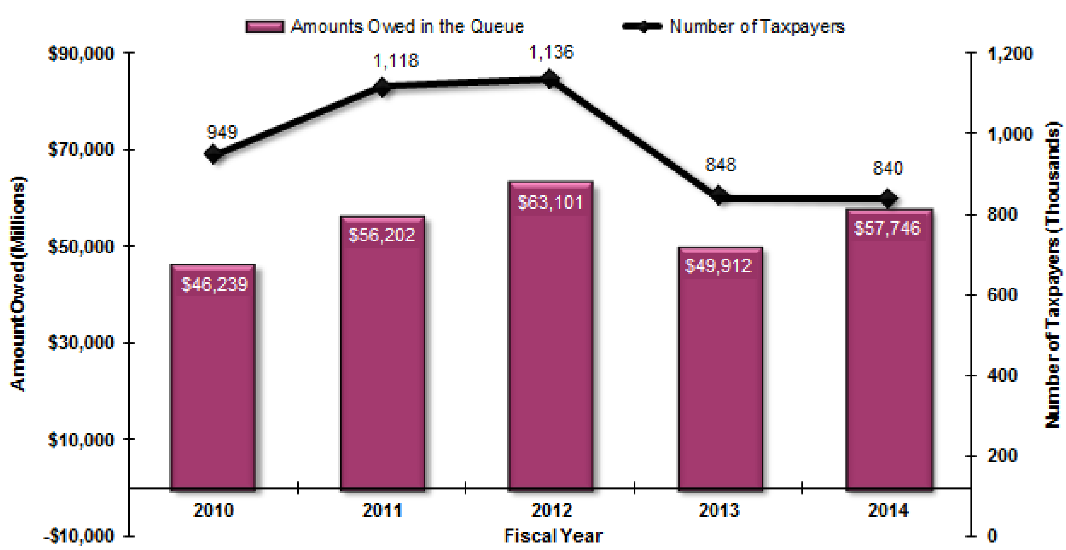
Source: TIGTA analysis of Collection Activity Report 5000-4.

Figure 15: Gap Between TDA Tax Period Receipts and Closures, Including TDA Closures As a Percentage of Receipt[3]



Source: TIGTA analysis of Collection Activity Report 5000-2.

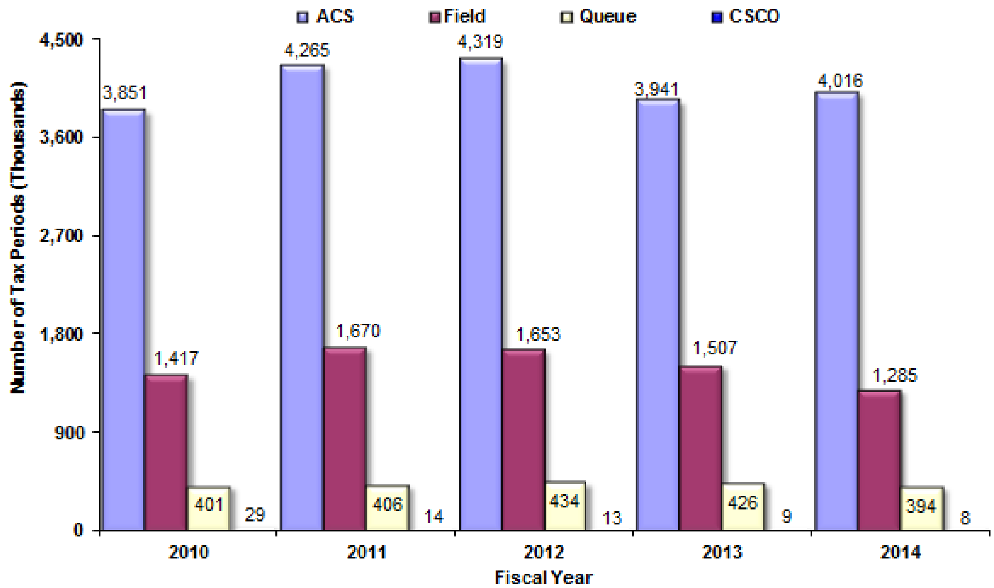
Figure 16: Number of Taxpayers and Amounts Owed in Queue Inventory



Source: TIGTA analysis of Collection Activity Report 5000-2.

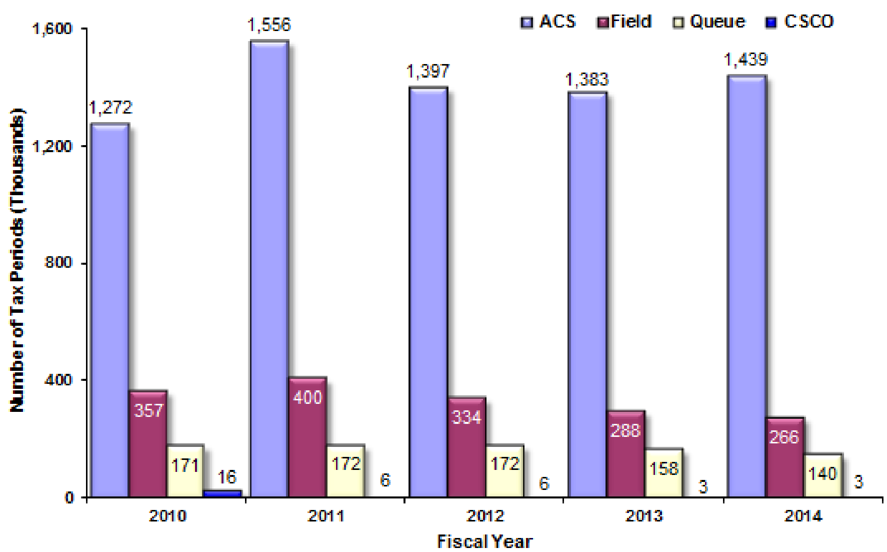
[3] The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.

Figure 17: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts



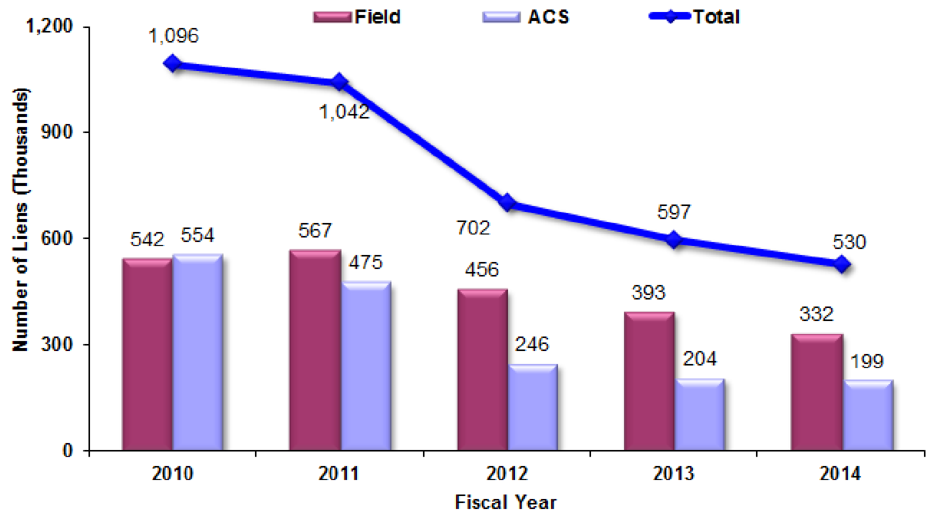
Source: TIGTA analysis of Collection Activity Report 5000-2.

Figure 18: Number of TDA Tax Periods Closed With Full Payment by Collection Functions



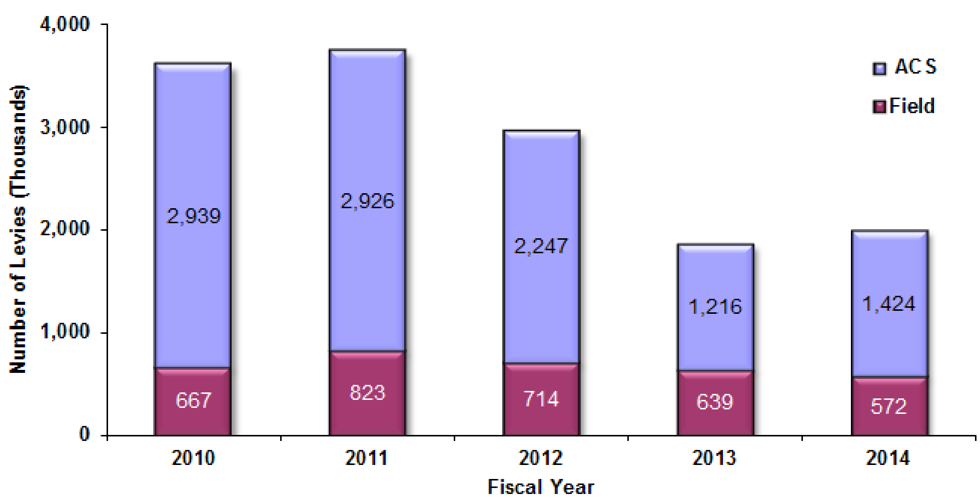
Source: TIGTA analysis of Collection Activity Report 5000-2.

