TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Trends in Compliance Activities Through Fiscal Year 2019

March 12, 2021

Report Number: 2021-30-011

HIGHLIGHTS: Trends in Compliance Activities Through Fiscal Year 2019

Final Audit Report issued on March 12, 2021 **Report Number 2021-30-011**

Why TIGTA Did This 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.

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.

What TIGTA Found

During Fiscal Year (FY) 2019, U.S. taxpayers filed more than 154 million individual and 11.3 million business income tax returns and forms. Return filings resulted in about $3.6 trillion of total revenue collected during FY 2019. The challenges associated with implementing the Tax Cuts and Jobs Act of 2017 and the 35-day Federal Government shutdown increased the challenges for the IRS in its efforts to administer the tax laws.

Over the past five years, the IRS's budget has increased approximately 6 percent from $10.7 billion in FY 2015 to $11.3 billion in FY 2019. Overall, the IRS ended FY 2019 with approximately 74,196 full-time equivalents, a 117 full-time equivalent decline from 74,313 in FY 2018.

The IRS collected $57.5 billion in enforcement revenue in FY 2019, less than the all-time high amount of $59.4 billion in FY 2018. The revenue collection was driven substantially by systemic processes like the notices and Automated Collection System streams. About 74 percent of FY 2019's enforcement revenue was collected within the systemic processes.

The Automated Collection System supported the IRS's enforcement operations by collecting approximately $3.4 million per full-time equivalent, *i.e.*, full-time worker, of Automated Collection System employees in FY 2019, while revenue officers within Field Collection collected, on average, more than $1.8 million each.

Taxpayers filed more than 199 million returns during Calendar Year 2018, of which 771,095 returns (less than 1 percent) were examined in FY 2019. The number of returns examined has declined 44 percent since FY 2015, when 1.4 million were examined. The decline in examinations is the result of decreases in staffing. The number of IRS examination staff decreased 18 percent from 11,267 in FY 2015 to 9,198 in FY 2019.

The highest audit rate for FY 2019 among taxpayers with different income levels was associated with taxpayers with incomes $1 million or more (2.4 percent of such taxpayers were examined, approximately 14,000 examinations). During FYs 2015 through 2019, the IRS audited returns claiming the anti-poverty Earned Income Tax Credit (EITC) with gross receipts under $25,000 more often than taxpayers within other income bands (approximately 1.9 million examinations), except for returns earning $1 million or more per year (approximately 121,000 examinations), while about 81,000 fewer returns claiming the EITC were examined in FY 2019 than in FY 2018.

What TIGTA Recommended

TIGTA made no recommendations in this report. In its response to the report, the IRS substantially agreed with the facts and conclusions presented.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 12, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2019 (Audit # 202030003)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities as they relate to the Internal Revenue Service's efforts to bring taxpayers into compliance with their tax obligations. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance*.

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

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

Table of Contents

Background

Given the responsibility for administering 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 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.*

The Treasury Inspector General for Tax Administration (TIGTA) conducts a review annually of the IRS's fiscal year-end nationwide compliance statistics for Collection and Examination function activities.[1] Our review used nationwide data from IRS management information systems. Our data analyses were limited to identifying changes and trends in IRS data.

Most of the calculations throughout the report 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 III presents a list of those recent reports.

Results of Review

Despite Diminished IRS Resources and a Partial Government Shutdown, Taxpayers Paid More in Taxes in FY 2019 Than in Any Year Previously

During Fiscal Year (FY) 2019, U.S. taxpayers filed more than 154 million individual and 11.3 million business income tax returns and forms. These filings make up approximately 65 percent of the 253 million returns and forms that the IRS received from taxpayers in FY 2019. The IRS also received more than 31 million employment tax returns, more than 1 million excise tax forms, and approximately 265,000 estate and gift tax forms. These filings resulted in about $3.6 trillion of total revenue collected during FY 2019, which is more tax revenue than any year previously and $99.1 billion more than FY 2018.[2]

The Annual Tax Gap average is $441 billion.

Taxpayer services, such as filing and account services, taxpayer assistance, and taxpayer advocacy services, are important to ensure that taxpayers receive the help that they need to timely meet their tax obligations. Taxpayers that do not meet their tax obligations timely contribute to the Tax Gap. The IRS estimates the average annual gross Tax Gap for Tax Years (TY) 2011 through 2013 to be $441 billion. The Tax Gap is generally comprised of three components: nonfiling, underreporting, and underpayment. The IRS

[1] TIGTA did not perform a review of IRS Collection and Examination function activities in Fiscal Year 2012, which would have reported on the IRS's trends in compliance activities through FY 2011.

[2] See Appendix II, Figure 1.

estimates that these components contribute $39 billion, $352 billion, and $50 billion, respectively, to the gross Tax Gap.

Legislative changes often have an impact on both voluntary compliance and the IRS's ability to mitigate the Tax Gap through its compliance functions. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017 (TCJA).[3] The TCJA contains 119 tax provisions administered by the IRS that affect both domestic and international taxes.[4] It was the first major tax reform legislation in nearly 20 years. The compliance statistics in this report do not reflect the impact from the coronavirus pandemic, which resulted in the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act to help taxpayers get through a difficult period.[5]

Events that affected compliance efforts in FY 2019

Federal Government shutdown affected the IRS's compliance efforts.

From December 22, 2018, to January 25, 2019, the IRS along with other portions of the Federal Government experienced a lapse in appropriations, which resulted in a 35-day Government shutdown. Additionally, the TCJA brought about many changes for the 2019 tax return filing season. This major tax legislation affected individuals, businesses, and tax exempt and government entities. Both TIGTA and Government Accountability Office (GAO) reported that the IRS has made progress in implementing the provisions of the TCJA.[6] The IRS provided the following examples to illustrate how two business operating divisions were affected by various events during FY 2019:

Small Business/Self-Employed (SB/SE) Division – The Government shutdown delayed yearly updates for systems used to manage and close inventory which prevented 160,000 correspondence examination cases from systemically moving through the audit process for about 82 days. Consequently, the correspondence examination cycle time averaged 229 days, which exceeded the 195-day goal.

The Government shutdown, staffing losses, and delayed hiring negatively affected the IRS's compliance programs. With respect to the Automated Underreporter (AUR) Program, the program achieved 75 and 81 percent of the individual taxpayers contact starts and closures goals, respectively.[7] However, the impact on business taxpayer automated underreporters was more pronounced as the SB/SE Division only accomplished 45 and 53 percent of its work plan

[3] Pub. L. No. 115-97. Officially known as "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."

[4] TIGTA, Ref. No. 2019-44-030, *Interim Results of the 2019 Filing Season* (Apr. 2019).

[5] Public Law No. 116-136.

[6] TIGTA, Ref. No. 2019-44-027*, Tax Cuts and Jobs Act: Assessment of Implementation Efforts* (Apr. 2019) and GAO, GAO-20-103, *Tax Cuts and Jobs Act. Considerable Progress Made Implementing Business Provisions, but IRS Faces Administrative and Compliance Challenges* (Feb. 2020).

[7] AUR contact starts are cases that either went through the auto-generated process or were screened and were issued a Notice CP 2501, *Initial Contact to Resolve Discrepancy Between Income, Credits, and/or Deductions Claimed on Return & Those Reported by Payer*, or a CP 2000, *Request for Verification of Unreported Income, Payments, and/or Credits*. AUR contact closures are cases in which AUR contacted the taxpayer and issues were resolved as a no change, agreement, or default.

starts and closures goals. The field examination program achieved 75 and 91 percent of its starts and closures work plan.

Furthermore, the Government shutdown impeded the IRS's Collection function's ability to serve taxpayers with outstanding balances who were seeking to resolve their tax issues. For example, taxpayers could not reach customer service representatives on the Automated Collection System (ACS) telephone lines and scheduled in-person meetings were cancelled. The IRS was also unable to release tax liens on taxpayers who made final payments on their outstanding tax liabilities or work with taxpayers who wanted to establish and/or revise installment payment plans. The service disruption contributed to nearly 62,000 fewer new installment agreements (IA) granted in FY 2019 as compared to FY 2018 (2 percent drop).[8]

Large Business and International (LB&I) Division – The Division does not perform data analysis to determine how events or legislation directly affect its compliance efforts. However, according to the LB&I Division, the following may have affected its accomplishments to some degree:

- The Federal Government shutdown reduced the examination technical staff by 256.8 direct exam staff years (increased furlough time) compared to the prior year.[9]
- Examination technical staff attrition resulted in 231 staff years' reduction from the prior year despite new hires.
- New hires training resulted in reducing 27.8 direct exam staff years. Time was moved out of the direct examination compliance areas as instructors were taken offline to teach, coach, and mentor new hires. Moreover, new employees while in training did not directly charge time to compliance activities.
- The lingering impact of FY 2017 hurricanes on International Individual Compliance inventory with the number of Puerto Rico returns significantly reduced. The replacement inventory in other activity codes takes longer and requires more resources to examine.
- Changes in the law and policy for Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) campus examinations significantly reduced the number of returns controlled and closed.

Impact of recent events on compliance efforts in FY 2020

The Congressional Budget Office (CBO) reported that the disruptions stemming from the 2020 coronavirus pandemic will further reduce the IRS's ability to enforce tax laws.[10] On March 25, 2020, the IRS announced the *People First Initiative,* which included a series of steps to help taxpayers by offering temporary relief on a variety of issues ranging from easing payment guidelines to postponing compliance actions from April 1, 2020, to July 15, 2020.

---

[8] According to the SB/SE Division, there are many variables affecting the number of new IAs granted.

[9] Direct exam staff years are used to track specific compliance work and the amount of time being charged. Examination technical staff consist of employees directly involved in examinations, such as revenue agents, economists, engineers, *etc*.

[10] Congress of the United States, Congressional Budget Office, *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020).

The *People First Initiative* paused many enforcement activities during the three and one-half months period. Specifically, the IRS suspended the issuance of new notices of liens and levies, stopped initiating new field or correspondence examinations, and permitted taxpayers to stop making monthly payments on existing IAs and submit supporting documentation for Earned Income Tax Credit (EITC) claims. In addition, the closure of IRS facilities interrupted the processing of paper correspondence from taxpayers, including documents related to audit and collection activities.

The IRS took unprecedented steps to help taxpayers through the coronavirus pandemic.

According to the IRS, when it shut down offices, it immediately worked on enabling telephone assistors to telework in order to continue to provide live telephone assistance. By mid-April 2020, the SB/SE Division Collection function began reopening its telephone lines (not at full staffing levels, but staffing increased with passing of time). Additionally, Field Collection employees were already telework-enabled, so they remained available to the taxpayers who they were already working with. However, the IRS closed the walk-in Taxpayer Assistance Centers, reducing the resources available to help taxpayers comply with the law. Those actions will hinder taxpayers seeking assistance with new issues that have arisen from recent legislative and administrative changes as well as taxpayers whose issues predate the coronavirus pandemic. The Taxpayer Advocate Service also suspended face-to-face meetings and limited assistance to telephone only. Moreover, the IRS was tasked with administering the individual recovery rebates enacted as part of the CARES Act. Those rebates and other new tax provisions will create further demands on IRS resources when 2020 tax returns are filed in 2021. According to the IRS, the full impact of the coronavirus pandemic has not been realized, as the impact is still ongoing. Additionally, the implementation of CARES Act–related legislations is at the beginning stages.

Resources and Their Potential Impact on Enforcement Revenue

According to the CBO, the appropriations for the IRS fell by about 20 percent (adjusted for inflation) between 2010 and 2019. Approximately 70 percent of the IRS's overall budget is for labor, and the drop in funding thus resulted in a decline in the number of IRS employees over that period, particularly in enforcement. The CBO estimated the amount of funding and staff allocated to enforcement activities has declined by about 30 percent since 2010. Employees who work the most complex examination and collection cases experienced especially large declines. Between FYs 2010 and 2018, the number of revenue agents, who handle complex enforcement cases, fell by 35 percent, and the number of revenue officers, who manage difficult collections cases, dropped by 48 percent.

Over the past five years, the IRS's budget has increased approximately 6 percent, from $10.7 billion in FY 2015 to $11.3 billion in FY 2019. However, Figure 1 shows that funding for each of the IRS's main budget activities has varied. Business systems modernization and taxpayer services budgets have increased 39 percent and 18 percent, respectively, whereas, the funding for enforcement has dropped 2 percent over the same period.

The funding changes between FY 2015 and FY 2019 did not necessarily result in corresponding changes in the number of full-time equivalent (FTE) employees due to attrition. For example, while the enforcement funding decreased by 2 percent, the FTEs dropped by 16 percent. Also, even though taxpayer services funding increased by 18 percent, the number of FTEs only increased by 4 percent.

Figure 1: Change in Appropriations and FTE Employees by Budget Activity From FY 2015 to FY 2019

Budget Activity	Amount (in Millions) FY 2015	Amount (in Millions) FY 2019	Amount Percentage Increase (Decrease)	Number of FTEs FY 2015	Number of FTEs FY 2019	FTE Percentage Increase (Decrease)
Taxpayer Services	$2,174	$2,557	18%	27,476	28,531	4%
Enforcement	$4,768	$4,678	(2%)	39,708	33,478	(16%)
Operations Support	$3,601	$3,918	9%	10,614	10,277	(3%)
Business Systems Modernization	$108	$150	39%	309	445	44%
Total*	$10,650	$11,303	6%	78,107	72,731	(7%)

*Source: IRS FY 2017 President's Budget, and Department of the Treasury; and IRS, Congressional Budget Justification and Annual Performance Report and Plan FY 2021. * Total may be off due to rounding.*

Recently, the GAO reported on open recommendations that could significantly improve the IRS's operations.[11] The report cited two recommendations in the "enhance strategic human capital management" area that would help position the IRS to systemically identify and recruit the workforce needed for the future, and develop strategies for identifying and closing skills gaps. In March 2019, the GAO recommended that the IRS fully implement its workforce planning initiative and develop a work plan to help identify and close skill gaps. The IRS agreed with both recommendations. The IRS reported that it is updating its policies and, by December 2020, will establish a workforce plan with an enterprise strategy and initiate related workforce analysis. Furthermore, the IRS responded that it would create a work plan to address mission-critical occupations and skills gaps.

