Trends in Compliance Activities Through Fiscal Year 2012

August 23, 2013

Reference Number: 2013-30-078

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TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2012

Highlights

Final Report issued on August 23, 2013

Highlights of Reference Number: 2013-30-078 to the Internal Revenue Service, Office of the 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 conducted this review in response to continuing stakeholder interest in the analysis and trending of Collection and Examination function activities. The objective was to provide various statistical information regarding Collection and Examination function activities.

WHAT TIGTA FOUND

During Fiscal Years 2011 and 2012, the IRS encountered challenges that included administering recent legislative changes within an environment of decreasing resources. For example, approximately 50 of the 500 Affordable Care Act provisions add to or amend the Internal Revenue Code. At the same time, the IRS operated under a continuing resolution for Fiscal Year 2012 that funded it at a little more than $11.8 billion, which is a 2.7 percent reduction since Fiscal Year 2010.

Since Fiscal Year 2010, approximately 8,000 full-time IRS positions have been lost—about 5,000 from front-line enforcement personnel. In addition to offering early retirements and buyouts, IRS records indicate that more than one-third of executives and nearly 20 percent of nonexecutive managers are currently eligible for retirement.

Enforcement revenue collected declined by 9 percent in Fiscal Year 2012, from $55.2 billion to $50.2 billion. This has decreased in two straight years and is 13 percent less than the $57.6 billion collected in Fiscal Year 2010. The 13 percent reduction in enforcement revenue correlates to the 14 percent reduction in the number of enforcement personnel.

IRS Collection function activities showed mixed results for Fiscal Year 2012. For the third straight year, revenue collected on Taxpayer Delinquent Accounts by the IRS Collection Field function increased. However, collections by the Automated Collection System declined for the first time in four years. The IRS continues to receive more new Taxpayer Delinquent Accounts than it closes. The amount owed in the Queue increased 22 percent in Fiscal Year 2011 ($56.2 billion) and 12 percent in Fiscal Year 2012 ($63.1 billion) and has grown 46 percent over the past five years.

The Examination function's recent decrease in revenue agents and tax compliance officers contributed to an overall decrease in examinations. This reduction is attributable to decreased examinations of individual tax returns. The number of corporate, partnership, and S corporation examinations increased during Fiscal Years 2011 and 2012. The no-change rates for examinations of individual income tax returns by revenue agents in Fiscal Year 2012 was 11 percent but remained lower than the no-change rates reported in Fiscal Year 2008.

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

August 23, 2013

MEMORANDUM FOR OFFICE OF THE DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

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

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2012 (Audit # 201330046)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This audit was added to our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Although the Treasury Inspector General for Tax Administration made no recommendations in this report, Internal Revenue Service (IRS) officials were provided an opportunity to review the draft report. IRS management did not provide any comments.

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

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Abbreviations

ACA	Patient Protection and Affordable Care Act of 2010
IRS	Internal Revenue Service
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration

Background

Although the vast majority of Americans pay their Federal taxes, there is still a sizeable Tax Gap—the difference between what is owed in taxes each year and what is paid voluntarily and on time. The second goal of the Internal Revenue Service's (IRS) Strategic Plan for Fiscal Years 2009 to 2013 is to enforce the law to ensure everyone meets their obligation to pay taxes. The Strategic Plan states:

> *... We owe it to all the citizens who meet their civic responsibility to pay taxes to be vigorous in pursuing individuals who are not paying what they owe.*
>
> *We will focus on our current enforcement initiatives while seeking other innovative solutions to reduce the Tax Gap more effectively. We can hone our enforcement techniques by adding new tools, such as additional information reporting, soft notices and self-correction to our more traditional enforcement tools. We must also resolve enforcement issues at the earliest moment possible. This provides clarity and certainty to taxpayers, and frees up our resources to focus on the next important issues.*

The Treasury Inspector General for Tax Administration's (TIGTA) reports on trends in compliance activities

Stakeholders continue to have interest in the compliance trends of the IRS. TIGTA conducted this review of nationwide compliance statistics for the IRS's Collection and Examination function activities from Fiscal Years 2000 through 2010. This is our 13th report; Appendix V presents a list of these reports.

Our data analyses were performed in TIGTA's Philadelphia, Pennsylvania, office during the period April through June 2013. Nationwide data from IRS management information systems were used during our review. Due to time and resource constraints, we did not audit IRS systems to validate the accuracy and reliability of that information. Also, 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.

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 updates prior TIGTA reports on compliance trends.

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.

Results of Review

Challenges Affecting the Internal Revenue Service During Fiscal Years 2011 and 2012

One of the challenges the IRS confronts each year is the implementation of new tax laws. The passage of the Patient Protection and Affordable Care Act of 2010[1] and the Health Care and Education Reconciliation Act of 2010[2] (collectively referred to as the Affordable Care Act) represents the largest set of tax law changes in 20 years. Implementing the Affordable Care Act (ACA) presents significant new challenges to the IRS. It will require considerable new processes and resources.

Nevertheless, between Fiscal Years 2010 and 2012, the IRS's budget decreased almost 3 percent, putting constraints on already limited resources. Additionally, enforcement revenue decreased, while the Tax Gap estimate increased.

Implementation of the ACA

The Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010 and contain over 500 provisions. Of the 500 provisions, approximately 50 were added to or amended the Internal Revenue Code.[3]

The IRS is required to administer these provisions by:

- Providing incentives and tax breaks to individuals and small business to offset healthcare expenses.
- Imposing penalties for individuals and businesses that do not obtain health care coverage for themselves or their employees.

Figure 1 shows effective legislation dates for the approximate 50 provisions affecting the IRS.[4] During Fiscal Years 2011 and 2012, the IRS was responsible for implementing six of the provisions. In Fiscal Year 2012, TIGTA reported that the IRS developed appropriate plans to

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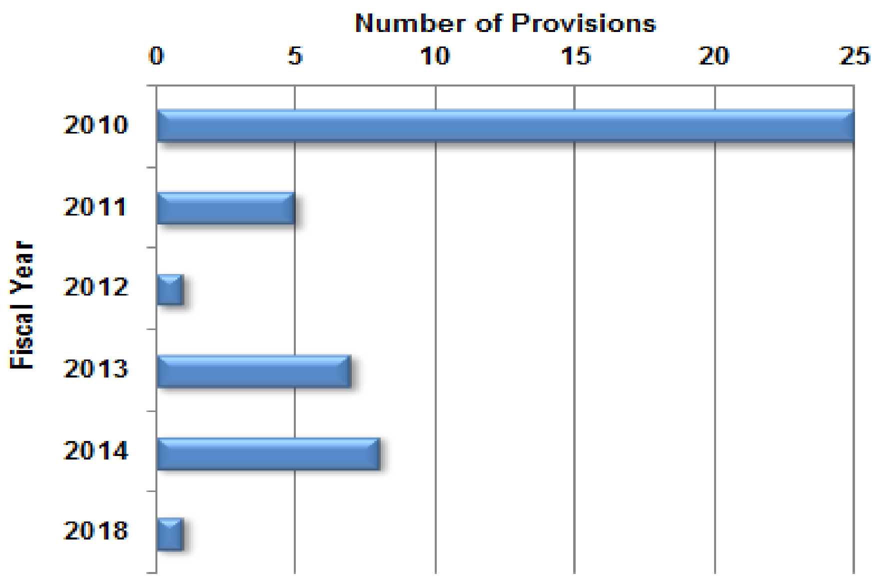
[1] Pub. L. No. 111-148, 124 Stat. 119 (2010).
[2] Pub. L. No. 111-152, 124 Stat. 1029 (2010).
[3] See Appendix VI for a glossary of terms.
[4] Implementation of the ACA employer mandate was recently delayed. We did not assess the impact of the delay on the timeline in Figure 1.

implement tax-related provisions of the ACA using well-established methods for implementing tax legislation.[5]

Figure 1: Number of ACA Provisions by Fiscal Year



Source: TIGTA analysis of ACA Provisions.

The ACA legislation provided $1 billion in funding to the Health Insurance Reform Implementation Fund within the Department of Health and Human Services to be used for Federal administrative expenses necessary to carry out the requirements of the ACA. The Department of Health and Human Services provided to the IRS $168 million and $299 million from this fund in Fiscal Years 2011 and 2012, respectively. Moreover, the IRS Fiscal Year 2012 budget justification requested an additional $473 million to administer ACA programs; however, this was not funded. The IRS also absorbed some of the costs and work associated with implementing ACA provisions into its normal business operations and budget.

Initial steps to implement the provisions related to tax administration involve numerous actions such as revising or developing new forms, publications, and instructions; creating new computer programs; training IRS employees; revising Internal Revenue Manuals; issuing revenue procedures and regulations; and providing outreach to taxpayers and tax professionals.

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[5] TIGTA, Ref. No. 2012-43-064, *Affordable Care Act: Planning Efforts for the Tax Provisions of the Patient Protection and Affordable Care Act Appear Adequate; However, the Resource Estimation Process Needs Improvement* (June 2012).

A decrease in resources

After increasing for three years, the IRS budget began decreasing in Fiscal Year 2011. Between Fiscal Years 2010 and 2012, the IRS's budget decreased $329 million (2.7 percent), from $12.1 to $11.8 billion. This trend continued into Fiscal Year 2013. The combination of a continuing resolution and sequestration further reduced the IRS's budget by $600 million in Fiscal Year 2013.

This has directly affected the number of IRS employees. TIGTA reported that the IRS was unable to meet the enacted budget for Fiscal Year 2012 without substantially reducing the size of its workforce.[6] In Fiscal Year 2012, the agency offered buyouts to 7,000 of its employees and more than 1,200 accepted. The IRS also instituted a hiring freeze, filling job openings on an "exception only" basis.

Since Fiscal Year 2010, approximately 8,000 full-time IRS positions have been lost—5,000 from front-line enforcement personnel. In addition to offering early retirements and buyouts, IRS data indicate that over 30 percent of executives and nearly 20 percent of nonexecutive managers are currently eligible for retirement. This number is expected to increase to 70 percent of executives and almost 50 percent of nonexecutive managers by Fiscal Year 2017.

The overall number of IRS employees fell from a five-year high of 107,622 employees at the end of Fiscal Year 2010 to 97,942 employees at the end of Fiscal Year 2012 (a 9 percent reduction).[7] This reduction was preceded by a 6 percent gain in the number of employees from Fiscal Year 2008 (101,759) to 2010 (107,622).

As reported in Fiscal Year 2011, hiring initiatives during Fiscal Years 2009 and 2010 led to the largest numbers of IRS examination enforcement personnel[8] (revenue agents and tax compliance officers) since Fiscal Year 1999.[9] As shown in Figure 2, those gains have been more than offset by declines over the past two years.

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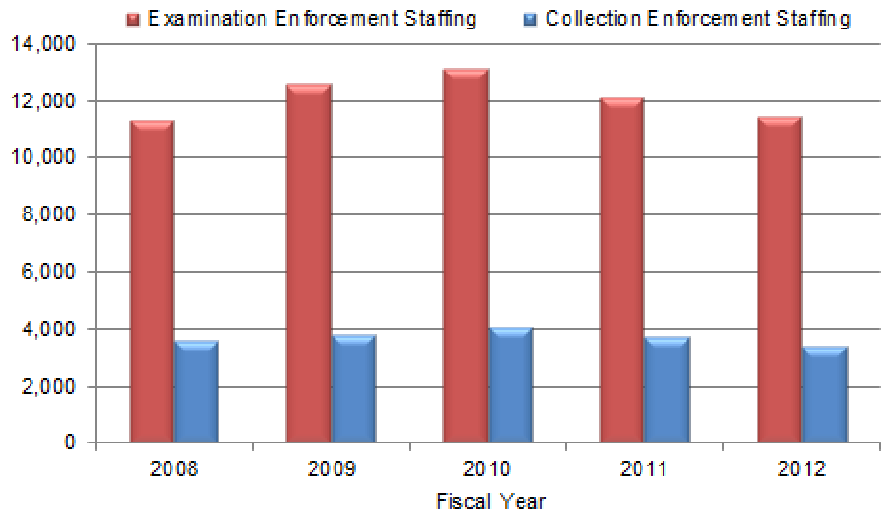
[6] TIGTA, Ref. No. 2013-10-017, *Improvements Have Been Made to Address Human Capital Issues, but Continued Focus Is Needed* (Jan. 2013).
[7] This includes part-time and full-time employees.
[8] Collection and Examination function staffs located in field offices, excluding management and overhead staff.
[9] TIGTA, Ref. No. 2011-30-071, *Trends in Compliance Activities Through Fiscal Year 2010* (July 2011).

Figure 2: Enforcement Staffing by Fiscal Year



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

A decline in enforcement revenue and increase in the Tax Gap

In addition to implementing new and amended tax legislation, the IRS must focus on improving taxpayer compliance and collecting unpaid tax liabilities. Since Fiscal Year 1990, the Government Accountability Office has included enforcement of tax laws as one of the 30 high-risk areas in the Federal Government.[10] 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.*

For Tax Year 2001, the IRS estimated the Tax Gap at $345 billion. In Fiscal Year 2012, the IRS estimated the Tax Gap for Tax Year 2006 to be $450 billion, a growth of 30 percent. The IRS attributed the growth to the increase in total tax liabilities from Tax Year 2001 to 2006 and not to any significant change in taxpayer compliance rates.

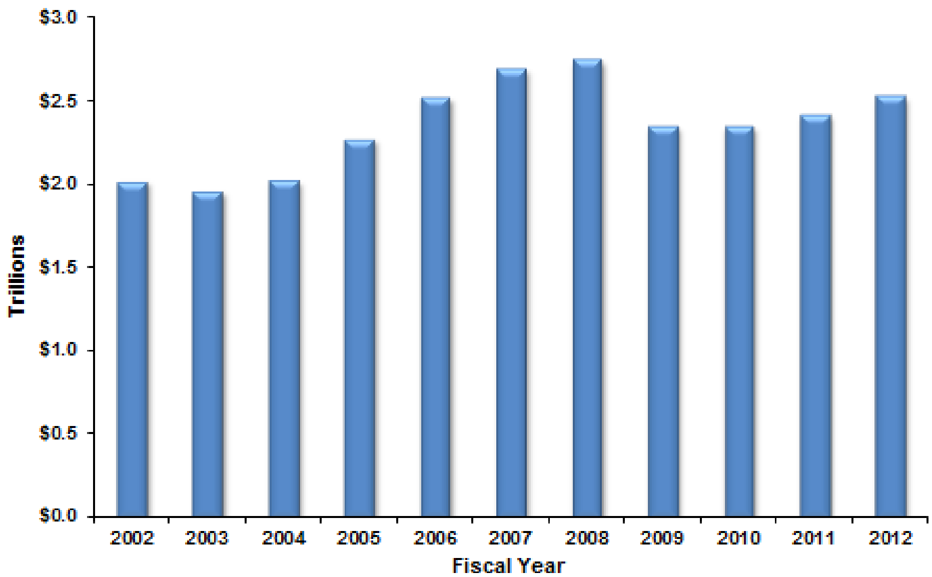
Enforcement revenue collected declined by 9 percent from Fiscal Year 2011 to 2012—from $55.2 billion to $50.2 billion.[11] This amount (not adjusted for inflation) has decreased two straight years and is 13 percent less than the amount in Fiscal Year 2010. The 13 percent reduction in enforcement revenue correlates with the 14 percent reduction in the number of enforcement personnel.

Figure 3 shows that the total dollars received and collected (gross collections) increased for the second straight year. Since Fiscal Year 2010, gross collections have increased by 8 percent to

[10] GAO, GAO-13-283, *HIGH RISK SERIES: An Update* (Feb. 2013).
[11] See Appendix IV, Figure 2.

$2.52 trillion in Fiscal Year 2012. However gross collections are still 8 percent lower than the 10-year high in Fiscal Year 2008.

Figure 3: Gross Collections



Source: TIGTA analysis of the IRS Data Book.

An increase in the number of tax returns filed

The number of tax returns filed increased 2.1 million, from 184.6 million in Calendar Year 2011 to 186.7 million in Calendar Year 2012. Since Calendar Year 2008, the number of returns filed has increased by 2 percent.[12]

In Fiscal Year 2013, the IRS reported that, for the first time, the number of individual tax returns filed electronically topped 80 percent and approximately 37 percent of business returns were filed electronically. Legislation[13] applicable to return preparers has contributed to the increases. In Fiscal Year 2011, the IRS began requiring specific preparers, based upon their expected number of filings, to file returns electronically.[14]

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[12] Filings data is from the IRS Databook, which presents examination coverage and provides return filings on a calendar year basis because examination activity is generally associated with returns filed in the previous calendar year.
[13] Worker, Homeownership, and Business Assistance Act of 2009, Pub. L. No.111-92, 123 Stat. 2984, 2996 (Nov. 6, 2009).
[14] The IRS did provide a number of exceptions to the mandate for those preparers who could not file electronically.

Collection Function Compliance Activities Show Mixed Results

Total dollars collected on Taxpayer Delinquent Accounts (TDA) by the Automated Collection System and Collection Field function peaked in Fiscal Year 2011 at $6.6 billion but decreased by more than 7 percent to $6.1 billion in Fiscal Year 2012. Fewer Taxpayer Delinquent Investigations (TDI) are being closed, and the Queue increased during Fiscal Year 2012 to 1.1 million accounts—2 percent more than Fiscal Year 2011. However, the IRS has reduced the number of cases shelved or surveyed in accounts receivable.