Figure 19: Number of NFTLs Filed by the Field and the ACS



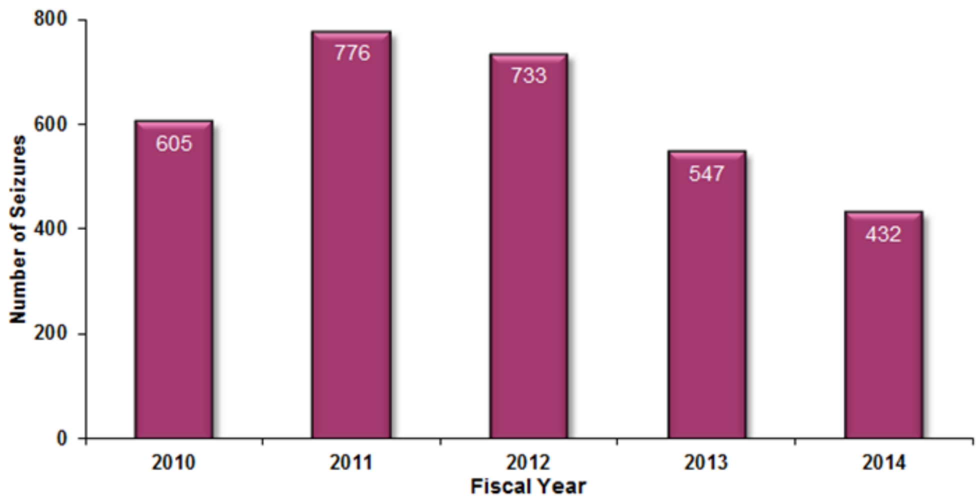
Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-25.

Figure 20: Number of Levies Issued by the Field and the ACS



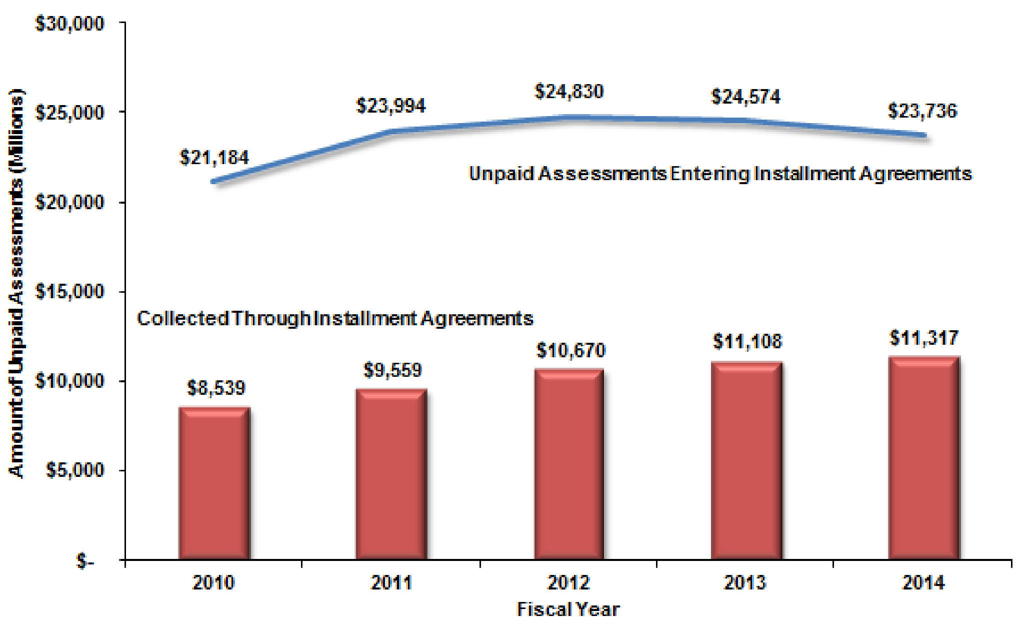
Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-24.

Figure 21: Number of Seizures



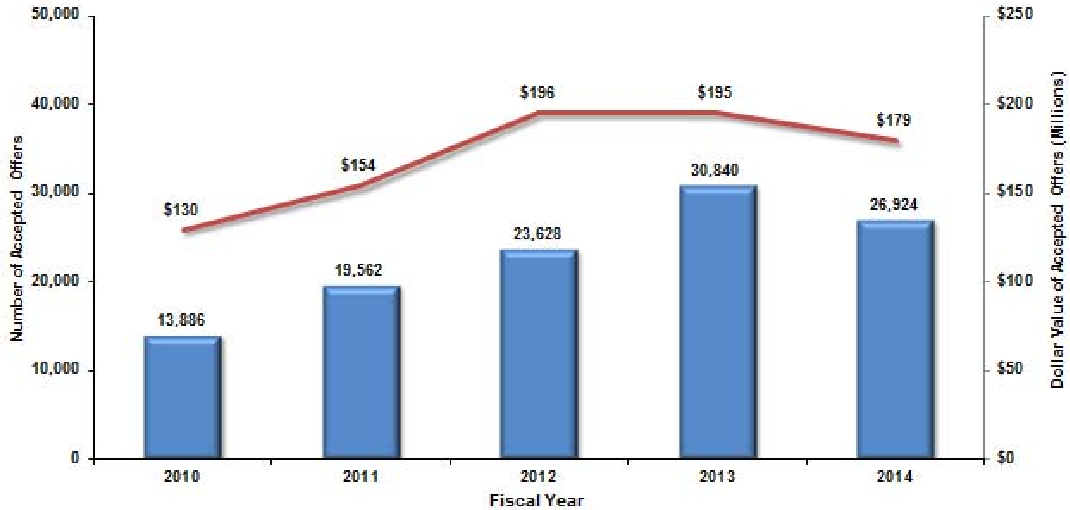
Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-24.

Figure 22: Amounts of Unpaid Assessments Entering Installment Agreements and Collected Through Installment Agreements



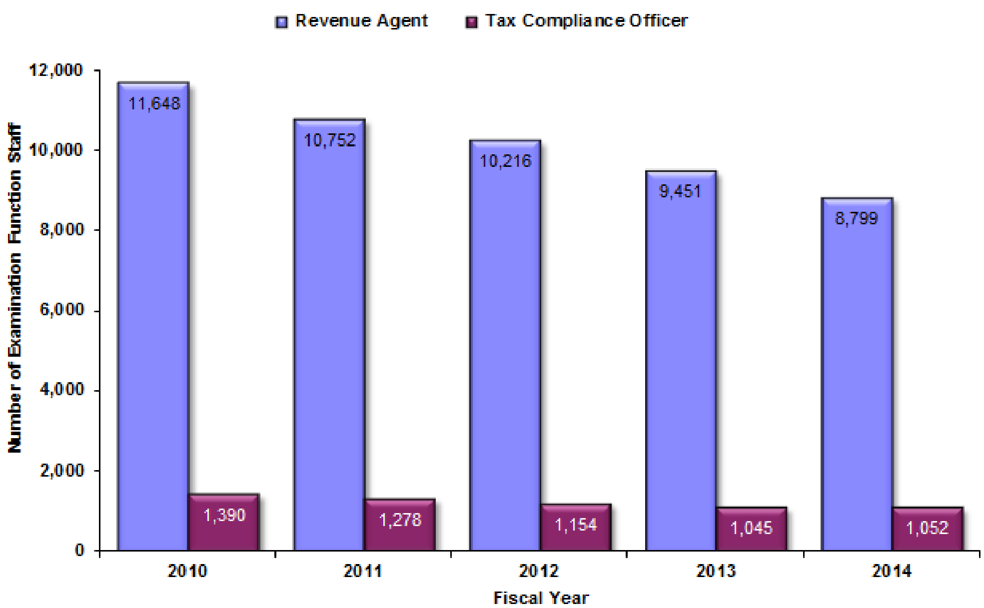
Source: Collection Activity Report 5000-6.

