TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Trends in Compliance Activities Through Fiscal Year 2015

September 8, 2016

Reference Number: 2016-30-073

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

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HIGHLIGHTS

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2015

Highlights

Final Report issued on September 8, 2016

Highlights of Reference Number: 2016-30-073 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

In April 2016, the IRS updated its estimate of the annual Net Tax Gap to $406 billion for Tax Years 2008 through 2010. The estimated Net Tax Gap for individual income tax was $291 billion, corporation income tax was $35 billion, employment tax was $79 billion, and estate and excise tax combined was $1 billion. In Fiscal Year (FY) 2015, 44 percent of the IRS's appropriations were allocated to enforcement of tax laws.

In FY 2015, the IRS continued to experience losses in the numbers of employees available to provide services to taxpayers and those needed to enforce tax laws. In addition, after an increase in FY 2014, the IRS budget for FY 2015 decreased $345 million (3 percent), from $11.3 billion to $10.9 billion.

However, despite fewer resources, total tax revenues received and collected continued to climb to $3.3 trillion, an increase of 8 percent from FY 2014. On the other hand, enforcement revenue collected decreased from $57.1 billion in FY 2014 to $54.2 billion in FY 2015, a decline of 5 percent. Unpaid assessments increased to $412 billion.

Collection function activities showed mixed results in FY 2015. While some areas of compliance declined, collections on delinquent accounts increased in every collection program except Field Collection. The Collection function also continued to receive more delinquent accounts than it closed, although the number of accounts closed as uncollectible has decreased in recent years. Fewer enforcement actions were used during FY 2015, with the numbers of levies, seizures, and Notices of Federal Tax Lien all declining in the last year. Additionally, the use of payment options such as offers in compromise and installment agreements decreased, although the amount of delinquent taxes collected through these tools increased.

The Examination function conducted fewer examinations in FY 2015, with field examination conducting 28 percent fewer examinations than in FY 2011. Declines in the number of examinations are directly related to the 24 percent decline in the revenue agents and tax compliance officers available to perform them during that period. However, during FY 2015, the dollar yield per hour for most return types increased. Further, the no-change rates for revenue agent examinations of corporations increased, but it decreased for examinations of individuals.

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

September 8, 2016

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 2015 (Audit # 201630010)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This audit is included in our Fiscal Year 2016 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).

Initiator

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Abbreviations

ACS	Automated Collection System
FY	Fiscal Year
GAO	Government Accountability Office
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 February through May 2016. 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 2015

The IRS's compliance programs support the mission of the IRS through a variety of activities that are intended to encourage or facilitate compliance with tax laws. While these compliance activities are only one aspect of the IRS's operations, their ability to secure delinquent returns, examine returns, and collect delinquent taxes have a direct impact on the IRS's administration of tax laws and ability to close the Tax Gap. Tax liabilities that are not paid on time and may not be subsequently collected, either voluntarily or as the result of enforcement activities, contribute to the Net Tax Gap. In April 2016, the IRS updated its estimate of the Net Tax Gap to $406 billion for Tax Years 2008 through 2010.[2] This amount is approximately 5 percent more than the estimate for Tax Year 2006 ($385 billion) and approximately 40 percent more than the estimate for Tax Year 2001 ($290 billion).

IRS management believes the increase in Net Tax Gap is primarily due to improvements in the accuracy and comprehensiveness of the estimation process, which included new Tax Gap components. These new processes allowed the IRS to estimate, for the first time, the Net Tax Gap by type of tax. The estimated Net Tax Gap during Tax Years 2008 through 2010 for individual income tax was $291 billion, corporation income tax was $35 billion, employment tax was $79 billion, and estate and excise tax combined was $1 billion. In Fiscal Year (FY) 2015, 44 percent of the IRS's appropriations were allocated to enforcement of tax laws.

During FY 2015, reductions in staffing and available funding for enforcement activities contributed to a decrease in enforcement revenue, an increase in delinquent account inventory within the collection functions, and a decrease in the number of examinations. While managing these long-standing enforcement programs with declining resources, the IRS continued to combat growing tax schemes such as identity theft and refund fraud. The IRS also worked to inform the public about tax scams, including impersonation and phishing schemes.

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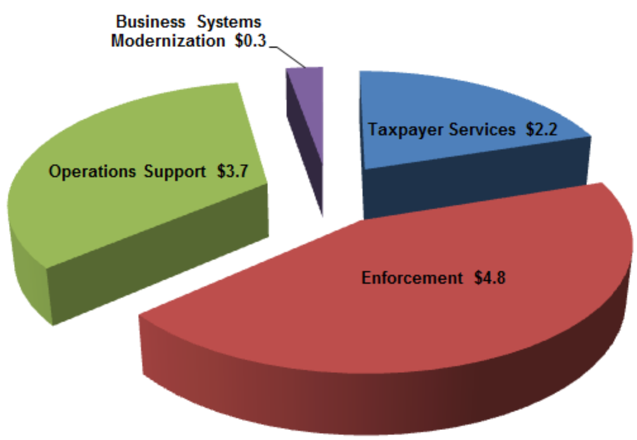
[2] Internal Revenue Service, *Tax Gap for Tax Years 2008–2010* (Apr. 2016), available at: http://www.irs.gov/uac/IRS-The-Tax-Gap. Unlike prior Tax Gap estimates that pertain to a single tax year, these estimates reflect an estimated average compliance rate and associated average annual Tax Gap for Tax Years 2008 through 2010. The annual Gross Tax Gap was estimated to be $345 billion in 2001, $450 billion in 2006, and $458 billion in Tax Years 2008 through 2010. The IRS noted that the December 2007 through June 2009 recession and the weak recovery that followed contributed to the Gross Tax Gap remaining substantially unchanged from the previous Tax Year 2006 estimate.

Resources continued to decrease in FY 2015

After a small increase in FY 2014, the IRS budget for FY 2015 decreased $345 million (3 percent), from $11.3 billion to $10.9 billion. This follows reductions in funding from FY 2011 through FY 2013 of more than 7 percent ($923.8 million). The IRS categorizes its appropriations by the following core areas: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization. Figure 1 shows the amount of appropriation by core area for FY 2015.[3]

Figure 1: FY 2015 Funding by Core Appropriation (in Billions)



Source: TIGTA analysis of IRS budget appropriations.

Decreases in funding have continued to affect the number of IRS employees available to meet the IRS mission. The number of IRS full-time equivalents decreased from 82,985 at the end of FY 2014 to 78,547 (5 percent) at the end of FY 2015. Full-time equivalents have been reduced by 16 percent since FY 2011 (93,906). Overall IRS employment (all employees who are on permanent, temporary, and term appointments) has declined 18 percent from 104,407 in FY 2011 to 85,813 in FY 2015.

Figure 2 shows that the combined number of enforcement personnel (revenue officers, revenue agents, and tax compliance officers) has declined each year since FY 2011.[4] 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.[5]

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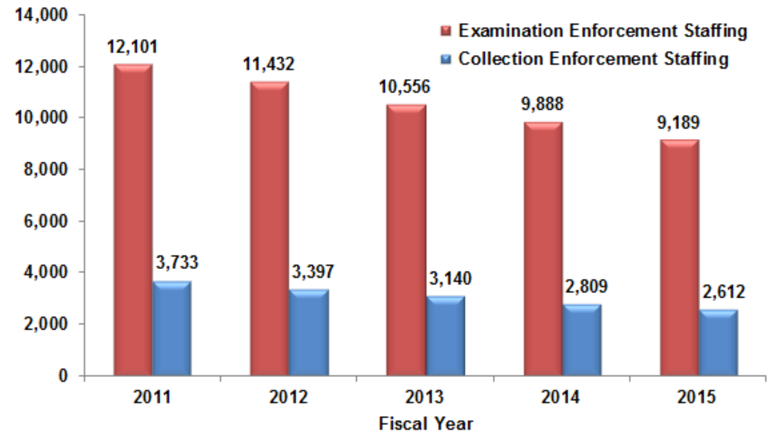
[3] Taxpayer Services includes processing tax returns and related documents and assistance for taxpayers in filing returns and paying taxes. Enforcement includes examination of tax returns, collection of delinquent balances, and the administrative and judicial settlement of taxpayer appeals of examination findings. Operations Support includes administrative services, policy management, and IRS-wide support. Business Systems Modernization includes capital asset acquisitions of information technology systems to modernize key tax administration systems.
[4] Collection and Examination functions staff located in field offices, excluding management and overhead staff.
[5] 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 5000-23 and Table 37 Examination Program Monitoring.

The combined number of enforcement personnel decreased between 6 and 8 percent each year since FY 2011 and has resulted in the lowest number over the past 10 years in FY 2015 (11,801). The number of personnel has decreased more than 25 percent since FY 2011 (15,834) and more than 31 percent since the 10-year high in FY 2010 (17,206).

In an effort to support its enforcement programs and make up for attrition in recent years, the IRS recently announced that between 600 and 700 new enforcement employees will be added through the end of FY 2016.[6] These positions have the primary responsibility to improve taxpayer compliance and collect delinquent liabilities.

As enforcement staffing declined, IRS revenue collections through enforcement activities decreased to $54.2 billion in FY 2015 from $57.1 billion (5 percent) in FY 2014.[7] TIGTA reported in FY 2015 that the decrease in the number of revenue officers along with downtime due to revenue officers' computer problems resulted in Field Collection closing 34 percent fewer Taxpayer Delinquency Account (TDA) cases and collecting $222 million (7 percent) less in FY 2014 than in FY 2011.[8] In FY 2015, TDA tax period closures decreased 4 percent. Collections by revenue officers in Field Collection declined to less than $3 billion, a decrease of $38.2 million from FY 2014.

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[6] The IRS has indicated that its ability to hire these employees is due to program efficiencies and attrition within the enforcement program.
[7] FY 2014 enforcement revenue included a few large-dollar examination cases.
[8] 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).

The IRS continues to implement recent tax legislation and combat identity theft

The Patient Protection and Affordable Care Act of 2010[9] included numerous tax law changes that continue to present budgetary challenges for the IRS. The IRS is charged with administering many of the key components of this act, including:

- Premium tax credits – subsidies that eligible individuals and families receive to help them afford coverage in the Health Insurance Marketplace.[10]
- Individual shared responsibility payments – payments due from taxpayers who do not maintain basic health insurance coverage.[11]
- Small business health tax credits – a credit available to small employers and certain tax-exempt organizations for employee health insurance expenses.[12]
- The employer mandate – applicable to large employers who must offer health coverage or pay a penalty.[13]

The IRS must also 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 Marketplace with determining eligibility and enrollment, develop calculations such as the maximum Advance Premium Tax Credit, and reconcile the credit with reported taxable income.

During FY 2015, TIGTA evaluated the IRS's financial accounting controls for the premium tax credit.[14] Eligible individuals can choose to have some or all of the premium tax credit paid in advance to their health insurance company as payment of their monthly premium or can pay the premium and wait to claim it in its entirety on their Federal income tax return. During that review, TIGTA identified errors in the IRS's accounting and reporting of premium tax credit outlays. These errors required a $447 million adjustment to the account used to track premium tax credit funds.

TIGTA also reviewed the Federal tax compliance status of health insurers that received subsidies of the Advanced Premium Tax Credit and cost-sharing reduction, which enables taxpayers who meet the income criteria and obtain qualifying health coverage to reduce the amount they spend

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[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.
[14] TIGTA, Ref. No. 2016-13-021, *Affordable Care Act: Controls Over Financial Accounting for the Premium Tax Credit Should Be Improved* (Mar. 2016).

on costs such as deductibles, copayments, coinsurance, and total out-of-pocket spending limits.[15] TIGTA found that none of the insurers reviewed had been convicted of a felony or listed as ineligible to receive Federal payments or benefits.

The IRS also worked to administer the Foreign Account Tax Compliance Act.[16] Passed by Congress in March 2010, this act seeks to improve tax compliance by requiring filers and financial institutions to report certain information to the IRS about assets held in foreign accounts. Its requirement for individuals involves reporting specific foreign financial assets to the IRS via Form 8938, *Statement of Specified Foreign Financial Assets*. To avoid being subject to a 30 percent withholding rate on U.S. source payments, foreign financial institutions must register with and agree to report to the IRS certain information about their accounts owned by U.S. taxpayers. TIGTA reported that the IRS received nearly 789,000 individual returns with Forms 8938 attached for Tax Years 2011 through 2014.[17] As of September 2015, more than 173,000 foreign financial institutions have registered under the Foreign Account Tax Compliance Act.

Since FY 1990, the Government Accountability Office (GAO) included enforcement of tax laws as one of the 30 high-risk areas in the Federal Government. In February 2015, the GAO expanded this high-risk area to include the IRS's efforts to address identity theft that results in tax refund fraud.[18] The GAO stated that more must be done to address the problem because the IRS estimated paying out $5.8 billion in fraudulent identity theft refunds during the 2013 Filing Season. The IRS estimated that during FY 2015 it successfully stopped more than 1.7 million fraudulent returns with refunds totaling more than $14 billion.

During FY 2015, the IRS centralized the identity theft victim assistance program and continued to explore new data sources and techniques for combatting identity theft. The IRS is continuing development of its Return Review Program and expects to eventually replace its existing identity theft detection systems. TIGTA reported that the IRS needs to ensure that the new Return Review Program will be capable of detecting those cases that are currently identified by existing systems while at the same time identifying new identity theft schemes.[19]

Work is also ongoing in an effort to improve internal operations and the taxpayer experience through a variety of Future State initiatives. By using the latest tools and technology, the IRS is trying to improve how taxpayers interact with the IRS as well as how the IRS and its employees

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[15] TIGTA, Ref. No. 2016-13-001, *Affordable Care Act: Health Insurers Were Generally Tax Compliant* (Oct. 2015).
[16] Pub. L. No. 111-147, Subtitle A, 124 Stat 71, *96-116 (2010) (codified in scattered sections of 26 U.S.C.).
[17] TIGTA, Ref. No. 2015-30-085, *The Internal Revenue Service Has Made Progress in Implementing the Foreign Account Tax Compliance Act* (Sept. 2015).
[18] GAO, GAO-15-290, *HIGH RISK SERIES: An Update* (Feb. 2015).
[19] TIGTA, Ref. No. 2016-40-008, *Continued Refinement of the Return Review Program Identity Theft Detection Models Is Needed to Increase Detection* (Dec. 2015).

will interact with taxpayers. Numerous projects are ongoing in an effort to create better and more efficient ways of doing business, including but not limited to:

- Continuing to promote the use of IRS.gov as a first resource for tax law assistance and improving communication to taxpayers, tax professionals, and employees.
- Increasing taxpayer use of the Online Payment Agreement applications and providing proactive support of the offer in compromise work stream.
- Identifying new and innovative ways of assigning collection inventory, including identification of the highest value work.
- Evaluating examination procedures and work processes to increase efficiencies and maximize effectiveness.
- Continuing efforts to combat identity theft and refund fraud.

While the IRS's efforts to improve its future state are ongoing, operations continue to be affected by reductions in funding and employee attrition. Administration and enforcement of the Nation's tax code requires the largest portion of the IRS's resources, and while total tax revenue has increased, the work of IRS enforcement programs continues to be affected by resource constraints.

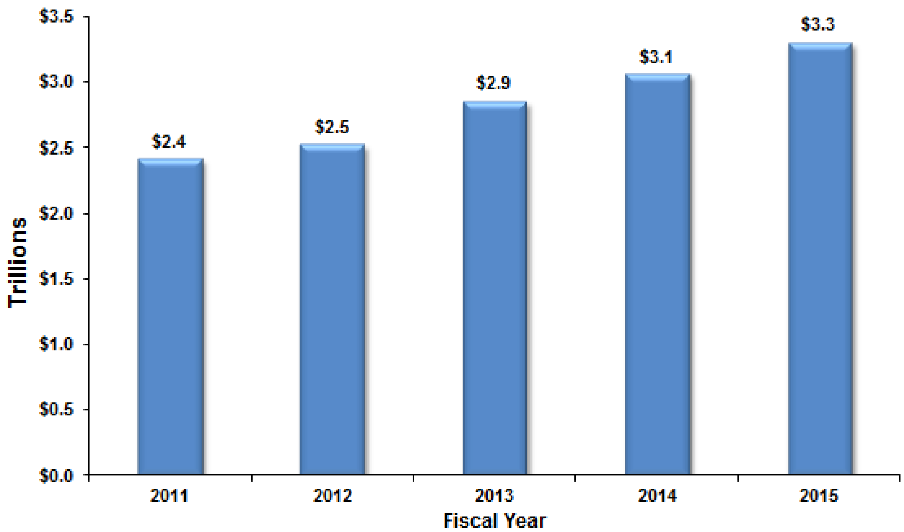
Enforcement Revenue Decreased While Total Tax Revenue Increased During Fiscal Year 2015

During FY 2015, enforcement revenue collected decreased $2.9 billion (5 percent), from $57.1 billion in FY 2014 to $54.2 billion.[20] IRS management advised us that 24 examination cases accounted for nearly $5 billion that was collected during FY 2014, which caused FY 2014's enforcement revenue to be higher than in other years. Enforcement revenue in FY 2015 increased 2 percent when compared to the average of FY 2011 through FY 2013 ($52.9 billion). In FY 2015, the Examination function reported $7.3 billion in enforcement revenue collections, which is the least amount over the past five years. Conversely, the amount of enforcement revenue attributed to the Collection function has grown 17 percent since FY 2012, reaching more than $35.7 billion in FY 2015.

Figure 3 shows that the total dollars received and collected increased for the fifth straight year.[21] Total tax revenue in FY 2015 ($3.3 trillion) was 37 percent higher than the $2.4 trillion reported in FY 2011 and increased 8 percent from FY 2014 ($3.1 trillion).

[20] See Appendix IV, Figure 2.
[21] The amount taxpayers voluntarily paid and what the IRS collected through its enforcement efforts or "total tax revenue."

Figure 3: 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, the number of revenue officers has decreased 30 percent over the past five years, from 3,733 in FY 2011 to 2,612 at the end of FY 2015.[22] In addition, the number of contact representatives within the Automated Collection System (ACS) has decreased 22 percent, from 2,622 in FY 2011 to 2,045 in FY 2015.

Closures of fully paid TDAs increased for the second straight year. After increasing less than 1 percent during FY 2014, closures of fully paid TDAs increased more than 3 percent during FY 2015. Nonetheless, the number of taxpayers with TDAs in the queue increased in FY 2015 to nearly 900,000 (7 percent) after decreasing to a five-year low of 840,000 in FY 2014. Taxpayer Delinquency Investigation (TDI) closures decreased for the fifth straight year, from 5.1 million in FY 2010 to 3.1 million in FY 2015 (a drop of 39 percent). The number of TDIs in collection inventory also decreased; at the end of FY 2015 there were 23 percent fewer TDIs in inventory (3.0 million) than the five-year high of 3.9 million TDIs in FY 2012.