New TDA receipts continue to outpace closures. The IRS has also reduced its use of liens, levies, and seizures. Considering the trend in decreasing resources and increasing TDAs, the Collection function will need to achieve efficiency and productivity gains to ensure that the Tax Gap does not widen.

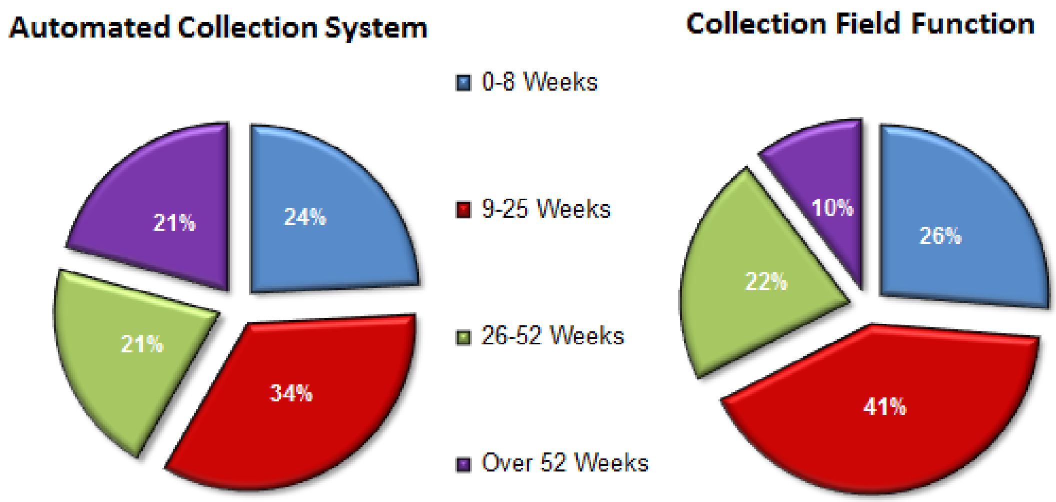
TDA Collections

- Collections on TDAs by the Collection Field function increased for the third straight year. During Fiscal Year 2012, the total dollars collected increased by more than 1 percent to $3.3 billion.
- Collections on TDAs by the Automated Collection System declined for the first time in four years, decreasing 16 percent in total dollars in Fiscal Year 2012—from $3.3 billion in Fiscal Year 2011 to $2.8 billion in Fiscal Year 2012. However, collections by the Automated Collection System were still nearly 18 percent greater than the five-year low of $2.4 billion in Fiscal Year 2008.

Figure 4 shows that both the Automated Collection System and Collection Field function made the majority of Fiscal Year 2012 collections within the first year of receipt of the case within the respective function, which has been the trend over the past five years.[15] However, for Fiscal Year 2012, the Automated Collection System had the least amount of collections in the first year (as a percentage of its total collections) than in any of the past five years.[16]

[15] Time in function does not include time that each tax module may have spent in another IRS function.
[16] See Appendix IV, Figures 9 and 10.

Figure 4: Percentage of Dollars Collected by Number of Weeks the TDA Was Assigned to the Automated Collection System and Collection Field function



Source: IRS Collection Report 5000-2. Percentages do not equal 100 percent due to rounding.

During Fiscal Year 2012, the IRS received more new TDAs than it closed. However, the gap between TDA receipts and closures in Fiscal Year 2012 was 1,589,989 modules, which is 28 percent less than the five-year high of 2,211,046 modules in Fiscal Year 2010.[17]

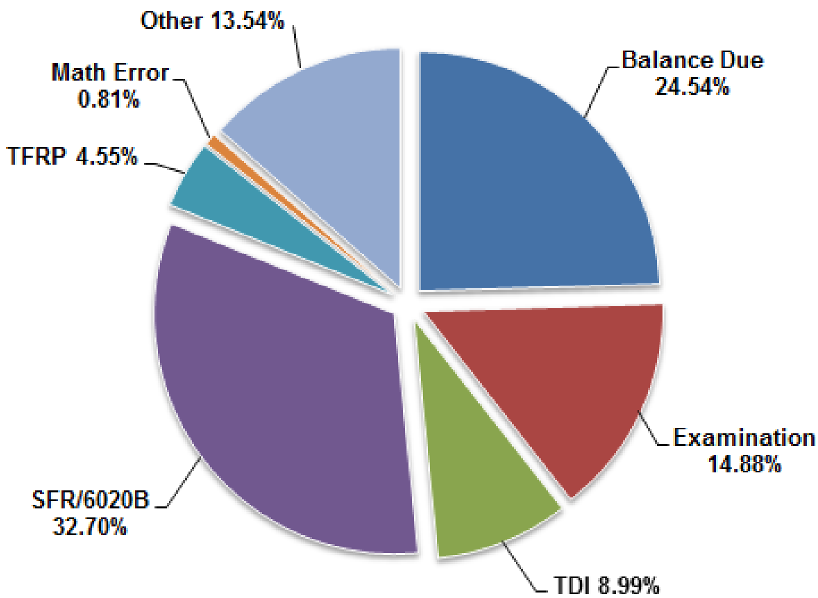
Accounts Receivable

The amount of gross accounts receivable increased by nearly 4 percent (to $392 billion) in Fiscal Year 2012. This is the smallest increase in the past five years. Gross accounts receivable increased 9 percent and 5 percent in Fiscal Years 2010 and 2011, respectively.[18] While the gross accounts receivable has consistently increased, gross collections have also increased by 3 percent and more than 4 percent in Fiscal Years 2011 and 2012, respectively.

Figure 5 shows the gross accounts receivable by source of assessment as of the end of Fiscal Year 2012. As we have noted in prior reports, IRS records indicate that the only program experiencing material fluctuation over the past five years is the Substitute for Return Program. This return category experienced an increase from 26 percent of total accounts receivable in Fiscal Year 2008 to nearly 33 percent in Fiscal Year 2012 as additional emphasis was placed on the program.[19]

[17] See Appendix IV, Figure 16 and 18.
[18] See Appendix IV, Figure 2.
[19] See Appendix IV, Figure 3.

Figure 5: Fiscal Year 2012 Percentage of Accounts Receivable by Source of Assessment



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

TDI Collections

The number of TDI tax periods closed in Fiscal Year 2012 because delinquent tax returns were received by the IRS has decreased by more than 23 percent since Fiscal Year 2011. A large part of the decrease resulted from decreases in TDI closures by both the Collection Field function and Compliance Services Collection Operations, which in turn was likely driven by an 18 percent decrease in the overall number of TDI issuances in Fiscal Year 2012.[20] Although the number of TDI tax periods decreased, the number of taxpayers with TDIs in the Queue increased by 29 percent in Fiscal Year 2011 and by 6 percent in Fiscal Year 2012.[21]

The Queue

The number of taxpayers with TDAs in the Queue increased during Fiscal Year 2012 to 1.1 million accounts. This is 2 percent more than Fiscal Year 2011 but nearly 20 percent more than the five-year low in Fiscal Year 2010.

[20] See Appendix IV, Figure 15.
[21] See Appendix IV, Figures 11 and 17.

The amount owed in the Queue increased 22 percent and 12 percent in Fiscal Year 2011 ($56.2 billion) and Fiscal Year 2012 ($63.1 billion), respectively.[22] Although many of the cases in the Queue may be assigned to be worked, a significant number may only be sent an annual reminder notice in attempt to resolve the delinquency.[23]

The dollar amount of TDAs in the Queue has grown 46 percent in the past five years.

While the number of taxpayers with TDIs and TDAs in the Queue has increased over the past three years, there have been large decreases in the shelved and surveyed cases. The number of TDI tax periods shelved or surveyed from the Queue has decreased nearly 69 percent since Fiscal Year 2010, dropping from slightly more than 819,000 to approximately 258,000. The number of TDA periods shelved or surveyed decreased by 28 and 29 percent in Fiscal Years 2011 and 2012, respectively. Balance due amounts related to these tax periods also decreased. However, the $5.9 billion dollar value of these shelved tax periods represents a 74 percent increase over the past five years.

The Use of Liens, Levies, and Seizures

The IRS has decreased the overall use of liens, levies, and seizures over the past year. In Fiscal Year 2012, the use of liens dropped more than 32 percent compared to Fiscal Year 2011 but is down only 8 percent since Fiscal Year 2008. Both the Automated Collection System and Collection Field function have decreased their use of liens over the past two years.

The Fiscal Year 2012 decrease in the overall use of liens is the largest decline in more than a decade[24] and is due to one of the IRS's Fresh Start initiatives. Specifically, in Fiscal Year 2011, the IRS increased the threshold for making lien filing determinations from $5,000 to $10,000. The initiative was designed to help individuals and small business meet their tax obligations without adding unnecessary burden.

Although the use of levies by the Collection Field function increased in recent years, both the Automated Collection System and Collection Field function issued fewer levies during Fiscal Year 2012. The total number decreased more than 21 percent, which includes a:

- 13 percent decrease by the Collection Field function (to 713,994).
- 23 percent decrease by the Automated Collection System (to 2,247,168).

While levies issued by the Automated Collection System have decreased every year since Fiscal Year 2009 (when they reached 3,091,737), this is the first decline in levies issued by the

[22] The amount owed in the Queue in Fiscal Year 2008 was $43.2 billion.
[23] Before accounts get assigned to the Queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice 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.
[24] See Appendix IV, Figure 20.

Collection Field function since Fiscal Year 2003. However, the use of levies by the Collection Field function has still increased by 91 percent over the past five years.

Seizures also decreased in Fiscal Year 2012, by 6 percent (to 733), although they increased more than 28 percent from Fiscal Year 2010 to 2011. The number of seizures continues to remain far below the number prior to implementation of the IRS Restructuring and Reform Act of 1998.[25] TIGTA reported in Fiscal Year 2011 that planned hiring during Fiscal Years 2011 and 2012 in the Small Business/Self-Employed Division would barely cover attrition losses expected in those years.[26] Since then, the number of Collection Field function revenue officers working delinquent cases has decreased 16 percent, from 4,068 employees in Fiscal Year 2010 to 3,397 employees in Fiscal Year 2012.[27]

Examination Function Compliance Activities Showed Mixed Results

Examination is an important aspect of maintaining a voluntary tax compliance system. IRS Oversight Board studies of taxpayer attitudes have shown that the fear of examination is a major factor in influencing taxpayers to report taxes honestly. In Fiscal Year 2012, 63 percent of taxpayers surveyed cited the fear of examination as a factor that influenced their voluntary compliance. This is an increase compared to Fiscal Year 2011, when 59 percent of taxpayers responded similarly. However, during Fiscal Year 2011, 14 percent of taxpayers believed it was acceptable to cheat on their income taxes, which is the largest percentage in the past five years. In Fiscal Year 2012, the percentage of taxpayers who believed this dropped to 11 percent.

After hiring almost 3,300 revenue agents and tax compliance officers in Fiscal Years 2009 and 2010, there have been fewer than 200 hired in these positions over the last two fiscal years, which is the fewest number of new hires in over 10 years. The reduced hiring has contributed to a 13 percent reduction in the overall number of Examination function personnel who conduct examinations of tax returns.

From Fiscal Year 2010 to 2012, the number of:

- Revenue agents decreased 12 percent (from 11,648 to 10,216).
- Tax compliance officers decreased 17 percent (from 1,390 to 1,154).

Despite the reduction over the past two years, there were still more employees conducting examinations of tax returns in Fiscal Year 2012 than there were five years ago.[28]

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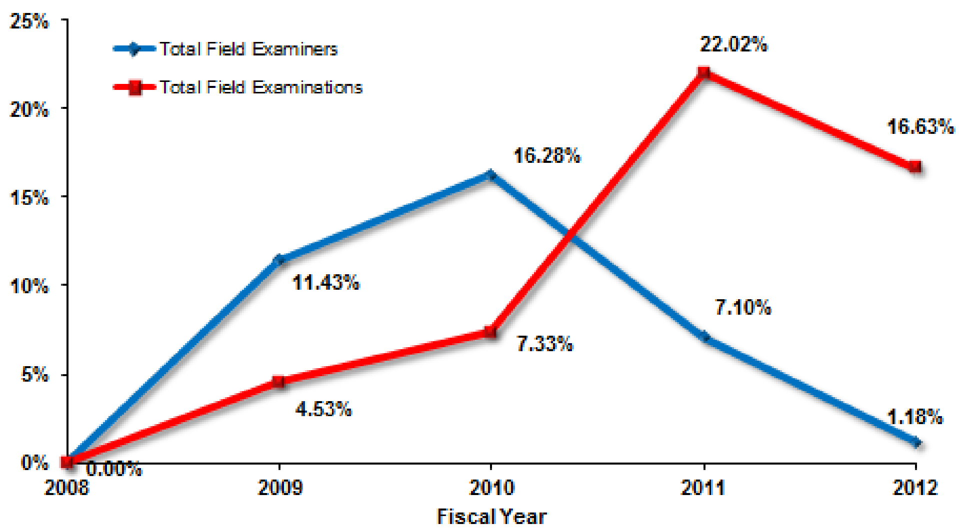
[25] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[26] TIGTA, Ref. No. 2011-30-039, *Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands* (May 2011).
[27] See Appendix IV, Figure 6.
[28] See Appendix IV, Figure 23.

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 Fiscal Year 2012, the IRS conducted 4 percent fewer examinations. Most of this decline is attributable to a reduction in the number of individual tax return examinations. Even with fewer employees, the IRS increased the numbers of corporate (excluding S corporations), partnership, and S corporation examinations in each of the past two years.

Figure 6 shows that Fiscal Year 2012 is the first year that the total number of field examinations declined after reaching a five-year high in Fiscal Year 2011. Recent decreases in Examination function hiring are beginning to affect the number of examinations. The decrease in employees beginning in Fiscal Year 2010 has thus begun to affect the number of field examinations in Fiscal Year 2012.

Figure 6: Percentage Change in the Number of Field Examiners and Examinations, Fiscal Years 2008 to 2012



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. However, during Fiscal Year 2012, 70 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 routines to verify the accuracy of tax returns.[29] 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 Fiscal Years 2009 and 2010, there were significant temporary increases in certain types of these contacts, associated with taxpayer math errors, due to the necessity of computing recovery rebate credits and Making Work Pay Credits for those taxpayers who had not initially claimed them on their tax returns. Predictably, the IRS experienced an associated decrease in these contacts during Fiscal Years 2011 and 2012.

Examination rates for the various types of tax returns showed mixed results

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

- *Individual Income Tax Return Examinations* – Fiscal Year 2012 is the second year of decreases in the number of individual income tax returns examined. However, the IRS examined 1,481,966 (one of every 97) tax returns in Fiscal Year 2012, which is still more than the 1,391,581 (one of every 99) tax returns examined in Fiscal Year 2008. The highest number of returns examined over the past five years was Fiscal Year 2010, in which 1,581,394 (one of every 90) returns were examined.[30]

  During Fiscal Year 2012, 81 percent of the examinations of individuals were performed by correspondence.[31] Only one of every 522 individual income tax returns filed received a face-to-face examination, which is a 17 percent decrease compared with Fiscal Year 2011, when one of every 445 individual returns received a face-to-face examination.

- *Corporate Income Tax Return Examinations* – More corporate tax returns were examined during Fiscal Year 2012 than any of the past five years.[32] The number of examinations has increased from a five-year low of 27,834 (1 of every 79 returns filed) in Fiscal Year 2009 to 31,916 (1 of every 61 filed) in Fiscal Year 2012, an increase of almost 15 percent.[33] Meanwhile, the number of corporate tax returns filed has decreased every year over the past five years. Filings decreased from 2,227,838 in Fiscal Year 2008 to 1,956,647 in Fiscal Year 2012, a decrease of 12 percent.

  Over the past five years, the number of corporate tax returns examined with assets of less than $10 million has increased 3 percent, from 20,580 in Fiscal Year 2008 to 21,164 in

[29] See Appendix IV, Figures 47 and 48.
[30] This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 31 and 32.
[31] 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.
[32] This information excludes returns for foreign corporations, S Corporations, and Cooperative Associations.
[33] See Appendix IV, Figures 31, 37, and 38 for coverage by size of corporation.

Fiscal Year 2012. However, the number examined is almost 16 percent more than the five-year low of 18,298 that were examined in Fiscal Year 2009. While examinations have increased during this period, filings of corporations with assets of less than $10 million have decreased every year to a five-year low of 1,896,158 filings in Fiscal Year 2012.

Over the past five years, the number of corporate tax returns examined with assets of $10 million and greater increased by more than 14 percent. Within this category, examinations of corporations with assets of $50 million to $250 million increased by more than 77 percent. IRS management indicated that this increase occurred because the examiners hired during Fiscal Years 2009 and 2010 became more experienced and therefore increased closures in this corporate asset range.