Figure 23: Number and Value of Accepted Offers in Compromise



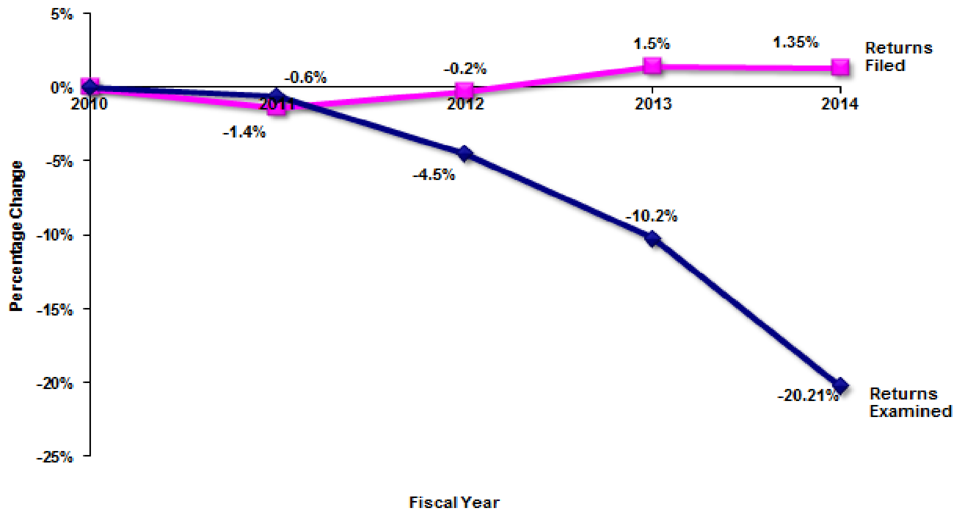
Source: Collection Activity Report 5000-108.

Figure 24: Number of Examination Function Staff Conducting Examinations of Tax Returns at the End of Each Fiscal Year



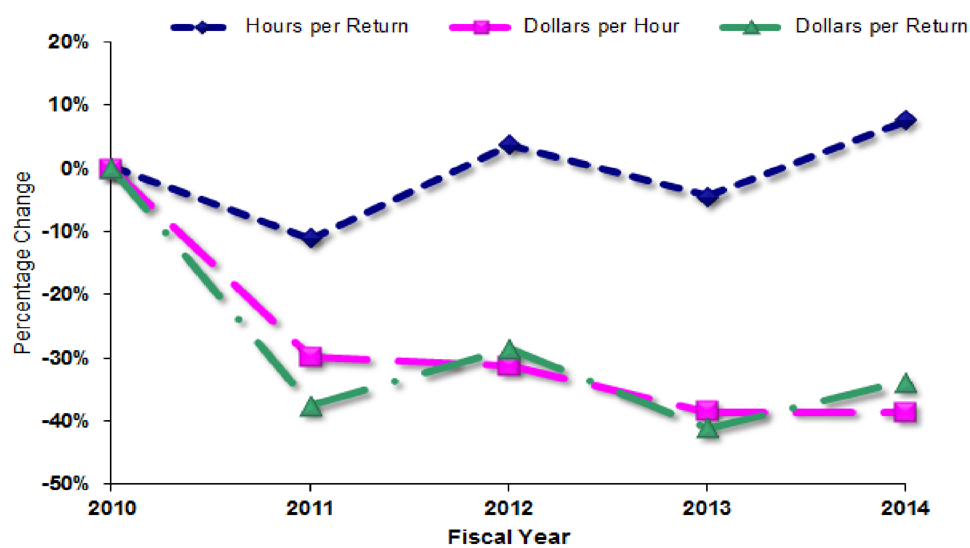
Source: TIGTA analysis of Examination Table 37.

Figure 25: Percentage Change From FY 2010 of All Tax Returns Filed and Examined



Source: TIGTA analysis of the IRS Data Book

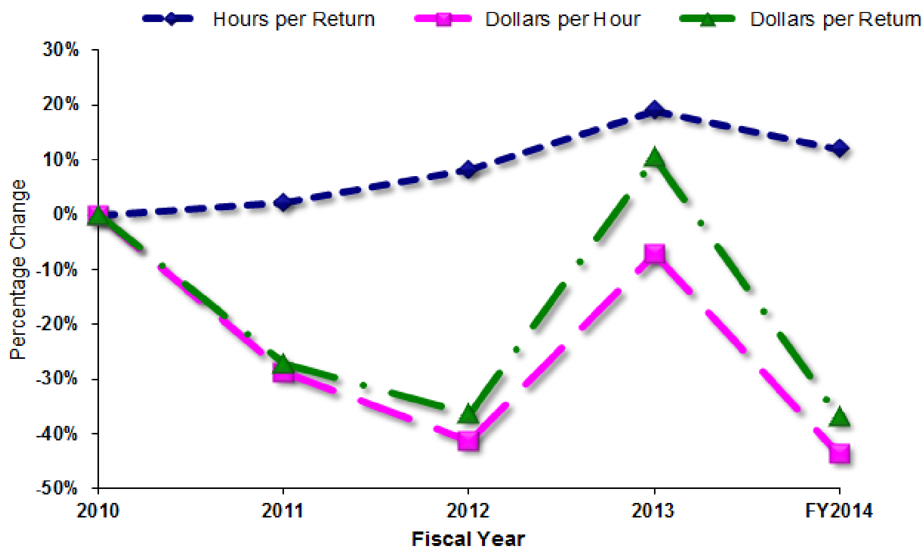
Figure 26: Revenue Agent Results on Forms 1040, U.S. Individual Income Tax Return, Percentage Change From FY 2010[4]



Source: TIGTA analysis of Examination Table 37.

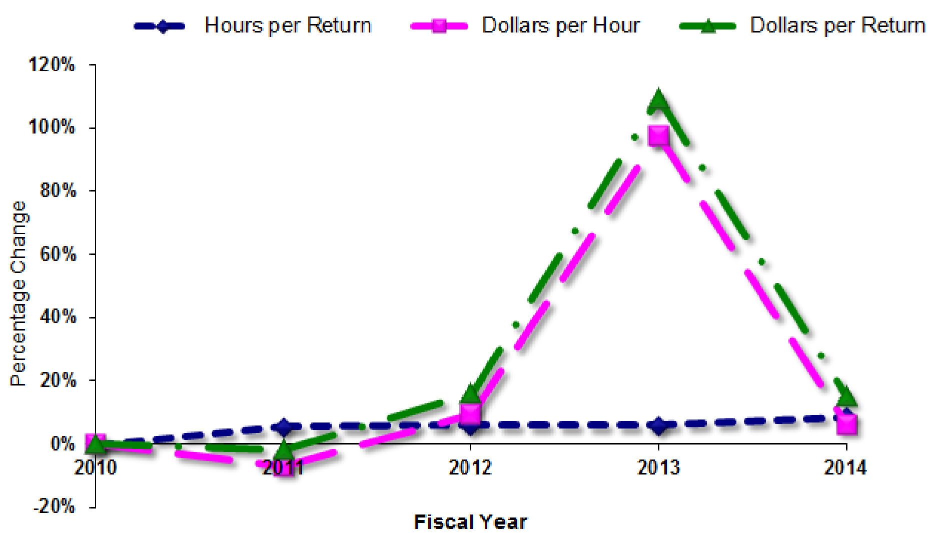
[4] Figures 27 through 31 do not include results from Coordinated Industry Cases or training returns.

Figure 27: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From FY 2010



Source: TIGTA analysis of Examination Table 37.

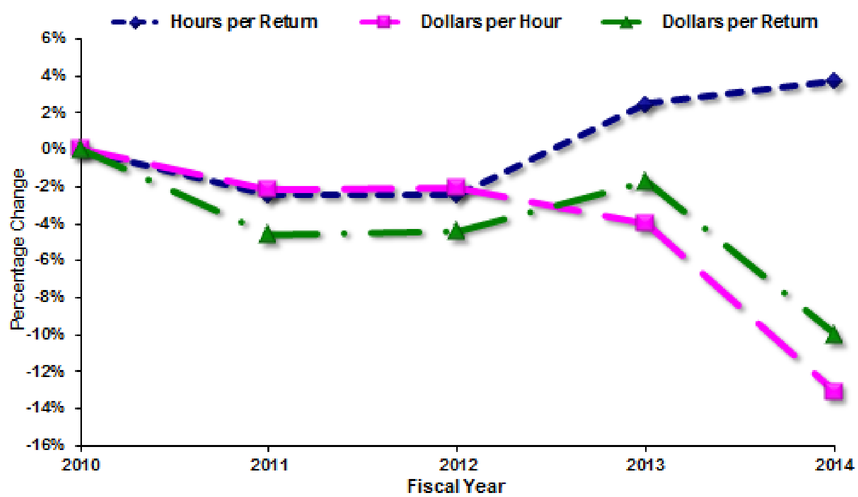
Figure 28: Revenue Agent Results on Other Types[5] of Tax Returns, Percentage Change From FY 2010



Source: TIGTA analysis of Examination Table 37.