In May 2020, the IRS identified 14 mission-critical occupations. Based on available resources, the initial skill assessment effort is currently focusing on four mission-critical occupations. The result of this pilot will serve to inform an enterprise workforce procedure and business processes, *i.e.,* formulating labor budgets, hiring, and training plans. This effort is important because the IRS anticipates up to 31 percent of its current workforce will retire within the next five years, creating a significant risk of a large knowledge and experience gap.[12]

Overall, the IRS ended FY 2019 with approximately 74,196 FTEs, a 117 FTE decline from the approximately 74,313 FTE in FY 2018. In addition, the IRS's compliance programs continued to see a reduction in available resources. Figure 2 shows staffing by compliance program and

[11] GAO, GAO-20-548PR, *Priority Open Recommendations: Internal Revenue Service* (April 23, 2020).

[12] Publication 5382, *Internal Revenue Service Progress Fiscal Year 2019, Putting Taxpayers First* (Dec. 2019).

position. We noted that the Examination staff steadily declined during FYs 2015 through 2019, whereas, the Collection staff fluctuated during the same five-year period and increased from FY 2018 to 2019.

It is important to note that the IRS's research showed the greatest compliance impact comes from audits. Audits have a strong positive impact on reporting compliance and have the greatest impact on tax compliance.[13]

[13] IRS, *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results* (Nov. 2002).

Figure 2: FYs 2015 Through 2019 Examination and Collection Staffing

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Collection					
Revenue Officers (Field Collection)	2,612	2,348	2,364	2,168	2,239
Campus Collection (including ACS Staff)	3,871	3,673	3,788	3,894	3,969
Wage and Investment (W&I) Division Examination					
Tax Examining Staff[14]	990	956	930	843	908
SB/SE Division Examination					
Revenue Agents	4,832	4,803	4,364	4,026	3,995
Tax Compliance Officers	845	753	674	605	447
Tax Examiners	44	63	63	52	47
LB&I Division Examination					
Revenue Agents	3,350	3,134	3,016	2,802	2,754
Tax Compliance Officers	96	79	82	68	62
Tax Examiners	15	8	0	0	0
Tax Exempt and Government Entities (TE/GE) Division Examination					
Revenue Agents	994	927	875	826	811
Tax Examining Staff	101	95	97	109	174
Total Field Collection Revenue Officers and Campus Collection Staff	6,483	6,021	6,152	6,062	6,208
Total Examination Staff	11,267	10,818	10,101	9,331	9,198
Total Field Collection Revenue Officers and Campus Collection, and Examination Staff	17,750	16,839	16,253	15,393	15,406

Source: Revenue officer data obtained from Collection Activity Report 5000-23, SB/SE and LB&I Divisions' Examination data based on TIGTA analysis of IRS Tables 37, W&I Division management-provided data, and TIGTA analysis of TE/GE Division-provided data.

[14] According to the W&I Division, the Refundable Credits Examination Operations (RCEO) under the Return Integrity and Compliance Services is the only group in the W&I Division that conducts examinations. The staffing presented in Figure 2 accounts for the RCEO only. The FYs 2015 through 2018 counts are different from what TIGTA reported last year for the W&I Division because the IRS previously did not isolate the tax examining staffing to the RCEO only.

While the IRS experienced a general decline in staffing over the last five years, the amount of total enforcement revenue related to the work performed by these compliance employees has not decreased in total. The IRS collected $57.5 billion enforcement revenue in FY 2019, less than the all-time high amount $59.4 billion in FY 2018. Figures 3 and 4 show that enforcement revenue collected increased 6 percent between FYs 2015 and 2019, from $54.2 billion to $57.5 billion.

The revenue collection was driven substantially by systemic processes. In fact, during FY 2019 about 74 percent of the total enforcement revenue was collected within the systemic processes.

Enforcement revenue is attributed to the function that initiated the collection of the revenue. The IRS attributes enforcement revenue to four "areas": Examination, Collection, Appeals, and AUR.

- Examination – any revenue collected on an examination assessment. A case could go to Appeals and still have an examination assessment, *e.g.*, partial agreement.
- Appeals – revenue from cases that went through the Independent Office of Appeals, where Appeals made the assessment.
- Collection – consists of returns filed with a balance due that initiates an assessment and delinquent return investigations.
- AUR – revenue from the AUR Program.

Figure 3: Enforcement Revenue Collected During FY 2015 and FY 2019 by Area (Amount in Billions)

Area	FY 2015		FY 2019		Percentage Change From FY 2015 to 2019 Increase/(Decrease)
	Amount	Percentage	Amount	Percentage	
Examination	$7.3	14%	$9.3	16%	27%
Appeals	$6.0	11%	$1.6	3%	(73%)
Collection	$35.7	66%	$41.8	73%	17%
AUR	$5.1	9%	$4.9	8%	(6%)
Total*	$54.2	100%	$57.5	100%	6%

*Source: TIGTA analysis of IRS management provided data. * May be off due to rounding.*

Figure 4 shows enforcement revenue collected during FYs 2015 and 2019 by collection stream. The IRS defines each of the enforcement revenue streams as follows:[15]

- Pre-Notice – accounts for anything collected before the case went into balance due status.
- Notice – in the notice stream, delinquent accounts are sent a series of notices.

[15] The enforcement revenue originated from the four areas that made the assessment (Figure 3), but the enforcement revenue is collected by these five streams (Figure 4).

- ACS – a telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with the notice stream.
- Queue – holds collection cases awaiting assignment to field collection. The taxpayers sometimes voluntarily pay their case while in the queue.
- Field Collection – collection cases are worked by revenue officers in the field.

Figure 4: Enforcement Revenue Collected During FY 2015 and FY 2019 by Collection Stream (Amount in Billions)

Collection Stream	FY 2015		FY 2019		Percent Change from FY 2015 to 2019 Increase/(Decrease)
	Amount	Percent	Amount	Percent	
Pre-Notice	$11.9	22%	$9.0	16%	(25%)
Notice	$26.9	50%	$32.2	56%	20%
ACS	$9.2	17%	$10.6	18%	15%
Queue	$1.2	2%	$2.0	3%	70%
Field Collection	$5.0	9%	$3.8	7%	(24%)
Total*	$54.2	100%	$57.5	100%	6%

*Source: TIGTA analysis of IRS management-provided data. * Totals may be off due to rounding.*

A small number of large cases may affect revenue from examination

Total enforcement revenue collected measures when revenue was collected, which does not necessarily align with when the work was performed, and can also be heavily influenced by a small number of very large cases. These factors are especially important in Examination, where large cases can span several years, but the revenue is generally recognized during the year the case closes.

Regarding the increase in examination revenue from FY 2015 to FY 2019, the IRS believes that FY 2015 was an unusually low year (due to a decrease in revenue from large cases in that year). According to the IRS, over the last decade, *i.e.,* FYs 2010 through 2019, the trend in examination revenue aligns with the staffing levels.

Least labor-intensive collection notice stream brings in most revenue

Even though examination closures of a number of relatively few large taxpayers can have an impact on enforcement revenue, the IRS believes that over the past several years, increases in enforcement revenue have generally been due to an increase in returns filed with a balance due that are largely handled through notices or other substantially automated programs. Because notices are computer generated and mailed to taxpayers, there is initially little direct involvement by IRS employees. To the extent that taxpayers then take action to pay or otherwise resolve their balance due accounts, collections can occur with relatively little additional IRS investment. However, a portion of taxpayers may contact the IRS to discuss the notice, take action to pay, or otherwise resolve their delinquency. In those instances, the level of direct employee involvement may increase.

The collection notice stream brings in a high percentage of revenue because it occurs at the beginning of the collection process and newer debt is easier to collect than aged delinquent accounts. The notice stream reflects debt in the initial collection stage and the average notice balance tends to be lower.

According to the IRS, in FY 2019, Collection saw significant increased revenue from all program areas: IAs, Taxpayer Delinquent Accounts (TDA), and both Delinquent Return Notices and Balance Due Notices. As shown in Figure 4, balance due notices, the least FTE intensive program, brought in 56 percent of the enforcement revenue in FY 2019. Changes to the IA program have made it easier and more accessible to get an IA. The rise in both popularity and availability of Online Payment Agreements and Direct Debit IAs also plays a significant role in the overall increase in Collection revenue.

Collection Function Compliance Activities

The mission of the IRS's Collection function is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, and to educate taxpayers to facilitate future compliance.

The bulk of the IRS's Collection inventory is routed to the ACS when delinquent taxpayers do not respond to notices issued via the notice stream. The ACS is a collection inventory system and collection function through which contact representatives at call sites are responsible for answering incoming taxpayer telephone calls and working an inventory of TDAs and Taxpayer Delinquency Investigations (TDI). ACS staff generally work cases requiring telephone contact for resolution as well as those cases that may realize a benefit from a variety of systemic actions in an attempt to prompt payment and bring taxpayers into compliance. The systemic actions include the issuance of notices, and if taxpayers are unresponsive or uncooperative, enforcement actions such as levies and Notices of Federal Tax Lien filings can be taken.

During FY 2019, approximately 81 percent of delinquent accounts (TDA modules) were routed to the ACS (6,435,873 modules).[16] Activity and results on delinquent accounts assigned to the ACS were mixed:

- TDA closures increased from 6,278,267 modules for FY 2018 to 6,766,952 modules for FY 2019.
- The amount collected on TDAs assigned to the ACS increased 17 percent from FY 2018 ($3.5 billion) to FY 2019 ($4 billion).
- The number of closures for taxpayers coming into compliance by fully paying their delinquent account decreased from FY 2018 (1,545,143 modules) to FY 2019 (1,462,084 modules).[17]

[16] See Appendix II, Figure 3.

[17] Details on the number of taxpayer and tax delinquencies in the ACS are included in Appendix II, Figure 6.

The ACS operates with multiple work streams and various systemic actions, as such, it is difficult to attribute the collection of delinquent taxes to specific employees. However, a total of $10.6 billion in enforcement revenue was attributed to ACS operations. With 3,068 FTEs, the ACS supported the IRS's enforcement operations by collecting approximately $3.4 million per FTE in FY 2019.

While the majority of Collection's inventory is routed to the ACS, the IRS's Field Collection receives the highest risk and most complex cases because those employees (revenue officers) have unique skills that enable them to work such cases. Revenue officers work with taxpayers to bring them into compliance by obtaining delinquent returns and payments on past due tax delinquencies or establishing payment plans. When necessary, revenue officers take enforcement actions such as levies, Notice of Federal Tax Lien filings, or seizures of property. During FY 2019, Field Collection closed 178,640 delinquent tax modules for which taxpayers fully paid their delinquent tax obligations.

As shown in Figure 4, enforcement revenue attributed to Field Collection totaled $3.8 billion for FY 2019, approximately $1.8 billion less than FY 2018. IRS management reports noted that there were an average of 2,169 revenue officers working active inventory each month throughout the year.[18] They collected, on average, $1.8 million each during FY 2019.

Because Field Collection cases are labor intensive, the cost associated with working them is generally higher than in other collection operations. In FY 2019, the IRS's Cost Accounting and User Fees Office analyzed cost-based performance measures for Field Collection. These measures included determining a cost per dollar collected.[19] The IRS's analysis shows that, even though it represents the more high-cost option within the IRS's collection operations, in FY 2019 Field Collection costs only $0.13 for every dollar of enforcement revenue collected. This was higher than the $0.10 per dollar collected in FY 2018 and lower than the $0.14 per dollar collected in FY 2015.

In December 2015, legislation was enacted that requires the IRS to use designated contractors to assist in collecting tax delinquencies. The Fixing America's Surface Transportation Act includes a provision requiring the IRS to enter into qualified tax collection contracts with private collection agencies to work "inactive tax receivables."[20] For FY 2019, the IRS provided private collection agencies with 1,711,367 delinquent taxpayer accounts totaling $16.9 billion in outstanding tax liabilities.

From the launch of the Private Debt Collection program in 2016 through September 2019, the program generated revenue totaling $358 million ($276 million in commissionable payments, $27 million in non-commissionable payments, and $55 million in Special Compliance Personnel

---

[18] The ENTITY Targeted Inventory Report, filtered to select revenue officers located in field offices with position types Normal, Duties, Special Compliance Position, On the Job Instructor, and Trainee, assigned five or more cases, excludes management and overhead staff.

[19] The cost per dollar collected represents how much the IRS spent on collecting one dollar, which is calculated by dividing net cost of collecting enforcement revenue attributed to Field Collection by enforcement revenue attributed to Field Collection, to arrive at net cost per dollar collected by Field Collection. Details on the number of taxpayers and tax delinquencies in the Queue are included in Appendix II, Figures 4 and 5.

[20] Pub. L. No. 114-94, Div. C, Title XXXII, § 32102, 129 Stat. 1312, 1733-36 (2015) (codified as Internal Revenue Code § 6306).