The IRS continued to reduce its use of enforcement actions such as Notices of Federal Tax Lien (NFTL), levies, and seizures while accepting more offers in compromise and increasing the use of direct debit installment agreements. Continued reductions in enforcement personnel requires

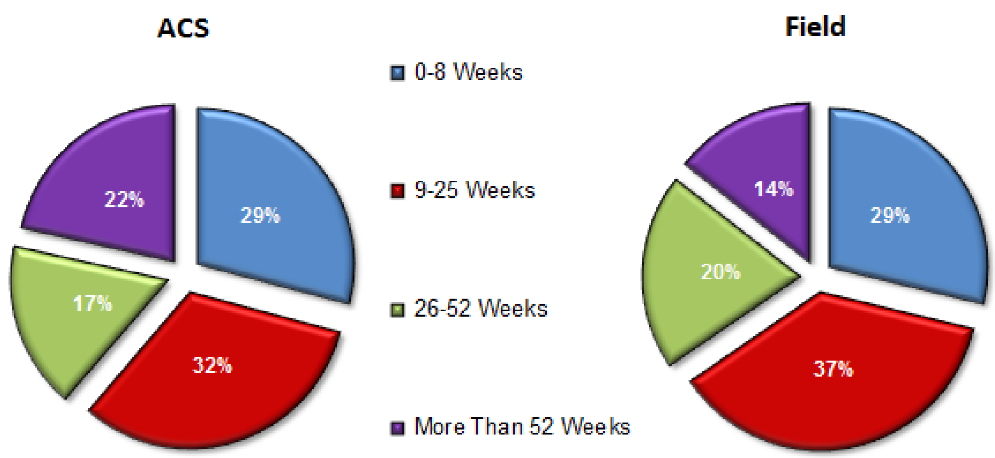
[22] See Appendix IV, Figure 6.

the IRS to make efficient and effective use of such compliance tools to ensure that tax compliance does not further erode and the Tax Gap does not widen.

TDA collections, closures, and available inventory

TDA collections during FY 2015 ($7.3 billion) increased for the second straight year and are 6 percent higher than the five-year low of $6.8 billion during FY 2013. While TDA collections by the ACS, by Compliance Services Collection Operations, and in the queue increased, collections on TDAs by Field Collection decreased to less than $3.0 billion for the first time since FY 2009. TDA collections in the queue increased 21 percent, from $833 million in FY 2014 to more than $1.0 billion in FY 2015. Collections by the ACS and Field Collection continue to make up more than 86 percent of all TDA collections. Figure 4 shows that both the ACS and Field Collection continued to make the majority of collections within the first year of receipt.[23]

Figure 4: Percentage of Dollars Collected During FY 2015 by the Number of Weeks the TDA Was Assigned to the ACS and the Field



Source: IRS Collection Activity Report 5000-2.

Collections early in the life of a debt are critical because the probability of collecting funds diminishes over time. The National Taxpayer Advocate Service conducted a research study of the IRS's collectibility curve as part of the FY 2015 Annual Report to Congress. The research confirmed what the collection industry widely believes to be the case—that collectibility decreases over time. Specifically, the Taxpayer Advocate concluded that collections on TDAs originating in Calendar Year 2007 decreased by approximately 64 percent during the second year

[23] Time in function does not include time that each tax module may have spent in another IRS function.

after entering TDA status.[24] In line with the timeliness of collections presented in the research, the majority of IRS collections continue to be made within the first 25 weeks (six months).[25] However the percentage of collections made during this time period have declined.

The number of TDAs generated for all Collection functions increased 6 percent from FY 2014 to FY 2015. Specifically, the number of TDAs issued to the ACS and the queue increased 6 percent and 9 percent, respectively, while TDAs issued to Field Collection continued to decrease for the fourth year in a row.

Inventory in the ACS has grown each year since FY 2011. Taxpayers with TDAs in the ACS increased 7 percent from FY 2014 (4.4 million) to FY 2015 (4.7 million), while the delinquencies attributed to these taxpayers increased 13 percent during the same time ($46.4 billion to $52.4 billion, respectively). From FY 2011 to FY 2015, taxpayers with TDAs in the ACS have grown 47 percent (from 3.2 million in FY 2011), while the delinquencies attributed to these taxpayers increased nearly 70 percent (from $30.9 billion).

The number of TDA tax periods closed as uncollectible by the ACS has declined over the past four years. Uncollectible closures in FY 2015 (721,000) decreased more than 2 percent from FY 2014 (739,000) and were 25 percent less than the five-year high in FY 2012 (967,000). Tax periods shelved or surveyed by the ACS have also declined in recent years. The ACS shelved or surveyed 5 percent less tax periods in FY 2015 (380,000) than in FY 2014 (401,000). The dollar value associated with these shelved and surveyed delinquencies declined by 45 percent from FY 2014 ($1.7 billion) to FY 2015 ($949 million).

The number of taxpayers with TDAs in the queue increased in FY 2015, with approximately 900,000 taxpayers with delinquent accounts in the queue. This was an increase of 7 percent from the number of taxpayers in the queue at the end of FY 2014 (840,000).[26] However, the value of the delinquencies in the queue decreased by less than 1 percent, from $57.7 billion in FY 2014 to $57.5 billion in FY 2015. 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.[27]

Many tax periods that remain unassigned in the queue for 52 weeks or more are shelved or surveyed. The majority of shelved and surveyed accounts are placed in that status via the queue. The number of tax periods shelved or surveyed from the queue decreased 9 percent from FY 2014 (865,000) to FY 2015 (788,000). The number shelved and surveyed from the queue in

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[24] National Taxpayer Advocate, Annual Report to Congress, Volume 2: Taxpayer Advocate Service Research and Related Studies, *IRS Collectibility Curve* (Dec. 2015). The Taxpayer Advocate Service's methodology included analyzing liabilities entering TDA status from Calendar Year 2003 through Calendar Year 2012.
[25] See Appendix IV, Figures 9 and 10.
[26] See Appendix IV, Figure 11.
[27] 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.

FY 2015 was 34 percent less than the 1.2 million tax periods in FY 2013. The delinquencies associated with these closures in FY 2015 ($6.9 billion) were 36 percent less than those delinquencies shelved or surveyed in FY 2013 ($10.8 billion) and 12 percent less than the associated delinquencies in FY 2014 ($7.8 billion).

Tax periods closed as uncollectible by the field decreased 8 percent from FY 2014 (502,000) to FY 2015 (463,000). Uncollectible closures in FY 2015 were 32 percent less than the five-year high in FY 2012 (682,000). Delinquencies associated with uncollectible closures in the field have declined 20 percent from FY 2012 ($17.2 billion) to FY 2015 ($13.9 billion).

The decline in the number of revenue officers affects the number of TDAs that can be assigned in Field Collection. The decline in available resources also affects the number of TDAs in the queue awaiting assignment. Specifically, both the number of taxpayers with TDAs and the total number of modules in the queue grew by approximately 7 percent during FY 2015. Overall, more TDAs were generated than the IRS closed. While both closures and receipts increased in FY 2015, TDA closures as a percentage of TDA receipts remained consistent at 75 percent.[28]

TDI closures

In FY 2015, the number of successful TDI resolutions (a closure is successful if the taxpayer files a delinquent tax return) decreased for the fourth straight year, decreasing 41 percent since FY 2011. In FY 2015, TDI's closed decreased 11 percent from FY 2014. While the number of successful closures is decreasing, the number of TDI tax periods shelved or surveyed has varied. TDI tax periods shelved or surveyed from the queue decreased 23 percent, from a five-year high of 602,000 in FY 2014 to 463,000 in FY 2015. At the same time, TDIs shelved or surveyed by the ACS increased 24 percent, from 97,000 in FY 2014 to 120,000 in FY 2015. Field Collection had a smaller increase of 11 percent from FY 2014 (437) to FY 2015 (486). As TDI closures have generally decreased, TDI inventory is also declining.

New TDI inventory received has declined more than 53 percent from FY 2011 (2.4 million) to FY 2015 (1.1 million). Available TDI inventory at the end of FY 2015 (3.0 million) was 14 percent less than available inventory at the end of FY 2014 (3.5 million) and 23 percent less than available inventory at the end of FY 2012 (3.9 million). The IRS attributes the change in TDIs during FY 2015 to a decrease in available resources and the decision to limit the number of non-filers selected for case creation.

Unpaid assessments

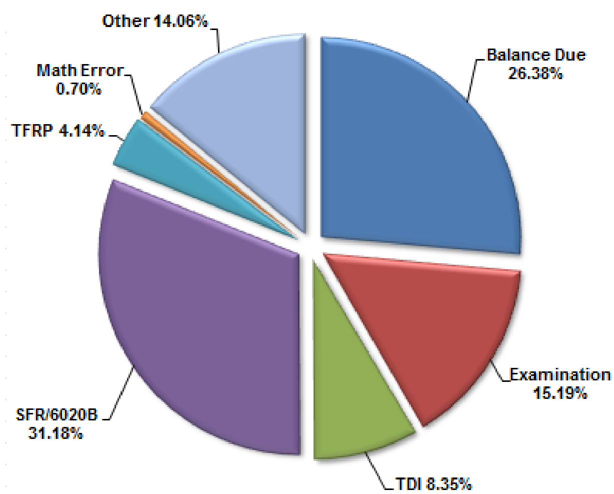
Unpaid assessments shown in Figure 5 reflect the cumulative total of all Federal taxes due and legally enforceable, including compliance assessments and write-offs. Compliance assessments include amounts that have not been agreed to by the taxpayer or determined by a court, while

[28] See Appendix IV, Figures 15 and 17.

write-offs represent those amounts for which the IRS does not expect to make further collections.[29]

IRS unpaid assessments increased $159 million (less than one half of a percent) during FY 2015, to $412 billion at the end of FY 2015.[30] Figure 5 shows the unpaid assessments by source of assessment.

Figure 5: FY 2015 Percentage of Unpaid Assessments 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.

From FY 2014 to FY 2015, Math Error assessments decreased by 20 percent, while Trust Fund Recovery Penalty and Substitute for Return/6020b assessments each decreased by 2 percent. Accounts receivable from all other sources increased during FY 2015.

The use of liens, levies, and seizures[31]

The IRS's use of liens continued to decline in FY 2015. Issuances of NFTLs decreased 4 percent in FY 2015 (509,000) compared to issuances in FY 2014 (530,000). This is the fewest issued since FY 2002. During FY 2015, NFTLs issued by the ACS grew to 202,000 (2 percent) from

[29] During recent (GAO, GAO-16-146, Financial Audit: *IRS's Fiscal Years 2015 and 2014 Financial Statements* (Nov. 2015)) and prior audits of IRS financial statements, the GAO noted that limitations of the IRS's financial system require the IRS to create, through a labor-intensive manual estimation process including multibillion-dollar adjustments, the value of Federal taxes receivable. In response to recommendations, the IRS has taken actions to improve management and reporting of unpaid assessments and developed a long-term action plan.
[30] See Appendix IV, Figure 2.
[31] See Appendix IV, Figures 19 through 21.

199,000 in FY 2014, while those from Field Collection decreased from 332,000 in FY 2014 to 307,000 in FY 2015, which is an 8 percent decrease.

Changes in NFTL filing determination thresholds and declining Collection program resources in recent years are the most likely causes for the decrease in this enforcement action. The threshold for NFTL filing determinations was increased in February 2011 from $5,000 to $10,000, while the ACS systemic filing threshold was increased in April 2011 from $5,000 to $25,000. TIGTA 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 the Government's priority in assets for payment of taxes not protected from third-party creditors.[32]

The IRS's use of levies decreased 27 percent from approximately 1.99 million during FY 2014 to 1.46 million in FY 2015. This was the fewest number of levies issued since FY 2002. Although the number of levies issued by Field Collection grew by 2 percent, levies issued by the ACS decreased more than 38 percent. Specifically, the ACS issued 881,000 levies in FY 2015 compared to approximately 1.4 million levies in FY 2014. The decrease in levy issuances from the ACS was planned and intended to reduce taxpayer correspondence as a result of levy notice issuances, thereby allowing the IRS to focus resources on over-age inventories.

The IRS continues to limit its use of seizures. During FY 2015, the number of seizures decreased by 1 percent from 432 in FY 2014 to 426. The number of seizures remains far below the number prior to implementation of the IRS Restructuring and Reform Act of 1998.[33] TIGTA recently made recommendations to improve managerial oversight and ensure consistent treatment of seized assets.[34]

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 expanded the criteria to provide more payment options to taxpayers.

The number of new offer in compromise receipts submitted by taxpayers decreased for the second year in a row. Meanwhile, the number of offers accepted increased by 2 percent, from

[32] 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).
[33] 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.).
[34] TIGTA, Ref. No. 2015-30-036, *Seizure Sale Procedures Were Not Always Followed and Can Be Improved* (May 2015).

26,924 in FY 2014 to 27,417 in FY 2015. The dollar value of accepted offers increased more than 14 percent for the same period, to $205 million in FY 2015.[35]

The total number of installment agreements decreased for the third time in the past five years. Installment agreements have fluctuated between 2.98 million and 3.35 million since FY 2011, including a 1 percent decrease from FY 2014 (3.01 million) to FY 2015 (to 2.99 million). The dollar value of liabilities associated with these installment agreements also fluctuated from FY 2011 through FY 2015, including an increase from $23.7 billion in FY 2014 to $24.7 billion (4 percent) in FY 2015.[36] The number of direct debit installment agreements has increased more than 117 percent since FY 2011, growing from 309,000 to 672,000 in FY 2015. This included a 32 percent increase between FY 2014 (508,000) and FY 2015.

The amount collected through installment agreements has increased in each of the past five years. Total collections attributed to installment agreements grew 28 percent from FY 2011 ($9.56 billion) to FY 2015 ($12.24 billion), increasing 8 percent alone since FY 2014 ($11.32 billion). Collections from direct debit installment agreements increased 29 percent from $2.79 billion in FY 2014 to $3.59 billion in FY 2015. Since FY 2011, collections from direct debit installment agreements have increased 215 percent (from $1.14 billion).

Examination Function Compliance Activities Generally Decreased

Examination is a vitally important aspect of maintaining a voluntary tax compliance system because 85 percent of the Gross Tax Gap is comprised of underreported income.[37] Since hiring nearly 3,300 revenue agents and tax compliance officers in FYs 2009 and 2010, the IRS has hired fewer than 250 employees for these positions over the last five fiscal years. Reduced hiring coupled with attrition has contributed to a 24 percent reduction in the overall number of Examination function personnel who conduct examinations of tax returns.

From FY 2011 to FY 2015:

- The number of revenue agents decreased 24 percent (from 10,752 to 8,182).
- The number of tax compliance officers decreased 26 percent (from 1,278 to 941).

Overall, the number of tax returns examined decreased, and most examinations continue to be conducted via correspondence

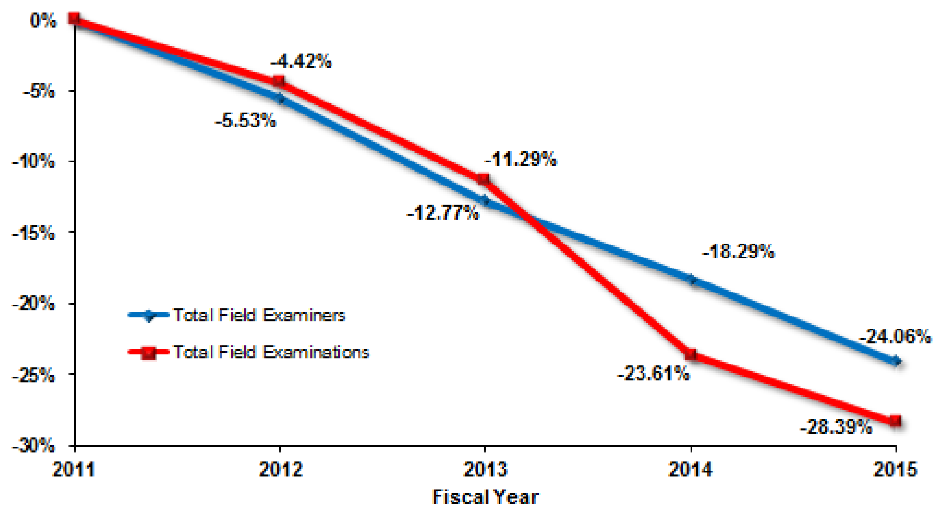
Losses in the number of examination employees continued to affect the number of examinations of tax returns. In FY 2015, the number of examinations conducted by the IRS decreased less

[35] See Appendix IV, Figure 23.
[36] See Appendix IV, Figure 22.
[37] IRS, Report: *Tax Gap for Tax Years 2008–2010* (Apr. 2016), available at: http://www.irs.gov/uac/IRS-The-Tax-Gap.

than 1 percent from the number conducted during FY 2014. However the number of examinations was more than 20 percent lower than the number conducted during FY 2011.

Figure 6 shows that the total number of field examinations has continued to decline since FY 2011. Figure 6 also shows that continued loss of resources has, for the second straight year, caused the decrease in field examinations to exceed the loss of examiners.

Figure 6: Percentage Change in the Number of Field Examiners and Examinations Since FY 2011



Source: IRS Data Book and Table 37 Examination Program Monitoring.

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 2015, 73 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.[38] These routines often identify and recommend adjustments to tax liabilities. However, these adjustments are not included in the traditional examination coverage calculations and are not reported separately as enforcement efforts. During FY 2015, the IRS continued to experience decreases in certain types of contacts associated with taxpayer underreporting and math errors.

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[38] See Appendix IV, Figures 54 and 55.

Examination rates for most types of tax returns decreased during FY 2015

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 fifth straight year. The IRS examined 1,228,117 (one of every 120) tax returns in FY 2015. This is 1 percent less than the number of examinations performed in FY 2014 (1,242,479) and 22 percent fewer examinations than the five-year high reported in FY 2011 of 1,564,690 (one of every 90).[39] During FY 2015, 83 percent of the examinations of individuals were performed by correspondence, which is less than 1 percent more than during FY 2014.[40] One of every 714 individual income tax returns filed received a face-to-face examination, which is a 10 percent decrease compared with FY 2014, when one of every 646 individual returns received a face-to-face examination.

  The decrease in individual examinations is evident across many subcategories of individual returns. Examinations of individual returns with less than $25,000 in income and claiming the Earned Income Tax Credit make up more than 33 percent of all examinations. The number of examinations conducted in this area declined less than 1 percent from FY 2014 (460,939) to FY 2015 (459,920) and have decreased more than 15 percent since FY 2011 (545,157).[41] Examinations of individual returns with income of between $200,000 and $1,000,000 (non-business) decreased 13 percent from FY 2014 (81,730) to FY 2015 (71,280).[42]

  On the other hand, a category of individual returns that has experienced an increase in examinations over the past year is those with reported income of $1,000,000 or more.[43] In FY 2015, 3 percent of all IRS examinations were conducted in this area. The IRS examined 39,753 of these returns during FY 2015 (1 in 10), which is more than the 34,361 examined in FY 2014 (1 in 13).

- *Corporate Income Tax Return Examinations* – Fewer corporate tax returns were examined during FY 2015 than any year since FY 2004.[44] The number of corporate examinations decreased in FY 2015 to 23,870 (one of every 78 returns filed).[45] Also in FY 2015, there were fewer corporate tax filings than in any year since we have been

[39] This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 32 and 33.
[40] 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.
[41] See Appendix IV, Figure 35.
[42] See Appendix IV, Figure 37.
[43] See Appendix IV, Figure 39.
[44] This information excludes returns for foreign corporations, S corporations, and cooperative associations.
[45] See Appendix IV, Figures 42 through 45, for coverage by size of corporation for the past five years.

conducting this annual review (1,863,850). During FY 2015, 12 percent of the examinations of corporate income tax returns were performed by correspondence.