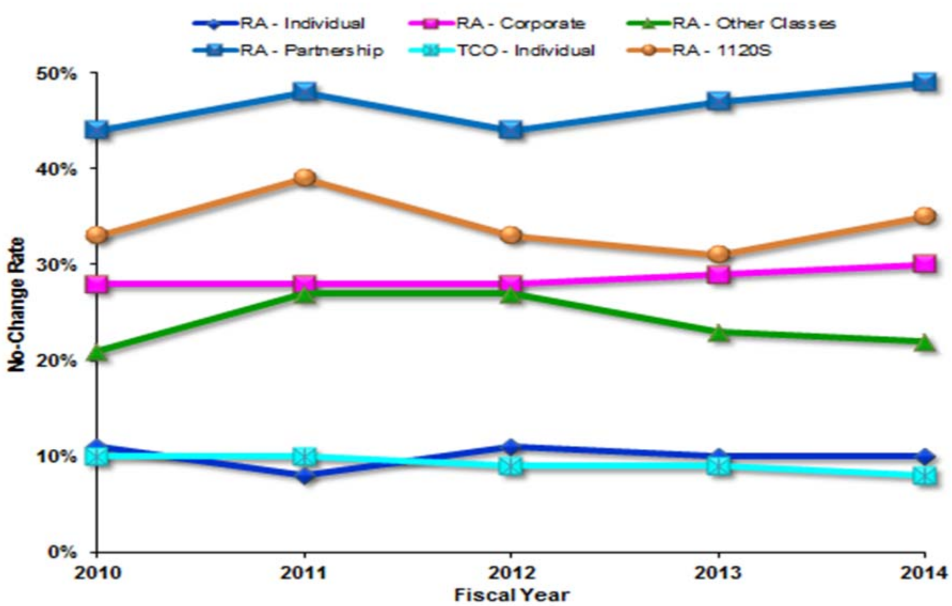
[5] Other types of tax returns include estate; gift; employment; Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*; Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*; and excise.

Figure 29: Tax Compliance Officer Results on Forms 1040, Percentage Change From FY 2010



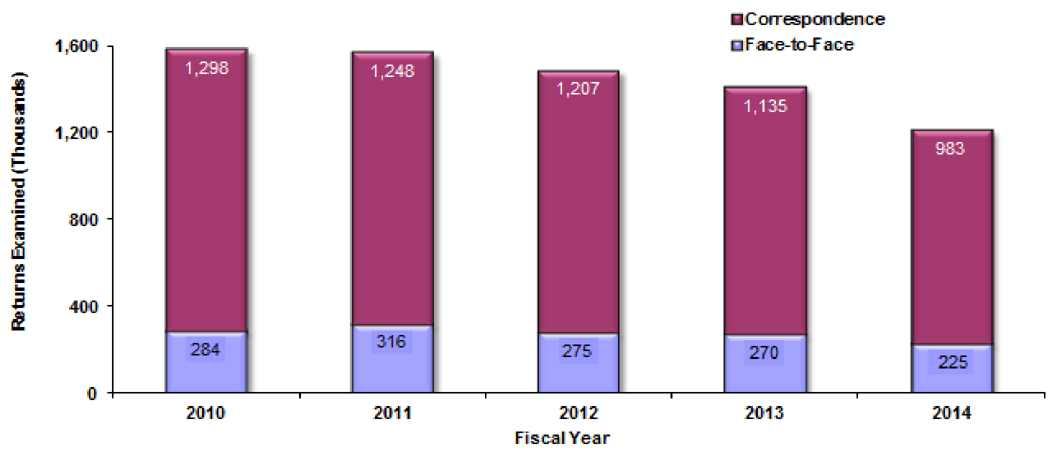
Source: TIGTA analysis of Examination Table 37.

Figure 30: Revenue Agent and Tax Compliance Officer No-Change Rates for Various Types of Tax Returns



Source: TIGTA analysis of Examination Table 37.
RA = Revenue Agent and TCO = Tax Compliance Officer

Figure 31: Number of Forms 1040 Examined Face-to-Face or Through Correspondence



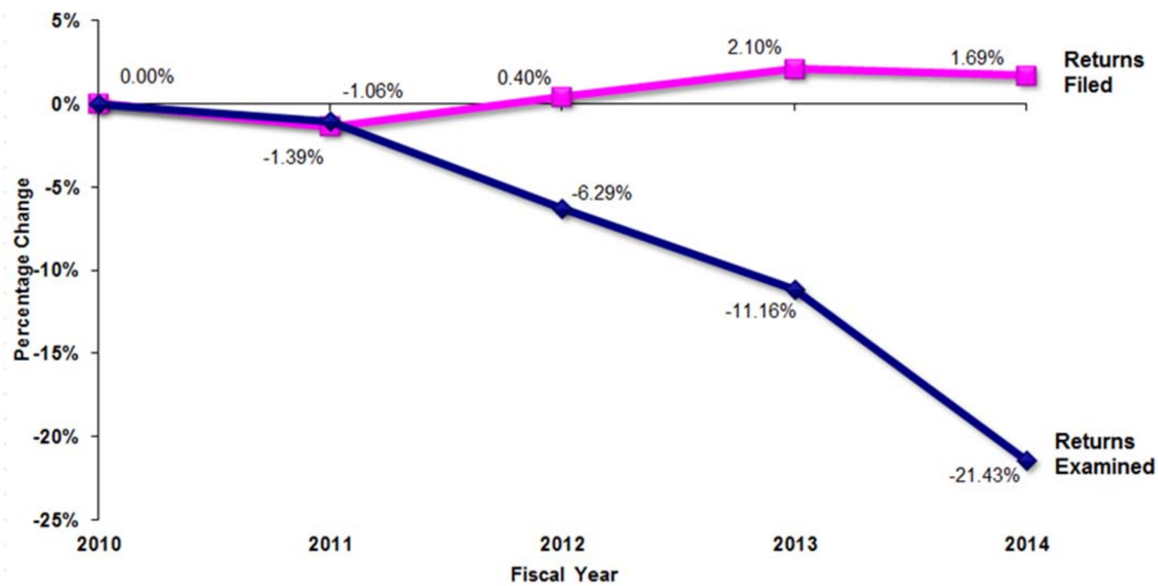
Source: Analysis of Examination Closed Case Database.

Figure 32: Numbers and Percentages of Individual and Business Tax Returns Examined

	Fiscal Year				
	2010	**2011**	**2012**	**2013**	**2014**
Individual Returns					
Individuals (Forms 1040)	1,581,394	1,564,690	1,481,966	1,404,931	1,242,479
Coverage Rate	1.03%	1.11%	1.03%	0.96%	0.86%
Business Returns					
Corporations < $10 Million	19,127	19,697	21,164	17,604	17,257
Coverage Rate	0.9369%	1.0200%	1.1162%	0.9517%	0.9523%
Corporations $10 Million and Greater	10,207	10,459	10,752	9,876	7,858
Coverage Rate	16.58%	17.64%	17.78%	15.84%	12.23%
S Corporations (Forms 1120S)	16,327	18,519	21,658	18,670	16,317
Coverage Rate	0.37%	0.42%	0.48%	0.42%	0.36%
Partnerships	12,406	13,770	16,691	14,870	15,779
Coverage Rate	0.36%	0.40%	0.47%	0.42%	0.43%
Fiduciaries	5,298	2,909	5,070	4,501	3,694
Coverage Rate	0.17%	0.10%	0.17%	0.15%	0.12%
Employment	63,937	66,234	66,997	60,801	57,123
Coverage Rate	0.21%	0.22%	0.23%	0.20%	0.19%
Excise	18,249	19,571	22,014	16,509	13,779
Coverage Rate	2.33%	2.40%	3.26%	1.61%	1.50%
Estates	4,288	4,195	3,762	3,250	2,853
Coverage Rate	10.12%	18.23%	29.90%	11.58%	8.46%
Gift	1,777	2,623	3,164	2,775	3,098
Coverage Rate	0.74%	1.16%	1.42%	1.07%	0.83%

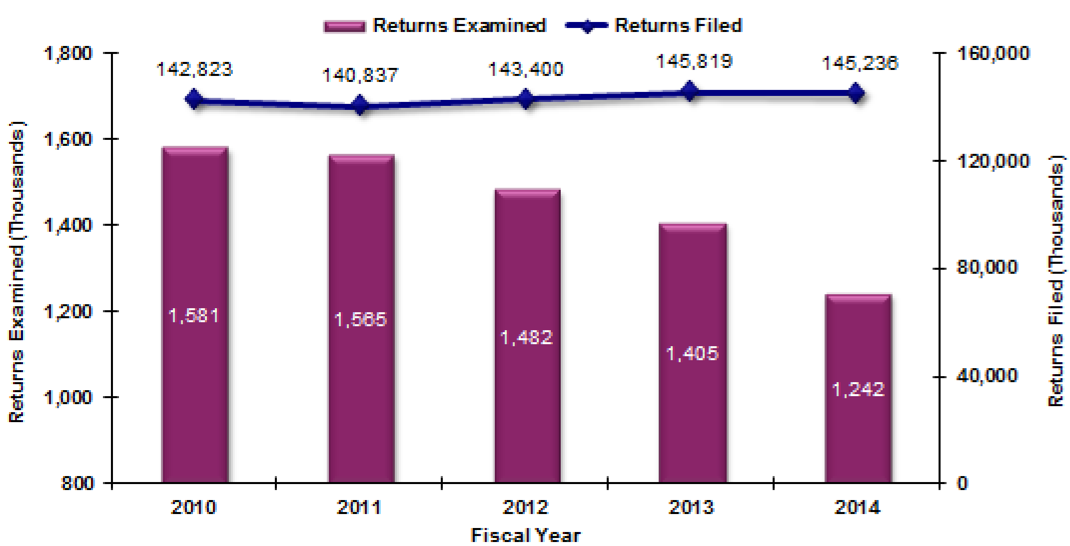
Source: TIGTA analysis of the IRS Data Book.