Program revenue), resulting in net revenue to the General Fund/Treasury of $220 million.[21] From 2016 through FY 2019, the program's total cost was $132 million. These collections reflected 2 percent of the total outstanding tax liability assigned to the program. A recent TIGTA audit reported that delinquent accounts assigned to private collection agencies had an average age of 4.75 years. Cases this old are generally uncollectable.[22]

Nonfilers

The IRS's collection operations also has responsibility for the IRS's Nonfiler Inventory and Analysis group. This group analyzes available data twice a year and uses the results, along with the Individual Master File Case Creation Nonfiler Identification Process tool, to identify nonfilers. The program identifies taxpayers who have not filed an individual income tax return in the current year but for whom the IRS has received third-party reporting information, *e.g.*, wages and other income. Similarly, the Business Master File Case Creation Nonfiler Identification Process identifies business taxpayers that have an open filing requirement associated with Forms 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return;* 941, *Employer's Quarterly Federal Tax Return*; 1065, *U.S. Return of Partnership Income*; and 1120, *U.S. Corporation Income Tax Return*. Similar to the Individual Master File process, the Business Master File delinquency check assimilates third-party information in the case creation program to identify productive Business Master File nonfiler cases.[23]

Once the Nonfiler Inventory and Analysis group evaluates the potential nonfiler inventory, it selects a portion of the overall number of nonfilers for case creation. Those nonfilers selected for case creation receive a delinquency notification, similar to taxpayers with delinquent payments. If a taxpayer fails to resolve the nonfiler case during this notice process, a TDI case may be generated and sent to one of the collection inventory streams. Collection function management paused its normal nonfiler process in FY 2017 to realign resources. Collection restarted nonfiler programs in June 2018, and the IRS has increased its investment in nonfiler programs each year since FY 2018.

TIGTA recently reported that the IRS has a new nonfiler strategy that attempts to approach nonfiling in a more strategic manner.[24] The SB/SE Division developed the nonfiler strategy during FY 2018, and it was turned over to the Directors of Examination and Collection in September 2018 to administer. The primary purpose of the new nonfiler strategy is to provide the SB/SE Division a strategic framework to address nonfilers. The new strategy established the following goals: to identify and prioritize nonfiler work that maximizes dollars collected, to promote continued filing compliance through programs built to encourage voluntary taxpayer filing, and to increase operational efficiencies across existing nonfiler programs. However, the

[21] Net revenue to the General Fund/Treasury is the total revenue (commissionable payments, non-commissionable payments, and Special Compliance Personnel Program revenue) minus retained earnings. Retained earnings are 50 percent of commissionable payments.

[22] TIGTA, Ref. No. 2019-30-018, *Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance* (Dec. 2018).

[23] Unlike the Individual Master File Case Creation Nonfiler Identification Process, which is performed twice per year, the Business Master File delinquency checks are made 16 weeks after the due date of each return and tax period.

[24] TIGTA, Ref. No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* (May 2020).

new nonfiler program is spread across multiple functions with no one area being primarily responsible for oversight. The TIGTA report noted that the IRS is missing out on opportunities to bring repeat high-income nonfilers back into compliance.[25] TIGTA identified the top 100 high-income nonfilers for TYs 2014 through 2016 that the IRS did not address or resolve, who had estimated tax due totaling $9.9 billion.

As of June 2020, the Nonfiler Inventory and Analysis group had an inventory of 49.7 million TDI cases for the TYs 2014 through 2018 on individual taxpayers. During FY 2019, the IRS sent notices to 2.9 million nonfiler cases, which was a 186 percent increase compared to FY 2018 (1 million notices). The identification of business nonfilers decreased in FY 2019 (50.5 million) from FY 2018 (62.8 million). However, notices sent on business nonfilers increased 365 percent from FY 2018 (429,246) to FY 2019 (2 million). The IRS has increased the number of notices issued for both individual and business nonfilers.

Examination Function Compliance Activities

The IRS's primary objective in selecting returns for examination is to promote the highest degree of voluntary compliance.[26] Examination is a vitally important aspect of maintaining a voluntary tax compliance system because approximately 80 percent of the gross Tax Gap is comprised of underreported tax on timely filed returns.[27] Examinations are the means of detecting and collecting a portion of this tax that is not reported and paid voluntarily. These efforts have a direct impact on the Tax Gap.

The CBO estimated that the IRS lost 15,000 enforcement employees between 2010 and 2018, which led to a significant reduction in the number of examinations and the number of follow-ups on discrepancies between returns and third-party data. Over that period, the number of examinations dropped by about 40 percent even as the number of returns filed grew by 5 percent. Since 2010, the IRS has conducted fewer examinations. Between 2010 and 2018, the share of individual income tax returns examined fell by 46 percent, and the share of corporate income tax returns examined fell by 37 percent. Furthermore, the percentage decline in the examination rate was larger for higher income returns. For returns with more than $1 million in total income (before losses were deducted), the examination rate dropped from 8 percent in 2010 to 3 percent in 2018, a 63 percent decline. The examination rate for returns with total positive income of less than $200,000, accounting for over 95 percent of individual returns each year, dropped to 0.6 percent in 2018 from 1.0 percent in 2010.

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. According to recent statistics, taxpayers filed more than 199 million returns during Calendar Year 2018, of which 771,095 returns (less than

[25] According to Internal Revenue Manual (IRM) 5.19.2.8.1(1), a high-income nonfiler is any nonfiler with a total income greater than or equal to $100,000. IRM 5.19.2.8.1(1) has been unchanged since Nov. 6, 2015.

[26] IRM 1.2.1 (Dec. 2019). IRM 1.2.1.5.10(2) has been unchanged since June 1, 1974.

[27] IRS, Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013* (Sept. 2019).

1 percent) were examined in FY 2019.[28] This is 22 percent fewer examinations than in FY 2018. The number of returns examined has declined 44 percent since FY 2015, when 1.4 million were examined.[29]

Additionally, examinations completed during FY 2019 included approximately 569,000 (74 percent) conducted via correspondence and approximately 202,000 (26 percent) conducted in the field. Comparing FYs 2015 and 2019, there have been 43 percent fewer correspondence examinations and 46 percent fewer field examinations conducted in FY 2019.

The decline in examinations is the result of decreases in staffing within the Examination functions. The IRS's Examination staff are organized in several business units including the W&I, the SB/SE, the LB&I, and the TE/GE Divisions. Positions include revenue agents, tax compliance officers, and tax examiners. As shown in Figure 2, the number of the IRS's Examination staff decreased 18 percent from 11,267 in FY 2015 to 9,198 in FY 2019.

Even with the declines in staffing in FY 2019, as shown in Figure 3, examinations generated $9.3 billion (16 percent) of the IRS's total enforcement revenue of $57.5 billion. This is less than the $10.8 billion (18 percent) enforcement revenue that examination generated out of the total $59.4 billion in FY 2018.

Although the number of examinations and the staff on hand to perform those examinations have generally declined over the past five years, proposed assessments have not necessarily followed suit. Figure 5 shows that proposed assessments have fluctuated year to year. However, they show a general declining trend from $44.8 billion in FY 2010 to $17.3 billion in FY 2019, representing a 61 percent drop. During the last five fiscal years, the proposed assessments declined 31 percent from $25.1 billion in FY 2015 to $17.3 billion in FY 2019.

[28] IRS statistics associated Calendar Year 2018 data with FY 2019 examination results because in general, examination activity is associated with returns filed in the previous calendar year. See Appendix II, Figure 14, for details on the number of examinations by type of taxpayer.

[29] See Appendix II, Figure 9.

Figure 5: Recommended Additional Tax After Examination Over the Past Decade

	Amount (In Billions)			Percentage Change Compared to FY 2010 Increase/(Decrease)		
FY	Total*	Field Examinations	Correspondence Examinations	Total	Field Examinations	Correspondence Examinations
2010	$44.8	$36.4	$8.4			
2011	$43.6	$34.9	$8.8	(3%)	(4%)	5%
2012	$38.7	$29.4	$9.3	(14%)	(19%)	11%
2013	$37.1	$28.5	$8.6	(17%)	(22%)	2%
2014	$33.1	$26.2	$7.0	(26%)	(28%)	(17%)
2015	$25.1	$17.8	$7.3	(44%)	(51%)	(13%)
2016	$26.9	$21.6	$5.4	(40%)	(41%)	(36%)
2017	$29.0	$23.9	$5.1	(35%)	(34%)	(39%)
2018	$26.5	$21.3	$5.2	(41%)	(41%)	(38%)
2019	$17.3	$13.8	$3.5	(61%)	(62%)	(58%)

*Source: TIGTA analysis of IRS Data Books. * Totals may be off due to rounding.*

Taxpayers may not agree with a portion of these proposed assessments and may appeal the results of the examination or may simply not pay the assessed tax. As such, a portion of these proposed assessments may be reduced either before or after the Examination function closes the case. We inquired about the life cycle of these assessments, requesting the proposed assessed tax amount, subsequent reductions, and the final assessed tax amount. As shown in Figure 6, the IRS consolidated the assessment data directly from the Enforcement Revenue Information System (ERIS). The data reflect assessments within ERIS through January 2020, associated with cases closed in the applicable fiscal years. A breakdown by business operating division is shown in the next section of the report.

Figure 6: Number of Returns Examined and the Amount of Proposed and Final Assessments by Fiscal Year (Dollar Amount in Billions)

FY	No. Returns (in Million)	Exam Recommended Tax and Credit Change	Exam – Unagreed	Exam – Net Tax Assessed[30]	Appeals – Net Tax Assessed[31]	Combined Net Tax Assessed*[32]
2015	1.4	$29.4	$7.7	$17.1	$2.4	$19.5
2016	1.1	$30.7	$12.5	$14.1	$3.7	$17.8
2017	1.1	$33.9	$11.8	$19.1	$2.5	$21.6
2018	1.0	$30.7	$10.3	$17.6	$1.3	$18.8
2019	.8	$22.3	$7.1	$13.0	$1.6	$14.6
Total*	**5.4**	**$147.0**	**$49.4**	**$80.9**	**$11.4**	**$92.3**

*Source: Provided by the IRS, via ERIS through January 2020. * May be off due to rounding.*

The difference between the recommended additional tax (in Figure 5) and recommended tax and credit change (in Figure 6) is due to data being obtained from the different systems. The data in ERIS are constantly changing due to multiple feeder systems. Accordingly, the status of cases, tax assessments, and abatements is constantly changing in ERIS as the feeder systems are updated. Also, ERIS is an accrual-based system that tracks revenues collected on both active and inactive cases. IRS Examination functions generally use the Audit Information Management System for the source of examination results (Figure 5), whereas ERIS gathers data from across the IRS, tracking a case from start to finish and incorporating information from various enforcement functions (Figure 6). The IRS Independent Office of Appeals noted that it does not produce sustention rates as a measure of productivity or success. It stated that cases are worked by applying the law to each taxpayer's unique facts and circumstances and attempt to resolve cases that are susceptible to resolution, considering hazards of litigation where appropriate. It also does not measure success based on the extent to which cases are sustained in favor of the IRS or conceded in favor of the taxpayer. The Independent Office of Appeals has no way to verify the accuracy of ERIS data depicted in Figure 6 because it uses a different official system (Appeals Centralized Database System) for tracking case records.

Given the ability of ERIS to provide data from various stages of a case's life cycle across IRS operations, we believe this may provide a more comprehensive analysis as to the success of the Examination functions' compliance efforts. Over the past five years, the IRS Examination functions proposed approximately $147 billion in adjustments. Taxpayers may not agree with all or a portion of these proposed assessments, at which point the IRS denotes these cases as unagreed assessments. Over the past five years, taxpayers disagreed with $49.4 billion of the assessments. The taxpayers may formally protest the unagreed assessments through the Independent Office of Appeals and pursue further protests through the U.S. Tax Court.

[30] Examination's tax assessments less abatements.

[31] Appeals' net tax is Examination's tax assessments sustained by Appeals less abatements.

[32] Sum of Examination and Appeals functions' tax assessments less abatements.

For those cases which were agreed by the taxpayer or may have been upheld by the Independent Office of Appeals, after adjustments related to abatements, claims, and appealed assessments, the final net tax assessment amounted to approximately $92.3 billion.

Examination results by business operating division

W&I Division – The W&I Division supports all tax processing, toll-free customer service for individual and business taxpayers, face-to-face assistance, development and delivery of tax and nontax products and correspondence services for the entire IRS, and identity theft victim assistance. W&I Division compliance efforts include strengthening revenue protection, prerefund compliance, and preventing and detecting tax-related identity theft. The profile of taxpayers served by W&I Division are most pay taxes through withholdings, prepare own returns, interact with the IRS once a year, and receive refunds. The W&I Division's three key functional operations are: Customer Assistance, Relationships, and Education; Customer Account Services; and Return Integrity and Compliance Services.

Examinations within the W&I Division are solely conducted by the RCEO. In November 2014, compliance activities were realigned and many of the W&I Division's high-dollar examination programs were moved to the SB/SE Division, including work streams focused on issues such as nonfilers, high-income taxpayers, and Schedule A, *Itemized Deductions*, issues. The substantial portion of the W&I Division's compliance activities now revolve around addressing noncompliance involving refundable credits, including but not limited to the Earned Income, American Opportunity, and Premium Tax Credits.

According to the IRS Data Books, the number of W&I Division examinations have dropped 37 percent, from 528,000 in FY 2015 to 335,000 in FY 2019. At the same time, the amount of recommended additional tax decreased approximately 48 percent, from $2.6 billion in FY 2015 to $1.4 billion in FY 2019.

Furthermore, the number of examinations decreased 27 percent from 461,304 in FY 2018 to 335,131 in FY 2019. At the same time, the amount of recommended additional tax decreased about 33 percent, from $2 billion to $1.4 billion.

Figure 7 shows the IRS's assessment data from ERIS for the W&I Division. The data reflect assessments within ERIS through January 2020, associated with cases closed in the applicable fiscal years. The ERIS gathers data from across the IRS, collecting and incorporating information from various enforcement functions. The ERIS data may differ from the IRS Data Book statistics.