- *S Corporation Tax Return Examinations* – The number of S corporation tax returns examined has increased more than 30 percent over the past five years, growing from 16,634 in Fiscal Year 2008 to 21,656 in Fiscal Year 2012. After examinations decreased in Fiscal Year 2010, they have increased 33 percent in the last two years. In Fiscal Year 2010, one of every 270 S corporation returns filed were examined, compared with one of every 206 filed in Fiscal Year 2012. S corporation return filings continually increased from Fiscal Year 2008 through 2012 and are up 8 percent since Fiscal Year 2008.[34]

- *Partnership Return Examinations* – The number of partnership returns filed increased by 12 percent from Fiscal Year 2008 to 2012. Examinations of partnership returns increased more than 21 percent (to 16,691) in the past year and have increased 35 percent over the five-year low of 12,406 in Fiscal Year 2010. Nearly one of every 276 returns filed in Fiscal Year 2010 were examined. This increased to one of every 211 in Fiscal Year 2012.[35]

- *Other Tax Type Examinations (fiduciary, employment, excise, estate, and gift taxes)* – After a 17 percent decrease in the overall number of examinations in these five classes in Fiscal Year 2008, the number of examinations has increased 17 percent in the years since then. Increases in the employment and excise classes of 1 and 12 percent, respectively, since Fiscal Year 2011 were supplemented by a 74 percent increase in fiduciary examinations during the same period. The increase in fiduciary examinations followed a 45 percent decrease from Fiscal Year 2010 to 2011.

  Gift tax examinations have increased every year since Fiscal Year 2009 and have nearly tripled since Fiscal Year 2008. Even as examinations have increased, the number of gift tax filings has decreased 13 percent since Fiscal Year 2008. The number of estate tax

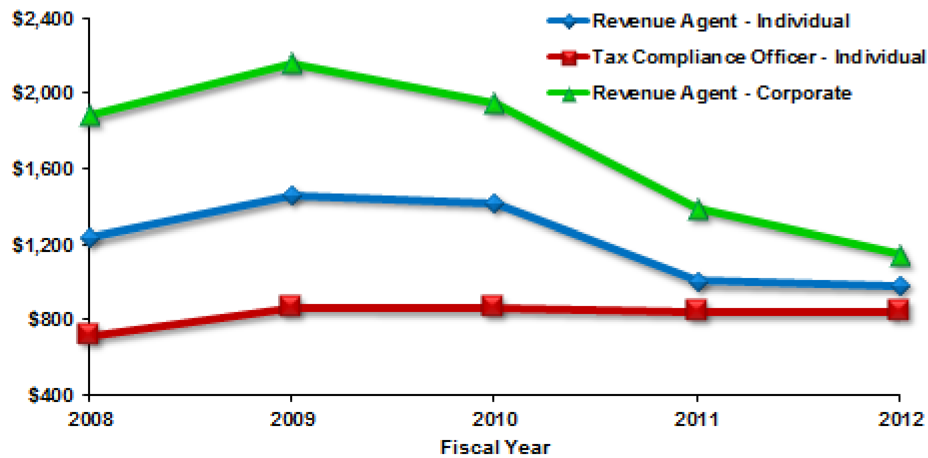
[34] See Appendix IV, Figures 31 and 40.
[35] See Appendix IV, Figures 31 and 41.

return examinations has decreased by 2 percent since Fiscal Year 2008, which is less than the decrease of 73 percent in filings of such returns. Estate tax return examinations decreased more than 10 percent in Fiscal Year 2012, offsetting a 16 percent increase in Fiscal Year 2009.[36]

Most Examination function productivity indicators decreased

Figure 7 shows the dollar yield per hour for Fiscal Years 2008 through 2012 for revenue agents and tax compliance officers. The examination function dollar yield per hour for revenue agent examinations of both individual and corporations has declined since reaching five-year highs in Fiscal Year 2009. The Fiscal Year 2012 dollar yield per hour for examinations of individual tax returns decreased by 2 percent for revenue agents, which followed a 30 percent decrease in Fiscal Year 2011.

Figure 7: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Examination Table 37.

The dollar yield per hour for the examination of corporate tax returns has also decreased from a five-year high in Fiscal Year 2009. The yield decreased 29 percent and 17 percent in Fiscal Years 2011 and 2012, respectively. Overall, the yield of revenue agent examinations of corporate tax returns is down 47 percent since Fiscal Year 2009.[37]

The decrease in the dollar yield per hour by revenue agents may be attributed to decreases in the dollar amounts per return. Individual returns went from a high of $44,311 in Fiscal Year 2009 to $30,765 (a decrease of 31 percent) in Fiscal Year 2012. Corporate tax return dollars are down 49 percent during the same period.

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[36] See Appendix IV, Figures 31 and 42 through 46.
[37] See Appendix IV, Figure 26.

The dollar yield per hour for tax compliance officer examinations of individual returns has not changed materially over the past three years but was 18 percent higher in Fiscal Year 2012 than in Fiscal Year 2008. The dollar amount per return attributed to these individual returns has also increased 18 percent, while the hours per return has not fluctuated more than one hour during the same period.[38]

The dollar yield per hour for revenue agent examinations of partnership returns decreased by 25 percent and 19 percent in Fiscal Years 2010 and 2011, respectively. However, it increased more than 10 percent in Fiscal Year 2012. Dollars per tax return for revenue agent examinations of partnership tax returns decreased more than 37 percent in Fiscal Year 2011 but was up more than 31 percent in Fiscal Year 2012. The dollars reported per tax return also decreased for S corporation examinations, which in turn decreased the dollar yield per hour by 23 percent and 18 percent in Fiscal Years 2011 and 2012, respectively.

One 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 reached a five-year high in Fiscal Year 2008 (12 percent). Since then, the no-change rate decreased in Fiscal Year 2009 (10 percent), increased in Fiscal Year 2010 (11 percent), decreased in Fiscal Year 2011 (8 percent), and increased in Fiscal Year 2012 (11 percent).
- Tax compliance officer examinations of individual tax returns has remained at either 9 or 10 percent over the same five-year period.
- Revenue agent examinations of corporate tax returns has remained the same over the past three fiscal years and matches the rate reported in Fiscal Year 2008.[39]
- Revenue agent examinations of partnership returns increased during Fiscal Year 2010 and Fiscal Year 2011 to 44 percent and 48 percent, respectively. This rate dropped back to 44 percent in Fiscal Year 2012.
- Revenue agent examinations of S corporations were 33 percent of examinations for both Fiscal Year 2010 and Fiscal Year 2012 and 39 percent for Fiscal Year 2011.

TIGTA conducted separate reviews in Fiscal Year 2012 of both S corporations and partnerships examinations to determine whether Small Business/Self-Employed Division examiners were

[38] See Appendix IV, Figures 25 through 28.
[39] See Appendix IV, Figure 29.

conducting audits of these entities in accordance with policies and procedures.[40] TIGTA noted no significant quality problems during the reviews. However, TIGTA recommended that the IRS begin analyzing partnership and S corporation data files to identify whether the most productive returns are selected for audit.

Conclusion

The IRS faced many challenges during Fiscal Years 2011 and 2012, including implementing provisions related to new tax legislation and operating with fewer resources and employees. Several indicators showed the effect of these challenges, including a decrease in enforcement revenue, a continued increase in accounts receivable, an increase in the number of cases that might never be worked, and a decrease in the overall number of examinations. Nevertheless, many indicators increased, including gross collections and the examinations of certain tax returns. Some of these trends are cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.

[40] TIGTA, Ref. No. 2012-30-062, *The Recommended Adjustments From S Corporation Audits Are Substantial, but the Number of No-Change Audits Is a Concern* (June 2012); TIGTA, Ref. No. 2012-30-060, *Despite Some Favorable Partnership Audit Trends, the Number of No-Change Audits Is a Concern* (June 2012).

Appendix I

Detailed Objective, Scope, and Methodology

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

I. Obtained and analyzed Collection function data. This included, but was not limited to:

   A. Staffing.

   B. Direct and indirect time.

   C. Delinquent account inventories and unfiled return investigations.

   D. Enforcement actions (liens, levies, and seizures).[1]

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

   A. Staffing.

   B. Direct and indirect time.

   C. Coverage of individual and business tax returns compared to the number of returns filed for each type of return.

   D. Productivity results for individual and business tax returns.

III. Obtained and analyzed other Compliance data. This included, but was not limited to:

   A. Enforcement revenue.

   B. Gross collections and accounts receivable.

   C. Math Error, Underreporter, and Automated Substitute for Return cases.

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

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

[1] See Appendix VI for a glossary of terms.

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

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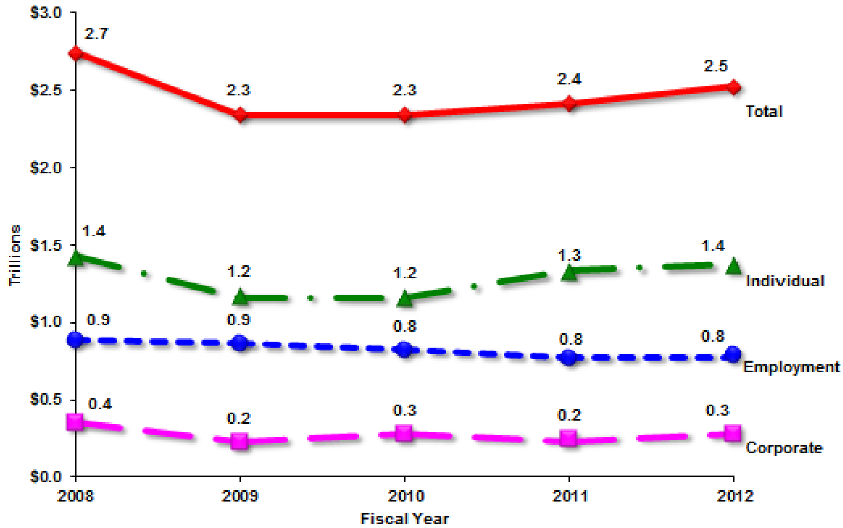
- Commissioner, Small Business/Self-Employed Division SE:S
- Commissioner, Wage and Investment Division SE:W

Appendix IV

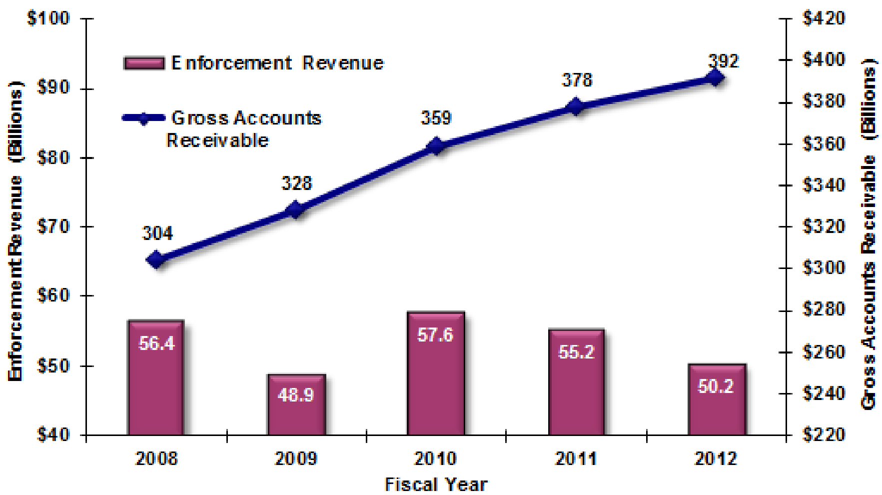
Detailed Charts of Statistical Information

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



Source: TIGTA analysis of the IRS Data Book.

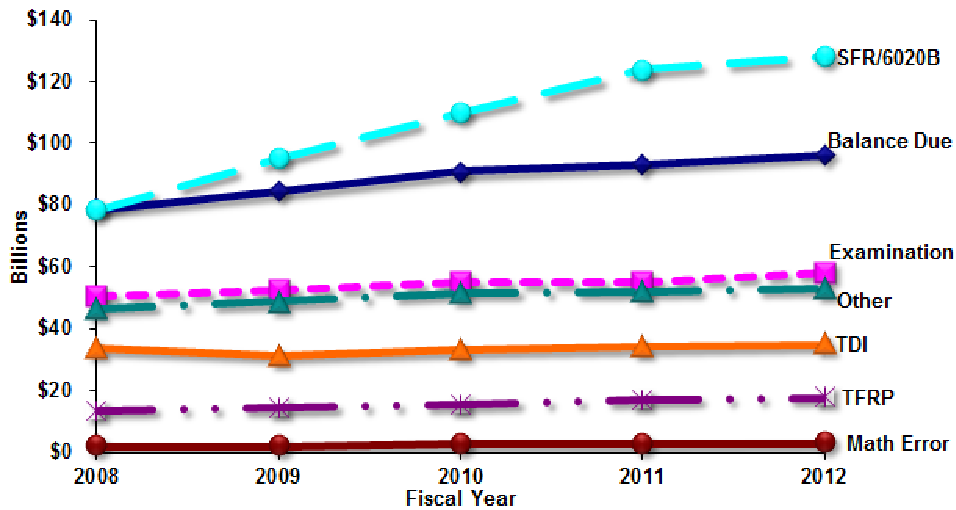
Figure 2: Amount of Enforcement Revenue Collected Compared to Gross Accounts Receivable



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

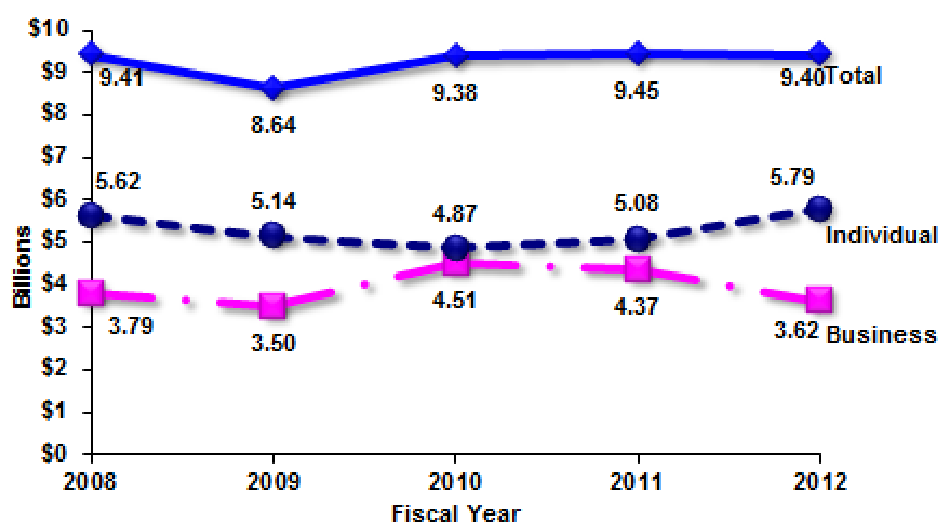
[1] Income tax on estates and trusts is included in individual income tax in Fiscal Year 2008. Beginning with Fiscal Year 2009, the IRS amended this reporting, and estate and trust income tax is reported separately. Estate and trust income tax for Fiscal Year 2012 equaled approximately $16 billion. The total line includes excise, estate, and gift taxes, not just individual, corporate, and employment.

Figure 3: Gross Accounts Receivable by Source of Assessment



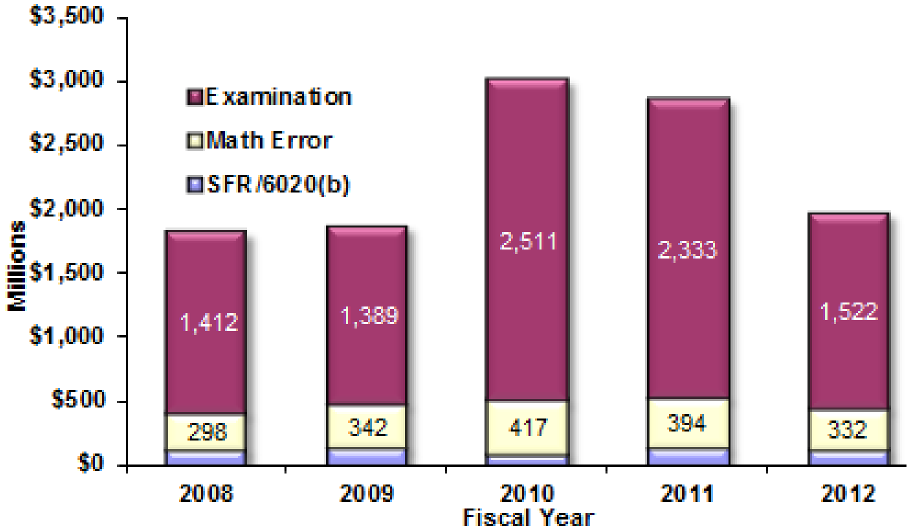
Source: TIGTA analysis of data received from the Office of the Chief Financial Officer.
TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status



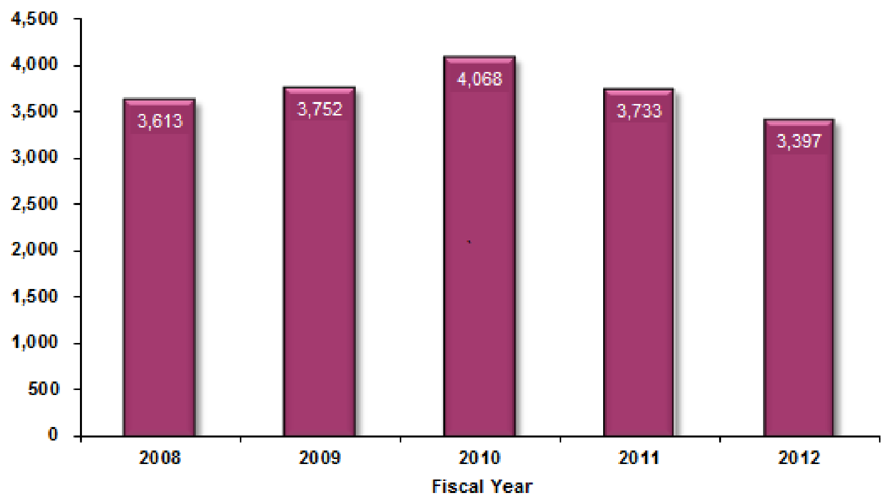
Source: Collection Report 5000-2/242.