Figure 33: Percentage Change From FY 2010 of Forms 1040 Filed and Examined



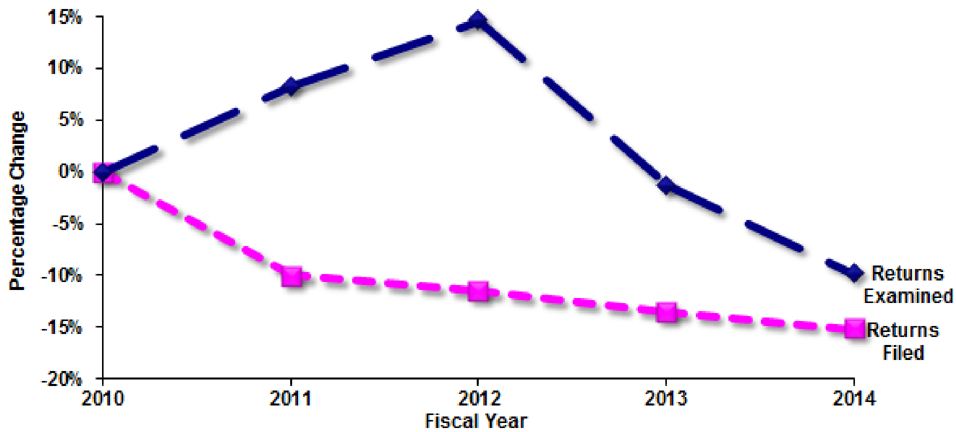
Source: TIGTA analysis of the IRS Data Book.

Figure 34: Number of Forms 1040 Filed and Examined



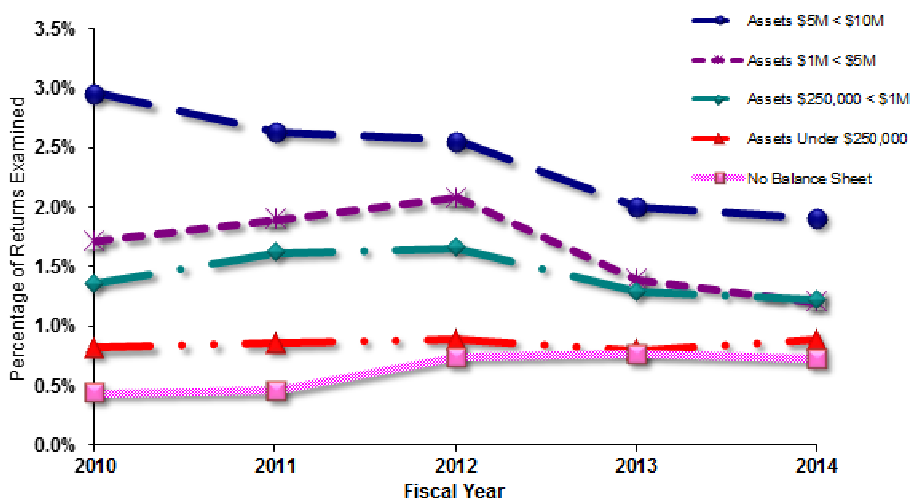
Source: TIGTA analysis of the IRS Data Book.

Figure 35: Percentage Change From FY 2010 of Corporate Income Tax Returns Filed and Examined[6]



Source: TIGTA analysis of the IRS Data Book.

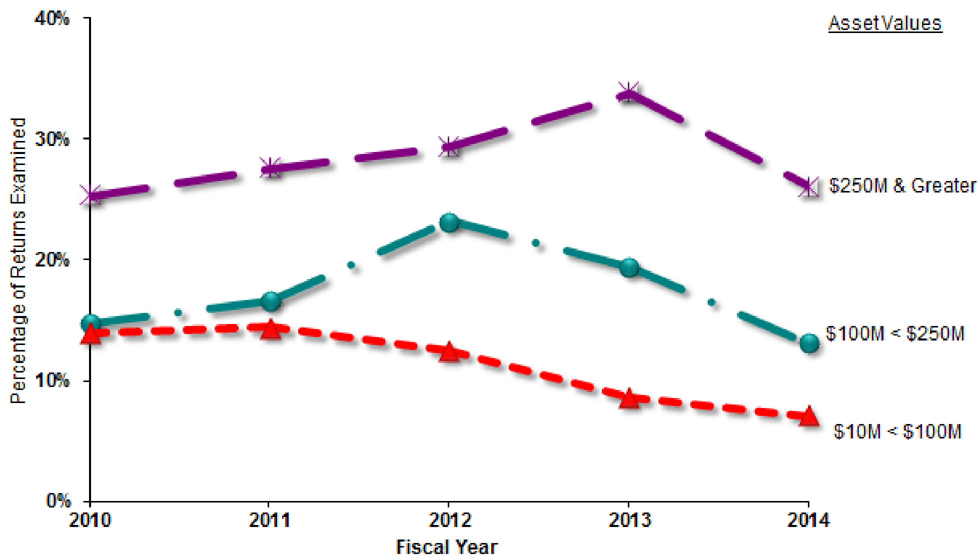
Figure 36: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than $10 Million



Source: TIGTA analysis of the IRS Data Book.

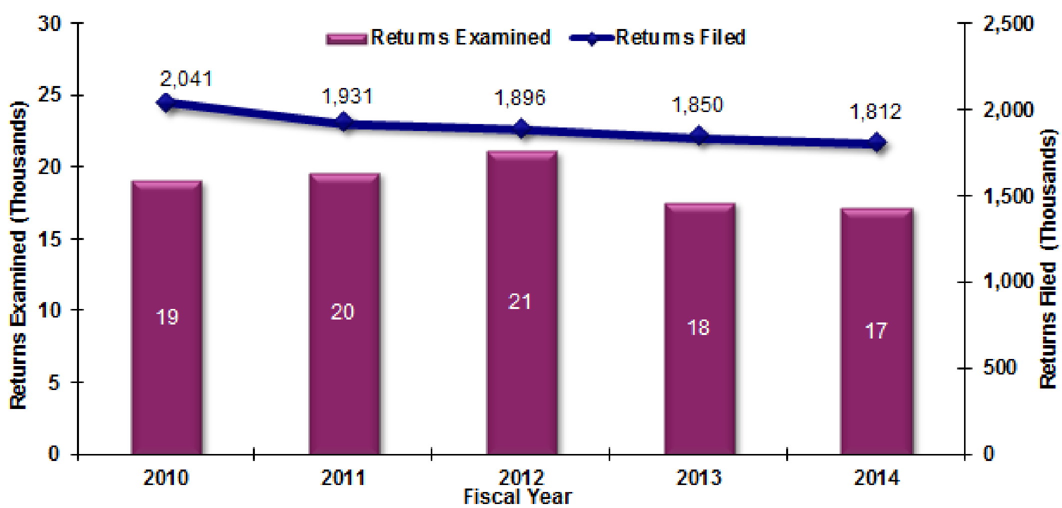
[6] Excludes Form 1120S, *U.S. Income Tax Return for an S Corporation*; Form 1120-F; and Form 1120-C, *U.S. Income Tax Return for Cooperative Associations*.

Figure 37: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of $10 Million and Greater



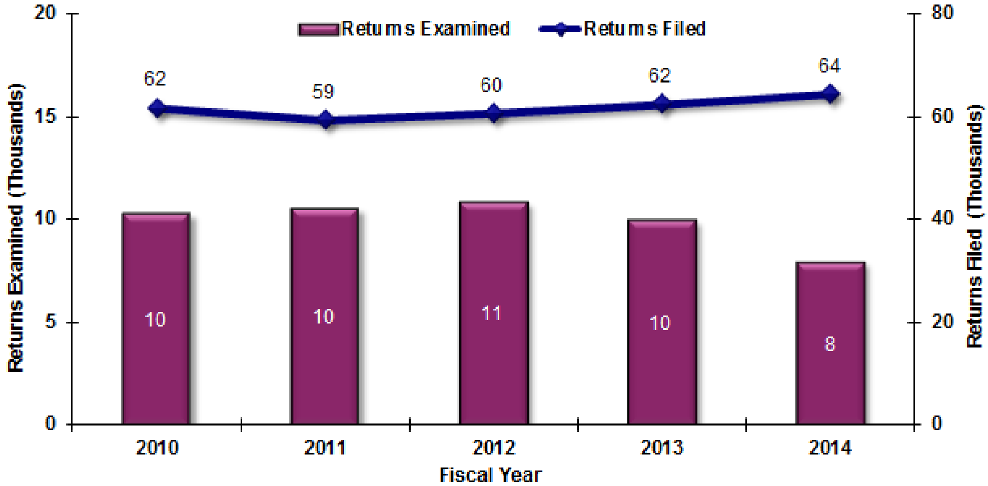
Source: TIGTA analysis of the IRS Data Book.