Figure 7: W&I Division Number of Returns Examined and the Amount of Proposed and Final Assessments by Fiscal Year (Dollar Amount in Millions)

FY	No. Returns (in '000)	Exam Recommended Tax and Credit Change	Exam – Unagreed	Exam – Net Tax Assessed	Appeals – Net Tax Assessed	Combined Net Tax Assessed*
2015	529	$2,727.1	$21.7	$2,417.0	$8.9	$2,426.0
2016	474	$2,475.8	$18.2	$2,386.3	$8.3	$2,394.6
2017	456	$2,181.0	$36.1	$2,074.8	$7.3	$2,082.1
2018	461	$2,103.9	$45.3	$2,013.3	$6.3	$2,019.7
2019	336	$1,441.5	$10.2	$1,393.9	$1.9	$1,395.9
Total*	**2,256**	**$10,929.4**	**$131.6**	**$10,285.4**	**$32.7**	**$10,318.1**

*Source: Provided by the IRS, via ERIS through January 2020. * May be off due to rounding.*

Management Response: In its response to our report (see Appendix IV), the IRS stated that Figures 6 and 7 are informal internal calculations for which TIGTA believes the data, the net tax assessed, provide an analysis as to the success of the Examination functions' compliance efforts. The IRS stated a more comprehensive measure of success is in order, which includes a more holistic measure around the taxpayer experience.

Office of Audit Comment: Because this type of data was not available from the IRS and the IRS did not articulate what this new holistic measure should consist of, TIGTA used the data that the IRS provided for Figures 6 and 7.

SB/SE Division – The SB/SE Division's mission is to help small business and self-employed taxpayers understand and meet their tax obligations. It serves about 57 million taxpayers with the profile breakdown as follows: about 47 million are Schedule C, *Profit or Loss From Business*, Schedule E, *Supplemental Income and Loss*, or Schedule F, *Profit or Loss From Farming*, filers; about 6.8 million are corporate filers; and 3.8 million are partnership filers. In addition, it serves about 26.8 million employment tax return filers, 1.1 million excise tax return filers, 250,000 gift return filers, and 27,000 estate return filers. The SB/SE Division's Examination staff includes revenue agents, tax compliance officers, and tax examiners who perform examinations either in the field or at a campus via correspondence audit.

According to the IRS Data Books, the number of tax return examinations performed by the SB/SE Division continues to decline, having decreased 49 percent from FY 2015 (807,056) to FY 2019 (410,952). However, the SB/SE Division continued to perform more than one-half of the IRS's total examinations. During FY 2019, the SB/SE Division accounted for about 53 percent of the IRS's 771,095 total examinations. The SB/SE Division's results during FY 2019 included 328,260 individual tax return examinations, which accounted for 43 percent (328,260 out of 771,095) of the IRS's total examinations.

Examinations of employment tax returns have also declined, by 18 percent, from FY 2015 (53,774) to FY 2019 (43,989). However, over the same period, proposed assessments from employment tax examinations only decreased by 9 percent, from $1.2 billion in FY 2015 to $1.1 billion in FY 2019.

The amount of recommended additional tax in the SB/SE Division decreased by 34 percent over the past five years, from $11.4 billion in FY 2015 to $7.6 billion in FY 2019. Approximately 73 percent of the SB/SE Division's total recommended additional tax were the result of field examinations in FY 2019. Field examiners proposed assessments totaling $5.5 billion, while correspondence examinations resulted in $2 billion in proposed assessments.

One measure of audit productivity is the percentage of audited tax returns that result in recommended adjustments. 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 tend to be considered unproductive. Unproductive work is generally measured by the "no-change rate," *i.e.*, the percentage of examinations for which the examiner closed the case with no recommended tax change or any adjustment to the return. However, according to the IRS, no-change audits provide the opportunity to recalibrate and fine tune its selection criteria as certain issues either are or become less productive. Additionally, they provide opportunities to educate taxpayers about the tax law requirements.

The SB/SE Division reported that during FY 2019, the field and correspondence examinations of individual returns both resulted in an 8 percent no-change rate. Whereas the no-change rates for corporate tax returns were 25 percent and 23 percent for field and correspondence examinations, respectively.

Furthermore, the SB/SE Division reported that in FY 2019, field examinations of individual and corporate returns resulted in an average of $25,559 and $61,382 recommended additional tax per return, respectively. This is an improvement compared to FY 2018's average recommended additional tax of $22,152 and $54,931 for individual and corporate tax return field examinations, respectively.

Figure 8 shows the IRS's assessment data from ERIS for the SB/SE Division. The data reflect assessments within ERIS through January 2020, associated with cases closed in the applicable fiscal years. The ERIS gathers data from across the IRS, collecting and incorporating information from various enforcement functions. The ERIS data may differ from the IRS Data Book statistics.

Figure 8: SB/SE Division Number of Returns Examined and the Amount of Proposed and Final Assessments by Fiscal Year (Dollar Amount in Billions)

FY	No. Returns (in '000)	Exam Recommended Tax and Credit Change	Exam – Unagreed	Exam – Net Tax Assessed	Appeals – Net Tax Assessed	Combined Net Tax Assessed*
2015	757.6	$12.2	$2.3	$8.0	$.5	$8.5
2016	591.3	$9.5	$2.4	$5.9	$.6	$6.5
2017	540.2	$9.1	$2.4	$6.0	$.7	$6.6
2018	496.9	$10.2	$3.0	$6.7	$.4	$7.0
2019	413.5	$8.5	$2.1	$5.9	$.2	$6.1
Total*	**2,799.5**	**$49.4**	**$12.1**	**$32.5**	**$2.4**	**$34.8**

*Source: Provided by the IRS, via ERIS through January 2020. * May be off due to rounding.*

LB&I Division – The LB&I Division is responsible for tax administration activities for domestic and foreign businesses with a U.S. tax reporting requirement and assets of $10 million or greater, as well as the Global High Wealth and International Individual Compliance programs.

According to the IRS Data Books, the number of examinations performed by the LB&I Division decreased 36 percent from FY 2015 (38,909) to FY 2019 (25,012). LB&I Division examinations completed in FY 2019 included 17,153 individual and 5,141 corporate tax returns. Since FY 2015, individual examinations have decreased by 36 percent from 26,759 (FY 2015) and corporate examinations have decreased 33 percent from 7,620 (FY 2015).

Of the $8.4 billion total recommended additional tax within the LB&I Division in FY 2019, the majority were associated with the largest of corporate taxpayers. Examinations involving these types of cases are often complicated and involve issues associated with complex tax laws and accounting principles. Recommended additional tax from examinations of corporate taxpayers with assets of $1 billion or more in FY 2019 totaled about $7.1 billion, which constituted 84 percent of the LB&I Division's total proposed assessments for the year.

The LB&I Division's FY 2019 field examination no-change rate for individual and corporate returns was 12 and 38 percent, respectively. This is not a significant change from the FY 2018 no-change rates (9 and 40 percent, respectively). However, compared to FY 2015, both the individual and corporate no-change rate increased slightly from 10 and 34 percent for FY 2015 to 12 and 38 percent for FY 2019.

Figure 9 shows the IRS's assessment data from ERIS for the LB&I Division. The data reflect assessments within ERIS through January 2020, associated with cases closed in the applicable fiscal years. The ERIS gathers data from across the IRS, collecting and incorporating information from various enforcement functions. The ERIS data may differ from the IRS Data Book statistics.

Figure 9: LB&I Division Number of Returns Examined and the Amount of Proposed and Final Assessments by Fiscal Year (Dollar Amount in Billions)

FY	No. Returns (in '000)	Exam Recommended Tax and Credit Change	Exam – Unagreed	Exam – Net Tax Assessed	Appeals – Net Tax Assessed	Combined Net Tax Assessed*
2015	90.0	$14.3	$5.3	$6.6	$1.9	$8.5
2016	67.1	$18.5	$10.1	$5.7	$3.1	$8.8
2017	61.3	$22.4	$9.2	$10.9	$1.8	$12.8
2018	32.7	$18.2	$7.2	$8.7	$.9	$9.6
2019	25.2	$12.2	$4.9	$5.7	$1.4	$7.0
Total*	**276.3**	**$85.7**	**$36.6**	**$37.7**	**$9.0**	**$46.7**

*Source: Provided by the IRS, via ERIS through January 2020. * May be off due to rounding.*

TE/GE Division – TE/GE Division customers include small local community organizations, major universities, large pension funds, small business retirement plans, local and State governments, participants in complex tax-exempt bond transactions, and Indian tribal governments and tribal associations. The TE/GE Division divides its customers among three functions: Employee Plans, Exempt Organizations, and Government Entities.

In November 2017, the TE/GE Division completed a reorganization to combine the Indian Tribal Governments and Tax Exempt Bonds functions. The scope and mission of the combined function remains the same as it was when the functions were separate. Additionally, in FY 2017 the TE/GE Division moved its Federal, State, and Local Governments function into the Exempt Organizations function.

Determinations case closures include both applications for tax-exempt status reviewed against particular 501(c) subsections of the Internal Revenue Code as well as submission of retirement plans for review against Federal pension law. The IRS reviews applications to decide if the applicant meets the particular requirements of the Internal Revenue Code section under which exemption is requested and closes them upon approval or denial.[33] Determination letters are issued to exempt organizations on exempt status, private foundation classifications, and other determinations related to exempt organizations, and to retirement plans that satisfy the qualification requirements of Federal pension law.

In addition to the Determinations program, the Voluntary Correction Program enables employee plan sponsors (at any time before examination) to pay a user fee and receive IRS approval for correction of plan failures.

The number of TE/GE Division determinations case closures fluctuated during FYs 2017 through 2019. However, Figure 10 shows the number of determinations closures were driven by receipts from TE/GE Division taxpayers.

Figure 10: TE/GE Division Determinations Receipts and Closures During FYs 2017 Through 2019

	FY 2017	FY 2018	FY 2019
Receipts			
Exempt Organizations	95,177	95,529	97,936
Employee Plans	4,966	1,886	3,422
Totals	**100,143**	**97,415**	**101,358**
Closures			
Exempt Organizations	91,975	91,981	101,880
Employee Plans	10,774	6,268	1,514
Totals	**102,749**	**98,249**	**103,394**

Source: TE/GE Division management.[34]

TE/GE Division examinations could touch on various issues such as filing, operational, and organizational closures involving issues with verifying the exempt activities of the organization

[33] IRM 21.3.8 (Aug. 2019).

[34] Received under TIGTA Audit No. 202010020, which the draft report has not yet been issued.

or its filing requirements, including many instances involving securing delinquent returns. Other issues include employment tax-related compliance checks, such as unreported compensation, tips, accountable plans, worker reclassification, and noncompliance with the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, and backup withholding requirements.[35] Unrelated business income is also a TE/GE Division issue, involving items such as gaming, nonmember income, expense allocation issues, net operating loss adjustments, rental activity, advertising, debt-financed property rentals, and investment income. Indian Tribal Governments/Tax Exempt Bonds programs include tip compliance reviews of Indian tribal government entities, claims for overpayment of rebates, and claims for credit payments on Direct Pay Bonds, as well as employment tax claims filed by Indian tribes, and follow-up on referrals received on possible noncompliance by a tribal entity or a bond issuer.

Employee Plans audits retirement plans of public and private sector employers for compliance with the qualification requirements of the Internal Revenue Code. This examination program identifies and resolves issues that affect the qualified status of these plans and preserves their favored tax retreatment. Additionally, a variety of excise and income taxes issues are identified and resolved during these audits.

The total number of examinations in the TE/GE Division has declined over the past two years. Figures 11 and 12 show that the number of examinations decreased 13 percent from FY 2017 to FY 2019, while the amount of total recommended additional tax from examinations declined 62 percent for the same period. According to the IRS, there was a spike in total recommended additional tax from examinations in FY 2017, which then contributed in the apparent decline in subsequent fiscal years.

[35] 26 U.S.C. §§ 3101-3128 and 26 U.S.C. §§ 3301-3309.

Figure 11: TE/GE Division Number of Returns Examined During FYs 2017 Through 2019

	FY 2017	FY 2018	FY 2019
Forms 990, 990-EZ, and 990-N[36]	2,375	2,004	1,335
Forms 990-PF, 1041-A, 1120-POL, and 5227[37]	302	263	302
Form 5500 series[38]	4,996	5,175	4,847
Tax-exempt bond returns	717	480	315
Related taxable returns[39]	6,134	7,007	6,198
Employee retirement plan non-return units[40]	873	633	436
Totals	15,397	15,562	13,433
Percentage Change From FY 2017 **Increase/(Decrease)**		1%	(13%)

Source: IRS Data Books.

Figure 12: TE/GE Division Total Recommended Additional Tax From Examinations Closed During FYs 2017 Through 2019

FY	Amount	Percentage Change From FY 2017 **Increase/(Decrease)**
2017	$331,199,525	N/A
2018	$186,694,961	(44%)
2019	$124,701,756	(62%)

Source: TE/GE Division management.

Figure 13 shows the IRS's assessment data from ERIS for the TE/GE Division. The data reflect assessments within ERIS through January 2020, associated with cases closed in the applicable fiscal years.

[36] Form 990, *Return of Organization Exempt From Income Tax*, Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, and Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ*.

[37] Form 990-PF, *Return of Private Foundation*, Form 1041-A, *U.S. Information Return Trust Accumulation of Charitable Amounts*, Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*, and Form 5227, *Split-Interest Trust Information Return*.

[38] Form 5500 series includes Form 5500, *Annual Return/Report of Employee Benefit Plan*, Form 5550-EZ, *Annual Return of One-Participant (Owners/Partners and Their Spouses) Retirement Plan or A Foreign Plan*, and Form 5500-SF, *Short Form Annual Report/Report of Small Employee Benefit Plan*.

[39] Includes returns of Federal, State, local, and Indian tribal governments. Although these entities do not have an income tax return filing requirement, they are subject to excise and employment taxes. The category also includes Form 990-T, *Exempt Organization Business Income Tax Return*.

[40] TE/GE Division Employment Plans often examines retirement plans for which no return is filed. These are called nonreturn units.