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



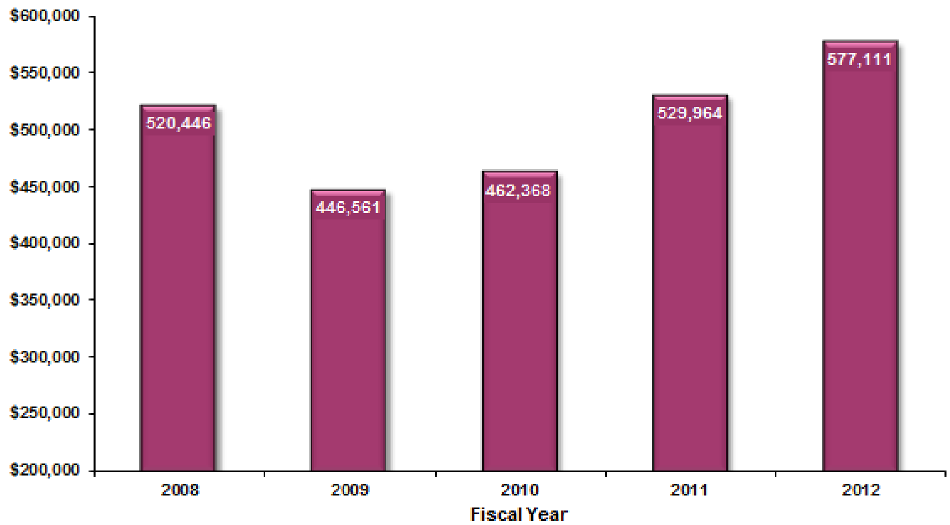
Source: Collection Report 5000-2/242. SFR = Substitute for Return.

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



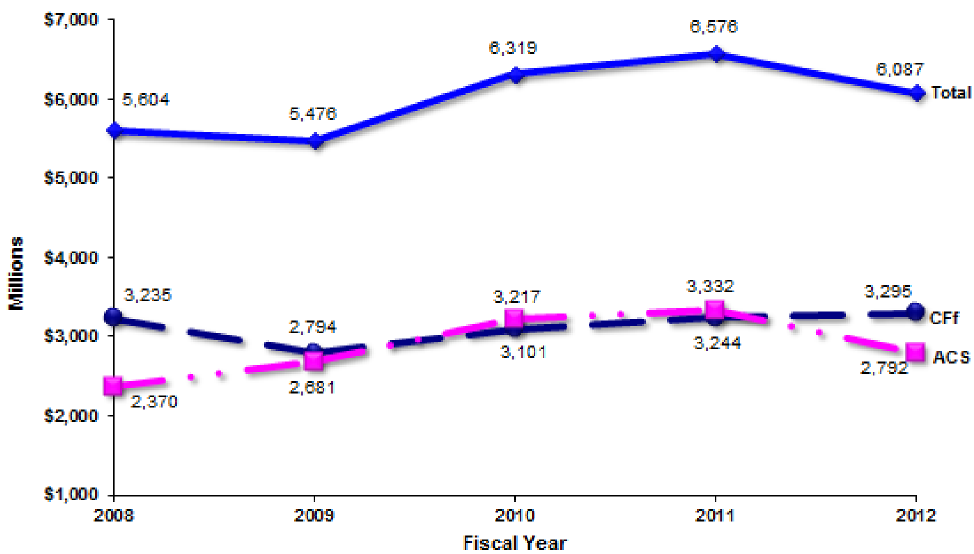
Source: Collection Report 5000-23.

Figure 7: Average Dollars Collected per Staff Year on TDA Tax Periods by the Collection Field Function



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

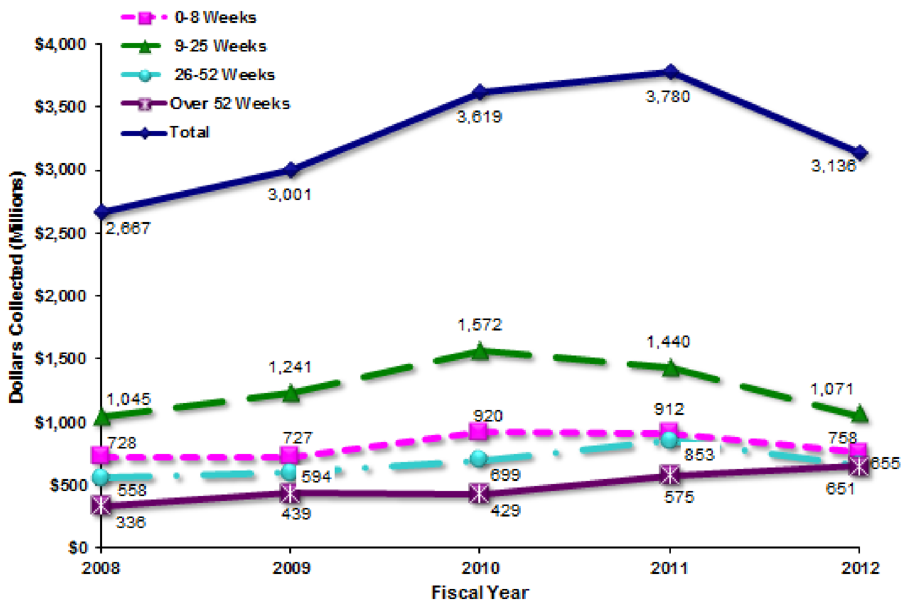
Figure 8: Net Amounts Collected on TDA Tax Periods by the Collection Field Function and Automated Collection System[2]



Source: Collection Report 5000-2. ACS = Automated Collection System;
CFf = Collection Field function.

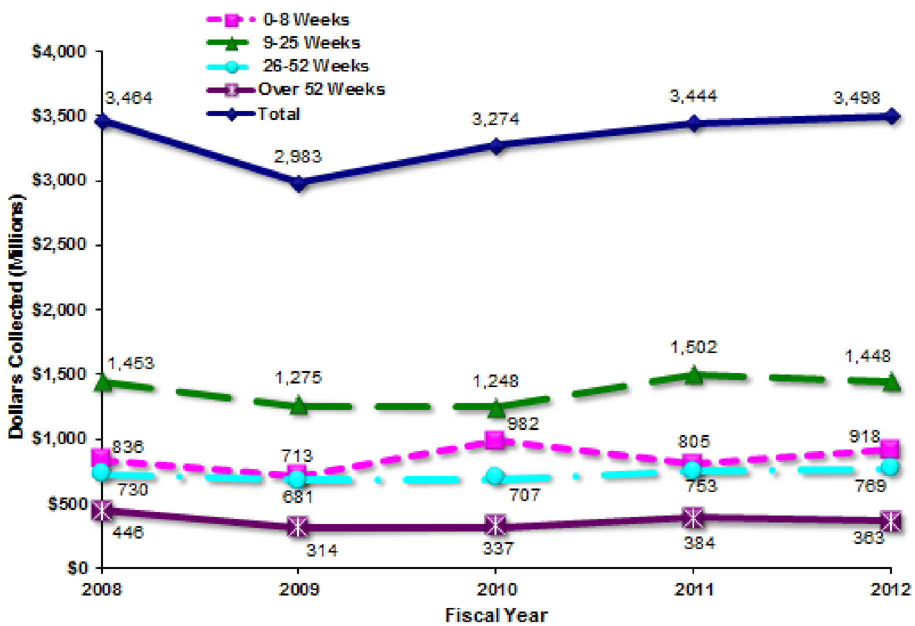
[2] The dollars collected shown in Figure 8 are the net amounts collected after adjustments, such as refunds, are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.

Figure 9: Total Dollars Collected by Number of Weeks Assigned to the Automated Collection System



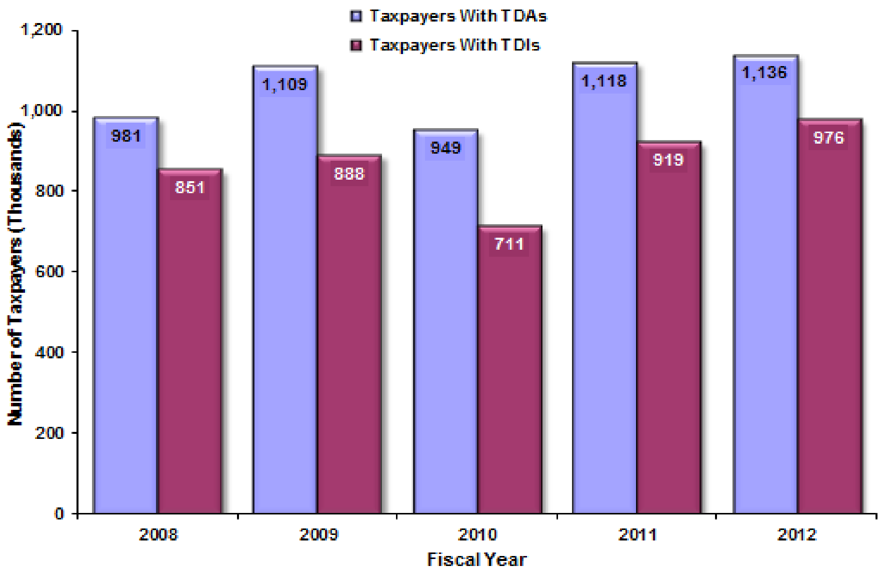
Source: Collection Report 5000-2.

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



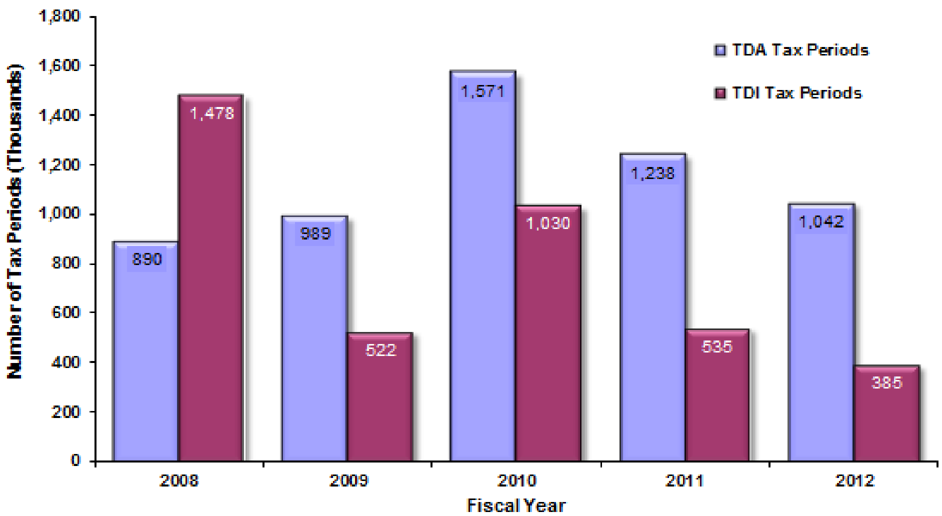
Source: Collection Report 5000-2.

Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue[3]



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

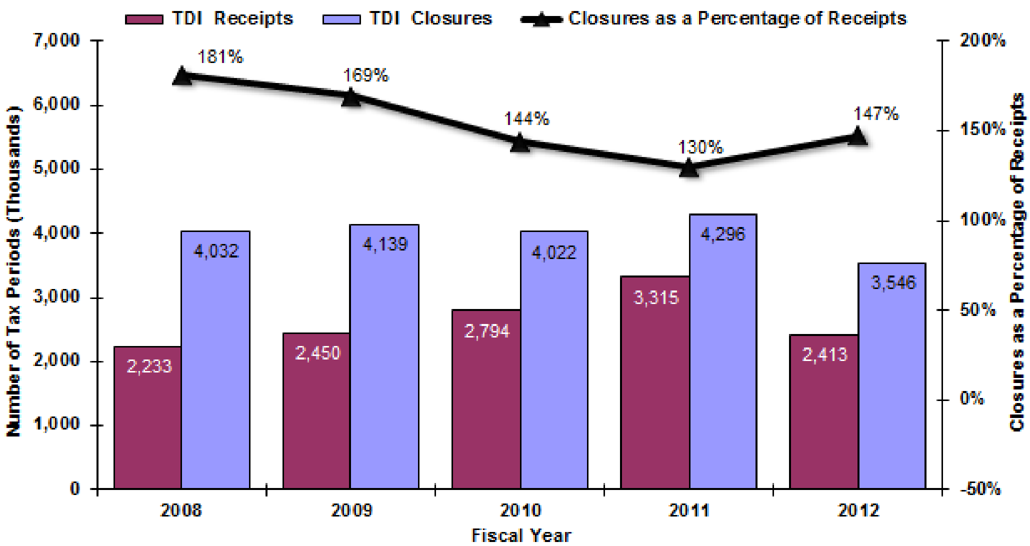
Figure 12: TDA and TDI Tax Periods Shelved or Surveyed



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

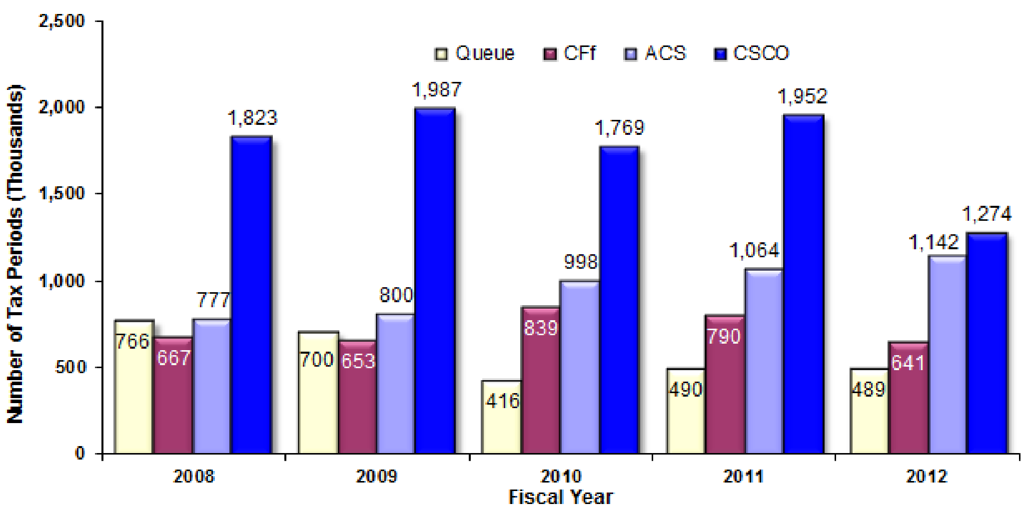
[3] In Fiscal Year 2010, the IRS removed from the Queue a large number of TDA cases that were considered to be potentially less productive than other Queue inventory (see Figure 12). The decrease in TDAs could be at least partially attributed to decreasing removals of these less productive cases.

Figure 13: Gap Between TDI Tax Period Receipts[4] and Closures, Including TDI Tax Period Closures as a Percentage of Receipts[5]



Source: TIGTA analysis of Collection Report 5000-4.

Figure 14: Number of TDI Tax Periods Closed by Collection Functions



Source: TIGTA analysis of Collection Report 5000-4. CSCO = Compliance Services Collection Operations; ACS = Automated Collection System; CFf = Collection Field function.

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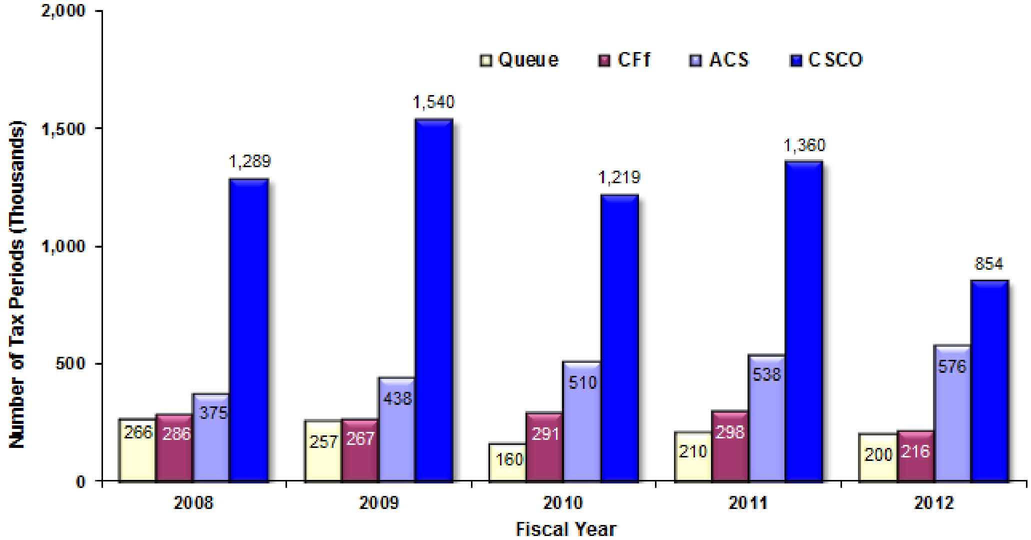
[4] Collection Report 5000-4 does not count subsequent TDI tax periods added to an existing TDI as a new receipt, but does correctly count them in the ending inventory.