Figure 38: Number of Tax Returns Filed and Examined – Corporations With Assets of Less Than $10 Million



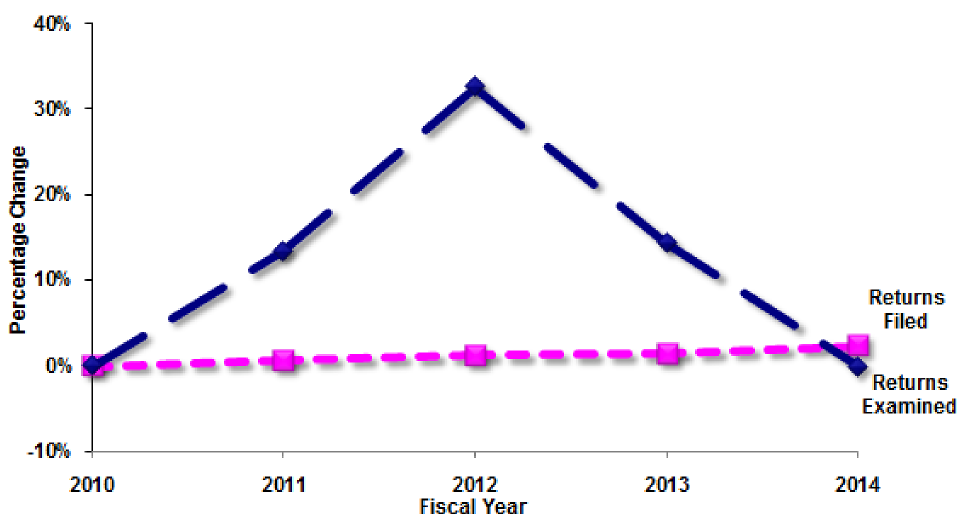
Source: TIGTA analysis of the IRS Data Book.

Figure 39: Number of Tax Returns Filed and Examined – Corporations With Assets of $10 Million and Greater



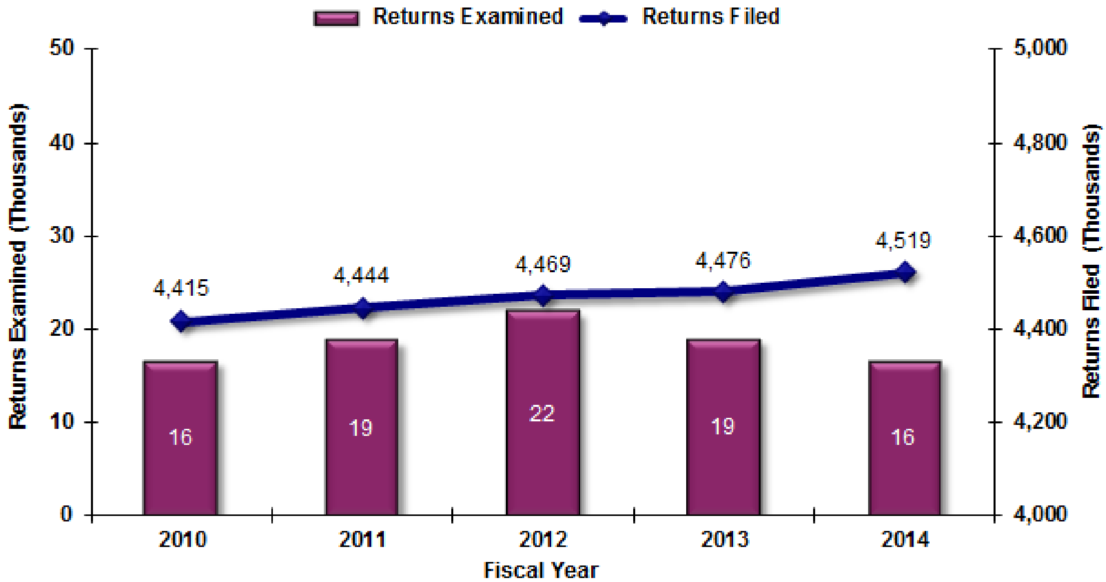
Source: TIGTA analysis of the IRS Data Book.

Figure 40: Percentage Change From FY 2010 of Forms 1120S Filed and Examined



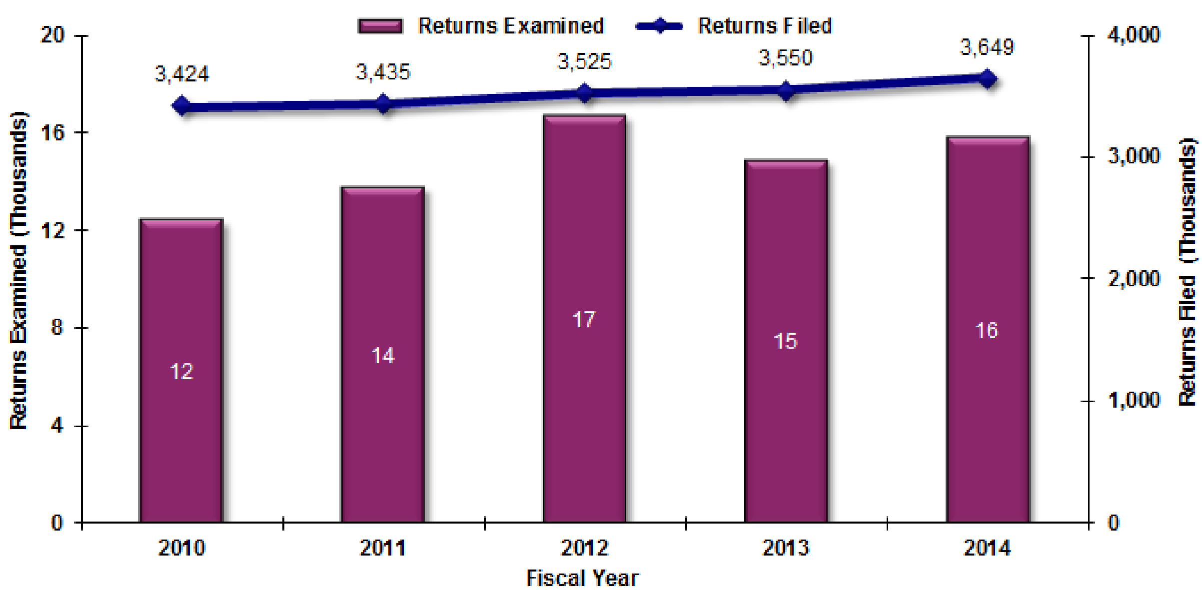
Source: TIGTA analysis of the IRS Data Book.

Figure 41: Number of Forms 1120S Filed and Examined



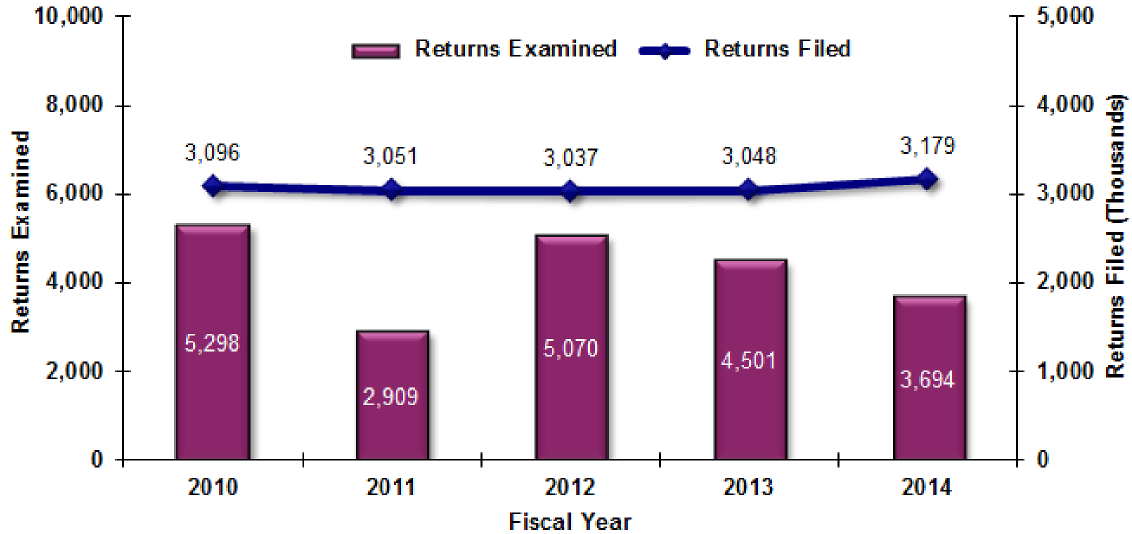
Source: IRS Data Book.