Figure 13: TE/GE Division Number of Returns Examined and the Amount of Proposed and Final Assessments by Fiscal Year (Dollar Amount in Millions)

FY	No. Returns (in '000)[41]	Exam Recommended Tax and Credit Change	Exam - Unagreed	Exam - Net Tax Assessed	Appeals – Net Tax Assessed	Combined Net Tax Assessed*
2015	10.9	$135.6	$58.5	$73.7	$5.8	$79.5
2016	9.9	$139.2	$61.9	$60.0	$9.4	$69.5
2017	9.3	$338.8	$208.0	$123.6	$1.7	$125.3
2018	9.6	$228.1	$84.1	$134.2	$30.3	$164.5
2019	7.9	$155.4	$95.5	$52.4	$.4	$52.8
Total*	**47.6**	**$997.1**	**$508.1**	**$444.0**	**$47.7**	**$491.6**

*Source: Provided by the IRS, via ERIS through January 2020. * May be off due to rounding.*

Earned Income Tax Credit Examinations Have Declined

The EITC is a refundable credit to help low- to moderate-income families reduce their tax burden by supplementing the earned income with reduced taxes. The EITC was enacted by the Tax Reduction Act of 1975 to offset the impact of Social Security payroll taxes and rising food and energy prices, and encourages individuals to seek employment rather than depend on welfare.[42]

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, increased Federal agencies' requirements to report improper payments.[43] The Office of Management and Budget defines an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The laws also required the Director, Office of Management and Budget, to work with agencies, *e.g.*, the IRS, on programs, including the EITC that account for the majority of improper payments.

[41] According to the IRS, the number of returns reported in this table is less than what IRS Data Books show largely because ERIS did not pickup employee benefit plan examinations (Forms 5500, *Annual Return/Report of Employee Benefit Plan*). The Form 5500 is an informational return filed by a tax-exempt entity (a retirement plan) with the U.S. Department of Labor. Because tax assessments are not made on Forms 5500, there are no anticipated impacts to the dollar values reported in this table. Any TE/GE Division employee benefit plan adjustments for income taxes are done on Forms 1040, *U.S. Individual Income Tax Return;* 1120, *U.S. Corporation Income Tax Return;* or 5330, *Return of Excise Taxes Related to Employee Benefit Plans*, as appropriate.

[42] Pub. L. No. 94-12, Section 204.

[43] Pub. L. No. 107-300, 116 Stat. 2350; Pub. L. No. 111-204, 124 Stat. 2224, and Pub. L. No. 112-248, 126 Stat. 2390.

The IRS estimated that over 25 percent, or $17.4 billion in EITC payments were improperly paid in FY 2019.[44] The IRS has the difficult task of balancing concerns about improper EITC payments with concerns about audit coverage rates for other non-EITC claiming taxpayers.

To claim the EITC, taxpayers must meet certain rules. These rules include that the taxpayer and qualifying children must have Social Security Numbers by the due date of the return and qualifying children must meet the relationship, age, and residency tests. In addition, there are earned income limitations based on filing status. Each year, the IRS identifies taxpayers who may have erroneously claimed EITC benefits and audits them through a mail correspondence process to verify their claims.

According to the CBO, the focus during the past decade on reducing improper payments by government programs has kept examination rates relatively high for returns with EITC claims. Some members of Congress have expressed concerns that EITC return filers are disproportionally among the most audited individuals despite being responsible for a small percentage of unpaid taxes, while other members of Congress have expressed concerns about the high rate of improper payments.

The EITC issue is worked by three business operating divisions

According to the IRS, for returns examined during FYs 2015 through 2019, a total of 1,740,726 returns were selected on the basis of an EITC claim. This translated to a 1.3 percent overall examination coverage rate of returns filed with the EITC. However, Figure 14 shows that the yearly coverage rate gradually declined from 1.6 percent in FY 2015 to 1.0 percent in FY 2019 and that the IRS conducted 73,651 fewer EITC audits in FY 2019 than in FY 2018.[45]

Figure 14: Individual Returns Examined That Were Selected on the Basis of EITC Claim

FY	Selected and Examined EITC Return Count	Individual Returns Filed With the EITC	EITC Coverage Rate
2015	445,594	28,308,931	1.6%
2016	380,260	28,060,849	1.4%
2017	327,805	27,858,140	1.2%
2018	330,359	27,168,372	1.2%
2019	256,708	26,671,385	1.0%
Total	**1,740,726**	**138,067,677**	**1.3%**

Source: TIGTA analysis of IRS Data Books.

After the November 2014 SB/SE and W&I Divisions' compliance realignment, prerefund and post-refund EITC examination activities are worked by the W&I Division. The IRS's examinations of the EITC are performed by the W&I Division's RCEO under the Return Integrity and Compliance Services.

[44] TIGTA, Ref. No. 2020-40-025, *Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments* (Apr. 2020).

[45] FY 2018, 330,359 individual returns selected on the basis of EITC were examined, as compared to 256,708 individual returns in FY 2019. The difference is 73,651 returns.

However, EITC examinations that were started by the SB/SE Division remained with that division to work through to closure. Some of the SB/SE Division's EITC cases, *e.g.*, bankruptcy, can take several years to complete.

Figure 15 shows that during FYs 2015 through 2019, EITC-related examinations represented the bulk of the W&I Division's return closures, in which 72 percent of the total closures during the five-year period were EITC returns. Additionally, EITC returns' representation increased from 69 percent to 77 percent during FY 2015 to FY 2019.

Figure 15: W&I Division Return Closure Breakdown for FYs 2015 Through 2019

FY	EITC Return Count	EITC Percentage	Non-EITC Return Count	Non-EITC Percentage	Total Return Count
2015	362,506	69%	165,317	31%	527,823
2016	373,603	75%	121,640	25%	495,243
2017	326,197	71%	130,454	29%	456,651
2018	329,937	72%	131,367	28%	461,304
2019	256,513	77%	78,618	23%	335,131
Total	**1,648,756**	**72%**	**627,396**	**28%**	**2,276,152**

Source: W&I Division management.

According to the IRS, the difference of 91,970 count of returns claiming the EITC between Figures 14 and 15 represents examinations performed by the SB/SE and LB&I Divisions. Figure 16 shows the breakdown by division and fiscal year.

Figure 16: Returns Selected for Examination on the Basis of EITC Claim and Closed by the SB/SE and LB&I Divisions

FY	SB/SE Division	LB&I Division	Total
2015	82,226	862	83,088
2016	5,167	1,490	6,657
2017	436	1,172	1,608
2018	187	235	422
2019	101	94	195
Total	**88,117**	**3,853**	**91,970**

Source: SB/SE and LB&I Divisions' management.

According to the LB&I Division, it examines lower income EITC returns under its Withholding and International Individual Compliance Practice Area's "Resident of Puerto Rico Form 1040 and EITC" program. The 3,853 EITC returns in Figure 16 were worked under the aforementioned program.

High-income taxpayers' audit coverage rates declined more than the low-income taxpayers

The returns filed with EITC claims can be selected for examination for non-EITC issues as well. During FYs 2015 through 2019, the IRS examined a total of 1,877,300 returns with EITC claims and gross receipts under $25,000, representing a 1.5 percentage coverage rate. Additionally, Figure 17 shows that the examination coverage rate for this category of returns trended downward during the five-year period from 1.7 percent to 1.2 percent.

In FYs 2015 through 2019, the IRS audited households claiming the anti-poverty EITC with gross receipts under $25,000 more often than households within other income bands, except for those earning $1 million or more per year. According to IRS management, the comparison of EITC audit coverage to high-income coverage is not necessarily a reasonable comparison for evaluating resource usage. EITC individual audits are primarily conducted through correspondence while high-income individual audits are generally subjected to more complex field examinations conducted by revenue agents.

In terms of number of returns audited, 120,953 returns with $1 million or more income (out of 2.5 million filed) were audited as compared to 1,877,300 returns with less than $25,000 income and claiming the EITC (out of 128.5 million filed). Additionally, as shown in Figure 17, about 81,000 fewer returns claiming the EITC were examined in FY 2019 than in FY 2018.[46]

During FYs 2015 through 2019, the IRS also examined 93,591 returns with EITC claims and gross receipts of at least $25,000. This translated to a 1 percent examination coverage rate. Figure 17 shows that for this category of EITC taxpayers, the examination coverage rate is higher compared to individuals without the EITC and total positive income under $200,000. The audit rate is also similar to individuals without the EITC with total positive income of $200,000 to under $1 million.[47]

[46] In FY 2018, 382,203 (363,098 +19,105) individual returns claiming the EITC were examined, as compared to 301,180 (285,198 + 15,982) individual returns in FY 2019. The difference is 81,023 returns.

[47] In general, total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual income tax return, and thus excludes losses.

Figure 17: Returns Filed and Examination Coverage at Selected Income Levels[48]

	Returns Filed, Coverage Rates, and Returns Examined[49]					
Income Level	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**Total**
EITC recipients with total gross receipts under $25,000	26,502,703 1.7% 459,920	26,218,562 1.6% 407,724	25,948,509 1.4% 361,360	25,227,279 1.4% 363,098	24,636,250 1.2% 285,198	128,533,303 **1.5%** **1,877,300**
EITC recipients with total gross receipts $25,000 or more	1,806,228 1.0% 18,112	1,842,287 1.1% 20,483	1,909,631 1.0% 19,909	1,941,093 1.0% 19,105	2,035,135 .8% 15,982	9,534,374 **1.0%** 93,591
All individual returns without the EITC and with total positive income under $200,000	112,123,603 .5% 579,350	112,844,196 .4% 482,774	114,483,096 .4% 448,243	115,125,495 .4% 427,976	117,374,871 .3% 318,231	571,951,261 **.4%** 2,256,574
Individuals with total positive income of $200,000 to under $1 million	5,802,408 2.1% 122,431	6,387,816 1.4% 88,373	6,875,092 1.0% 71,992	7,068,147 .8% 59,780	7,833,021 .6% 44,137	33,966,484 **1.1%** 386,713
Individuals with total positive income of $1 million or more	416,178 9.6% 39,753	484,566 5.8% 28,260	519,406 4.4% 22,704	504,278 3.2% 16,290	582,008 2.4% 13,946	2,506,436 **4.8%** **120,953**

Source: TIGTA analysis of IRS Data Books.

As Figure 17 demonstrates, the highest audit coverage rate was associated with taxpayers with the highest incomes, *i.e.*, incomes $1 million or more. Furthermore, the highest audit rate for FY 2019 among taxpayers with different income levels was associated with taxpayers with income $1 million or more (2.4 percent of such taxpayers were examined, approximately 14,000 examinations). The falling audit coverage rates of all tax returns is a concern in light of the importance of audits to tax compliance. The falling audit rates with respect to taxpayers with high income is of particular concern because higher income taxpayers have more opportunity to engage in noncompliance and increase the underreported portion of the Tax Gap.[50] The former Secretary of the Treasury directed the IRS to audit at least 8 percent of individual returns with

[48] EITC return counts in this figure are different from those in Figure 14 because EITC returns can be selected for examination for non-EITC issues. Figure 14 only includes returns that were selected on the basis of EITC claim whereas Figure 17 includes EITC returns that were examined regardless of reason for selection.

[49] Historically, IRS examination activity is associated with returns filed in the previous calendar year. For example, the FY 2019 examination coverage rate for a particular return category is the quotient of the number of examinations closed in FY 2019 divided by the returns filed in Calendar Year 2018 for that return category. However, according to the IRS, a more accurate method for reporting examination coverage can be determined by comparing the number of returns filed in a tax year with the number of returns audited for the same tax year.

[50] IRS Data Books defined high-income individuals as those with more than $199,999 in total positive income.

adjusted gross income above $10 million. According to the LB&I Division, significant resources will be used to achieve this increased coverage rate, which will affect its planned corporate coverage rate.

The IRS does not believe the fiscal year data they have traditionally published and relied on to calculate coverage are the most accurate portrayal of the IRS's true audit effort.   As such, while the IRS Data book again presented fiscal year examination data for FY 2019, it also published new data tables by tax year for TYs 2010 through 2018.[51] The data for TY 2015 show an audit rate for the highest income category ($10 million or more) equaled 8.16 percent as compared to the EITC taxpayers at 1.17 percent. These data were not available for 2019 which is the subject of this report, and the data for this report are by fiscal year as opposed to tax year.

Conclusion

The IRS faced many challenges during FY 2019, including the Federal Government shutdown, implementation of provisions associated with major tax reforms, and continued staffing decline.

Despite the challenges, the IRS's compliance operations collected $57.5 billion in enforcement revenue during FY 2019, a 6 percent increase from FY 2015. The revenue collection was driven substantially by systemic processes. The IRS's Examination function continued its declining enforcement trend in terms of the number of examinations, which is resulting in lower recommended additional tax after examinations.

[51] In the FY 2019 Data Book, the examination coverage rate data by tax years and fiscal years are presented in Tables 17a and 17b, respectively.

Appendix I

Detailed Objective, Scope, and Methodology

The objective was to provide various statistical information regarding Collection and Examination function activities as they relate to the IRS's efforts to bring taxpayers into compliance with their tax obligations. To accomplish our objective, we:

- Obtained and analyzed data, records, and other documentation related to voluntary compliance during the 2019 Filing Season.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to the IRS Collection functions' FY 2019 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to the IRS Examination functions' FY 2019 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to any other compliance data such as enforcement revenue, gross collections, or notice stream collections.
- Obtained and analyzed EITC filing and examination data to identify trends.
- Reviewed applicable TIGTA, CBO, GAO, and National Taxpayer Advocate reports for relevant information associated with trends or statistics identified in the programs referenced previously.
- Obtained the IRS's feedback regarding the impact of FYs 2019 and 2020 events, new legislation, and budget issues on its compliance functions.

Performance of This Review

This review was performed with information obtained from the W&I, SB/SE, LB&I, and TE/GE Divisions, and Research, Applied Analytics, and Statistics during the period May through September 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We did not validate the accuracy or reliability of the information generated from the IRS's systems since this review is a statistical portrayal of the IRS's data results. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Christina Dreyer, Director; Lee Hoyt, Audit Manager; Julia Tai, Lead Auditor; and Jesse Fenton, Senior Auditor.