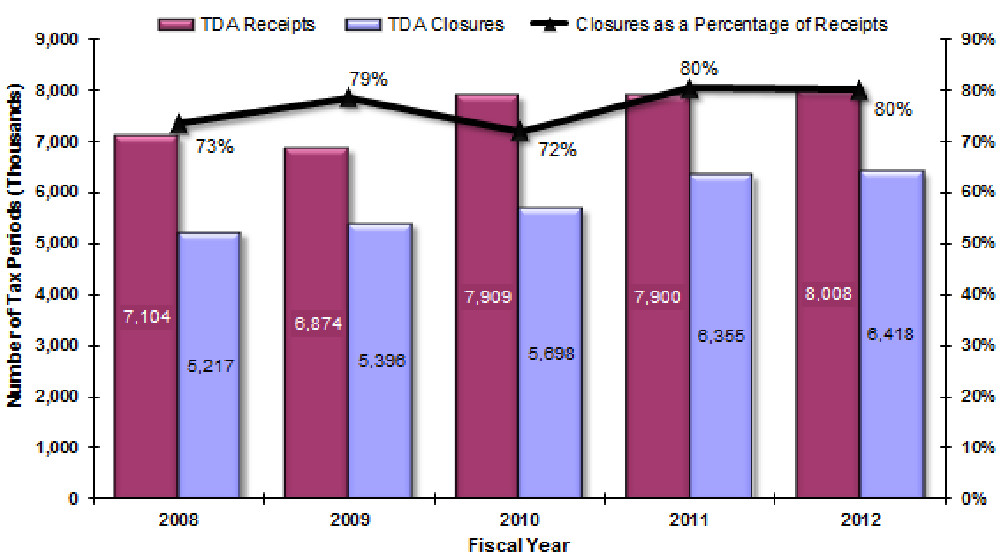
[5] The closures shown in Figures 13 and 14 do not include the TDIs shelved or surveyed, which are shown in Figure 12.

Figure 15: Number of TDI Tax Periods Closed by Collection Functions With Receipt of a Delinquent Tax Return



Source: TIGTA analysis of Collection Report 5000-4. CSCO = Compliance Services Collection Operation; ACS = Automated Collection System; CFf = Collection Field function.

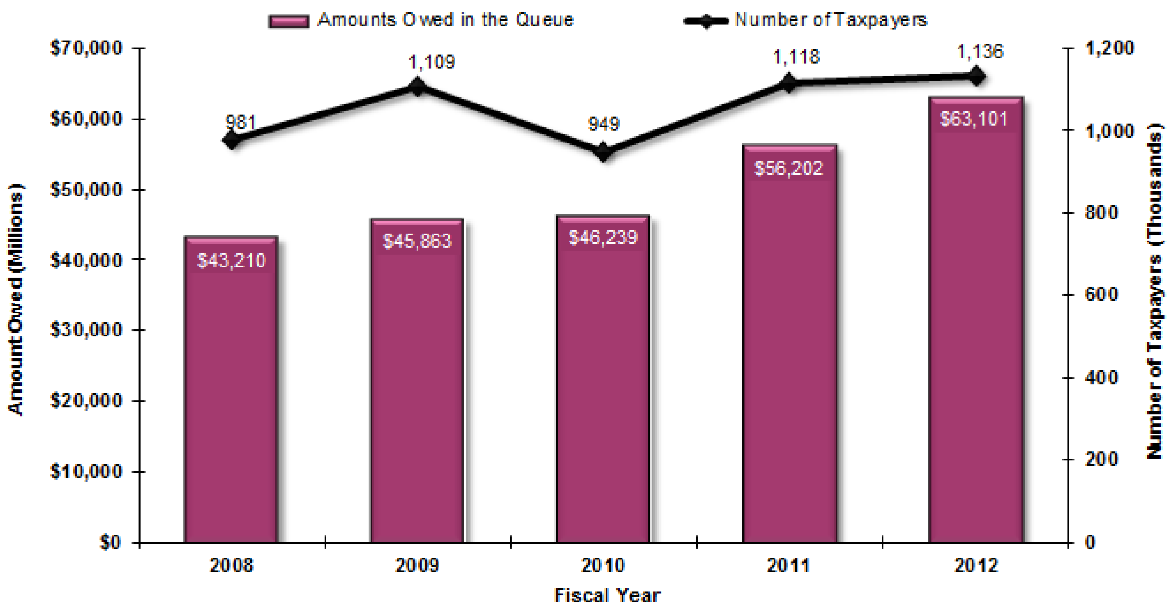
Figure 16: Gap Between TDA Tax Period Receipts and Closures, Including TDA Closures as a Percentage of Receipts[6]



Source: TIGTA analysis of Collection Report 5000-2.

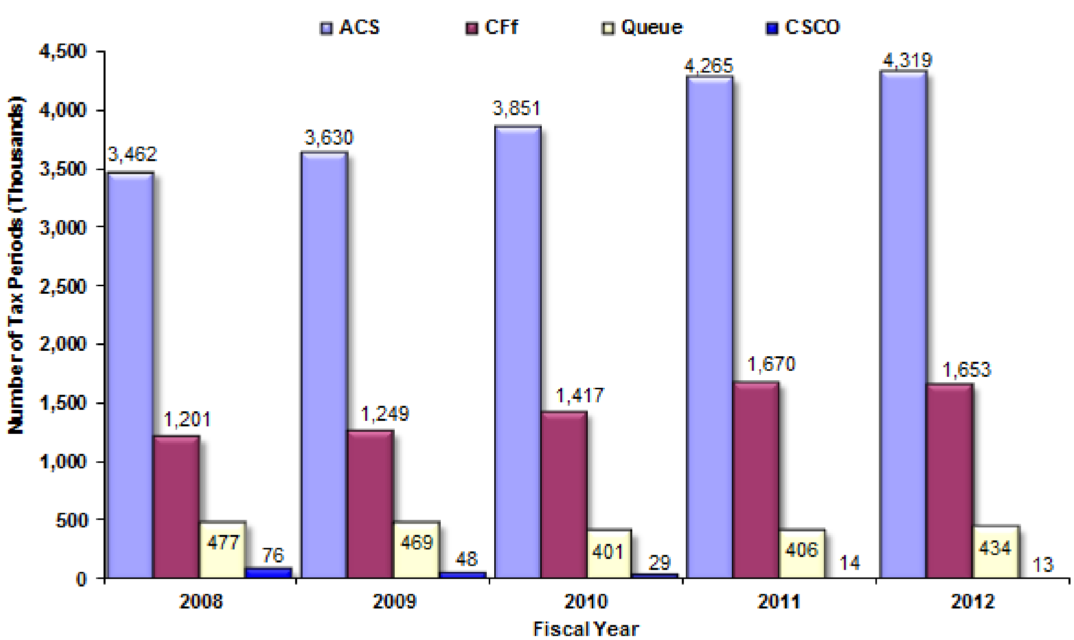
[6] The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.

Figure 17: Number of Taxpayers and Amount Owed in Queue Inventory



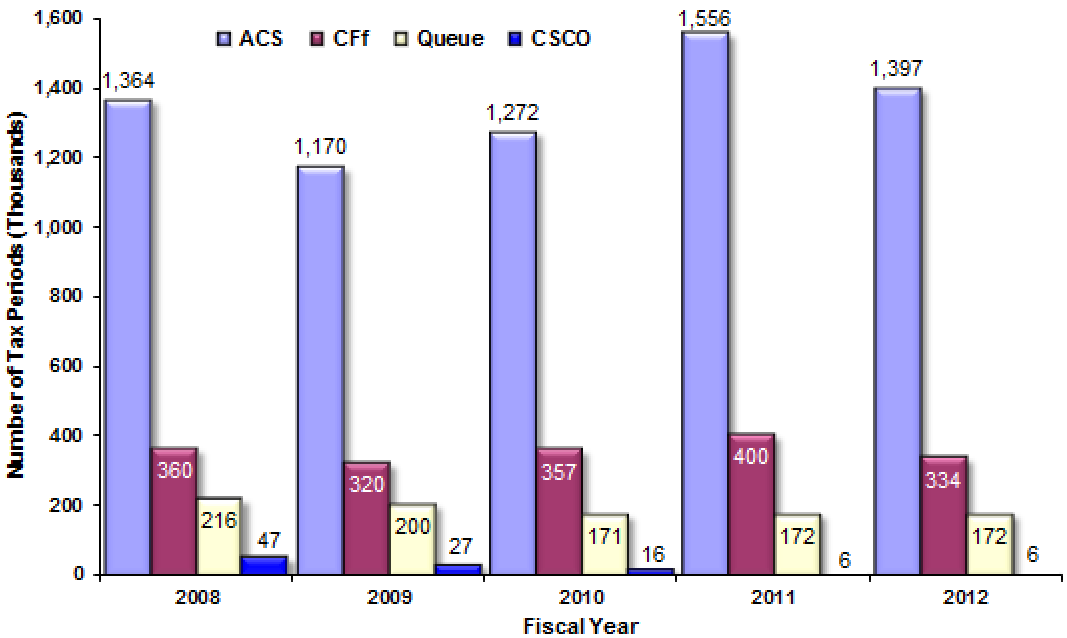
Source: TIGTA analysis of Collection Report 5000-2.

Figure 18: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts



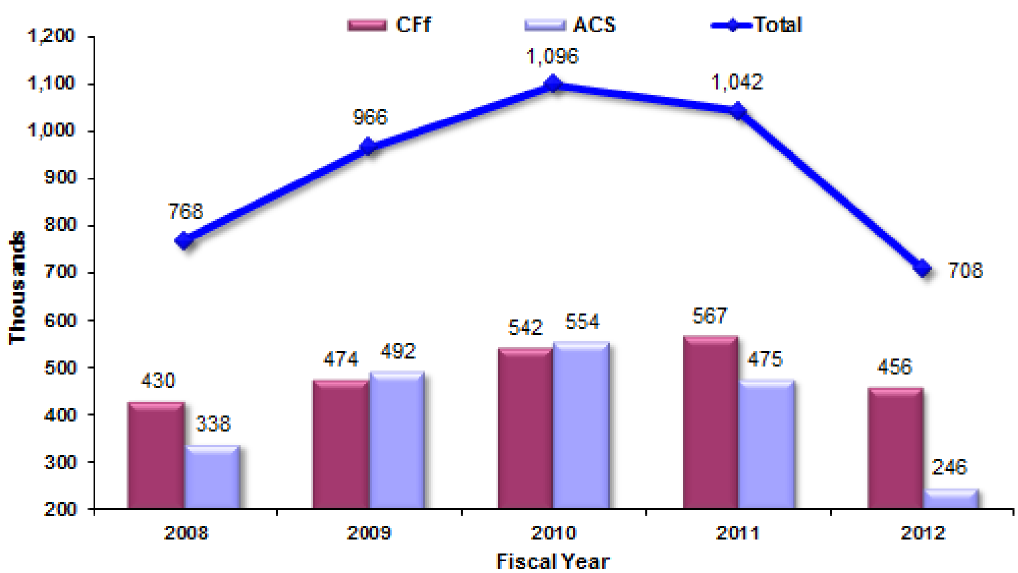
Source: TIGTA analysis of Collection Report 5000-2. CSCO = Compliance Services Collection Operations; ACS = Automated Collection System; CFf = Collection Field function.

Figure 19: Number of TDA Tax Periods Closed With Full Payment by Collection Functions



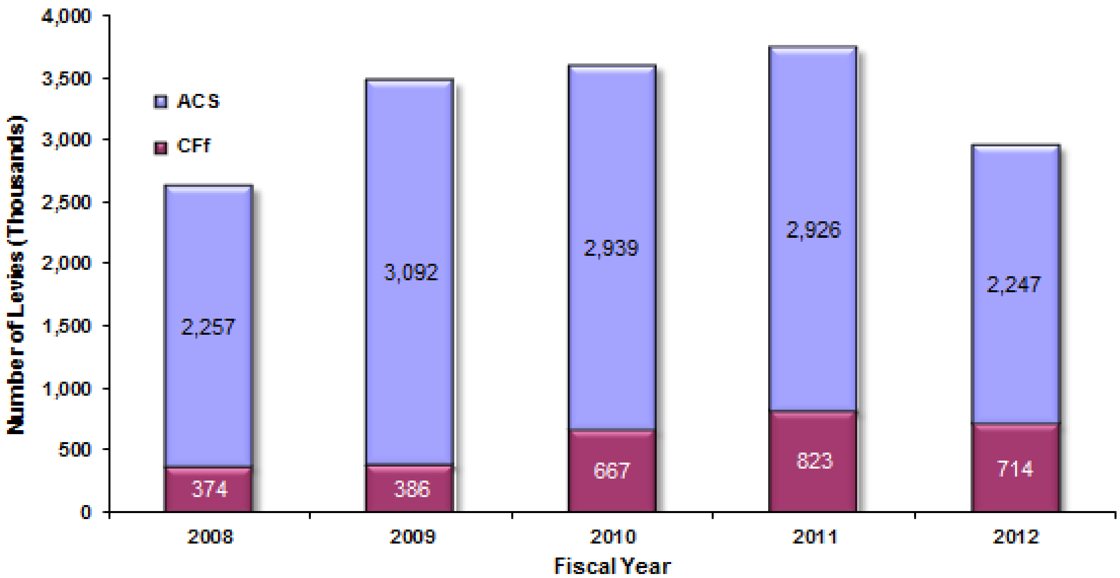
Source: TIGTA analysis of Collection Report 5000-2. CSCO = Compliance Services Collection Operations; ACS = Automated Collection System; CFf = Collection Field function.

Figure 20: Number of Liens Filed by the Collection Field Function and Automated Collection System



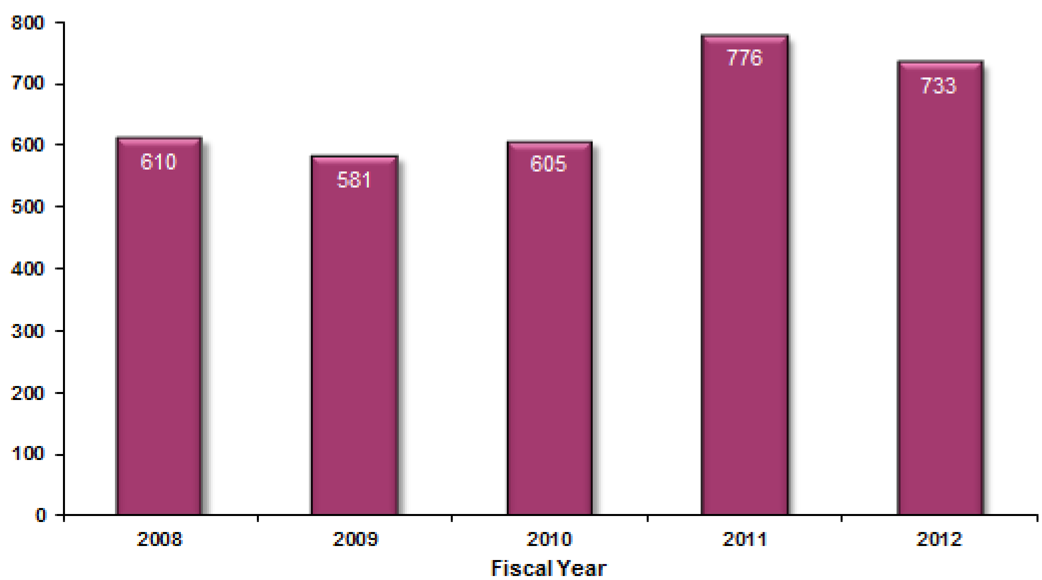
Source: TIGTA analysis of Collection Report 5000-23 and 5000-25. ACS = Automated Collection System; CFf = Collection Field function.

Figure 21: Number of Levies Issued by the Collection Field Function and Automated Collection System



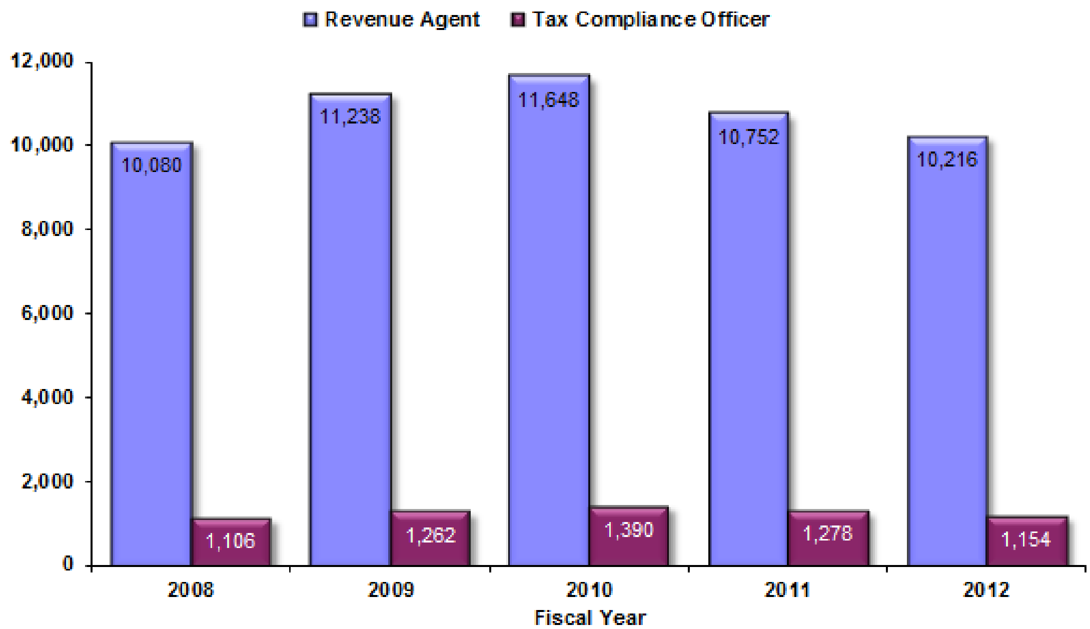
Source: TIGTA analysis of Collection Report 5000-23 and 5000-24. ACS = Automated Collection System; CFf = Collection Field function.