Figure 42: Number of Tax Returns Filed and Examined – Partnerships



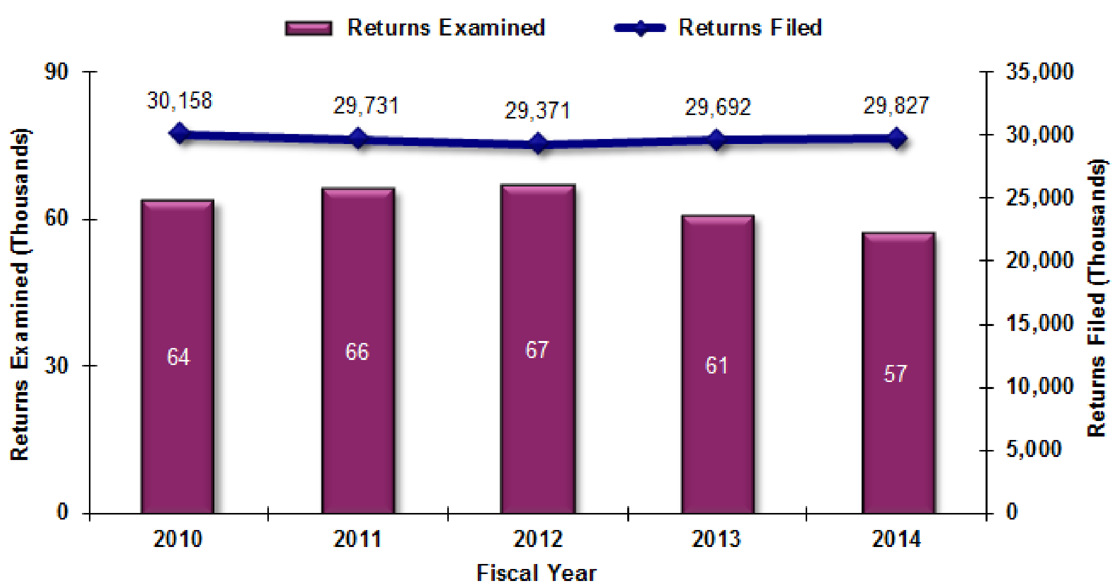
Source: IRS Data Book.

Figure 43: Number of Tax Returns Filed and Examined – Fiduciaries



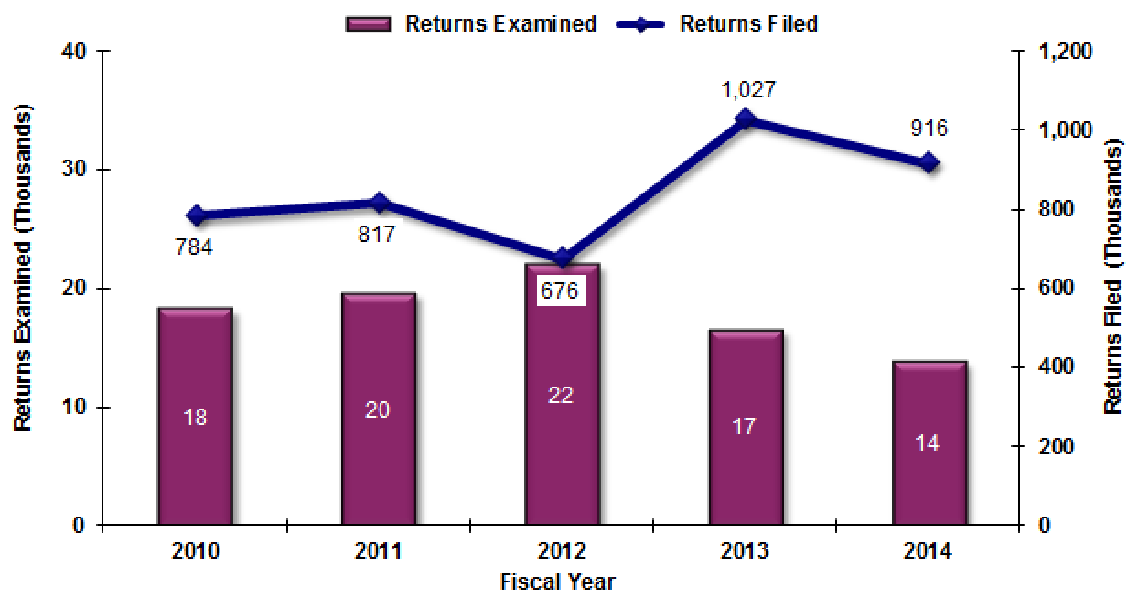
Source: IRS Data Book.

Figure 44: Number of Tax Returns Filed and Examined – Employment Tax



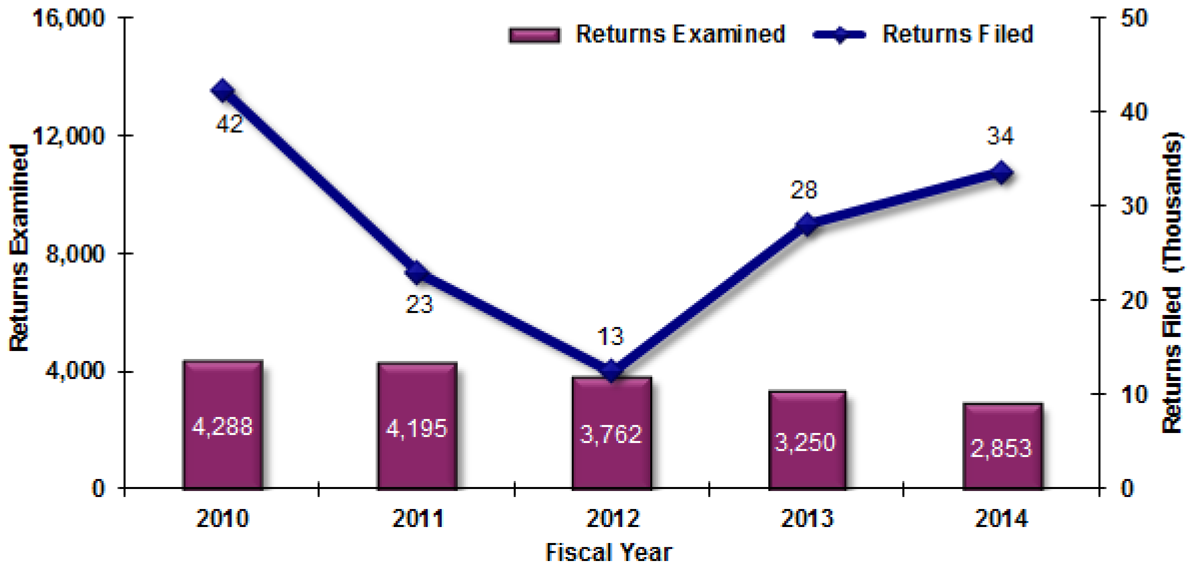
Source: IRS Data Book.

Figure 45: Number of Tax Returns Filed and Examined – Excise Tax



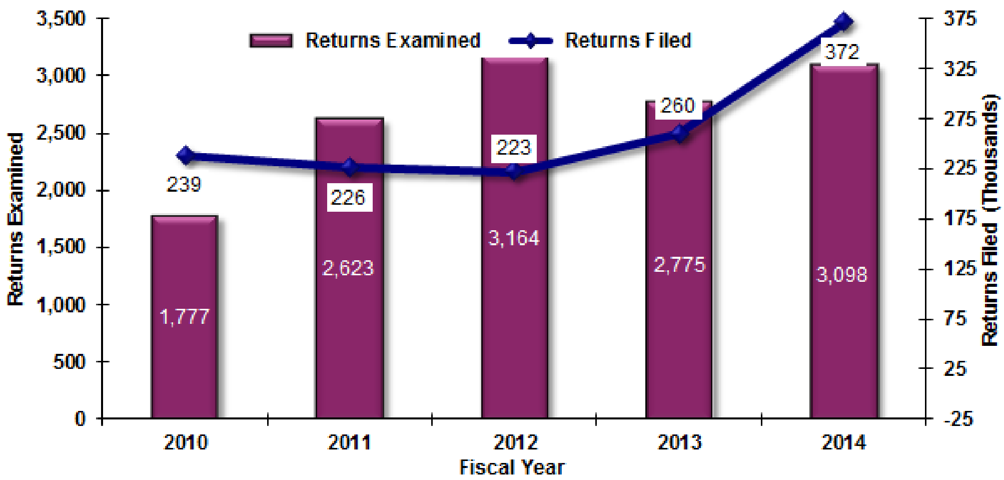
Source: IRS Data Book.