Validity and Reliability of Data From Computer-Based Systems

We used nationwide data from various IRS management information systems. Due to time and resource constraints, we did not audit the IRS's systems to validate the accuracy and reliability of the information.

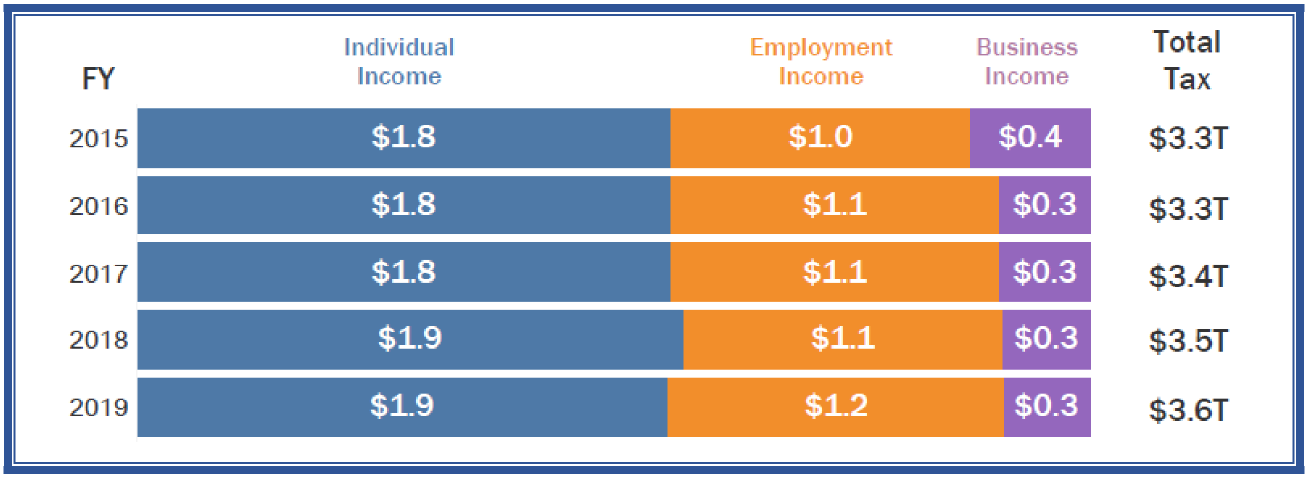
Internal Controls Methodology

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 IRS data.

Appendix II

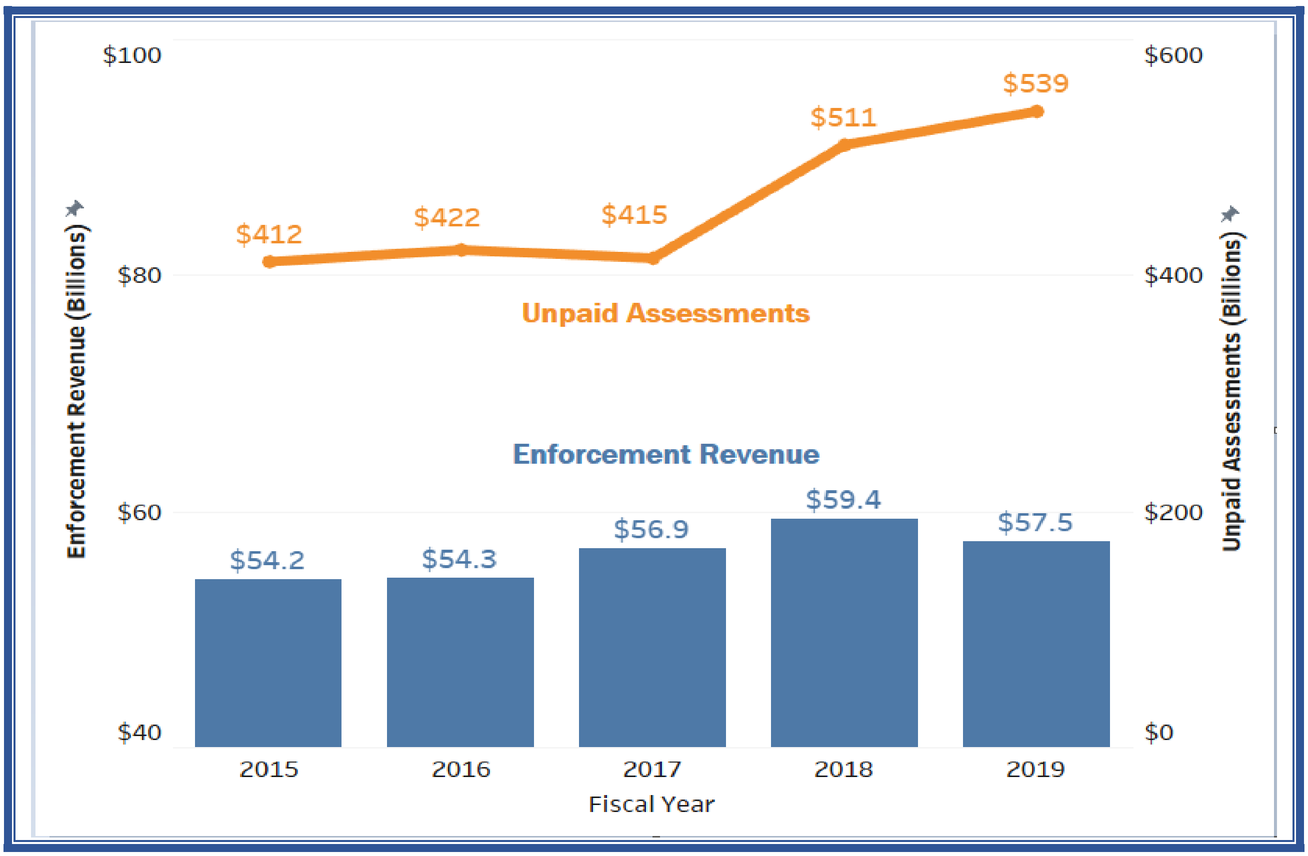
Detailed Charts of Statistical Information

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



Source: TIGTA analysis of IRS Data Books.

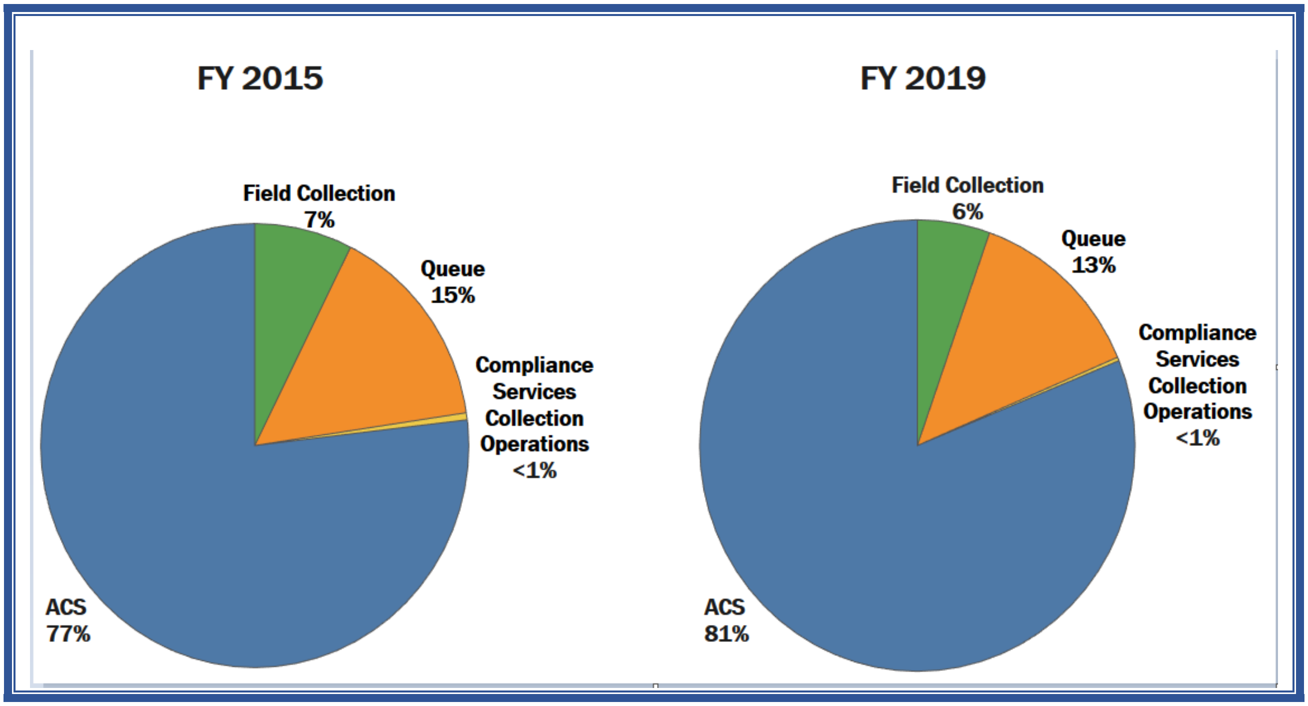
Figure 2: Amount of Enforcement Revenue Compared to Unpaid Assessments



Source: Office of Research, Applied Analytics, and Statistics for the enforcement revenue, and the Chief Financial Officer for the unpaid assessment data.

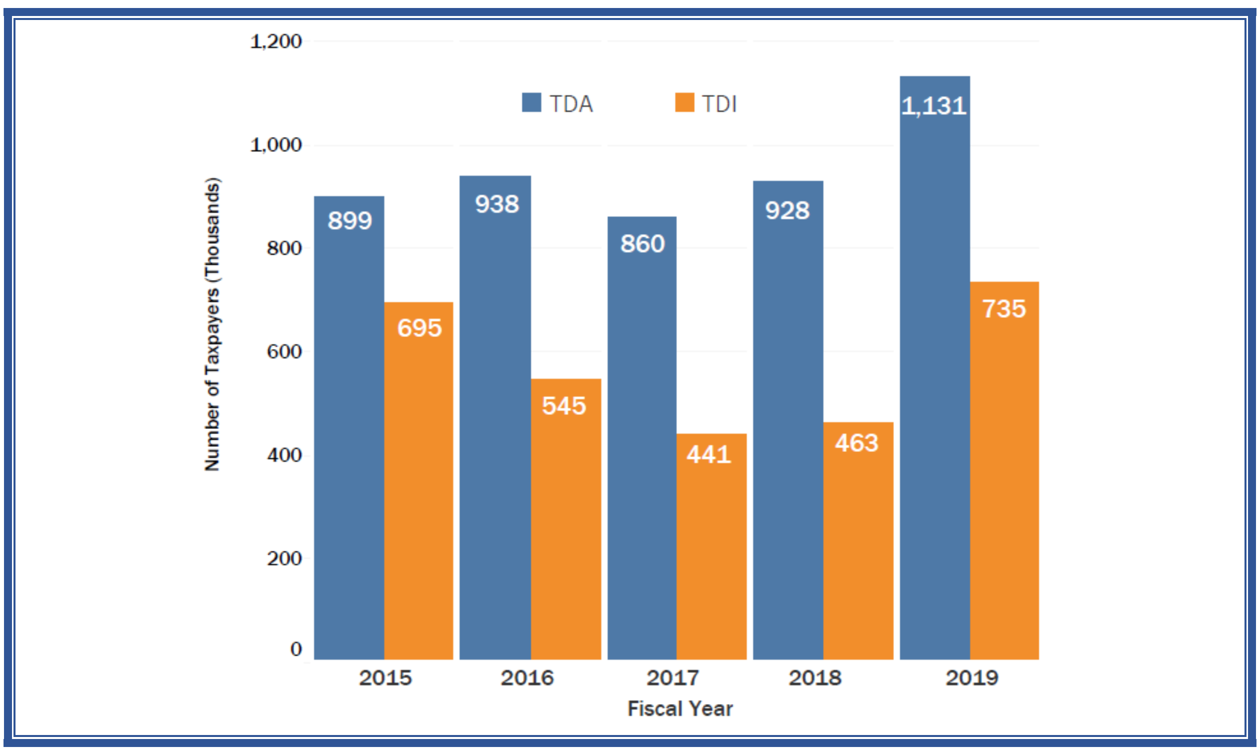
[1] Gross collections include taxes, penalties, and interest. The business, individual, and employment taxes in this figure may not sum to the total amount because the total gross collections listed in far right column includes excise, estate and trust, and gift taxes (which are not included as a category in the chart).