Figure 22: Number of Seizures



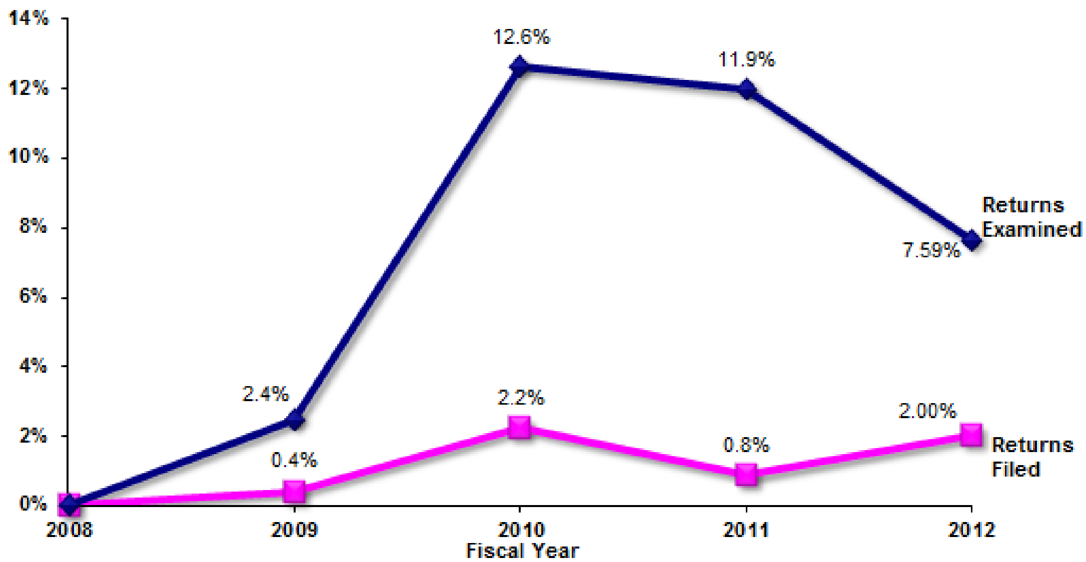
Source: TIGTA analysis of Collection Report 5000-23 and 5000-24.

Figure 23: Number of Examination Function Staff Conducting Examinations of Tax Returns at the End of Each Year



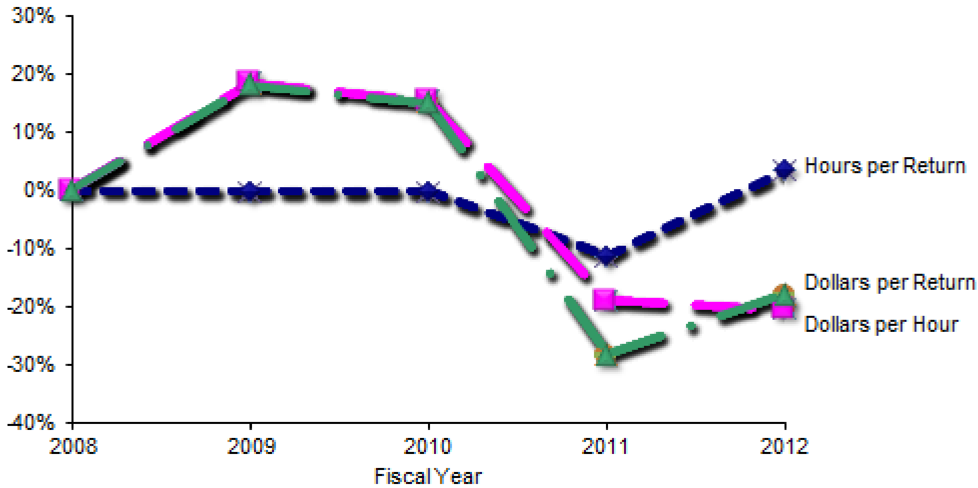
Source: TIGTA analysis of Examination Table 37.

Figure 24: Percentage Change From Fiscal Year 2008 of All Tax Returns Filed and Examined



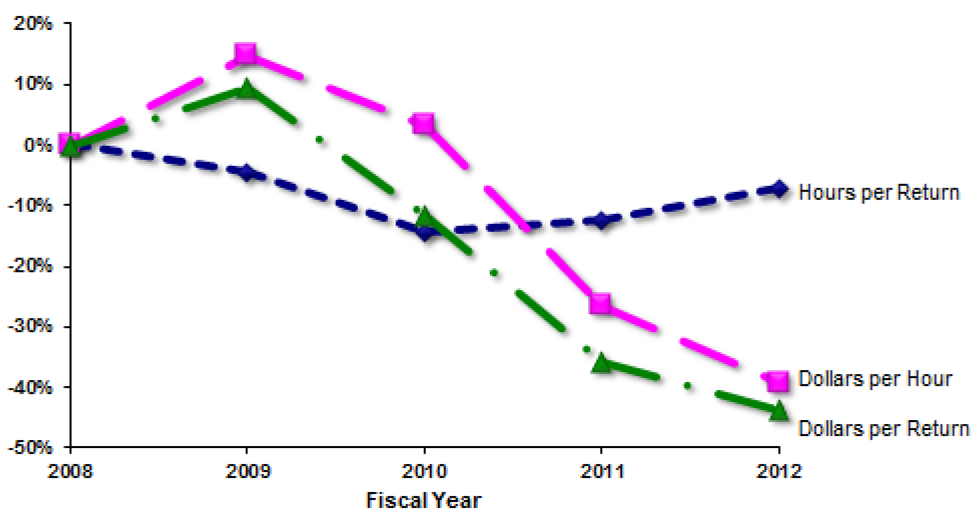
Source: TIGTA analysis of the IRS Data Book.

Figure 25: Revenue Agent Results on Forms 1040 (*U.S. Individual Income Tax Return*), Percentage Change From Fiscal Year 2008[7]



Source: TIGTA analysis of Examination Table 37.

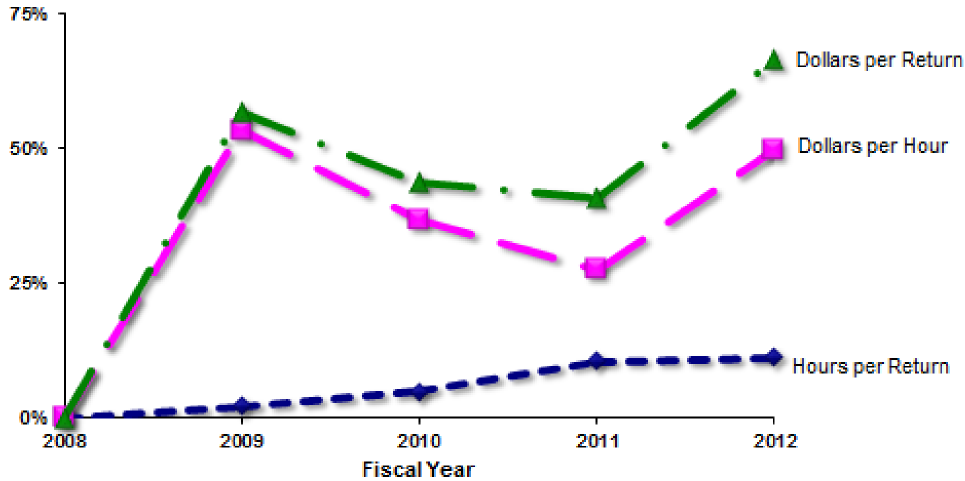
Figure 26: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From Fiscal Year 2008



Source: TIGTA analysis of Examination Table 37.

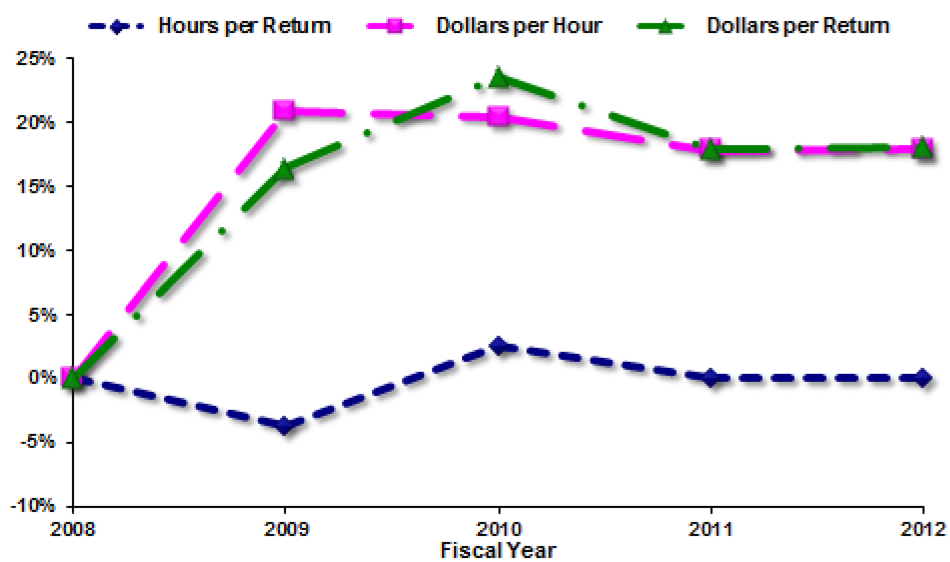
[7] Figures 25 through 29 do not include results from Coordinated Industry Cases or training returns.

Figure 27: Revenue Agent Results on Other Types[8] of Tax Returns, Percentage Change From Fiscal Year 2008



Source: TIGTA analysis of Examination Table 37.

Figure 28: Tax Compliance Officer Results on Forms 1040, Percentage Change From Fiscal Year 2008



Source: TIGTA analysis of Examination Table 37.

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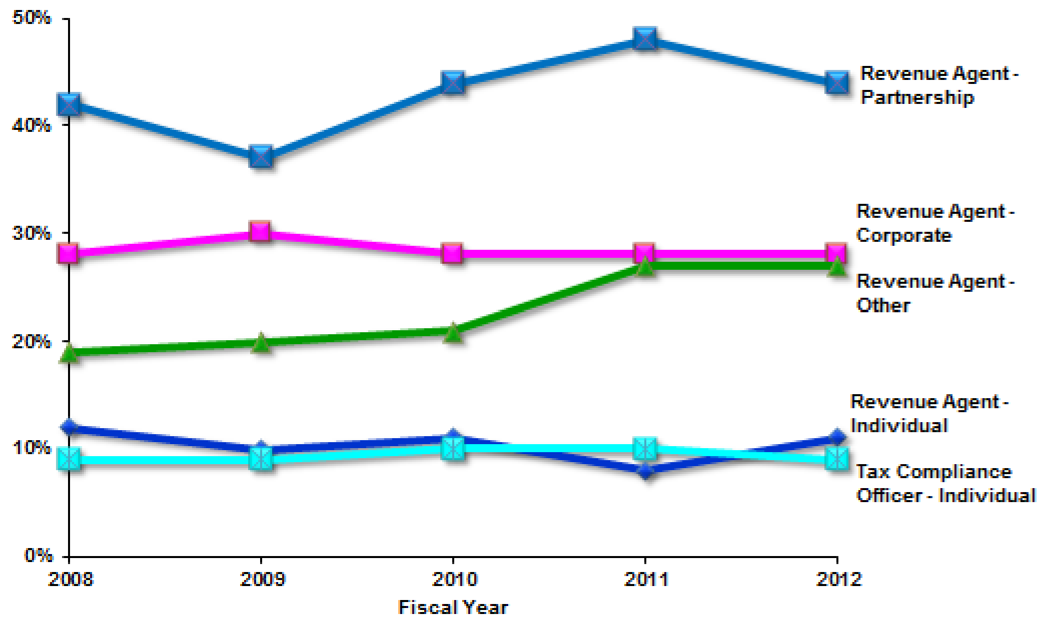
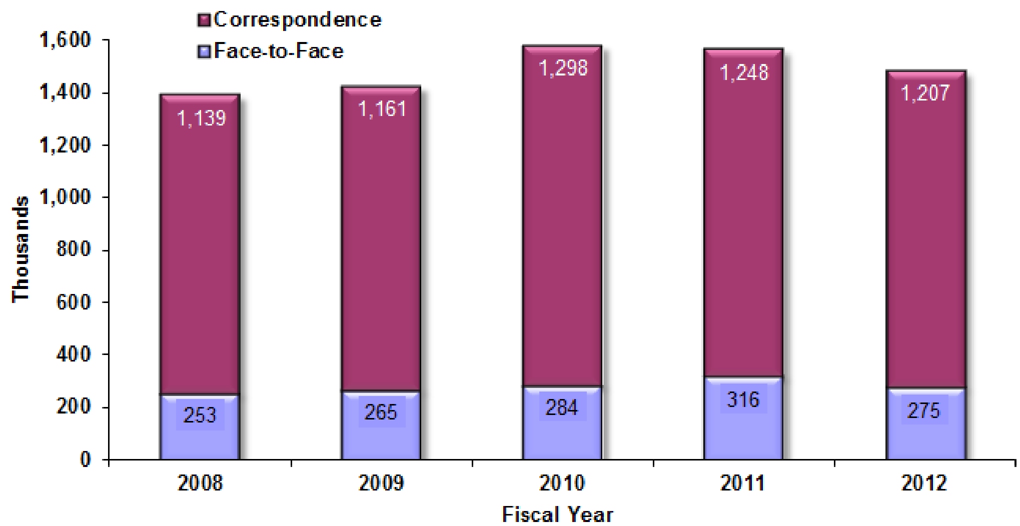
[8] Other types of tax returns include estate, gift, employment, Form 1042 (*Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*), Form 1120-F (*U.S. Income Tax Return of a Foreign Corporation*), and excise.

Figure 29: Revenue Agent and Tax Compliance Officer No-Change Rates for Various Types of Tax Returns



Source: TIGTA analysis of Examination Table 37.

Figure 30: Number of Forms 1040 Examined Face-to-Face or Through Correspondence



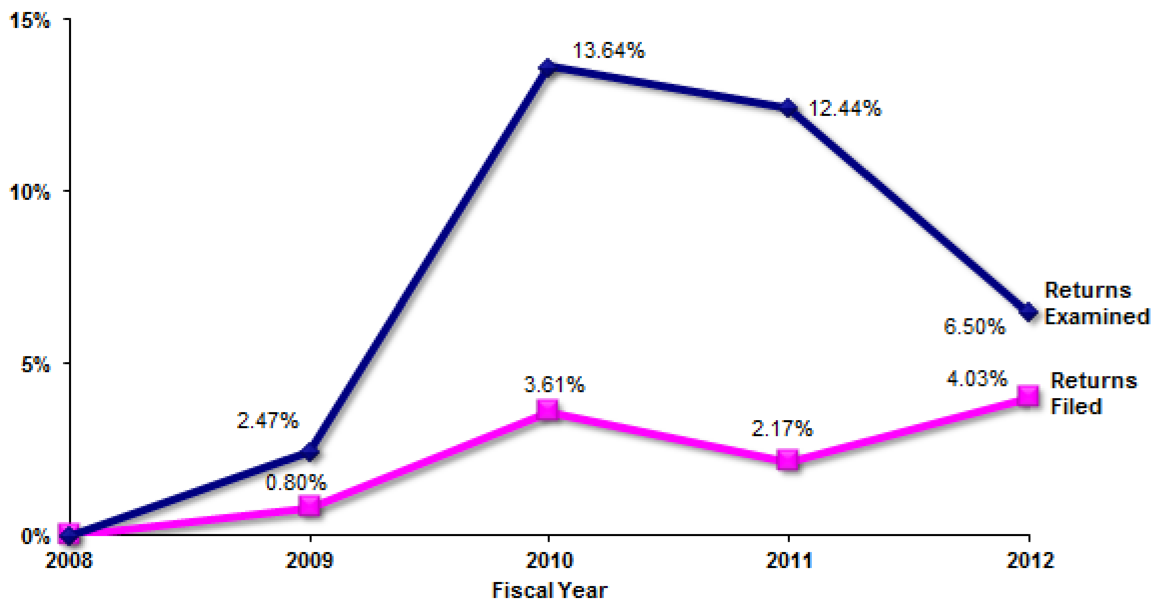
Source: Analysis of Examination Closed Case Database.