Figure 46: Number of Tax Returns Filed and Examined – Estates



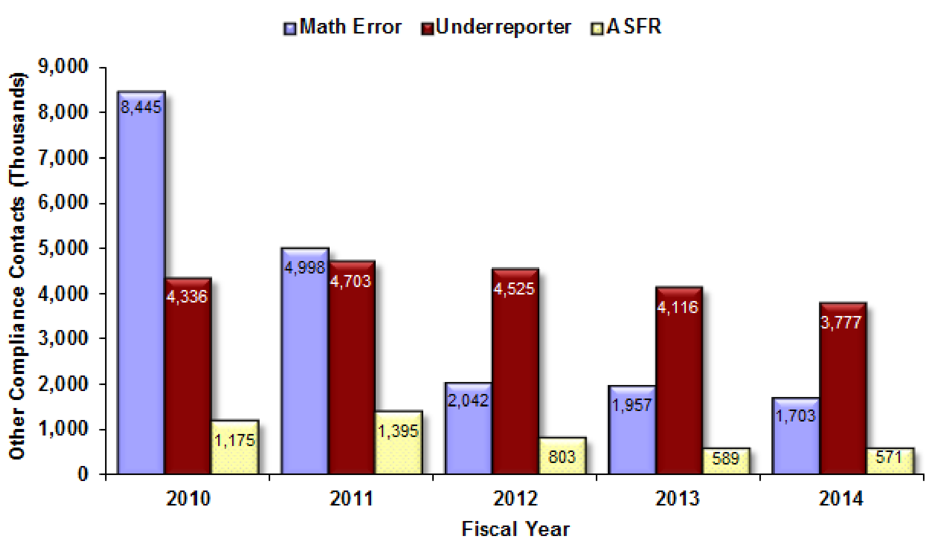
Source: IRS Data Book.

Figure 47: Number of Tax Returns Filed and Examined – Gift Tax



Source: IRS Data Book.

Figure 48: Number of Other Compliance Contacts on Forms 1040[7]



Source: IRS Data Book. ASFR = Automated Substitute for Return.

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[7] In FY 2010, the Making Work Pay Tax Credit was a refundable tax credit based on earned income. The FY 2010 data include cases for which the Making Work Pay Tax Credit was not initially claimed on tax returns but the IRS subsequently computed the credit for eligible taxpayers.

Figure 49: Other Compliance Contacts – Forms 1040 Coverage Rate

	Fiscal Year				
	2010	**2011**	**2012**	**2013**	**2014**
Math Error	8,445,374	4,998,266	2,042,458	1,957,031	1,703,432
Coverage Rate	5.86%	3.54%	1.42%	1.34%	1.17%
Automated Underreporter	4,336,000	4,703,000	4,525,000	4,116,000	3,777,000
Coverage Rate	3.01%	3.33%	3.15%	2.81%	2.59%
Automated Substitute for Return	1,175,000	1,395,000	803,000	589,000	571,000
Coverage Rate	0.82%	0.99%	0.56%	0.40%	0.39%

Source: TIGTA analysis of the IRS Data Book.

Appendix V

Prior Treasury Inspector General for Tax Administration Compliance Trends Reports

TIGTA, Ref. No. 2000-30-075, *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (May 2000).

TIGTA, Ref. No. 2001-30-175, *Management Advisory Report: Tax Return Filing and Examination Statistics* (Sept. 2001).

TIGTA, Ref. No. 2002-30-184, *Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001* (Sept. 2002).

TIGTA, Ref. No. 2003-30-078, *Trends in Compliance Activities Through Fiscal Year 2002* (Mar. 2003).

TIGTA, Ref. No. 2004-30-083, *Trends in Compliance Activities Through Fiscal Year 2003* (Apr. 2004).

TIGTA, Ref. No. 2005-30-055, *Trends in Compliance Activities Through Fiscal Year 2004* (Mar. 2005).

TIGTA, Ref. No. 2006-30-055, *Trends in Compliance Activities Through Fiscal Year 2005* (Mar. 2006).

TIGTA, Ref. No. 2007-30-056, *Trends in Compliance Activities Through Fiscal Year 2006* (Mar. 2007).

TIGTA, Ref. No. 2008-30-095, *Trends in Compliance Activities Through Fiscal Year 2007* (Apr. 2008).

TIGTA, Ref. No. 2009-30-082, *Trends in Compliance Activities Through Fiscal Year 2008* (June 2009).

TIGTA, Ref. No. 2010-30-066, *Trends in Compliance Activities Through Fiscal Year 2009* (June 2010).

TIGTA, Ref. No. 2011-30-071, *Trends in Compliance Activities Through Fiscal Year 2010* (July 2011).

TIGTA, Ref. No. 2013-30-078, *Trends in Compliance Activities Through Fiscal Year 2012* (Aug. 2013).

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

Appendix VI

Glossary of Terms

Term	Definition
Area Office	A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Automated Substitute for Return	A system designed to assess taxes on wage earners who fail to file tax returns. It analyzes information submitted to the IRS and historical tax return information.
Automated Underreporter	The Automated Underreporter Program matches items reported on an individual's income tax return to information supplied to the IRS from outside sources (*e.g.*, employers, banks, credit unions) to determine if the taxpayer's tax return reflected the correct amounts, ensuring that the tax amount is correct.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Collection Activity Reports	A group of reports providing management information to Field and Headquarters Collection officials. The reports reflect activity associated with TDA and TDI issuances and installment agreements including issuances, dispositions, and inventories as well as Collection-related payments.
Compliance Services Collection Operations	An IRS function that mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence. This function was formerly known as the Service Center Collection Branch.

Term	Definition
Computing Centers	IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.
Cooperative Associations	An entity that is organized and operated on a cooperative basis, allocating net profits to patrons on the basis of the business done with or for such patrons.
Coordinated Industry Case	An Examination function classification used for the largest and most complex corporations.
Corporate Income Tax Return	Form 1120, *U.S. Corporation Income Tax Return*. It is used by corporations to report the corporate income tax.
Direct Debit Installment Agreement	A monthly payment plan, to pay off delinquent amounts, in which funds are automatically debited from a taxpayer's checking account for the agreed-upon installment amount.
Dollar Yield per Hour	The amount of tax adjustments on tax returns divided by the number of hours spent examining those returns.
Employment Tax Returns	Various Form 94X return series (primarily Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and Form 941, *Employer's QUARTERLY Federal Tax Return*) filed by businesses to report things such as employer's Federal unemployment taxes and Federal taxes withheld.
Enforcement Revenue	Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).
Estate Tax Return	Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, is filed for estates of certain deceased persons.
Examination (Face-to-Face)	Field examinations of individuals, partnerships, or corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.

Term	Definition
Excise Tax Return	Form 720, *Quarterly Federal Excise Tax Return*, is used to report and pay certain taxes, such as those on transportation and fuel.
Fiduciary Income Tax Returns	Income tax returns filed for estates and trusts.
Field Collection	The unit in the Area Offices consisting of revenue officers who handle face-to-face contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Field Office	Examination Area Offices consisting of revenue agents who perform examinations of individuals, partnerships, and corporations.
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.
Gift Tax Return	Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*, is used to report transfers subject to the Federal gift taxes and to calculate the taxes due on those transfers.
Individual Income Tax Returns	Form 1040, *U.S. Individual Income Tax Return*, series are annual income tax returns filed by citizens or residents of the United States.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time.
IRS Data Book	Provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.

Term	Definition
IRS Oversight Board	A nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of Internal Revenue laws and to provide experience, independence, and stability to the IRS so it may move forward in a cogent, focused direction.
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.
Math Error	A program in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in tax changes.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
No-Change Rate	Percentage of examinations for which the examiner closed the case with no recommended tax change.
Notice of Federal Tax Lien	A notice filed with the appropriate local government office, protecting the Federal Government's interest in the taxpayer's assets by providing public notice of the amount of unpaid tax.
Offer in Compromise	An agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.
Overhead Staff	Support staff performing indirect duties within the function, such as automation support, technical support, and quality review.
Partnership Return	Form 1065, *U.S. Return of Partnership Income*, is used to report the income and expenses of domestic partnerships and the share distributed to each partner.

Term	Definition
Revenue Agent	An employee in the Examination function who conducts face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes (*e.g.*, excise tax returns).
Revenue Officer	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 ACS.
S Corporation Tax Return	Form 1120S, *U.S. Income Tax Return for an S Corporation*, is filed by qualifying small business corporations and includes amounts distributed to shareholders.
Seizure	The taking of a taxpayer's property to satisfy his or her outstanding tax liability.
Sequestration	Fiscal policy procedure encompassing an automatic form of spending cut equal to the difference between the cap set in the budget resolution and the amount actually appropriated.
Substitute for Return/6020(b) Return	Tax returns prepared by the IRS, based on Internal Revenue Code provisions, when taxpayers appear to be liable for taxes but have not voluntarily filed the returns.
Tax Compliance Officer/Tax Auditor	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 from tax auditor to tax compliance officer.
Tax Examiner	In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.
Tax Period	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.

Term	Definition
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Delinquency Investigation	An unfiled tax return(s) for a taxpayer. One TDI is issued for each delinquent tax period for a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer. One TDA exists for all delinquent tax periods for a taxpayer.
Trust Fund Recovery Penalty	When a company does not pay the taxes it withholds from employee wages, such as Social Security or individual income tax, the IRS has the authority to assess all responsible corporate officers individually for the taxes withheld via the Trust Fund Recovery Penalty.