Over the past five years, the number of corporate tax returns examined with assets of less than $10 million decreased more than 16 percent, from 19,697 in FY 2011 to 16,460 in FY 2015, and decreased by 5 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 decreased 7 percent from FY 2011 (1.9 million) to FY 2015 (1.8 million).

The number of corporate tax returns with assets of $10 million to $100 million examined has declined each of the past five years (2,913 in FY 2015). These examinations decreased 1 percent from FY 2014 (2,947), and 47 percent from the 5,501 examinations conducted in FY 2011. Conversely, examinations of corporations with assets of $100 million to $250 million increased in FY 2015 (1,185). This is 9 percent more than the 1,084 examinations performed in FY 2014 but 36 percent less than the 1,854 examinations performed in FY 2012.

The number of corporate tax returns examined with assets of more than $250 million has declined each of the past two years. There were 3,312 examinations of these corporations during FY 2015, which is 13 percent less than the 3,827 examinations performed in FY 2014 and 10 percent less than the 3,669 examinations performed in FY 2011.

Filings of tax returns in these asset categories have increased. From FY 2014 to FY 2015, filings of corporations with $10 million to $100 million in assets increased 3 percent (41,322 to 42,727), those with assets of $100 million to $250 million increased 1 percent (8,274 to 8,317), and those with assets of more than $250 million increased 5 percent (14,665 to 15,440).

- *S Corporation Tax Return Examinations* – The number of S corporation examinations increased 14 percent from FY 2014 (16,317) to FY 2015 (18,595), exceeding the number of examinations in FY 2011 (18,519). However, this number remains 14 percent less than the five-year high in FY 2012 (21,658). In FY 2015, one of every 248 S corporation returns filed were examined, compared with one of every 277 filed in FY 2014.[46] S corporation return filings have continued to increase every year since FY 1988, to more than 4.6 million in FY 2015. During FY 2015, 11 percent of the examinations of S corporations were performed by correspondence.

- *Partnership Return Examinations* – The number of partnership returns examined increased 22 percent to 19,212 in FY 2015. Examinations have increased more than 39 percent since FY 2011, when 13,770 examinations were conducted. While one of every 249 returns filed in FY 2011 were examined, continued focus on partnership

[46] See Appendix IV, Figures 32 and 46.

examinations have resulted in one of every 196 returns being examined in FY 2015.[47] The number of partnership return filings increased each of the past five years and increased by 3 percent to 3.8 million filings in FY 2015. During FY 2015, 3 percent of the examinations of partnership returns were performed by correspondence.

Congress passed legislation in October 2015 that is expected to streamline IRS examinations of large partnerships and collection of any adjustments.[48] Major changes include that, beginning with returns filed for tax years after December 2017, large partnerships (100 or more partners) will identify a single partnership representative to represent the partnership during examination. In addition, the IRS will have the ability to collect partnership-level adjustments from the partnership rather than from the partners themselves.

Currently, the adjustment process can be administratively burdensome because partnerships can have thousands of partners and the IRS must link partnership returns to taxable partners and allocate audit adjustments accordingly. TIGTA recently reported that while IRS productivity reports indicate billions of dollars in partnership audit adjustments, the IRS does not know the amount of additional taxes ultimately assessed to the partners of these partnerships.[49] Since FY 2010, the IRS failed to assess partners approximately $14.5 million in taxes, interest, and penalties resulting from adjustments to partnership returns.

- *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 of 77,964 in FY 2015. There has been a 23 percent decrease in these types of examinations since the five-year high in FY 2012.

  Examinations of fiduciary returns increased from FY 2014 (3,694) to FY 2015 (5,288), the only "other" tax return type to increase during this period. Employment return examinations decreased 5 percent, with estate, excise, and gift return examinations decreasing 3 percent, 5 percent, and 18 percent, respectively. Filings of these "other" tax return types increased with the exception of gift tax returns, which decreased 28 percent in FY 2015.

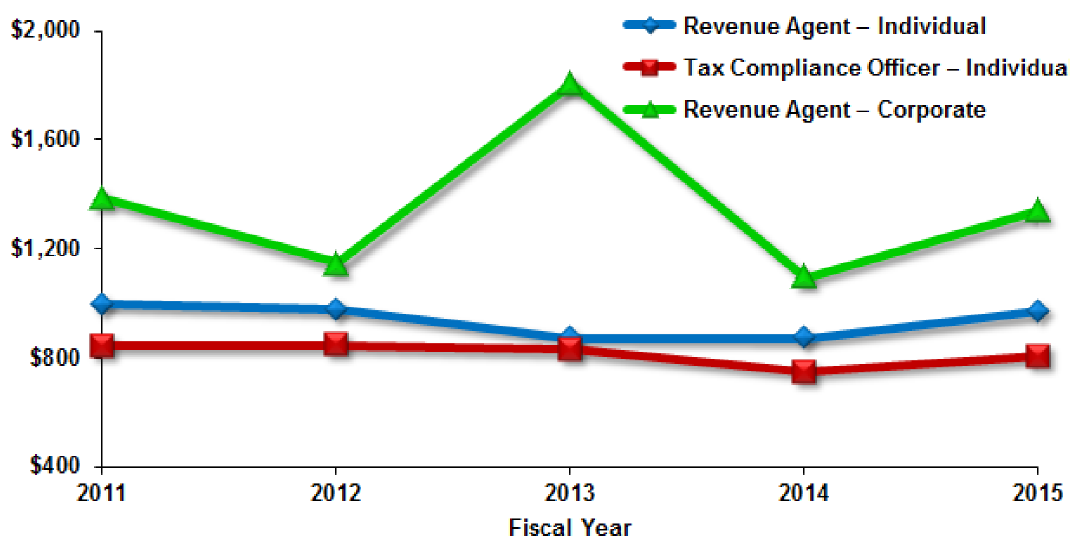
  During FY 2015, there were no examinations through correspondence conducted for estate or gift tax returns. Employment and excise correspondence examination rates were 20 percent and 18 percent, respectively.

[47] See Appendix IV, Figures 32 and 48.
[48] Pub. L. No. 114-74 129 Stat. 584 (2015) (Sec. 1101 Partnership Audits and Adjustments).
[49] TIGTA, Ref. No. 2015-30-004, *Additional Improvements Are Needed to Measure the Success and Productivity of the Partnership Audit Process* p. 5 (Mar. 2015).

Examination function productivity indicators have increased

Figure 7 shows the dollar yield per hour for FYs 2011 through 2015 for revenue agents and tax compliance officers.

Figure 7: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

In FY 2015, the dollar yield per hour for revenue agent examinations of individual returns increased 11 percent. This is the only increase over the past five years and the first increase since FY 2009. Also in FY 2015, dollars recommended per return and hours expended per return by revenue agents examining individual returns increased 12 percent and 1 percent, respectively, reaching five-year highs.[50] Similarly, the dollars recommended per return and hours expended per return for examinations of individuals by tax compliance auditors reached five-year highs in FY 2015, increasing 10 percent and 2 percent, respectively. The increase in dollars recommended per return likely drove the 8 percent increase in the dollar yield per hour for examinations of individuals by tax compliance auditors.[51]

The dollar yield per hour for the examination of corporate tax returns by revenue agents increased 22 percent in FY 2015. Previously this yield had increased 58 percent in FY 2013 and decreased 39 percent in FY 2014. This measure continues to be driven by changes in the dollars

[50] Dollars recommended reflects the sum of examinations' manual assessments, cumulative assessments, unagreed amounts, and adjustments. Cumulative assessments are computer generated through the IRS's Audit Information Management System and do not include manual assessments, unagreed amounts, or adjustments.
[51] See Appendix IV, Figures 26 and 29.

recommended per return, which increased 74 percent in FY 2013, decreased 43 percent in FY 2014, and increased 27 percent in FY 2015.[52]

The dollar yield for revenue agent examinations of partnerships and large corporations (non–Coordinated Industry Cases with assets of more than $10 million) both increased in FY 2015 by 2 percent and 18 percent, respectively. At the same time, the dollars recommended per return and dollars recommended per hour during revenue agent examinations of S corporations decreased 26 percent and 24 percent, respectively. This was the first decrease in these measures since FY 2012.

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.

The no-change rates for:

- Revenue agent examinations of individual tax returns decreased from 11 percent in FY 2012 to 9 percent in FY 2015.
- Tax compliance officer examinations of individual tax returns did not change from FY 2014, remaining at 8 percent, which was lower than the FY 2012 and FY 2013 measures of 9 percent.
- Revenue agent examinations of corporate tax returns increased to 31 percent, the highest level in five years and 3 percent more than the 28 percent reported for FY 2011.[53]
- Revenue agent examinations of partnership returns did not change from FY 2014, remaining at 49 percent. This is the highest rate over the past five years and 5 percent more than the five-year low of 44 percent in FY 2012.
- Revenue agent examinations of S corporations increased for the second straight year to 36 percent. This number remains 8 percent lower than the 39 percent reported in FY 2011.

Conclusion

The IRS has worked to curb identity theft as well as implement features of the Patient Protection and Affordable Care Act. Nonetheless, during FY 2015, the IRS continued to experience the effects of reduced resources. This is evidenced by declines in enforcement revenue and growth in the number of taxpayers in delinquent inventory. The IRS's individual and corporate examination programs experienced declines in examinations conducted during FY 2015, with gains in productivity for these types of returns being driven by an increase in the dollars

[52] See Appendix IV, Figure 27.
[53] See Appendix IV, Figure 30.

recommended per return. More partnership and small corporate examinations were conducted, and more of these returns were filed during FY 2015 than at any time in the past five years. Despite these challenges, the IRS continued to increase the total amount of revenue it collects each year. The IRS must continue to take steps to be as efficient as possible in order to maintain an effective and fair tax administration system.

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 included but was not limited to:

      1. Staffing.
      2. Direct and indirect time.
      3. Delinquent account inventories and unfiled return investigations.
      4. Enforcement actions (NFTLs, levies, and seizures).

   B. Obtained and analyzed Examination function data. This included but was 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 included but was not limited to:

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

   D. Reviewed applicable TIGTA and GAO 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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Appendix III

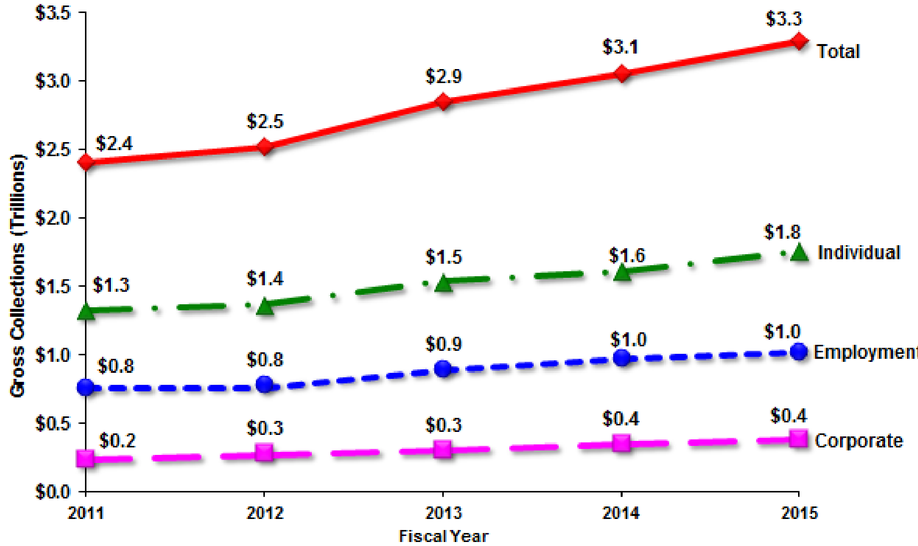
Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Commissioner, Large Business and International Division
Commissioner, Small Business/Self-Employed Division
Commissioner, Wage and Investment Division
Director, Office of Research, Analysis, and Statistics
Director, Office of Audit Coordination

Appendix IV

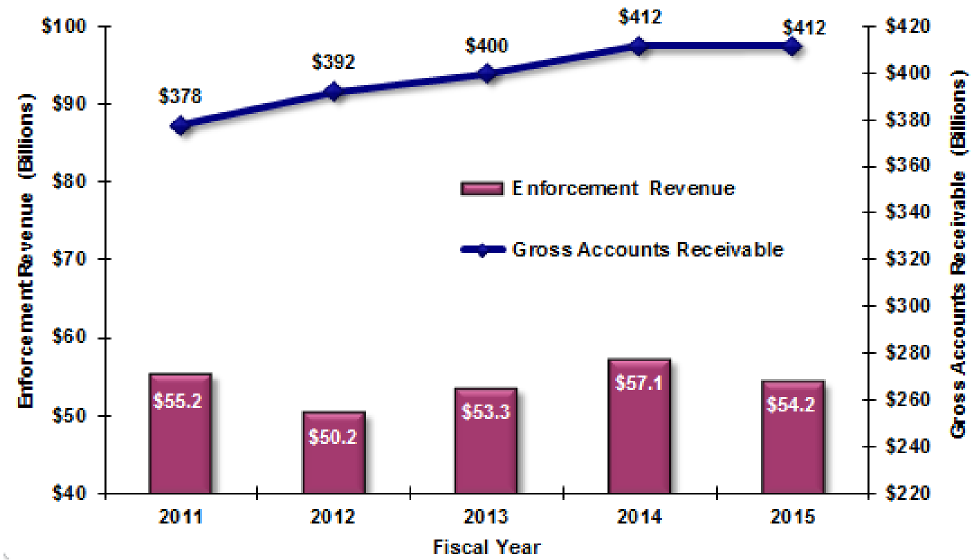
Detailed Charts of Statistical Information

Figure 1: Total Tax Revenue by Type of Tax[1]



Source: TIGTA analysis of the IRS Data Book.

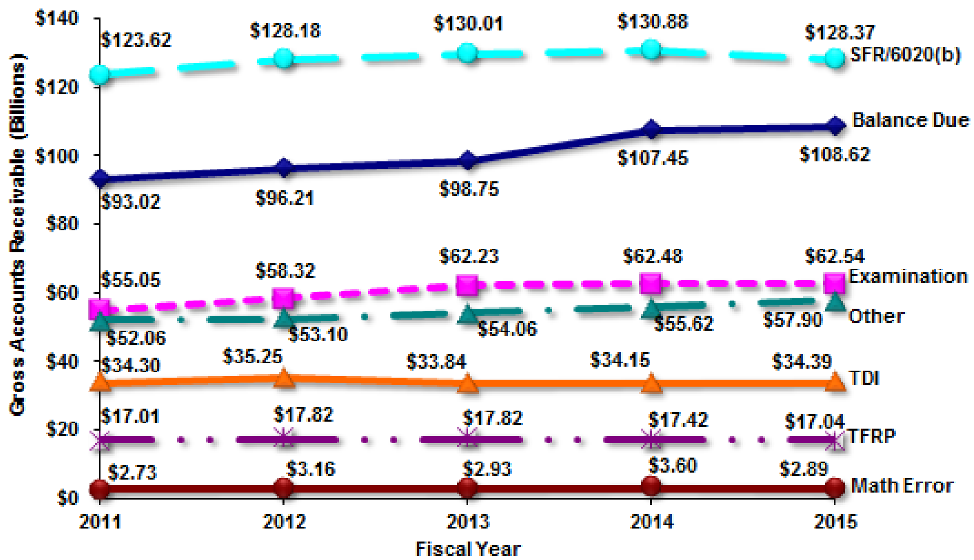
Figure 2: Amount of Enforcement Revenue Collected Compared to Unpaid Assessments



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

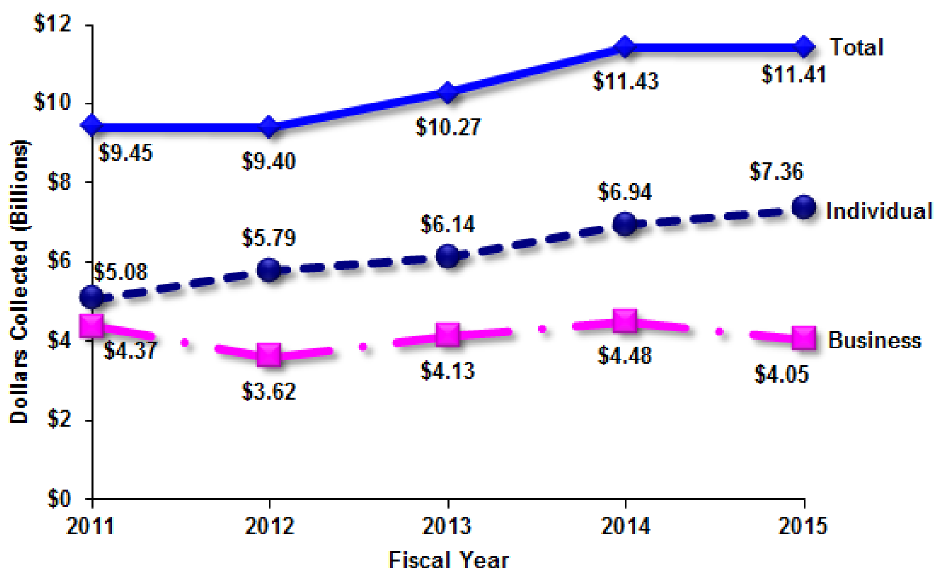
[1] The total line includes excise, estate, and gift taxes, not just individual, corporate, and employment taxes.

Figure 3: Unpaid Assessments by Source of Assessment



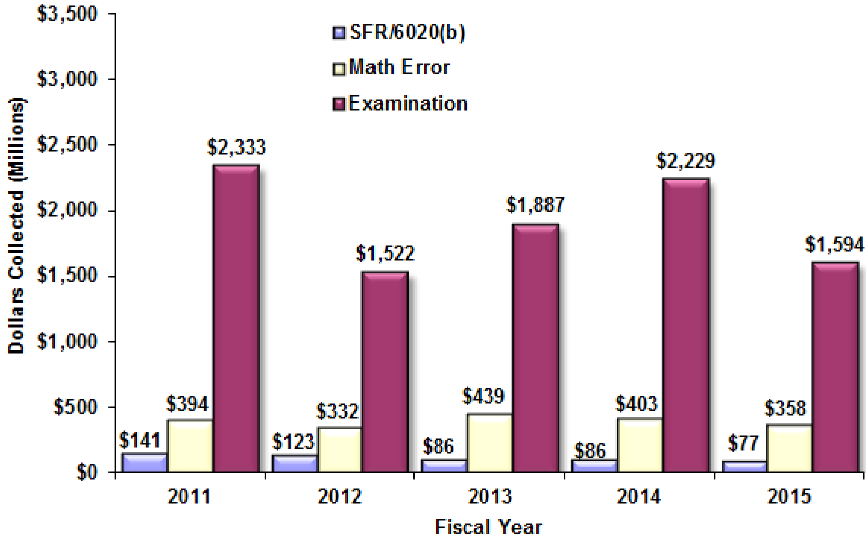
Source: TIGTA analysis of data received from the Office of the Chief Financial Officer.
SFR = Substitute for Return. TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status



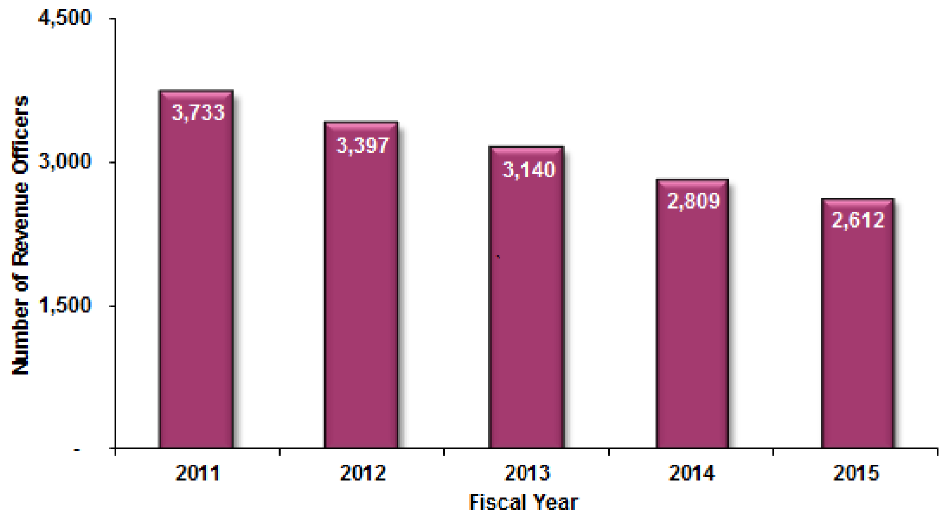
Source: Collection Activity Report 5000-2/242.