Figure 3: Percentage of TDAs Issued to Collection Functions



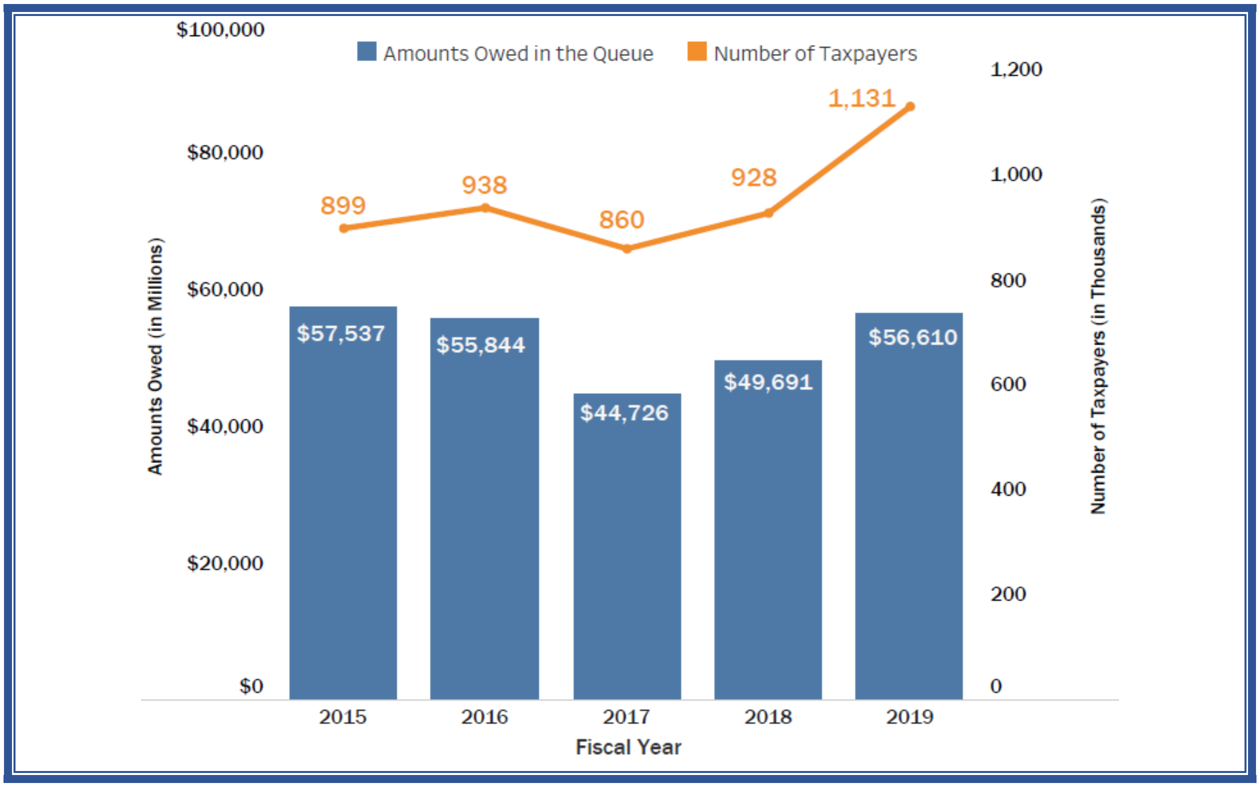
Source: Collection Activity Report 5000-2.

Figure 4: Taxpayers With TDAs and TDIs Maintained in the Queue



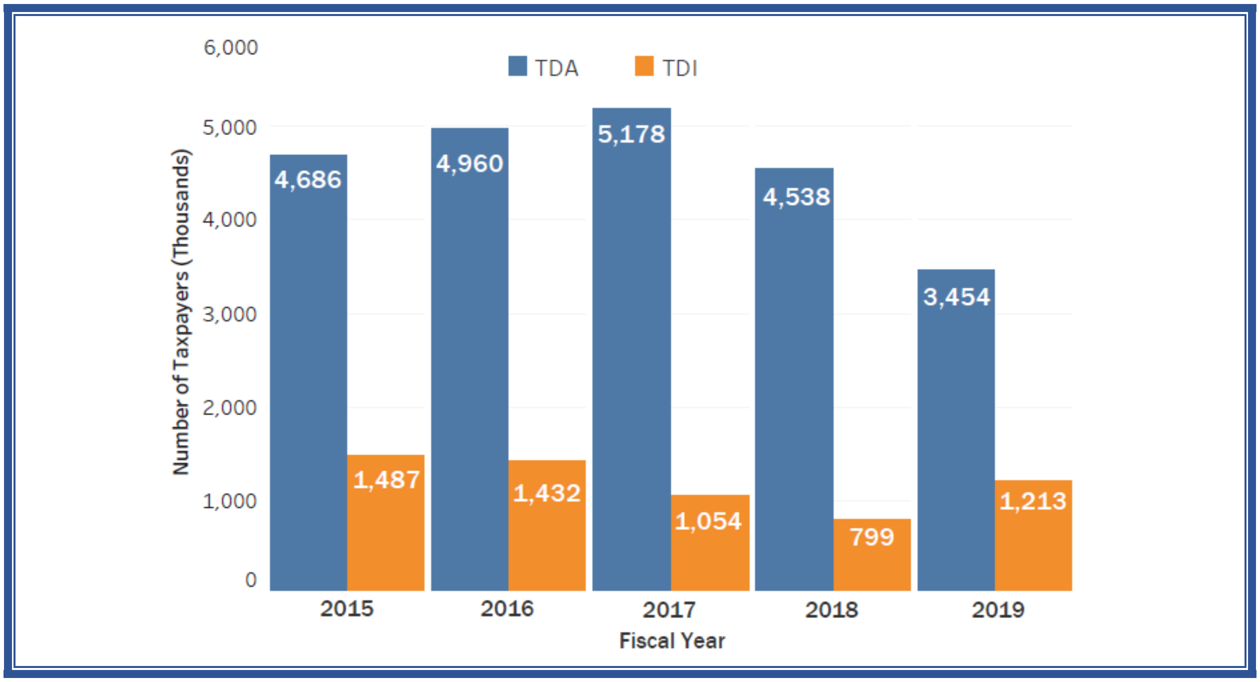
Source: Collection Activity Reports 5000-2 and 5000-4.

Figure 5: Number of Taxpayers With Delinquent Accounts and Amounts Owed in Queue Inventory



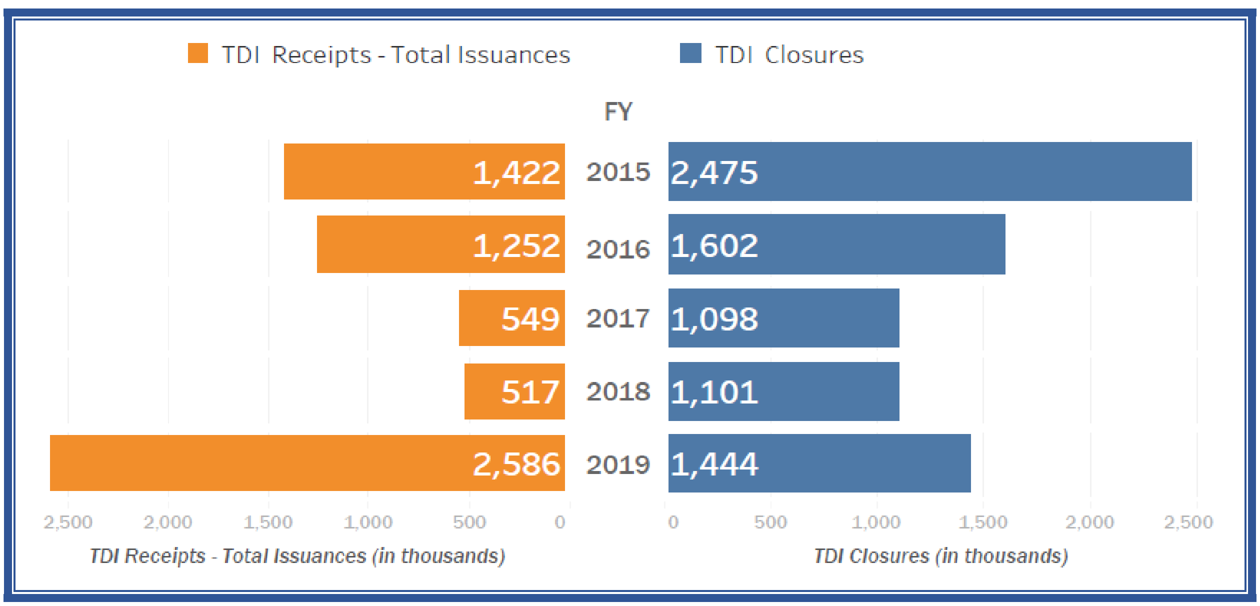
Source: Collection Activity Report 5000-2.

Figure 6: Taxpayers With TDAs and TDIs Maintained in the ACS[2]



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

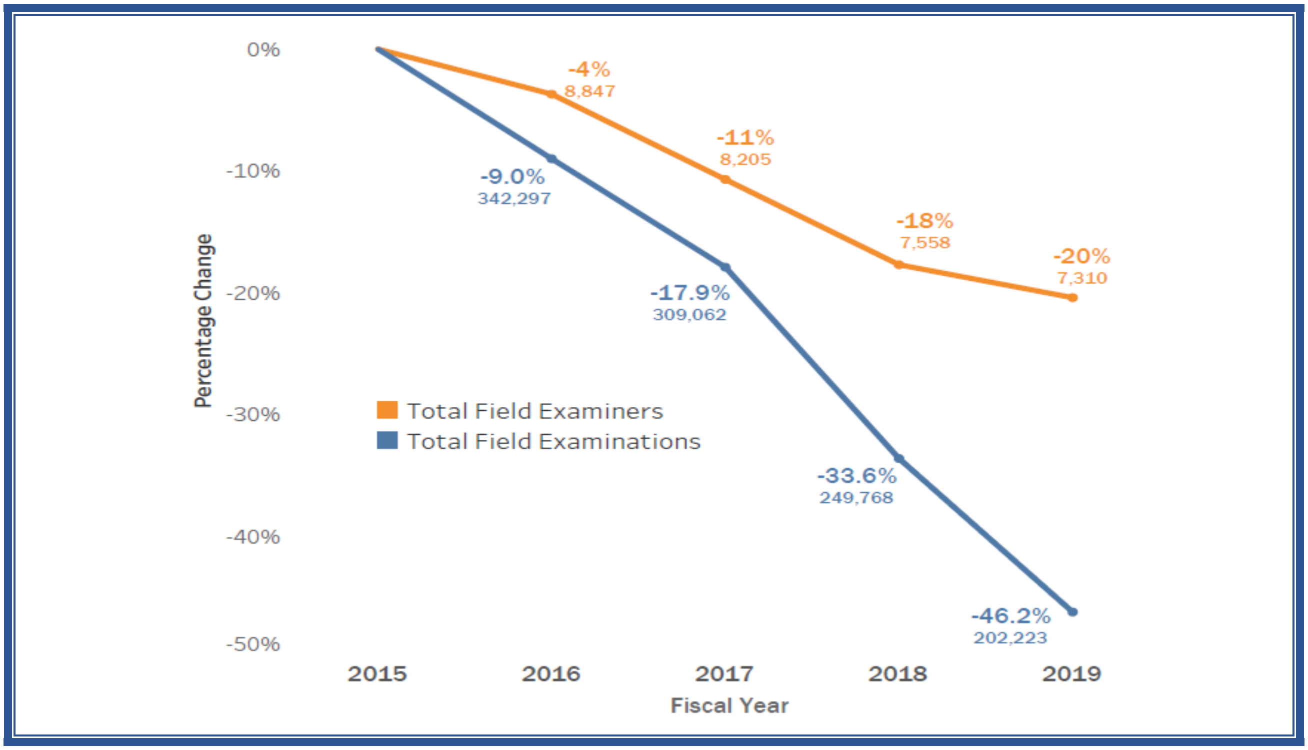
Figure 7: Total TDI Modules Issued and Closed



Source: Collection Activity Report 5000-4.

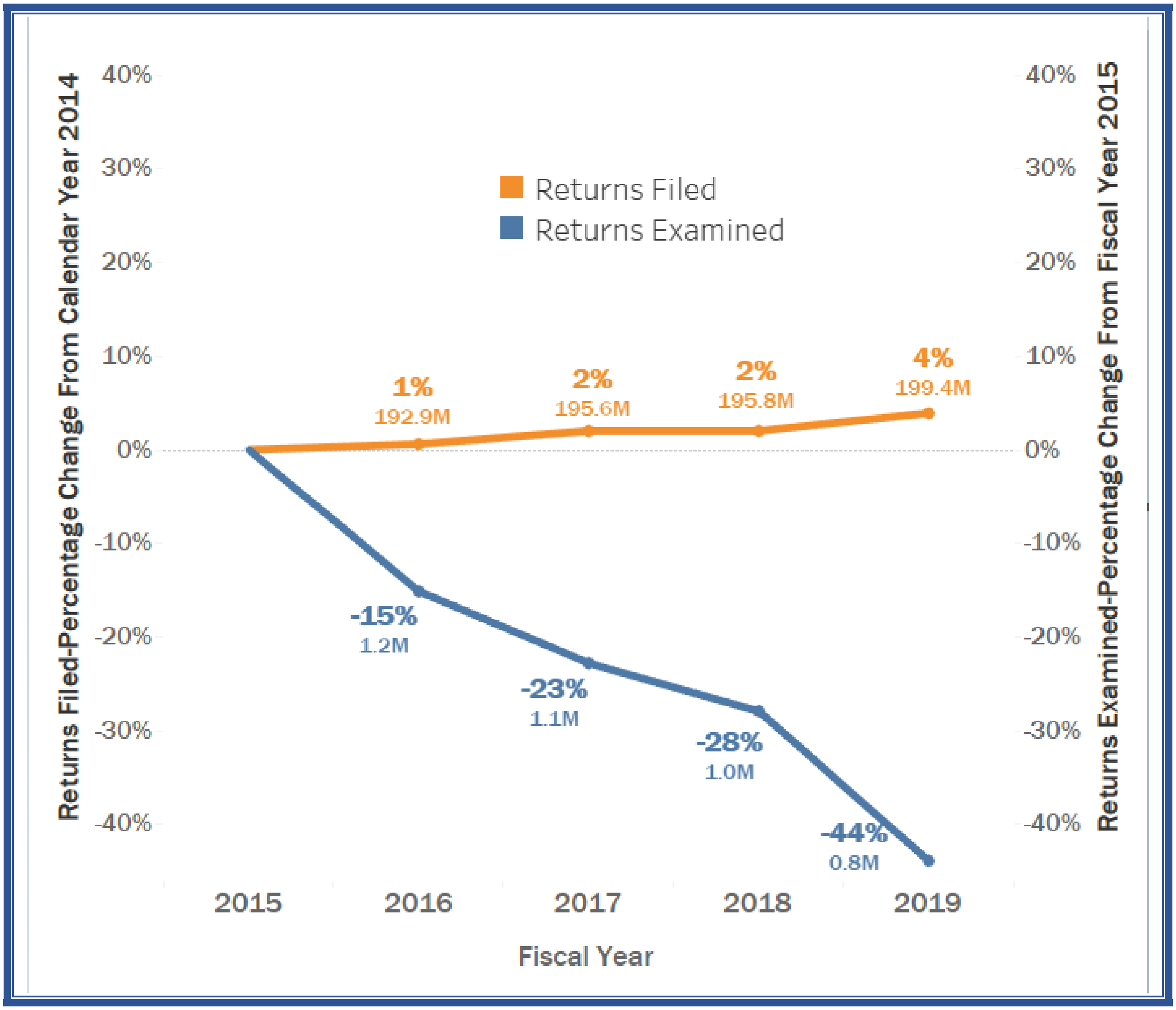
[2] The majority of the decline in open ACS inventory is attributable to the IRS assigning some inactive ACS inventory to the Private Debt Collection program.