Figure 31: Numbers and Percentages of Individual and Business Tax Returns Examined

	Fiscal Year				
	2008	**2009**	**2010**	**2011**	**2012**
Individual Returns					
Individuals (Forms 1040)	1,391,581	1,425,888	1,581,394	1,564,690	1,481,966
Coverage Rate	1.01%	1.03%	1.11%	1.11%	1.03%
Business Returns					
Corporations < $10 Million	20,580	18,298	19,127	19,697	21,164
Coverage Rate	0.95%	0.85%	0.94%	1.02%	1.12%
Corporations $10 Million and Greater	9,406	9,536	10,207	10,459	10,752
Coverage Rate	15.26%	14.55%	16.58%	17.64%	17.78%
S Corporations (Forms 1120S)	16,634	17,455	16,327	18,519	21,658
Coverage Rate	0.40%	0.40%	0.37%	0.42%	0.48%
Partnerships	13,203	12,855	12,406	13,770	16,691
Coverage Rate	0.42%	0.38%	0.36%	0.40%	0.47%
Fiduciaries	4,582	5,259	5,298	2,909	5,070
Coverage Rate	0.12%	0.17%	0.17%	0.10%	0.17%
Employment	60,346	64,021	63,937	66,234	66,997
Coverage Rate	0.20%	0.21%	0.21%	0.22%	0.23%
Excise	16,134	17,267	18,249	19,571	22,014
Coverage Rate	1.80%	1.85%	2.33%	2.40%	3.26%
Estates	3,852	4,468	4,288	4,195	3,762
Coverage Rate	8.14%	9.26%	10.12%	18.23%	29.90%
Gift	1,071	1,569	1,777	2,623	3,164
Coverage Rate	0.42%	0.61%	0.74%	1.16%	1.42%

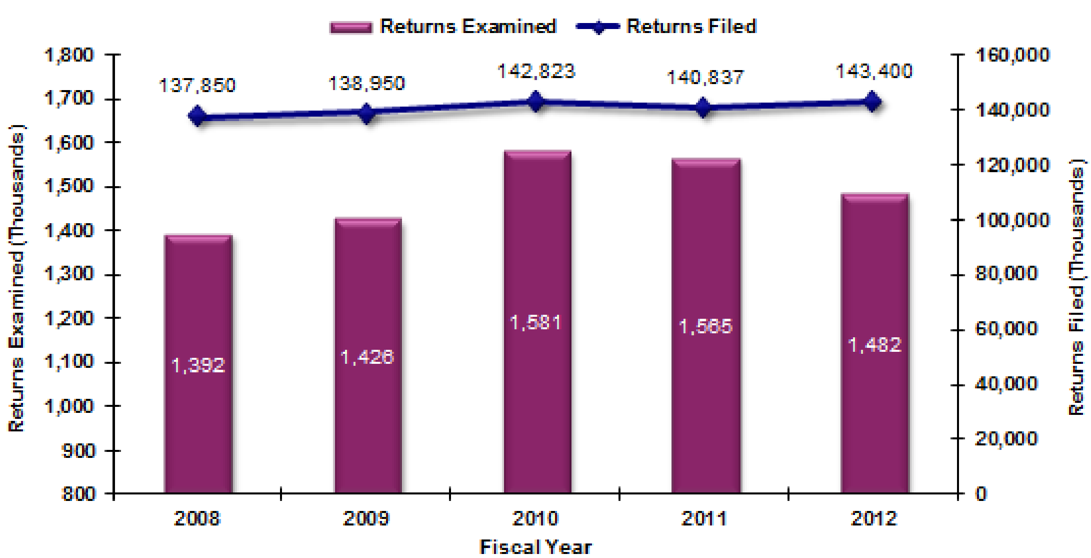
Source: TIGTA analysis of the IRS Data Book.

Figure 32: Percentage Change From Fiscal Year 2008 of Forms 1040 Filed and Examined



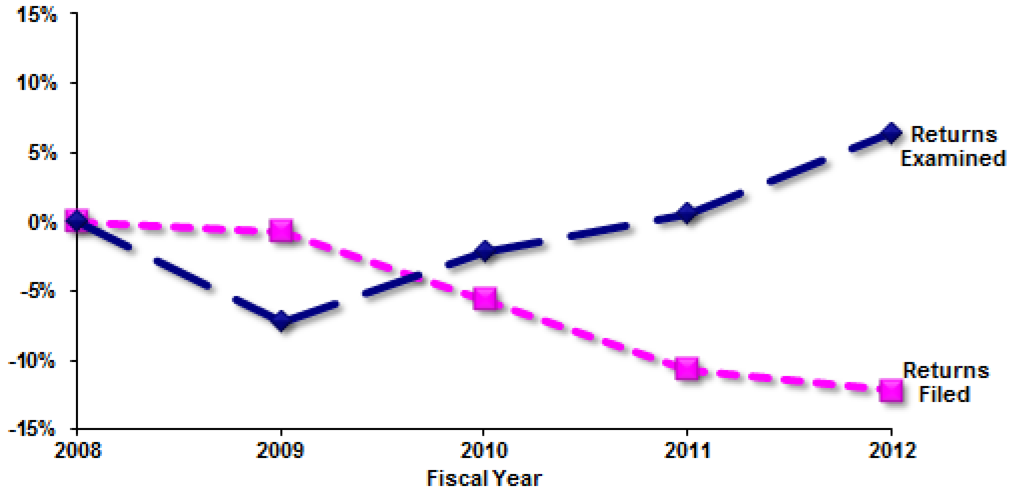
Source: TIGTA analysis of the IRS Data Book.

Figure 33: Number of Forms 1040 Filed and Examined



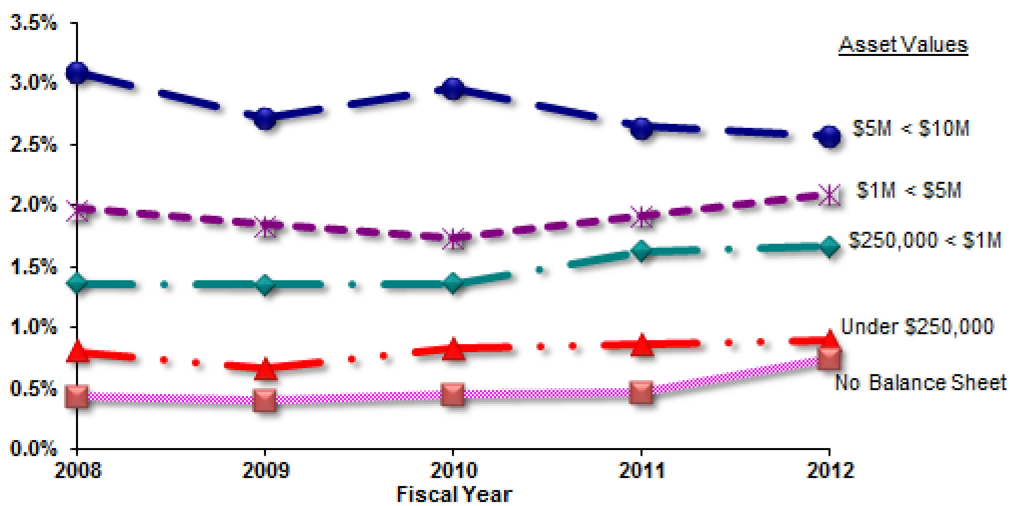
Source: TIGTA analysis of the IRS Data Book.

Figure 34: Percentage Change From Fiscal Year 2008 of Corporate Income Tax Returns Filed and Examined[9]



Source: TIGTA analysis of the IRS Data Book.

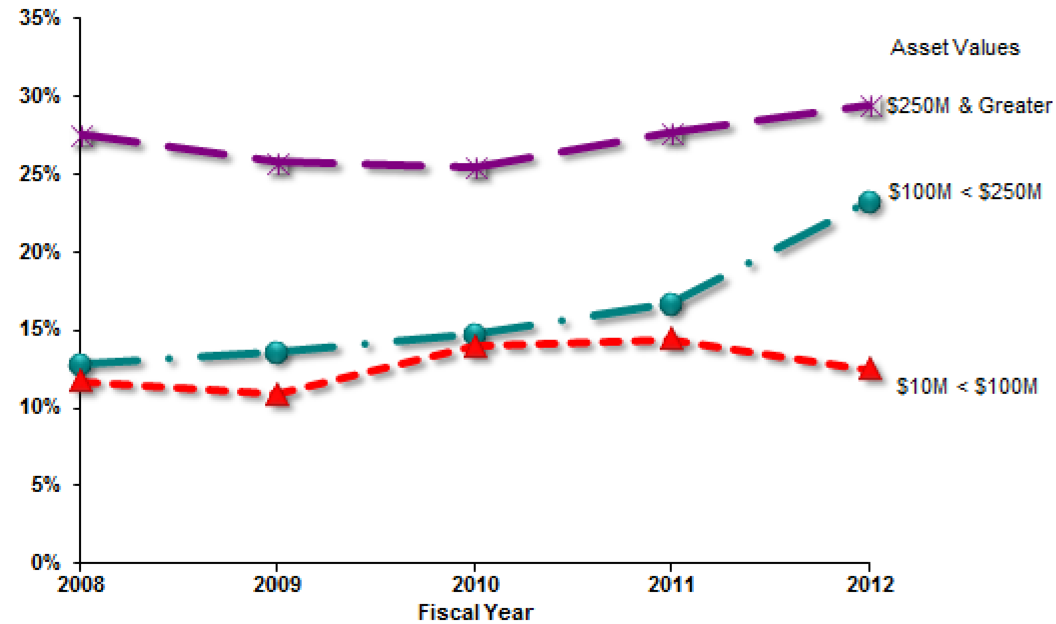
Figure 35: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than $10 Million



Source: TIGTA analysis of the IRS Data Book.

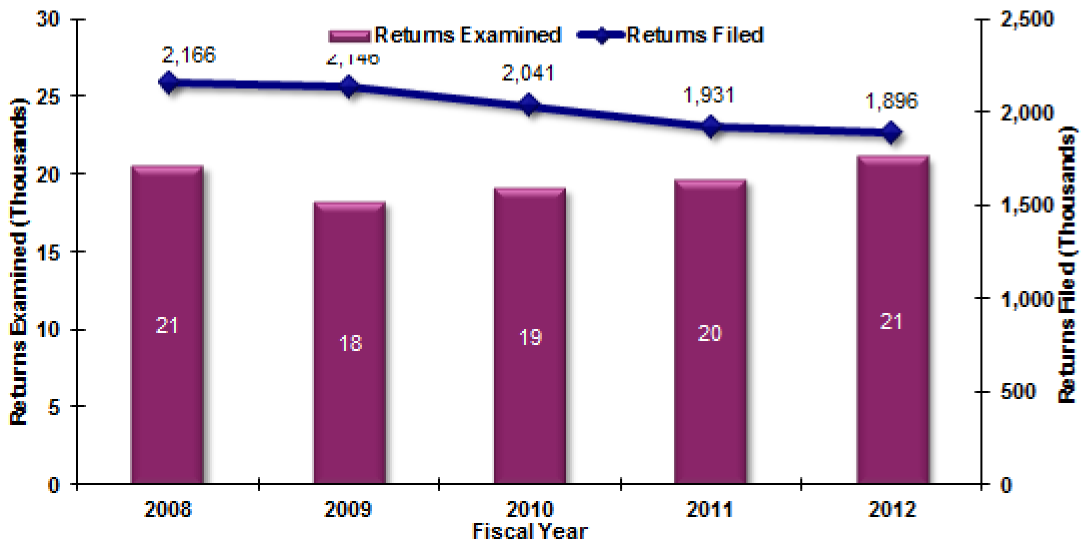
[9] Excludes Form 1120S (*U.S. Income Tax Return for an S Corporation*), Form 1120-F, and Form 1120-C (*U.S. Income Tax Return of a Cooperative Association*).

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



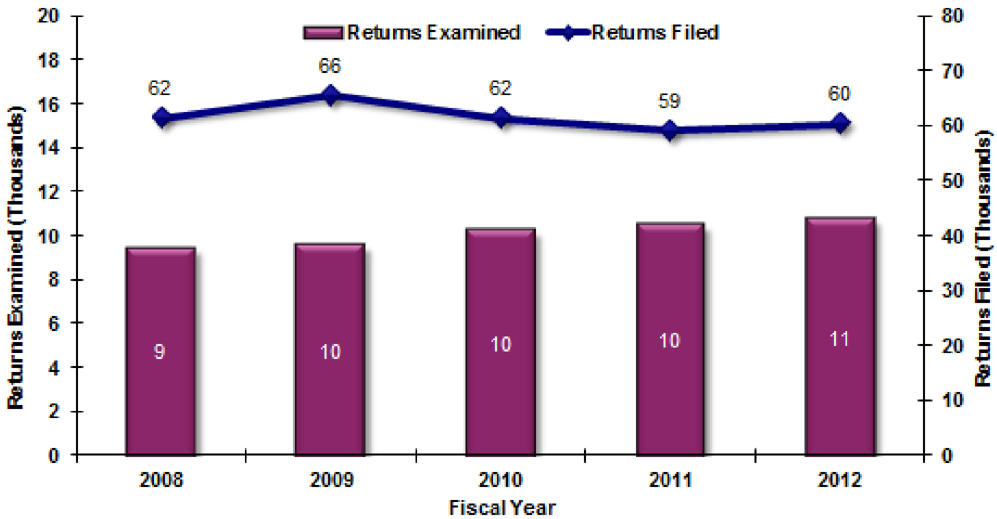
Source: TIGTA analysis of the IRS Data Book.

Figure 37: Number of Tax Returns Filed and Examined – Corporations With Assets of Less Than $10 Million



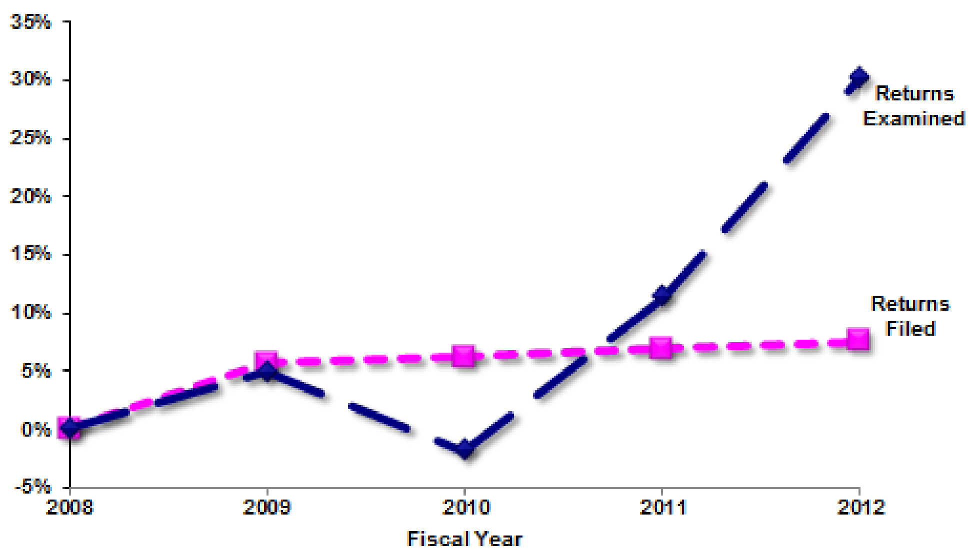
Source: TIGTA analysis of the IRS Data Book.

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



Source: TIGTA analysis of the IRS Data Book.

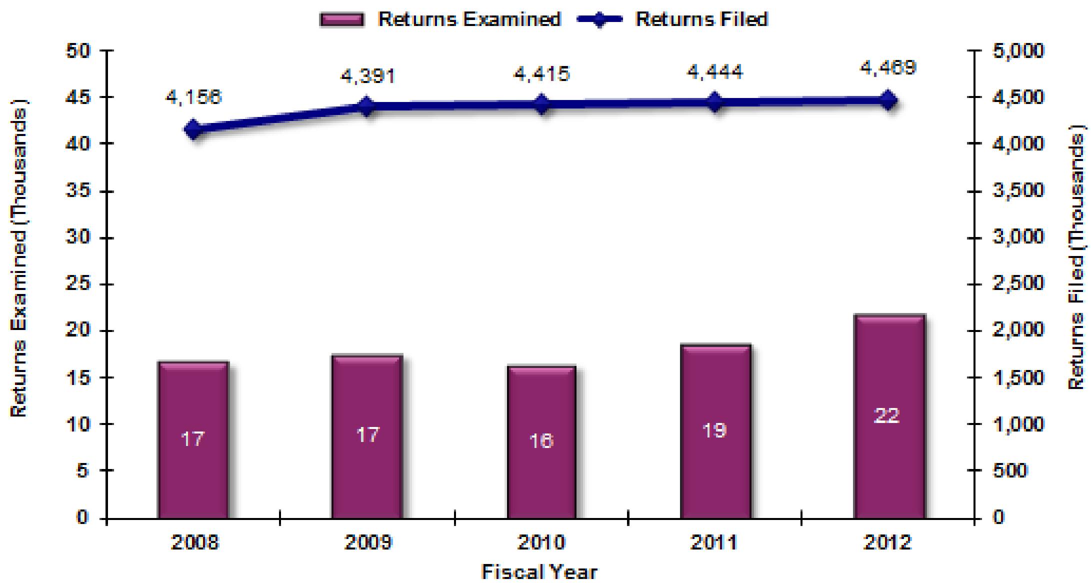
Figure 39: Percentage Change From Fiscal Year 2008 of Forms 1120S (*U.S. Income Tax Return for an S Corporation*) Filed and Examined[10]



Source: TIGTA analysis of the IRS Data Book.