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



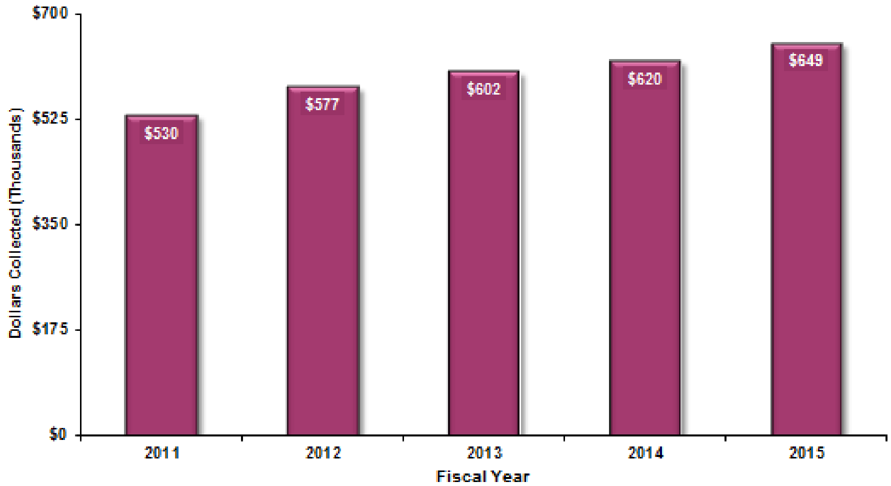
Source: Collection Activity Report 5000-2/242.
SFR = Substitute for Return.

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



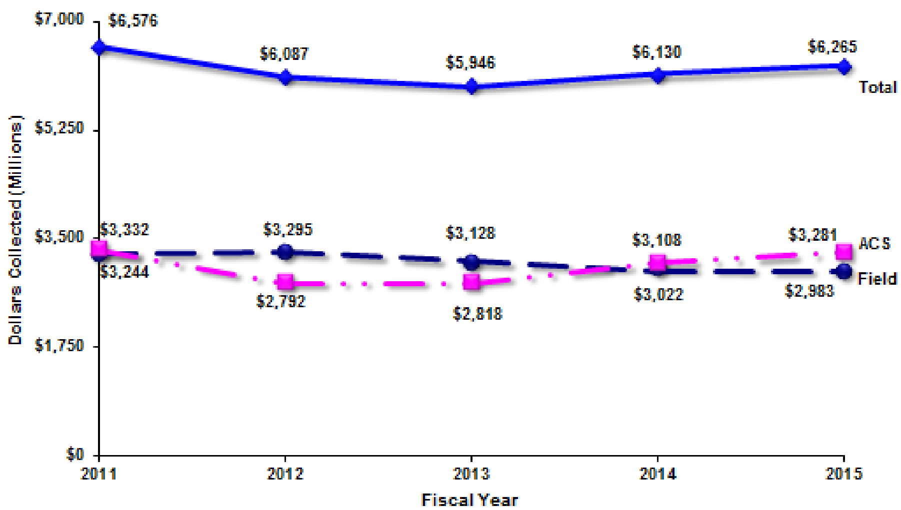
Source: Collection Activity Report 5000-23.

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.

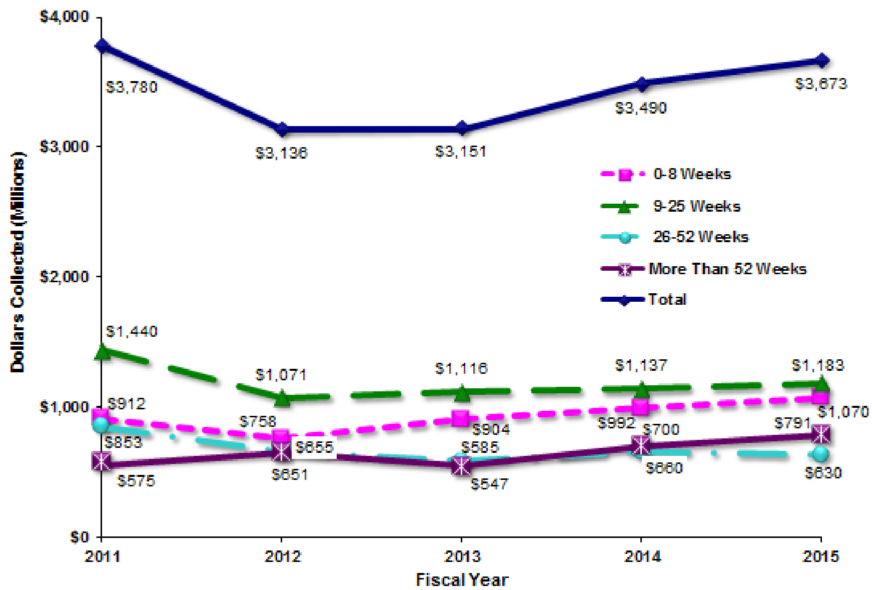
Figure 8: Net Amounts Collected on TDA Tax Periods by the Field and the ACS[2]



Source: Collection Activity Report 5000-2.

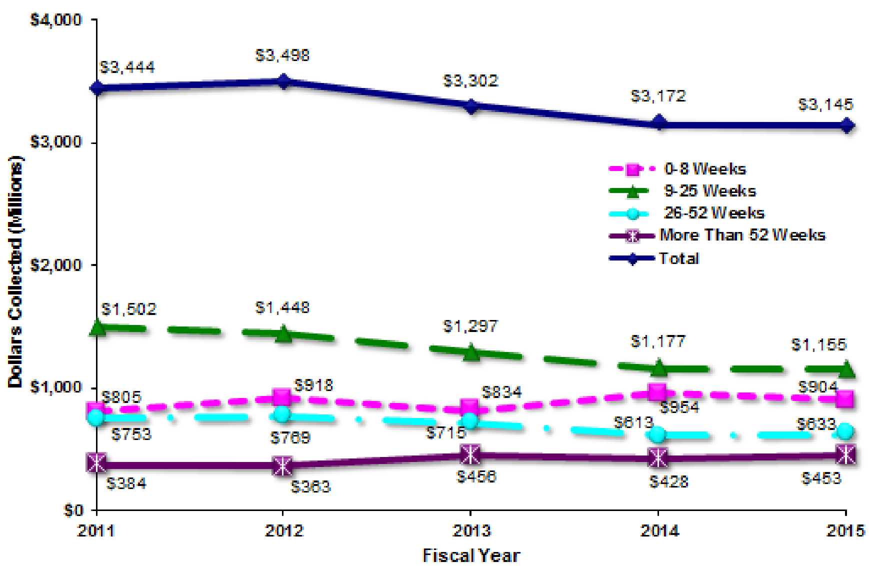
[2] The dollars collected shown in Figure 8 are the net amounts collected after adjustments, such as refunds, are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.

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



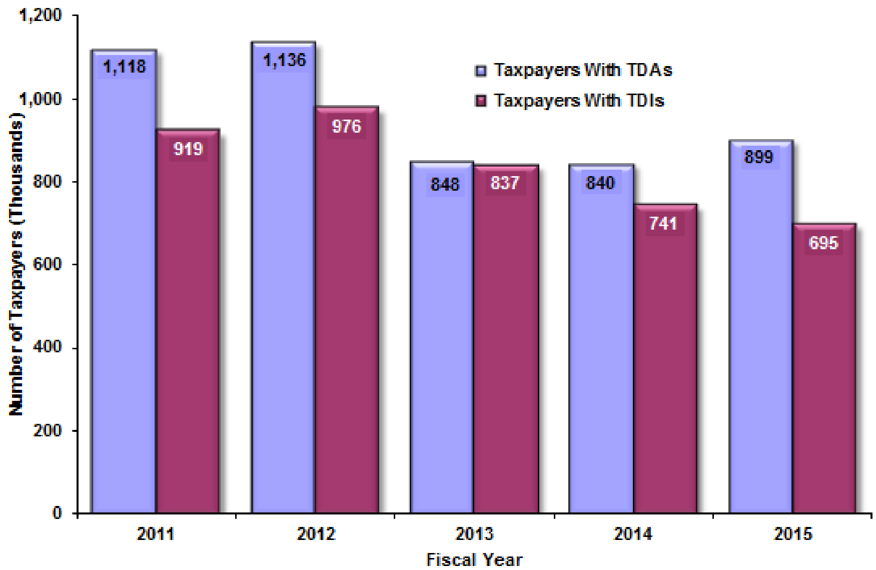
Source: Collection Activity Report 5000-2.

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



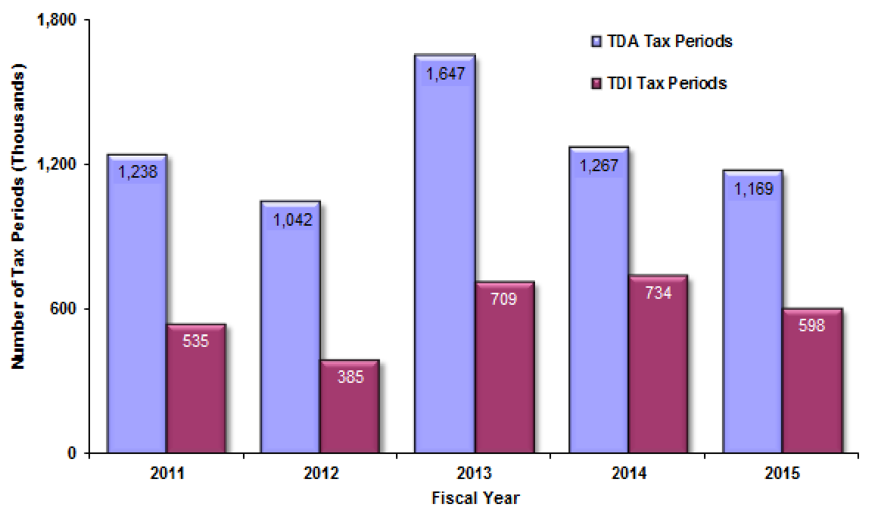
Source: Collection Activity Report 5000-2.

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



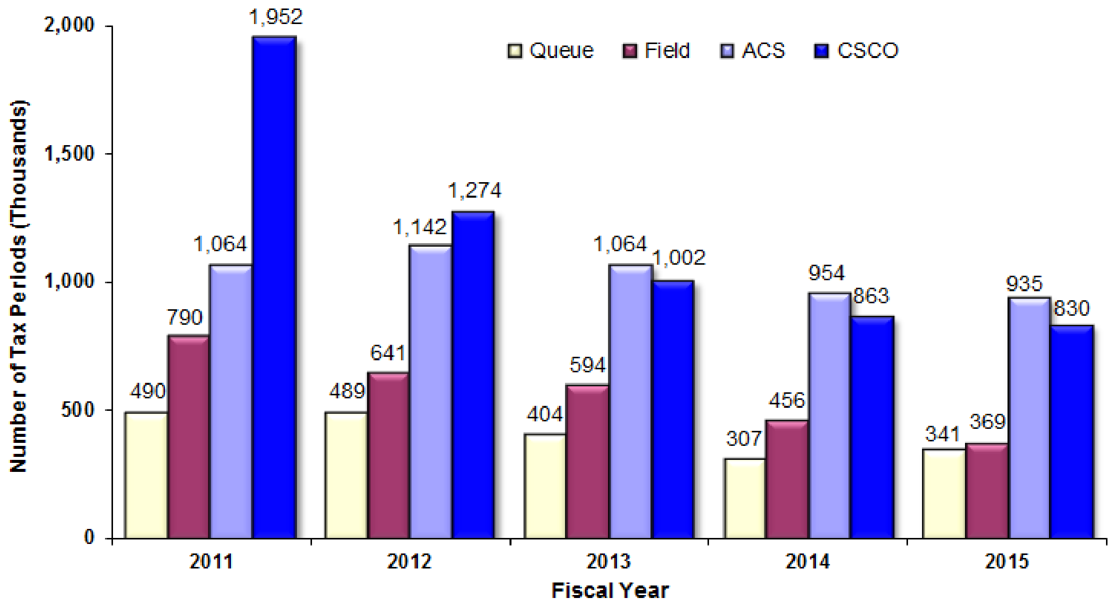
Source: Collection Activity Reports 5000-2 and 5000-4.

Figure 12: TDA and TDI Tax Periods Shelved or Surveyed



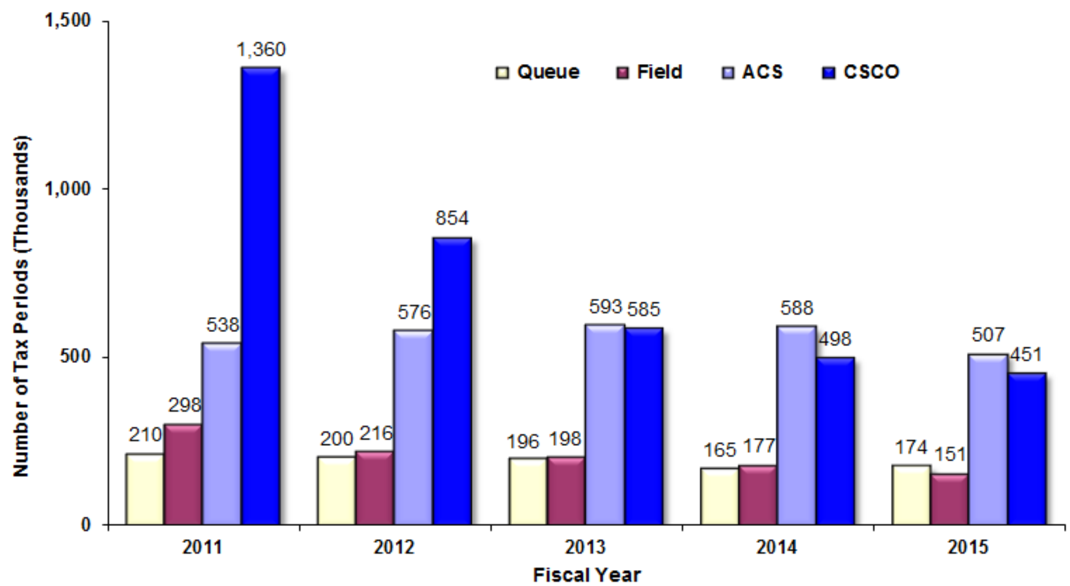
Source: TIGTA analysis of Collection Activity Reports 5000-2 and 5000-4.

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



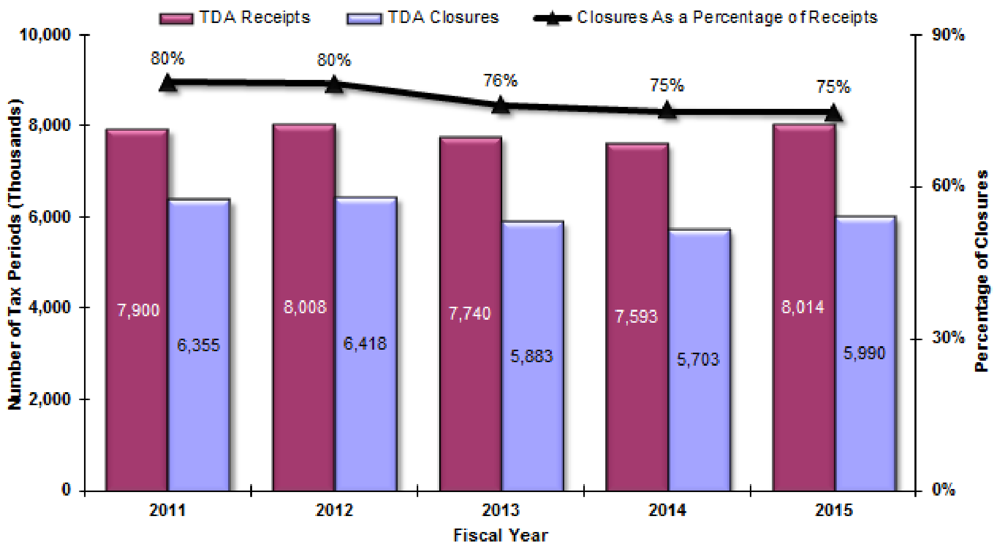
Source: TIGTA analysis of Collection Activity Report 5000-4.
CSCO = Compliance Services Collection Operations.

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



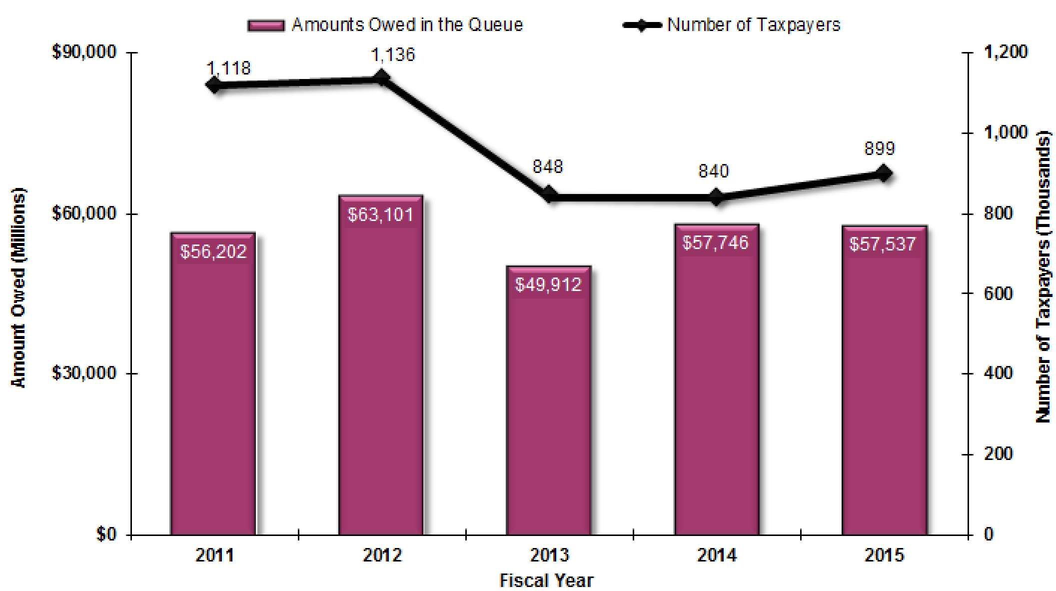
Source: TIGTA analysis of Collection Activity Report 5000-4.
CSCO = Compliance Services Collection Operations.

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



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

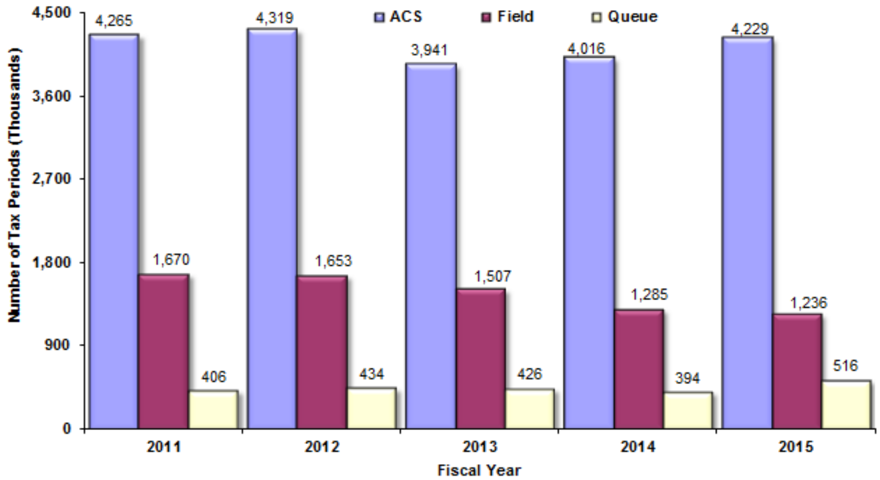
Figure 16: Number of Taxpayers and Amounts Owed in Queue Inventory



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

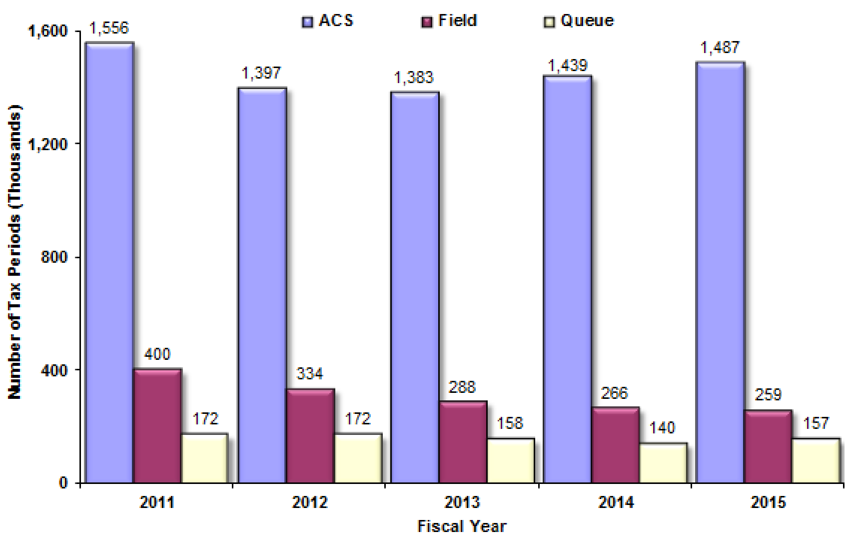
[3] The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.

Figure 17: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts[4]



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

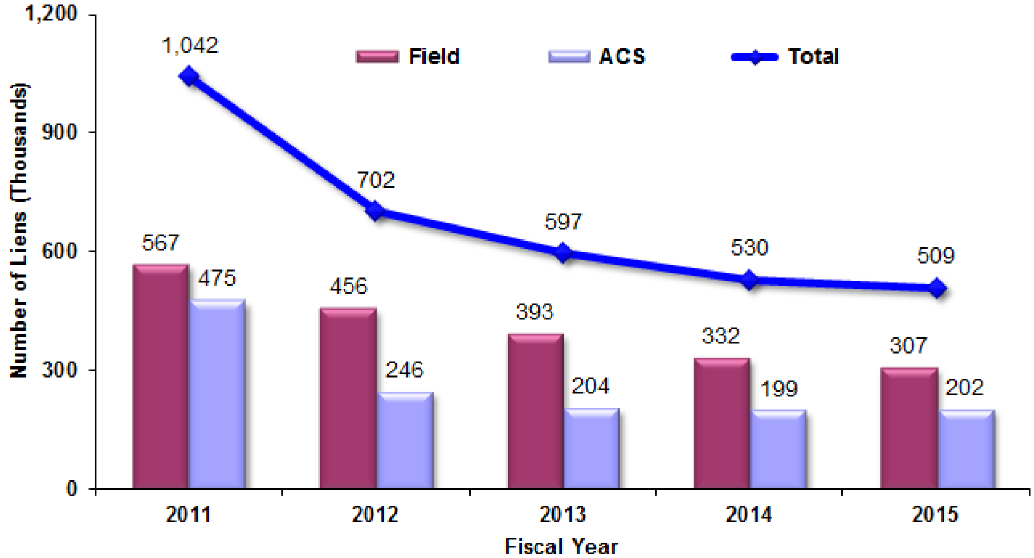
Figure 18: Number of TDA Tax Periods Closed With Full Payment by Collection Functions



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

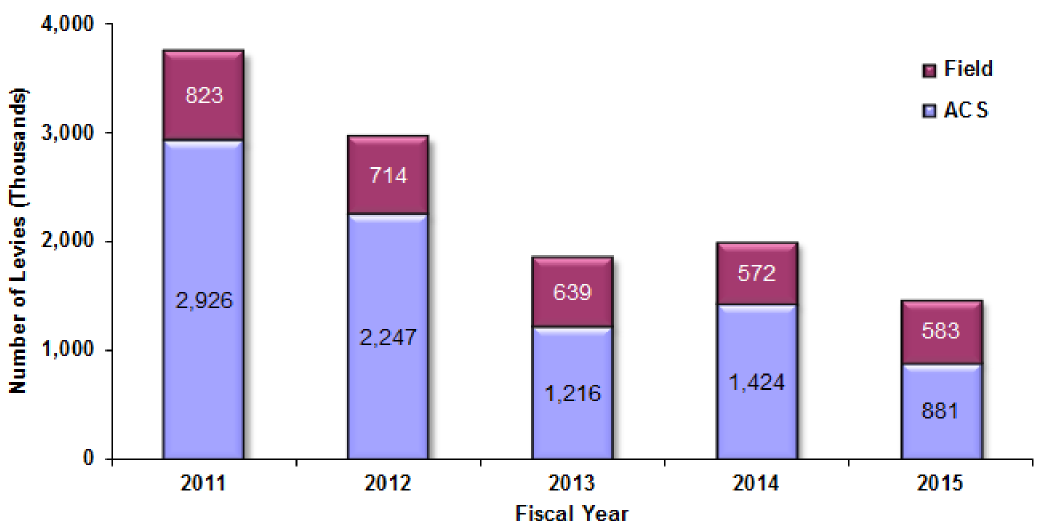
[4] From FY 2011 through FY 2015, TDA tax periods closed by Compliance Services Collection Operations make up less than 0.25 percent of TDA closures (excluding shelved accounts) and 0.30 percent or less of TDA fully paid closures each year. They are not visible when graphed and have been excluded from Figures 17 and 18 for clarity.

Figure 19: Number of NFTLs Filed by the Field and the ACS [5]



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

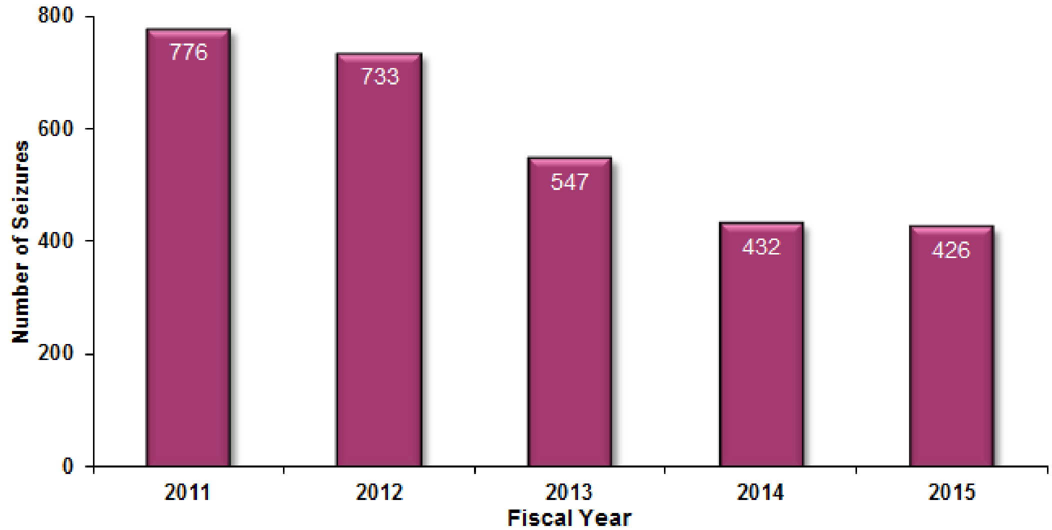
Figure 20: Number of Levies Issued by the Field and the ACS



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

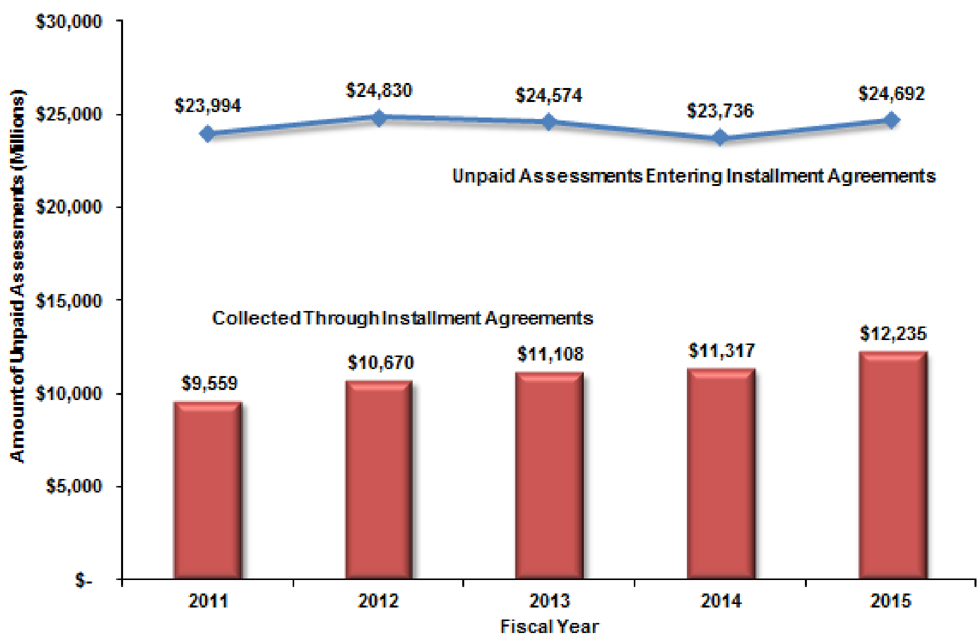
[5] The total of Field and ACS NFTLs in FY 2014 does not equal the total as graphed due to rounding differences.

Figure 21: Number of Seizures



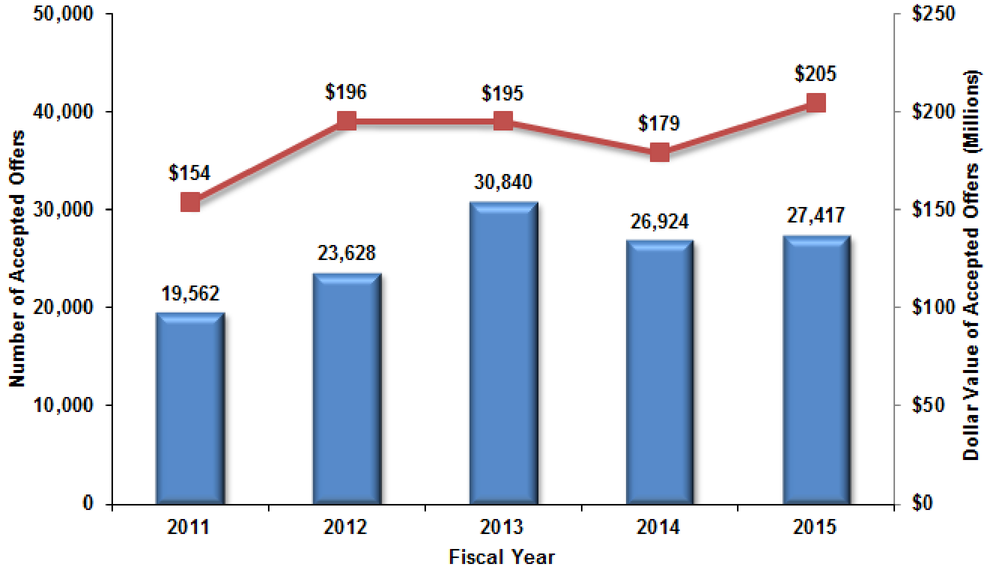
Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-24.

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



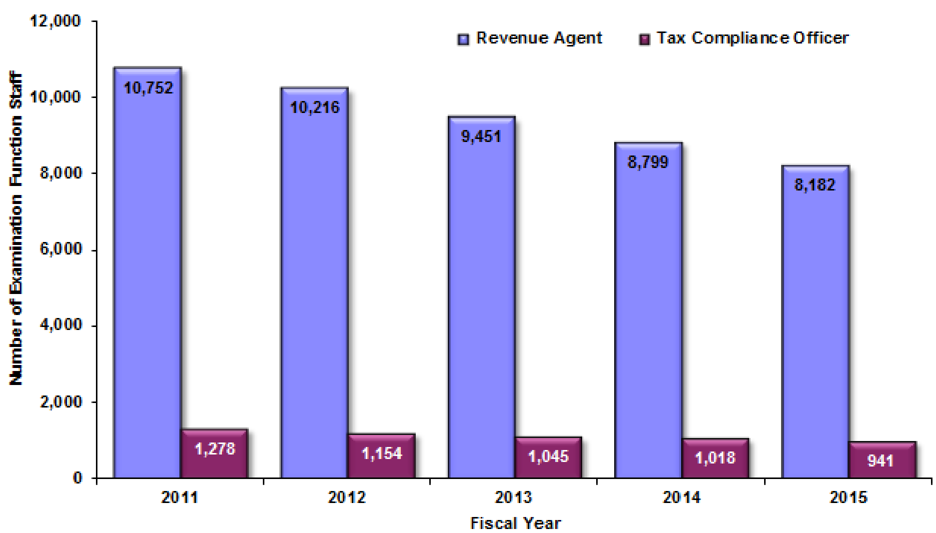
Source: Collection Activity Report 5000-6.

Figure 23: Number and Value of Accepted Offers in Compromise



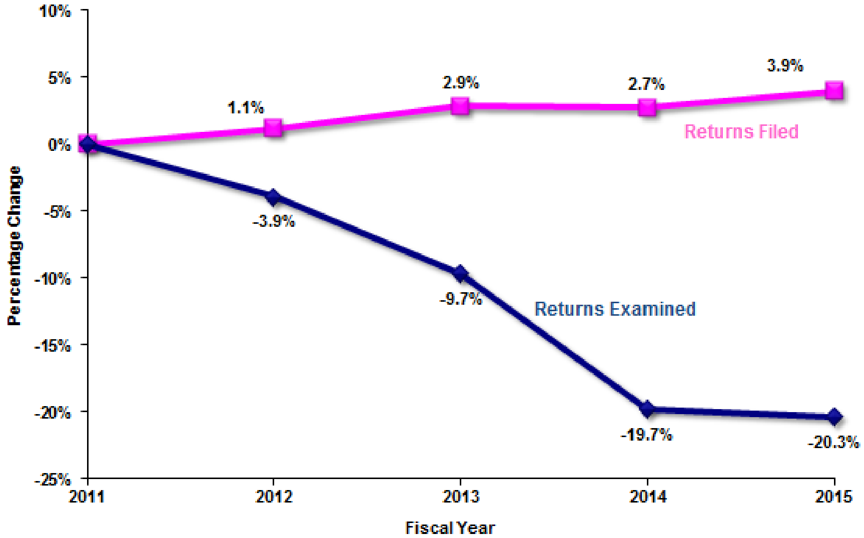
Source: Collection Activity Report 5000-108.

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



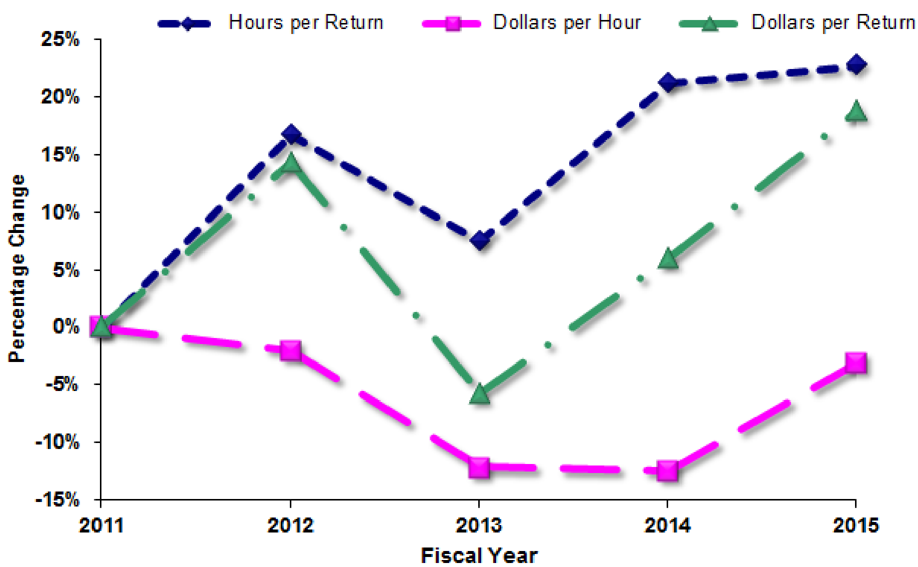
Source: TIGTA analysis of Table 37 Examination Program Monitoring.

Figure 25: Percentage Change From FY 2011 of All Tax Returns Filed and Examined



Source: TIGTA analysis of the IRS Data Book.