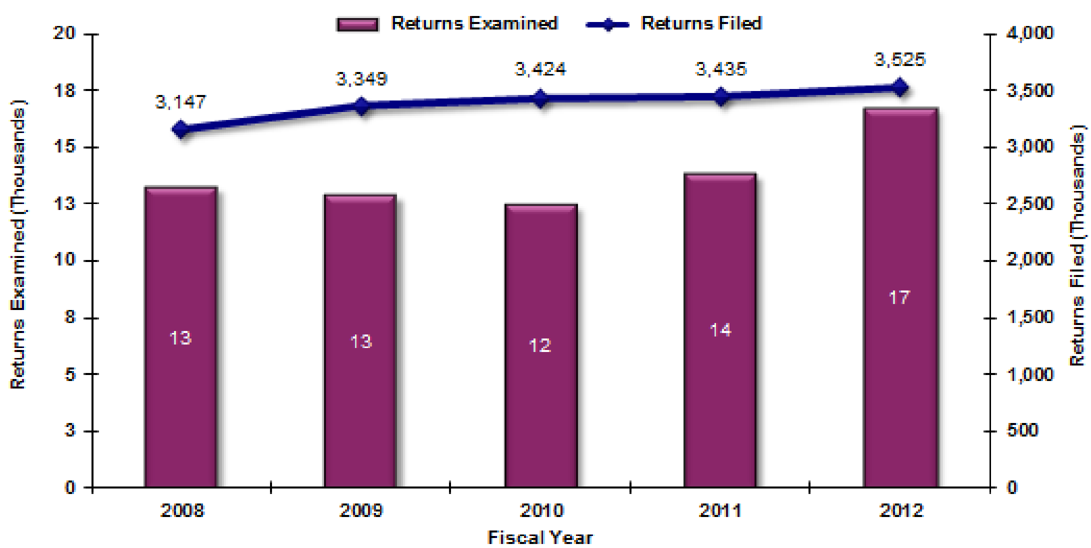
[10] The increase in returns examined coincided with a compliance study of Forms 1120S.

Figure 40: Number of Forms 1120S Filed and Examined



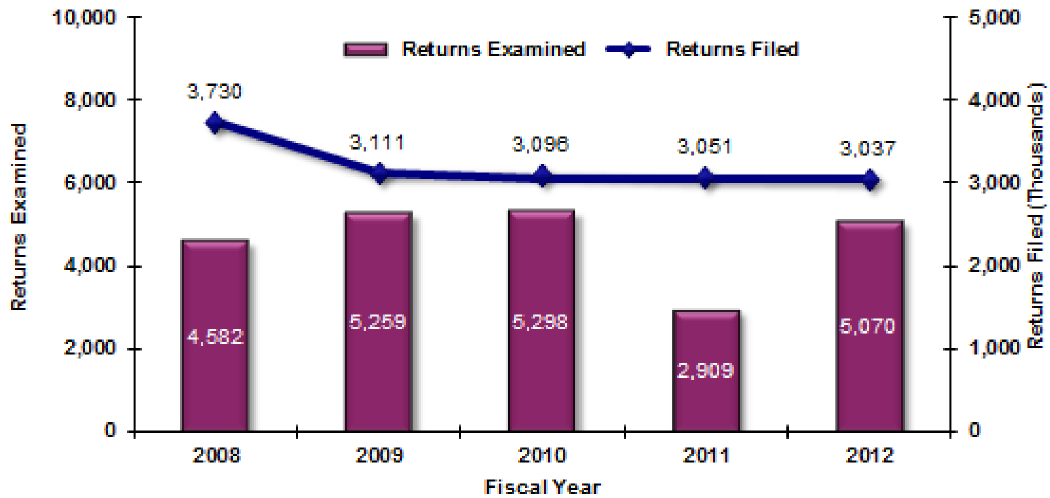
Source: IRS Data Book.

Figure 41: Number of Tax Returns Filed and Examined – Partnerships



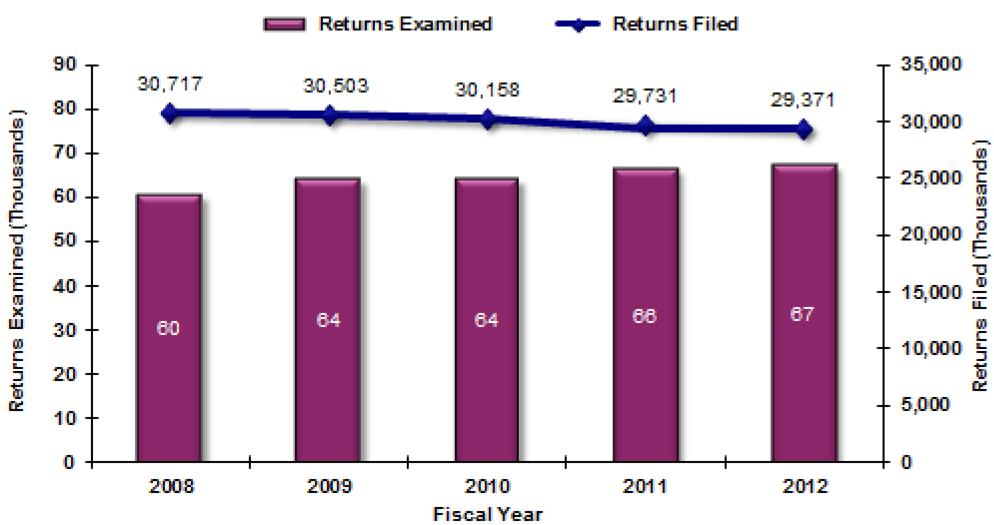
Source: IRS Data Book.

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



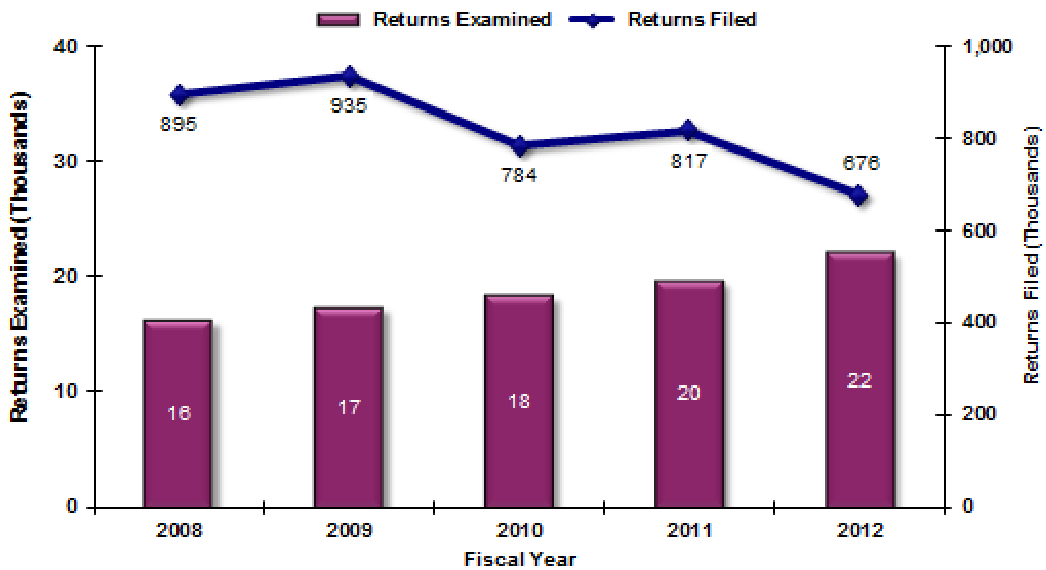
Source: IRS Data Book.

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



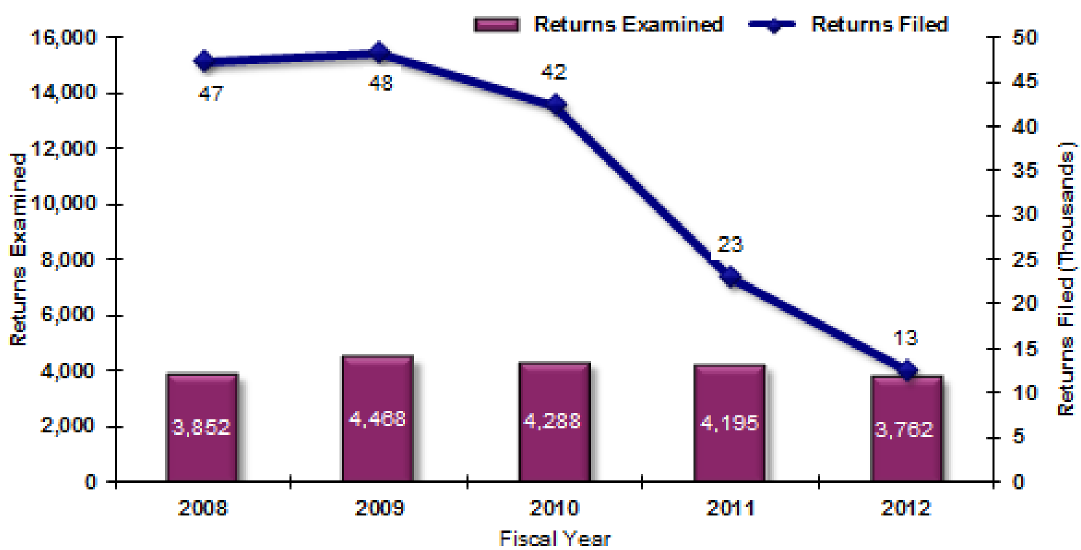
Source: IRS Data Book.

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



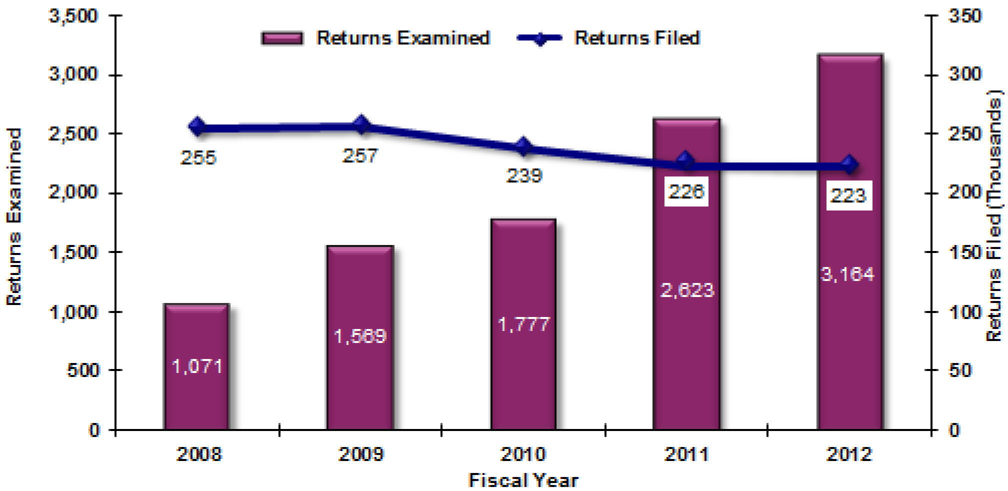
Source: IRS Data Book.

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



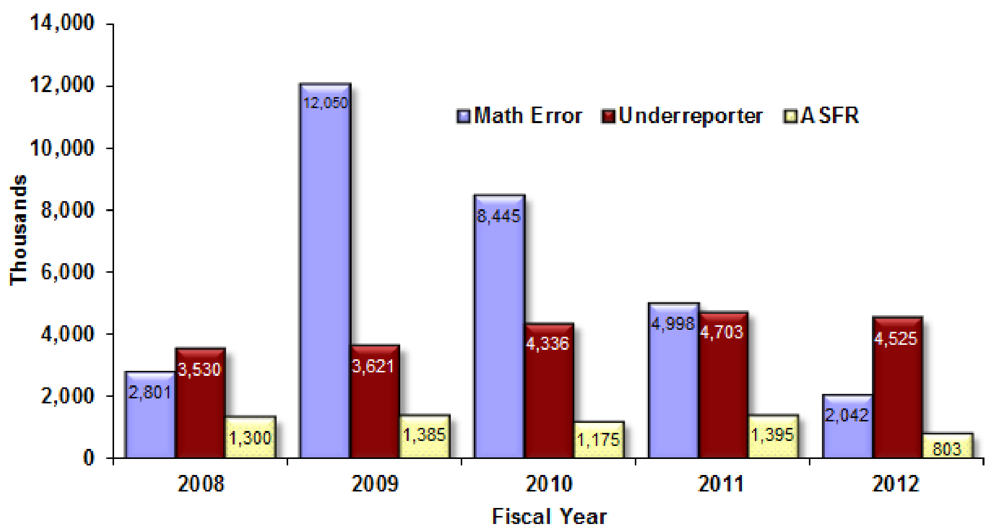
Source: IRS Data Book.

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



Source: IRS Data Book.

Figure 47: Number of Other Compliance Contacts on Forms 1040[11]



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

[11] The spike in Fiscal Year 2009 is at least partially due to eligible taxpayers whose circumstances changed and who may have claimed a recovery rebate credit to receive some or the entire unpaid portion of an economic stimulus payment. The Fiscal Year 2009 data include cases where the rebate recovery credit was not claimed on tax returns, but the IRS computed the credit for eligible taxpayers. In Fiscal Year 2010, the Making Work Pay Tax Credit was a refundable tax credit based on earned income. The Fiscal Year 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 48: Other Compliance Contacts – Forms 1040 Coverage Rate

	Fiscal Year				
	2008	**2009**	**2010**	**2011**	**2012**
Math Error	2,801,427	12,049,948	8,445,374	4,998,266	2,042,458
Coverage Rate	2.02%	7.81%	5.86%	3.54%	1.42%
Underreporter	3,530,000	3,621,000	4,336,000	4,703,000	4,525,000
Coverage Rate	2.54%	2.35%	3.01%	3.33%	3.15%
Automated Substitute for Return	1,300,000	1,385,000	1,175,000	1,395,000	803,000
Coverage Rate	0.94%	0.90%	0.82%	0.99%	0.56%

Source: TIGTA analysis of the IRS Data Book.

Appendix V

Prior Treasury Inspector General for Tax Administration Compliance Trends Reports

Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities (Reference Number 2000-30-075, dated May 12, 2000).

Management Advisory Report: Tax Return Filing and Examination Statistics (Reference Number 2001-30-175, dated September 21, 2001).

Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001 (Reference Number 2002-30-184, dated September 30, 2002).

Trends in Compliance Activities Through Fiscal Year 2002 (Reference Number 2003-30-078, dated March 31, 2003).

Trends in Compliance Activities Through Fiscal Year 2003 (Reference Number 2004-30-083, dated April 23, 2004).

Trends in Compliance Activities Through Fiscal Year 2004 (Reference Number 2005-30-055, dated March 30, 2005).

Trends in Compliance Activities Through Fiscal Year 2005 (Reference Number 2006-30-055, dated March 27, 2006).

Trends in Compliance Activities Through Fiscal Year 2006 (Reference Number 2007-30-056, dated March 27, 2007).

Trends in Compliance Activities Through Fiscal Year 2007 (Reference Number 2008-30-095, dated April 18, 2008).

Trends in Compliance Activities Through Fiscal Year 2008 (Reference Number 2009-30-082, dated June 10, 2009).

Trends in Compliance Activities Through Fiscal Year 2009 (Reference Number 2010-30-066, dated June 10, 2010).

Trends in Compliance Activities Through Fiscal Year 2010 (Reference Number 2011-30-071, dated July 18, 2011).

Appendix VI

Glossary of Terms

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 System – 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.

Budget Justification – For any given fiscal year, the budget request is submitted to the IRS Oversight Board, the Department of the Treasury, the Office of Management and Budget, and Congress; this is referred to as the Congressional Justification. Revisions are made to the budget request throughout this process based on approved funding levels from these external entities prior to the final Congressional Justification.

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 Field function – The unit in the field offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

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.

Computing Centers – IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.

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.

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.

Fiscal Year – A 12-consecutive-month period ending on the last day of any month. 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.

Gross Accounts Receivable – Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.

Health Insurance Reform Implementation Fund – A fund available to pay administrative expenses incurred by Federal agencies in the immediate implementation, upon enactment, of the Patient Protection and Affordable Care Act of 2010[1] and the Health Care and Education Reconciliation Act of 2010,[2] whether such expenses are incurred by the Department of Health and Human Services or by other Federal agencies. The fund was created in the Patient Protection and Affordable Care Act and enabled agencies to begin implementation immediately and not wait for funding in the regular appropriations cycle.

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.

Internal Revenue Code – Title 26 of the United States Code enacted by Congress containing all relevant rules pertaining to estate, excise, gift, income, payroll, and sales taxes.

[1] Pub. L. No. 111-148, 124 Stat. 119 (2010).
[2] Pub. L. No. 111-152, 124 Stat. 1029 (2010).

IRS Data Book – Provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.

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 Program – A process 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.

No-Change Rate – Percentage of examinations where the examiner closed the case with no recommended tax change.

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 the cases for contact.

Revenue Agent – An employee in the Examination function who conducts face-to-face examinations of more complex tax returns such as businesses, partnerships, corporations, and specialty taxes (*e.g.*, excise tax returns).

Revenue Officer – An employee in the Collection Field function who attempts to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the Automated Collection System.

Revenue Officer Examiner – A revenue officer who has been trained to conduct examinations of employment tax returns.

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 or Surveyed Cases – Delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of the Collection function inventory because they are of lower priority than other available inventory.

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 that 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 Gap – The difference between what taxpayers should have paid and what they timely paid.

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 exists for all delinquent tax periods for a taxpayer.

Taxpayer Delinquent Account – A balance due account of a taxpayer. A separate TDA exists for each delinquent tax period.

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.