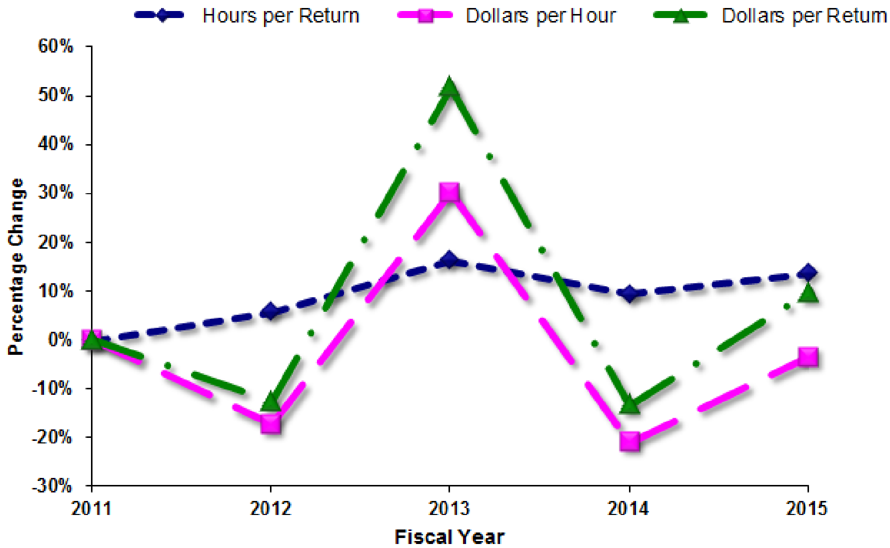
Figure 26: Revenue Agent Results on Forms 1040, U.S. Individual Income Tax Return, Percentage Change From FY 2011[6]



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

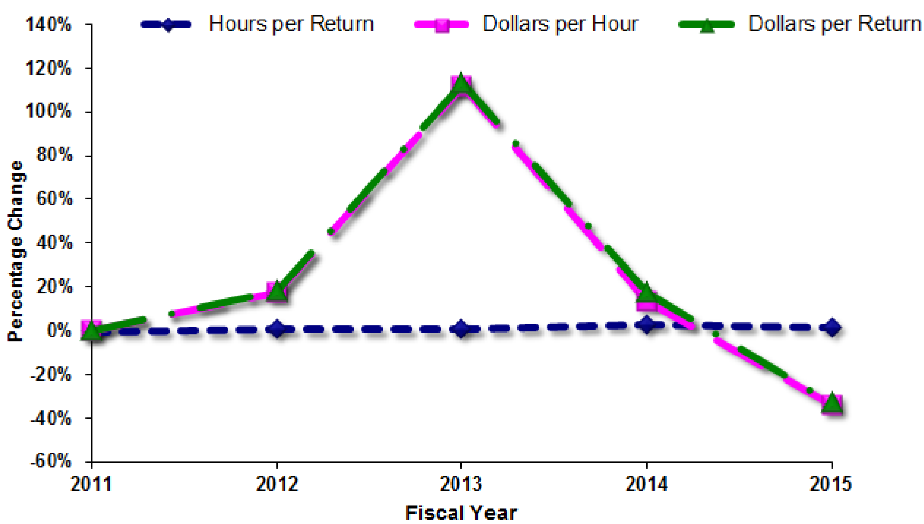
[6] Figures 26 through 30 do not include results from Coordinated Industry Cases or training returns.

Figure 27: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From FY 2011



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

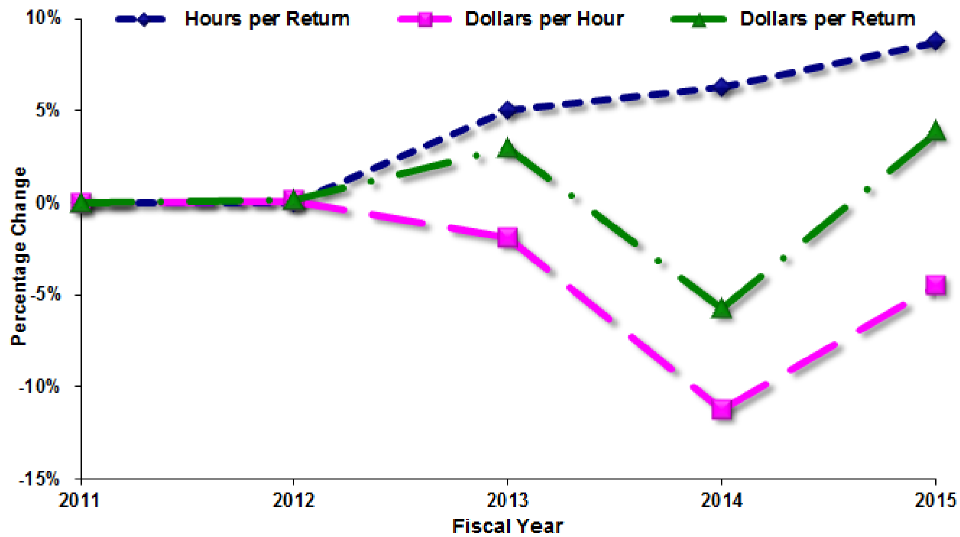
Figure 28: Revenue Agent Results on Other Types[7] of Tax Returns, Percentage Change From FY 2011



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

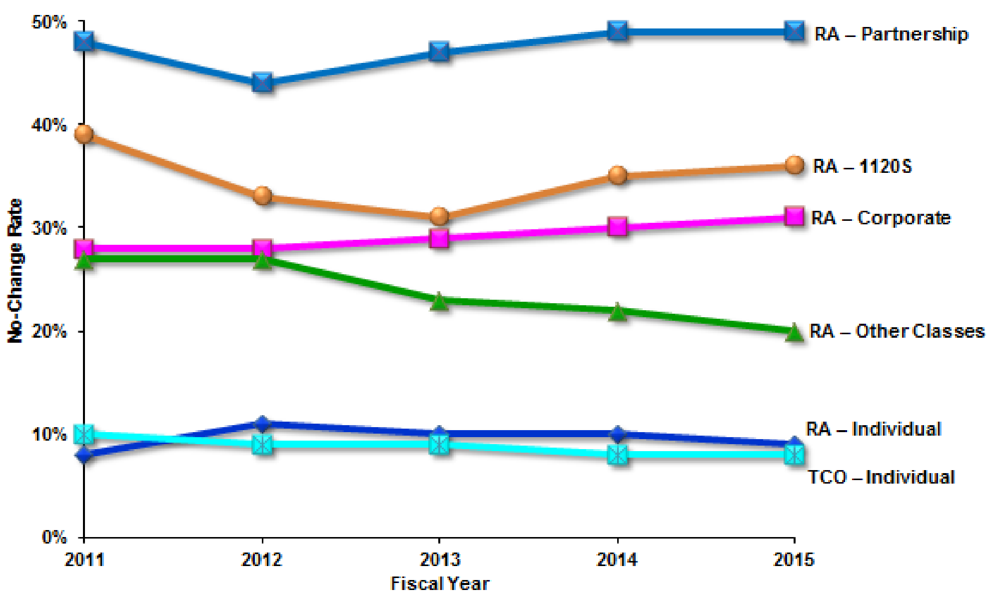
[7] Other types of tax returns include estate; gift; employment; Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*; Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*; and excise.

Figure 29: Tax Compliance Officer Results on Forms 1040, Percentage Change From FY 2011



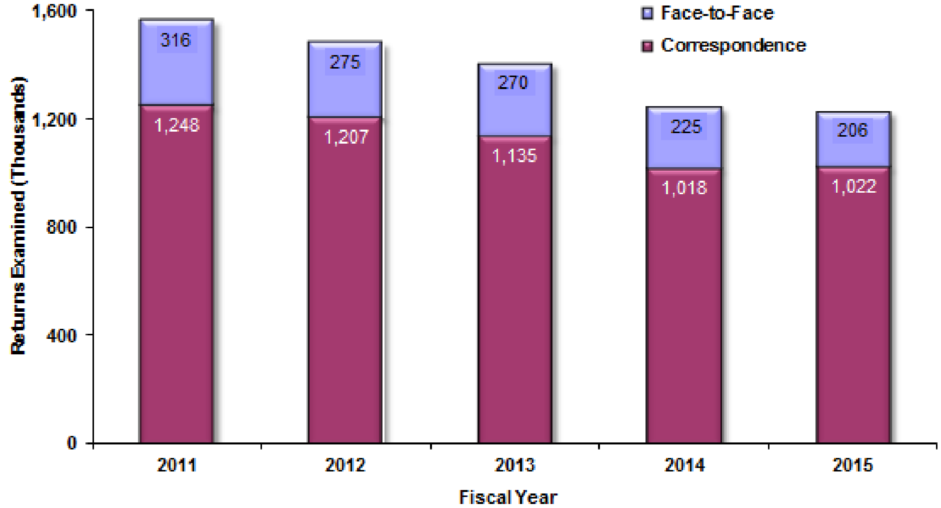
Source: TIGTA analysis of Table 37 Examination Program Monitoring.

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



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

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



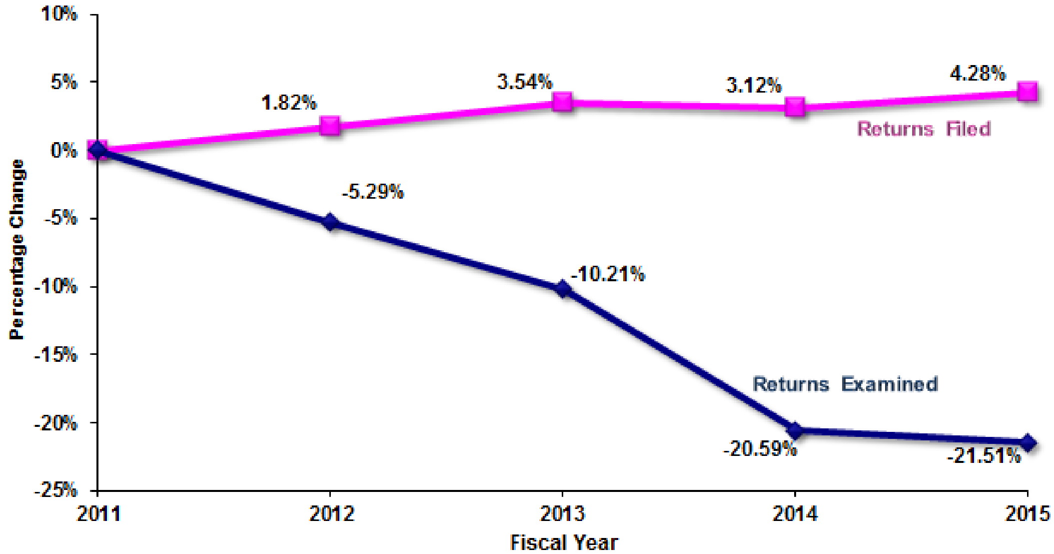
Source: Analysis of Examination Closed Case Database.

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

	Fiscal Year				
	2011	**2012**	**2013**	**2014**	**2015**
Individual Returns					
Individuals (Forms 1040)	1,564,690	1,481,966	1,404,931	1,242,479	1,228,117
Coverage Rate	1.11%	1.03%	0.96%	0.86%	0.84%
Business Returns					
Corporations < $10 Million	19,697	21,164	17,604	17,257	16,460
Coverage Rate	1.02%	1.12%	0.95%	0.95%	0.92%
Corporations $10 Million and Greater	10,459	10,752	9,876	7,858	7,410
Coverage Rate	17.64%	17.78%	15.84%	12.23%	11.15%
S Corporations (Forms 1120S)	18,519	21,658	18,670	16,317	18,595
Coverage Rate	0.42%	0.48%	0.42%	0.36%	0.40%
Partnerships	13,770	16,691	14,870	15,779	19,212
Coverage Rate	0.40%	0.47%	0.42%	0.43%	0.51%
Fiduciaries	2,909	5,070	4,501	3,694	5,288
Coverage Rate	0.10%	0.17%	0.15%	0.12%	0.16%
Employment	66,234	66,997	60,801	57,123	54,214
Coverage Rate	0.22%	0.23%	0.20%	0.19%	0.18%
Excise	19,571	22,014	16,509	13,779	13,153
Coverage Rate	2.40%	3.26%	1.61%	1.50%	1.34%
Estates	4,195	3,762	3,250	2,853	2,770
Coverage Rate	18.23%	29.90%	11.58%	8.46%	7.78%
Gift	2,623	3,164	2,775	3,098	2,539
Coverage Rate	1.16%	1.42%	1.07%	0.83%	0.95%

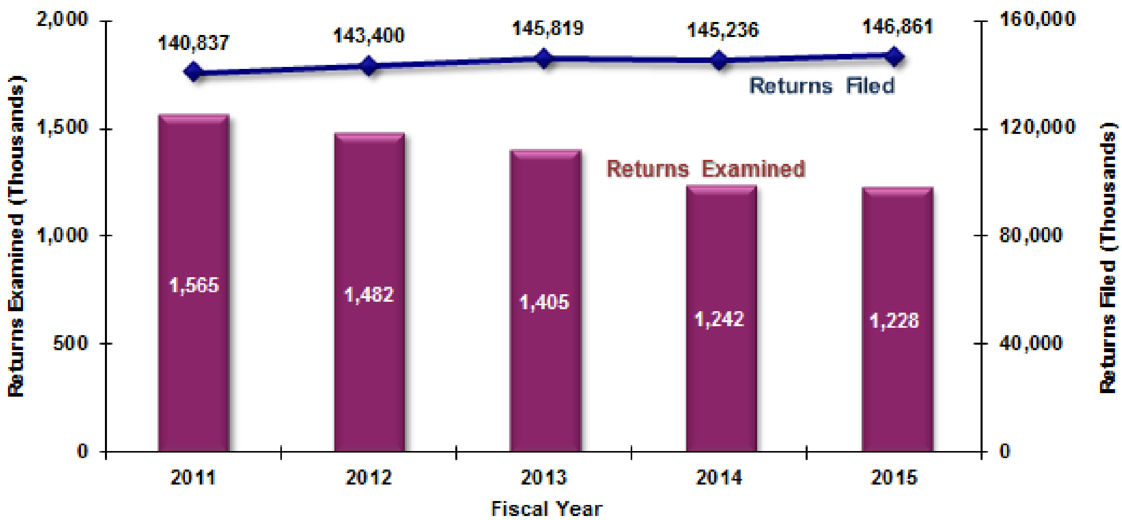
Source: TIGTA analysis of the IRS Data Book.

Figure 33: Percentage Change From FY 2011 of Forms 1040 Filed and Examined



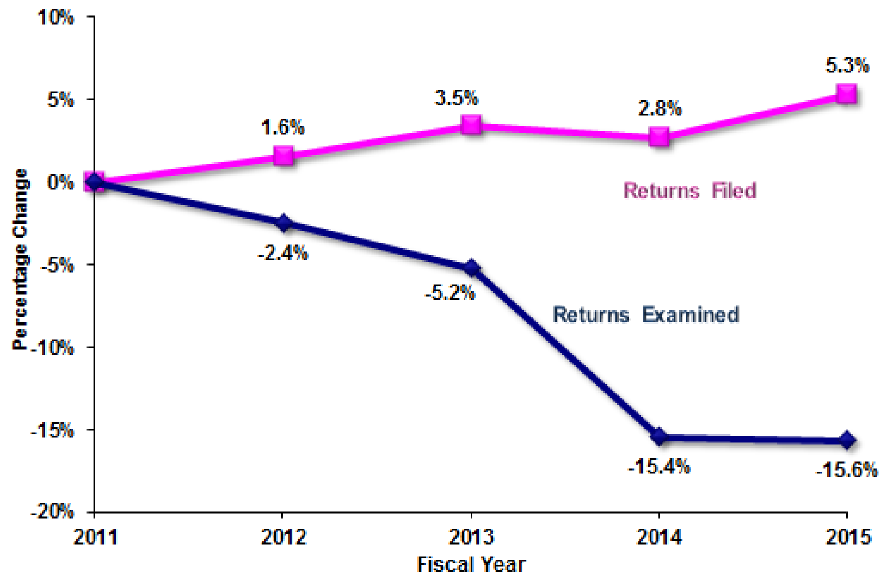
Source: *TIGTA analysis of the IRS Data Book.*

Figure 34: Number of Forms 1040 Filed and Examined



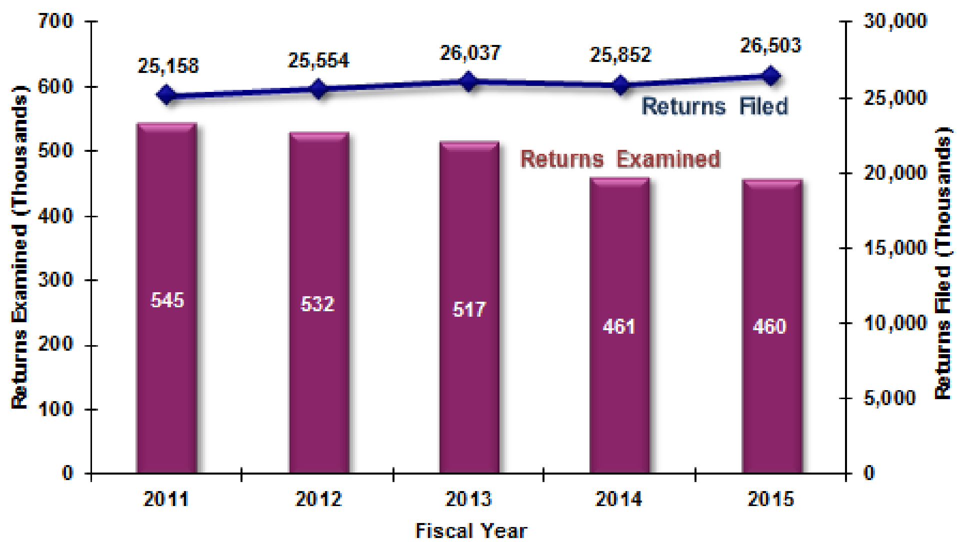
Source: *TIGTA analysis of the IRS Data Book.*

Figure 35: Percentage Change From FY 2011 of Individual Income Tax Returns Filed and Examined With Income of Less Than $25,000[8]



Source: TIGTA analysis of the IRS Data Book.

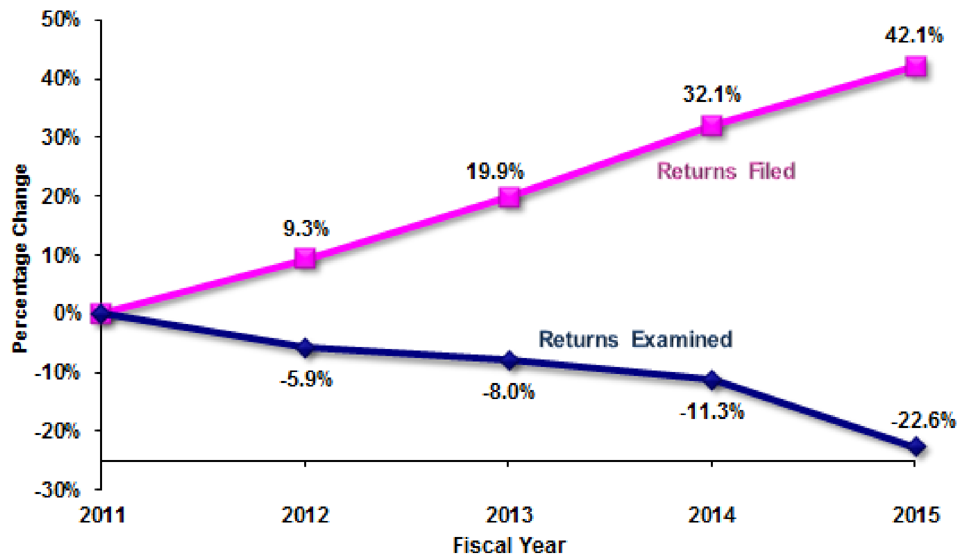
Figure 36: Number of Individual Income Tax Returns Filed and Examined With Income of Less Than $25,000



Source: TIGTA analysis of the IRS Data Book.

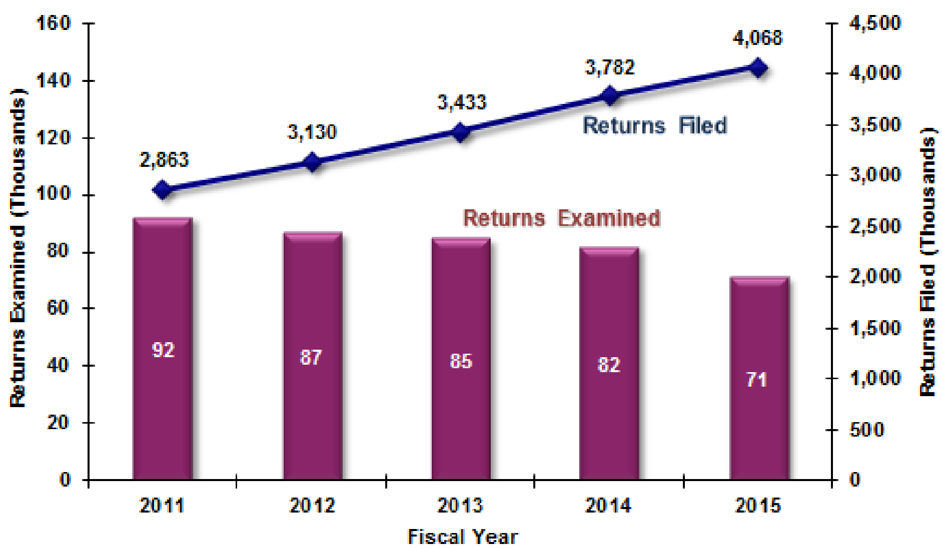
[8] The individual returns in Figures 35 and 36 included claims for the Earned Income Tax Credit.

Figure 37: Percentage Change From FY 2011 of Individual Income Tax Returns Filed and Examined With Income of $200,000 to $1 Million (Non-Business)



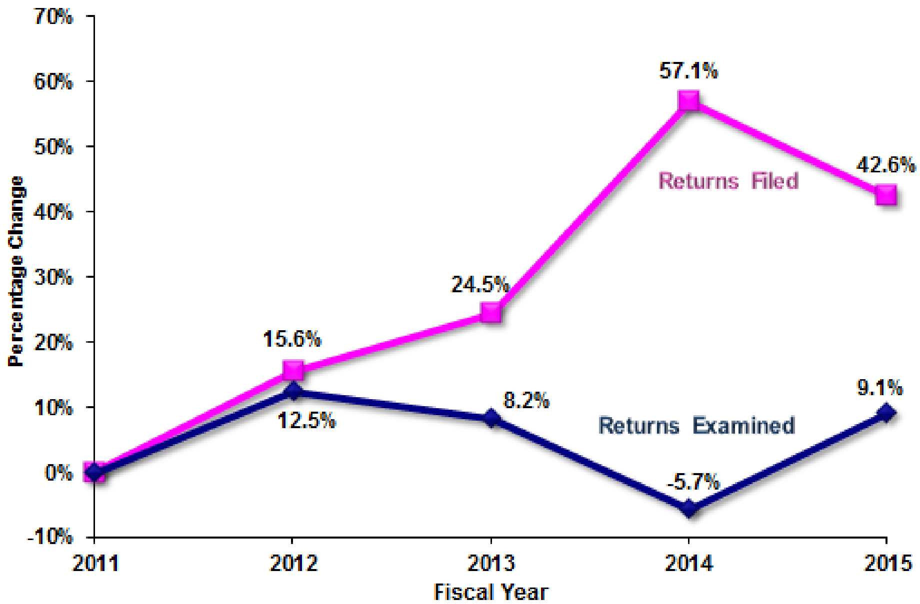
Source: TIGTA analysis of the IRS Data Book.

Figure 38: Number of Individual Income Tax Returns Filed and Examined With Income of $200,000 to $1 Million (Non-Business)



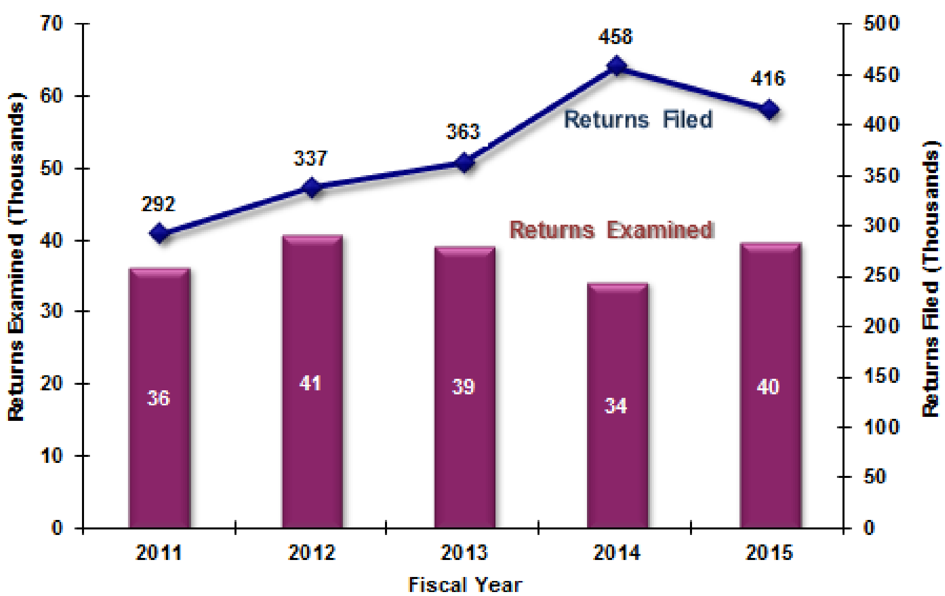
Source: TIGTA analysis of the IRS Data Book.

Figure 39: Percentage Change From FY 2011 of Individual Income Tax Returns Filed and Examined With Income of $1 Million or More



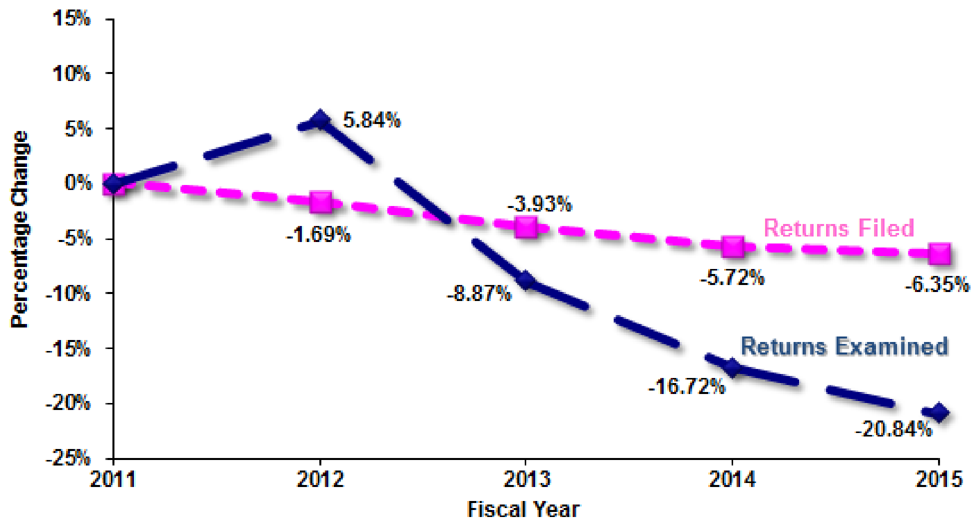
Source: TIGTA analysis of the IRS Data Book.

Figure 40: Number of Individual Income Tax Returns Filed and Examined With Income of $1 Million or More



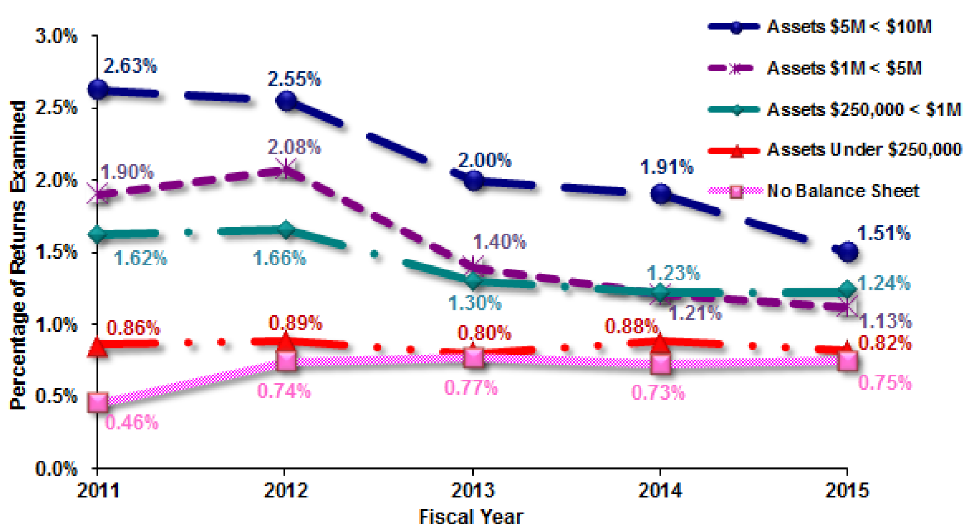
Source: TIGTA analysis of the IRS Data Book.

Figure 41: Percentage Change From FY 2011 of Corporate Income Tax Returns Filed and Examined[9]



Source: TIGTA analysis of the IRS Data Book.

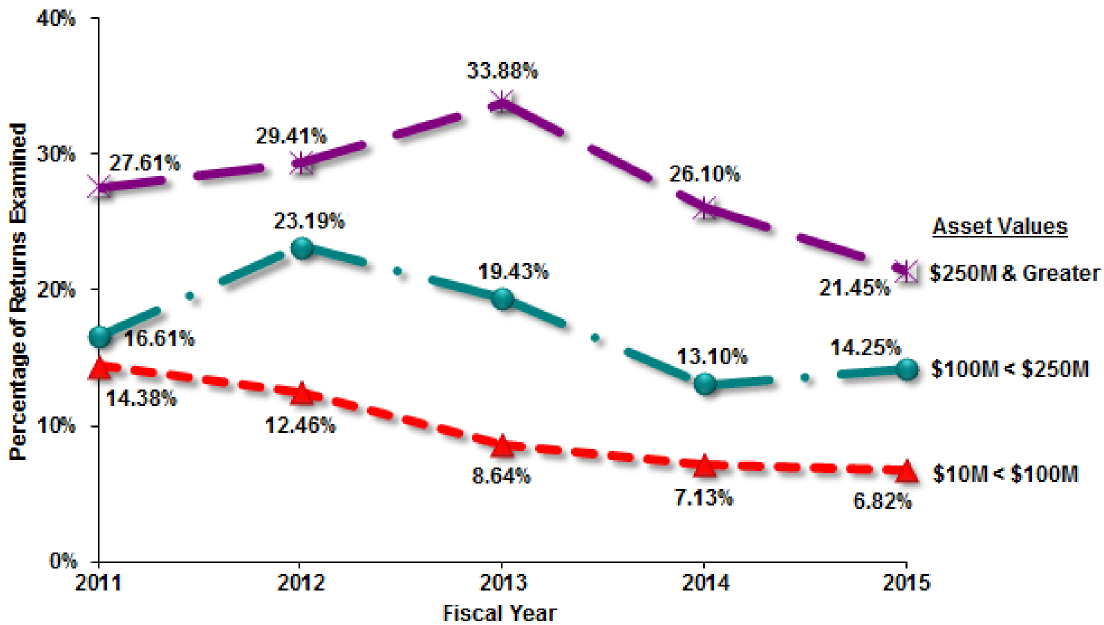
Figure 42: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than $10 Million



Source: TIGTA analysis of the IRS Data Book.

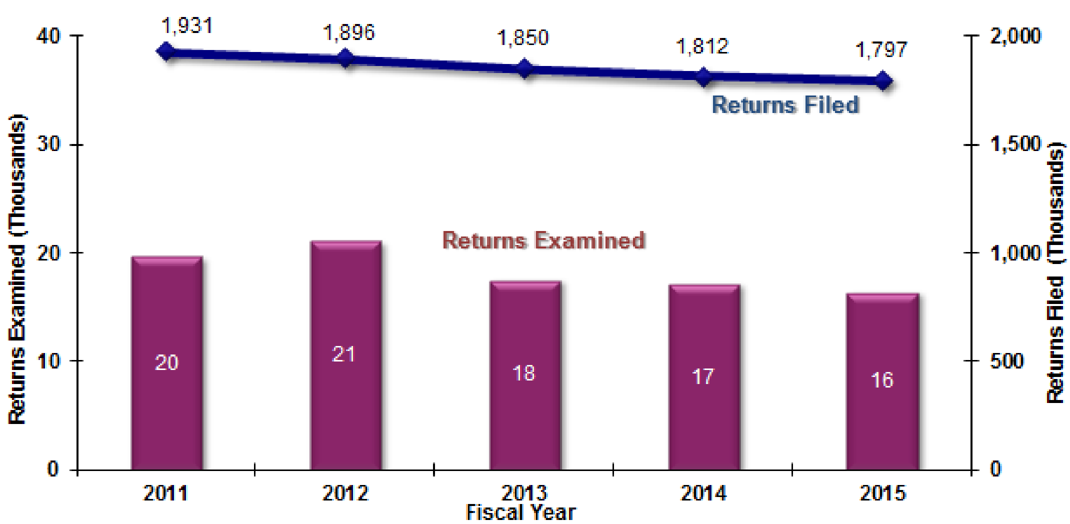
[9] Excludes Form 1120S; Form 1120-F; and Form 1120-C, *U.S. Income Tax Return for Cooperative Associations.*

Figure 43: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of $10 Million and Greater



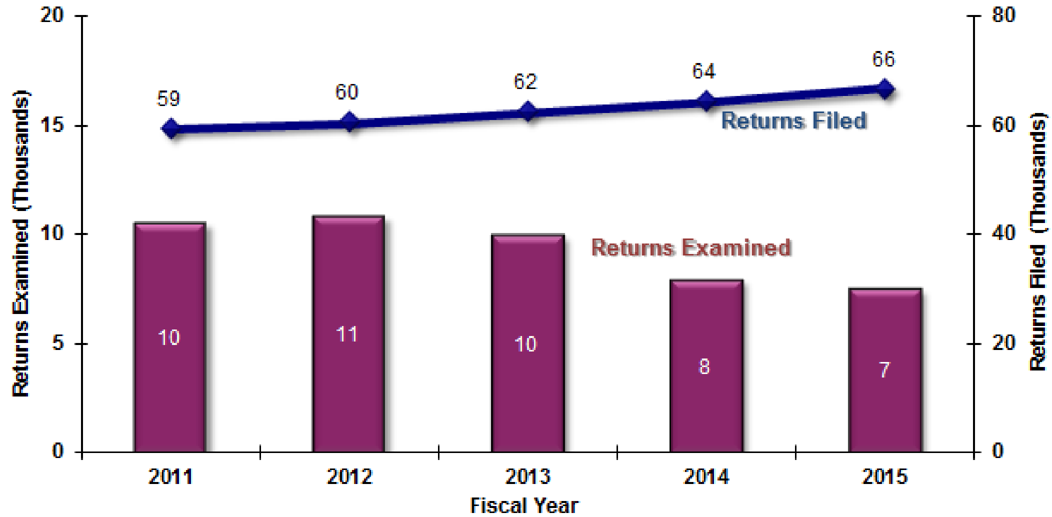
Source: TIGTA analysis of the IRS Data Book.

Figure 44: Number of Tax Returns Filed and Examined – Corporations With Assets of Less Than $10 Million



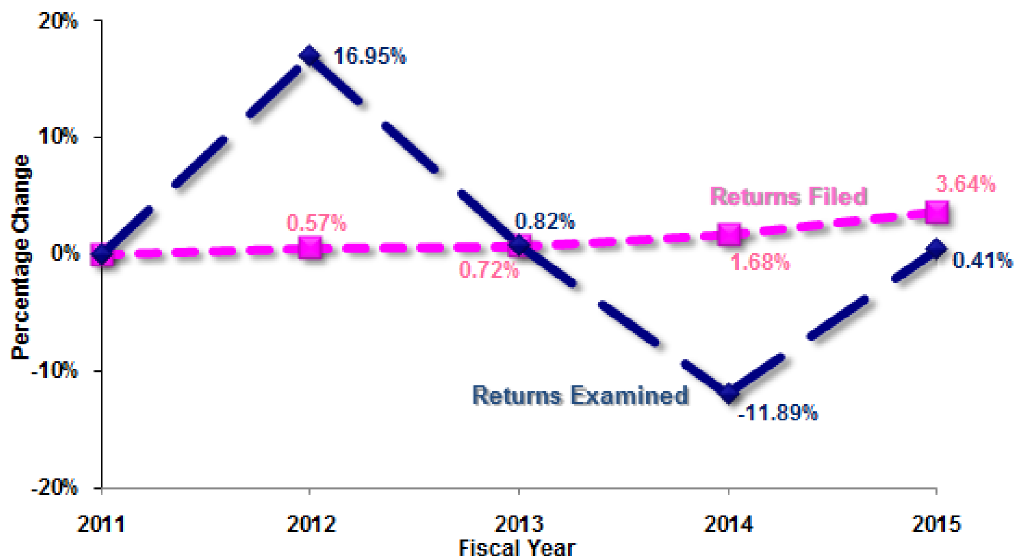
Source: TIGTA analysis of the IRS Data Book.

Figure 45: Number of Tax Returns Filed and Examined – Corporations With Assets of $10 Million and Greater



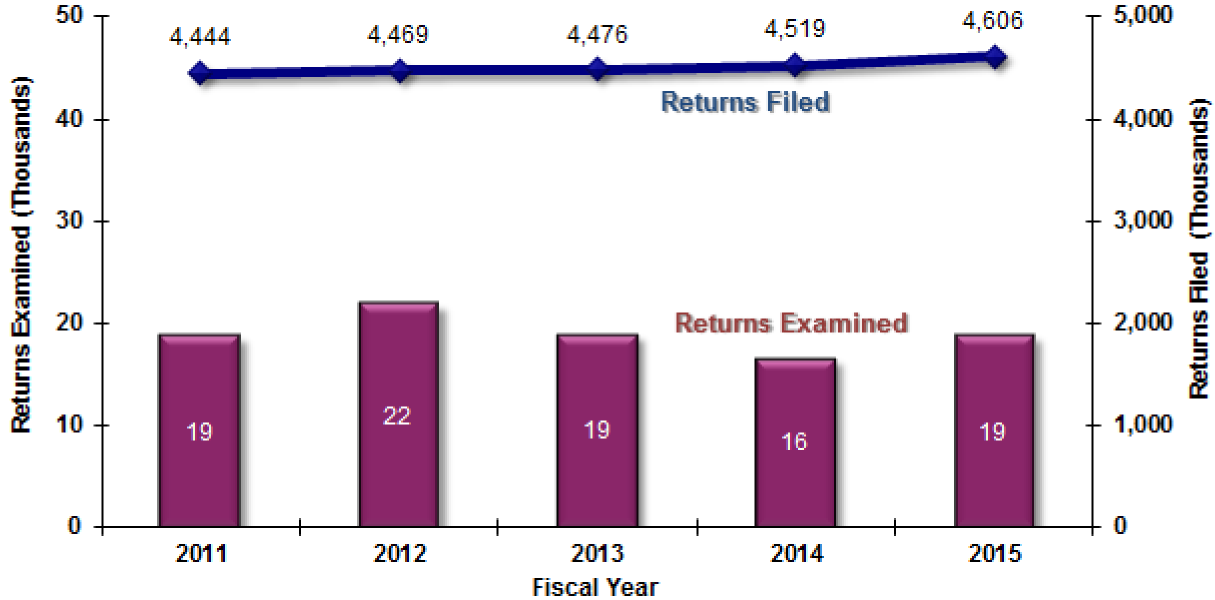
Source: TIGTA analysis of the IRS Data Book.

Figure 46: Percentage Change From FY 2011 of Forms 1120S, U.S. Income Tax Return for an S Corporation, Filed and Examined



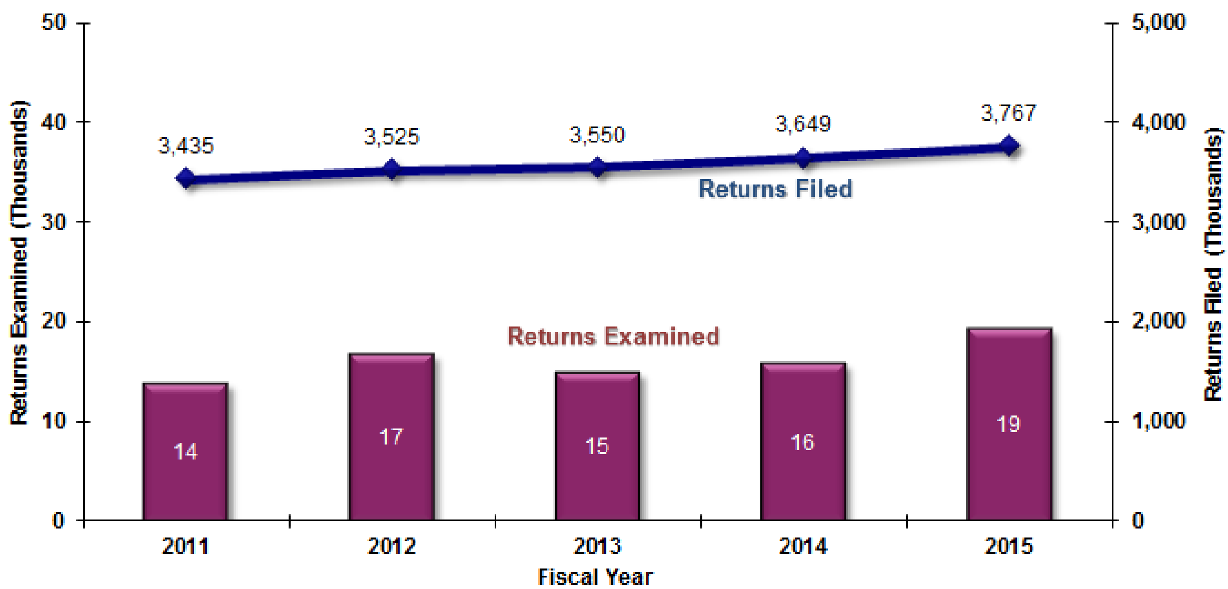
Source: TIGTA analysis of the IRS Data Book.

Figure 47: Number of Forms 1120S Filed and Examined



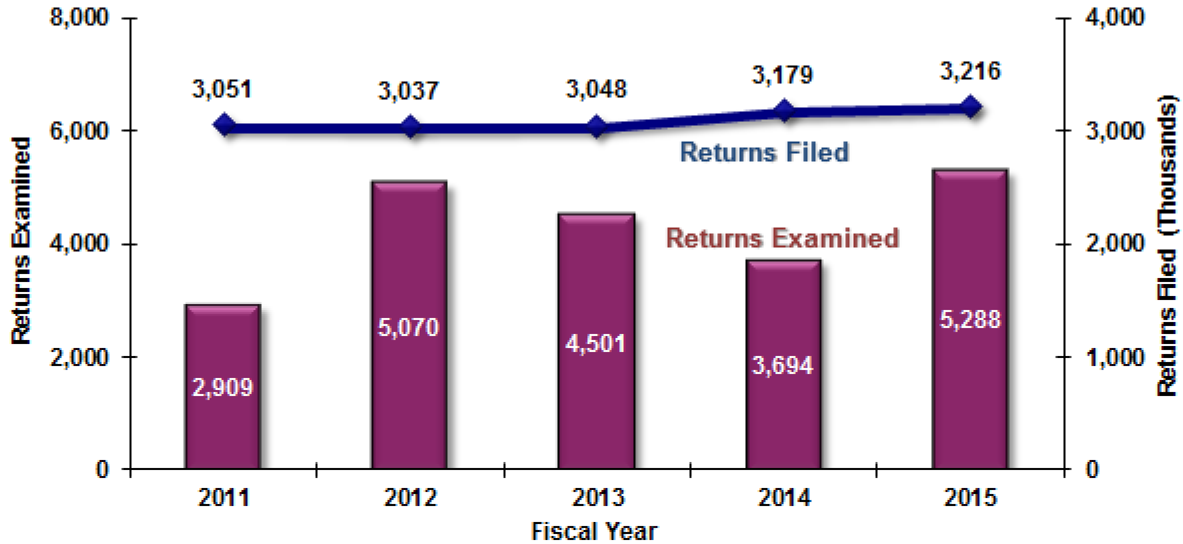
Source: IRS Data Book.

Figure 48: Number of Tax Returns Filed and Examined – Partnerships



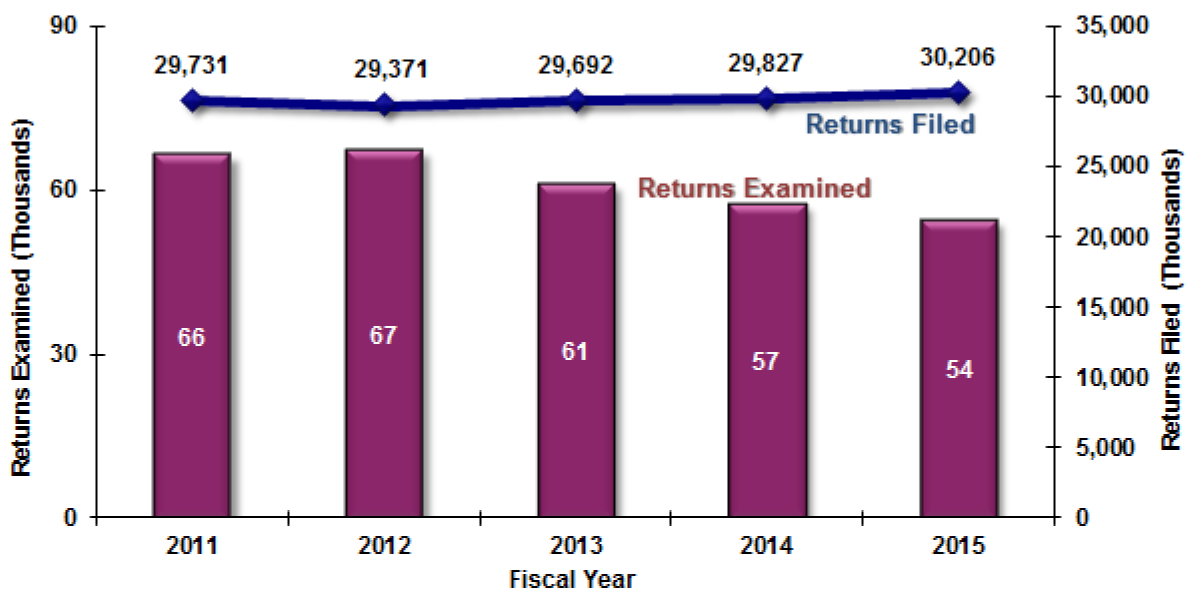
Source: IRS Data Book.

Figure 49: Number of Tax Returns Filed and Examined – Fiduciaries



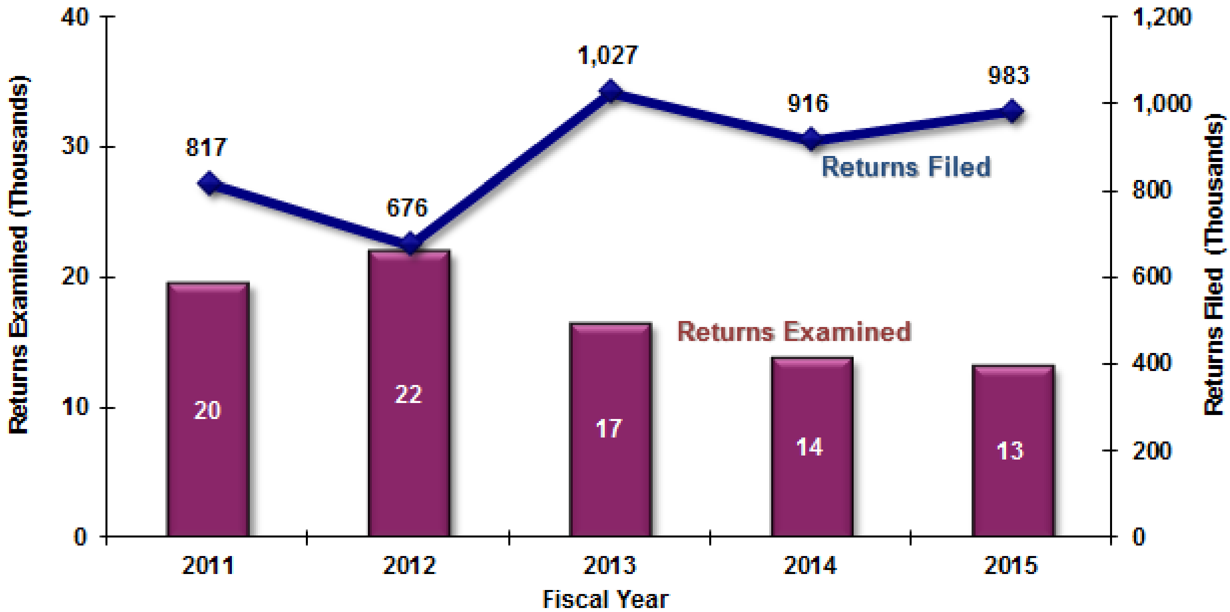
Source: IRS Data Book.

Figure 50: Number of Tax Returns Filed and Examined – Employment Tax



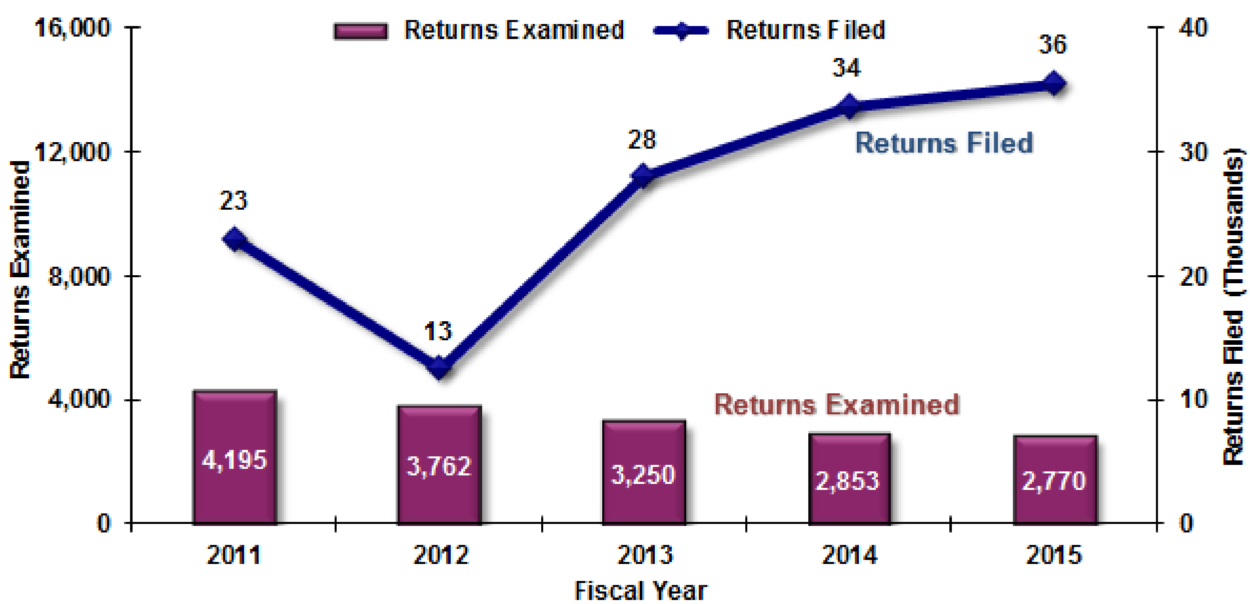
Source: IRS Data Book.

Figure 51: Number of Tax Returns Filed and Examined – Excise Tax



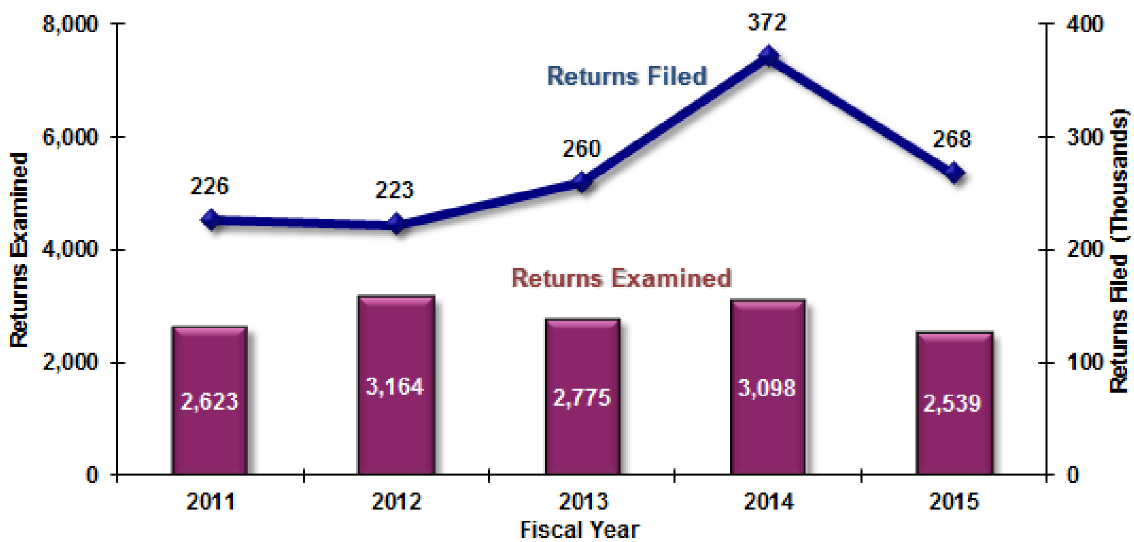
Source: IRS Data Book.

Figure 52: Number of Tax Returns Filed and Examined – Estates



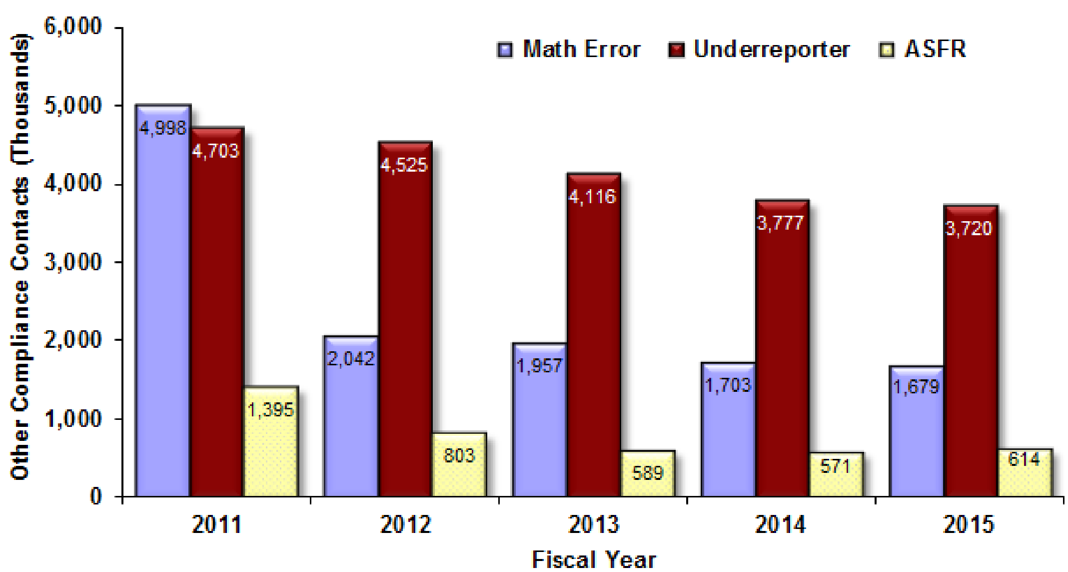
Source: IRS Data Book.

Figure 53: Number of Tax Returns Filed and Examined – Gift Tax



Source: IRS Data Book.

Figure 54: Number of Other Compliance Contacts on Forms 1040



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

Figure 55: Other Compliance Contacts – Forms 1040 Coverage Rate

	Fiscal Year				
	2011	**2012**	**2013**	**2014**	**2015**
Math Error	4,998,266	2,042,458	1,957,031	1,703,432	1,679,367
Coverage Rate	3.54%	1.42%	1.34%	1.17%	1.14%
Automated Underreporter	4,703,000	4,525,000	4,116,000	3,777,000	3,720,000
Coverage Rate	3.33%	3.15%	2.81%	2.59%	2.52%
Automated Substitute for Return	1,395,000	803,000	589,000	571,000	614,000
Coverage Rate	0.99%	0.56%	0.40%	0.39%	0.42%

Source: TIGTA analysis of the IRS Data Book.

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Appendix V

Recent Treasury Inspector General for Tax Administration Compliance Trends Reports

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).

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

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.
Audit Information Management System	The computer system used by IRS examination functions to control returns, input assessments/adjustments to the Master File, and provide management reports.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
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, thereby 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.
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.

Term	Definition
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.
Filing Season	The period from January through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Full-Time Equivalent	A 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. It is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2015, one full-time equivalent was equal to 2,088 staff hours.
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.
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.
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.
Queue	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.

Term	Definition
Return Review Program	A system which uses predictive analytics, models, filters, clustering, a scoring system, business rules, and selection groups to identify suspected identity theft and fraudulent tax returns.
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.
Shelved and Surveyed Cases	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.
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	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
Tax Examiner	In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.
Tax Gap	The 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 Net Tax Gap reflects the Tax Gap less amounts collected through enforcement.

Term	Definition
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.
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.
Unpaid Assessments	Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.