Figure 8: Percentage Change in the Number of Field Examiners and Examinations Since FY 2015



Source: IRS Data Books and Table 37 Examination Program Monitoring report.

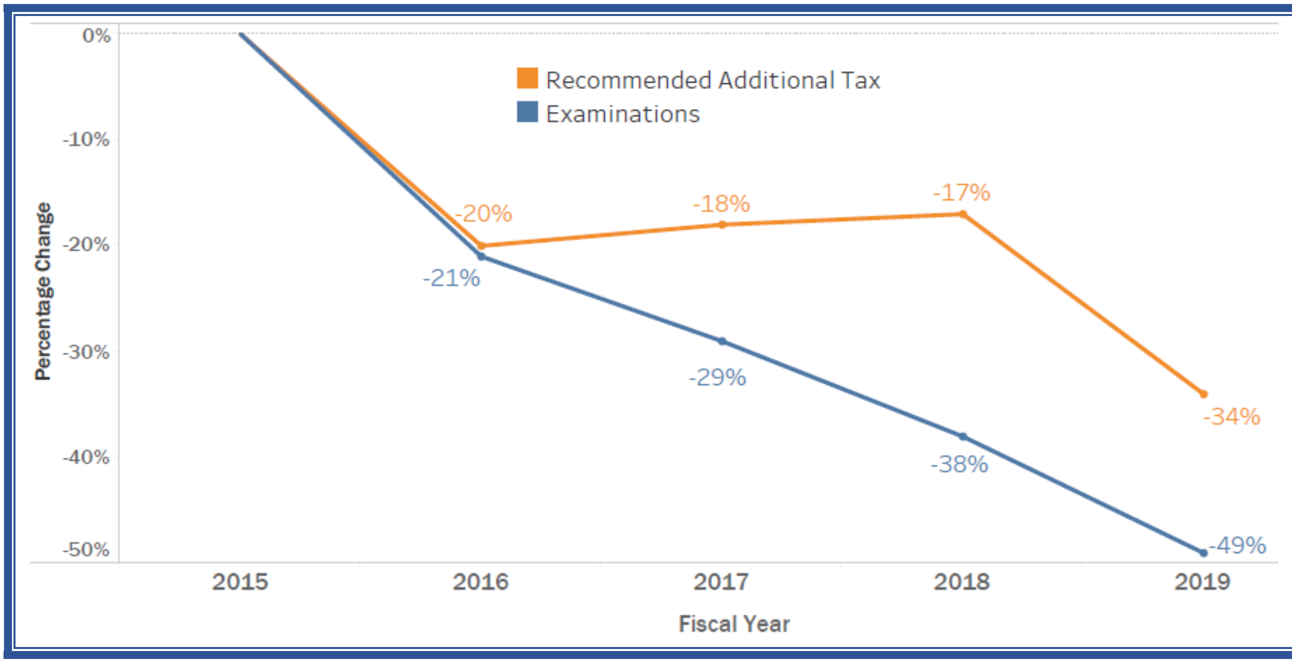
Figure 9: Percentage Change From FY 2015 of All Tax Returns Filed and Examined[3]



Source: TIGTA analysis of IRS Data Books.

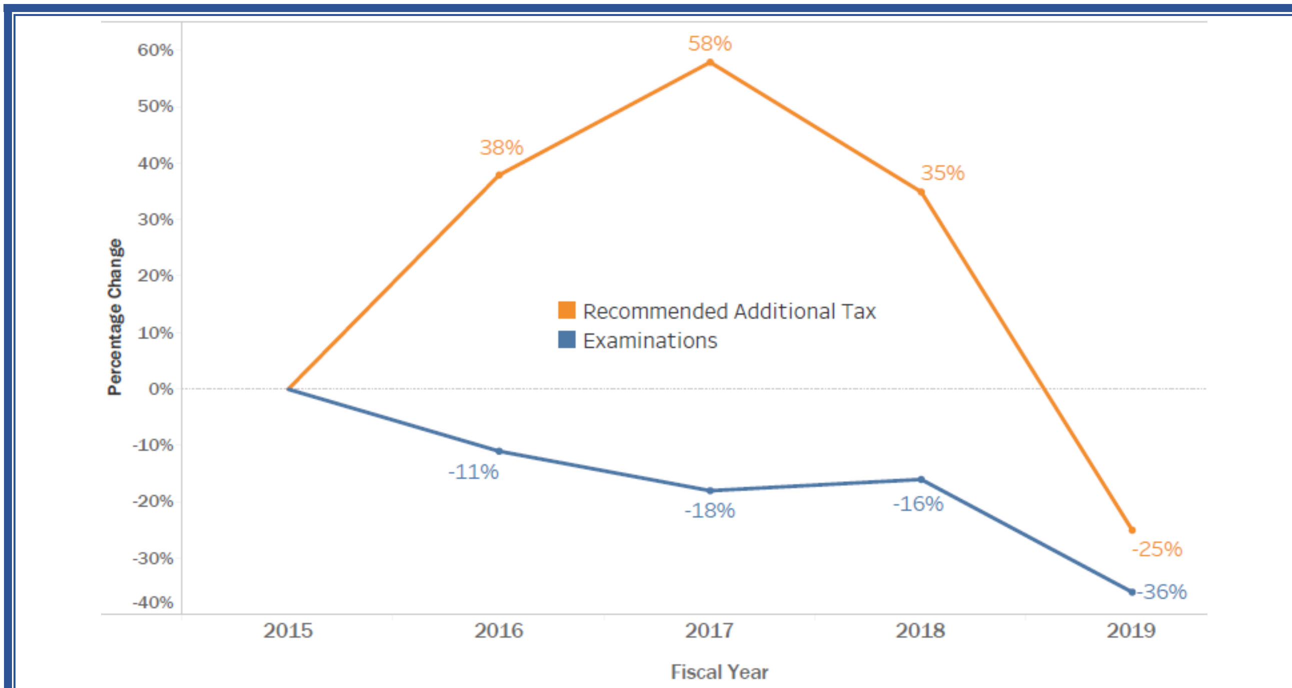
[3] IRS examination activity statistics are generally associated with returns filed in the previous calendar year, *e.g.*, Calendar Year 2018 filing data with FY 2019 examination results.

Figure 10: SB/SE Division Percentage Change in Tax Returns Examined and Recommended Additional Tax Since FY 2015



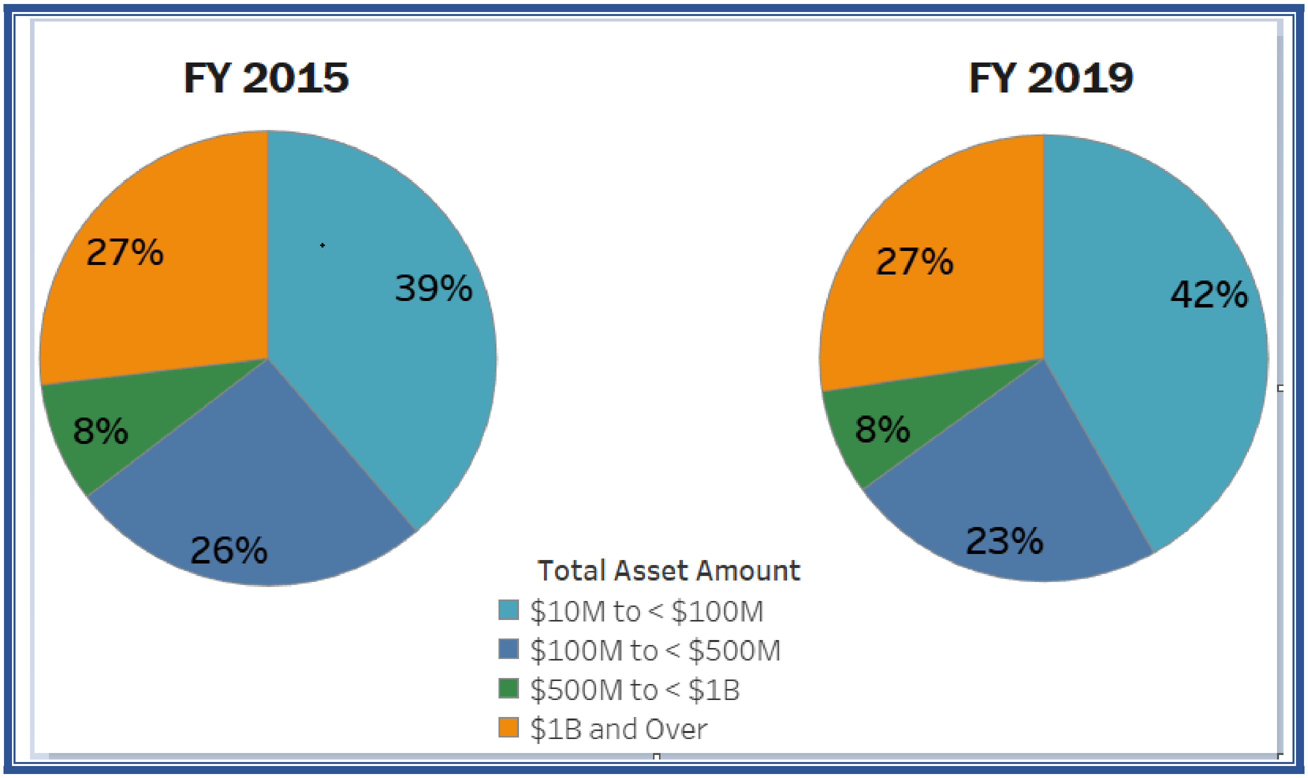
Source: TIGTA analysis of IRS Data Books.

Figure 11: LB&I Division Percentage Change in Tax Returns Examined and Recommended Additional Tax Since FY 2015



Source: TIGTA analysis of IRS Data Books.

Figure 12: LB&I Division Corporate Examinations by Size of Taxpayers' Total Assets



Source: TIGTA analysis of IRS Data Books.

Figure 13: LB&I Division Recommended Additional Tax for Corporate Examinations by Size of Taxpayers' Total Assets (in Thousands)

Corporate Asset Amount	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$10M to <$100M	$366,125	$282,580	$211,039	$228,107	$147,513
$100M to <$500M	$364,095	$370,263	$181,555	$694,753	$234,373
$500M to <$1B	$306,724	$145,025	$319,695	$77,518	$134,539
$1B or more	$7,924,995	$12,374,230	$15,623,427	$12,486,102	$7,070,207
Totals	$8,961,939	$13,172,098	$16,335,716	$13,486,480	$7,586,632

Source: TIGTA analysis of IRS Data Books.

Figure 14: Numbers and Percentages of Individual and Business Tax Returns Examined

Tax Returns Examined	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Individual Returns					
Individuals (Form 1040)	1,228,117	1,034,955	933,785	892,187	680,543
Coverage Rate	.8%	.7%	.6%	.6%	.4%
Business Returns					
Corporations <$10M	16,460	14,136	12,157	9,674	8,500
Coverage Rate	.9%	.8%	.7%	.6%	.5%
Corporations $10M and Greater	7,410	6,453	6,109	6,050	4,775
Coverage Rate	11.1%	9.5%	7.9%	8.1%	6.2%
S Corporations	18,595	15,869	13,448	10,575	10,065
Coverage Rate	.4%	.3%	.3%	.2%	.2%
Partnerships	19,212	14,645	15,275	8,945	7,478
Coverage Rate	.5%	.4%	.4%	.2%	.2%
Fiduciaries	5,288	3,284	3,284	1,524	826
Coverage Rate	.2%	.1%	.1%	.1%	<.5%
Employment	54,214	54,652	53,716	43,035	44,182
Coverage Rate	.2%	.2%	.2%	.1%	.1%
Excise	13,153	13,440	13,961	12,908	9,771
Coverage Rate	1.3%	1.4%	1.4%	1.3%	.9%
Estate	2,770	3,187	2,876	2,898	2,282
Coverage Rate	7.8%	8.8%	8.2%	8.6%	6.9%
Gift	2,539	1,843	1,886	2,090	1,839
Coverage Rate	.9%	.8%	.8%	.9%	.8%

Source: TIGTA analysis of IRS Data Books.

Appendix III

Recent Treasury Inspector General for Tax Administration Compliance Trends Reports

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. 2015).

TIGTA, Ref. No. 2016-30-073, *Trends in Compliance Activities Through Fiscal Year 2015* (Sept. 2016).

TIGTA, Ref. No. 2017-30-072, *Trends in Compliance Activities Through Fiscal Year 2016* Sept. 2017).

TIGTA, Ref. No. 2018-30-069, *Trends in Compliance Activities Through Fiscal Year 2017* (Sept 2018).

TIGTA, Ref. No. 2019-30-063, *Trends in Compliance Activities Through Fiscal Year 2018* (Sept. 2019).

Appendix IV

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

January 26, 2021

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton Eric C. Hylton Digitally signed by Eric C. Hylton Date: 2021.01.26 12:29:45 -05'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Trends in Compliance Activities Through Fiscal Year 2019 (#202030003)

Thank you for the opportunity to review and comment on the subject draft audit report. As reflected in your report, the Internal Revenue Service (IRS) faced increased challenges during Fiscal Year (FY) 2019. The increased challenges included implementing the Tax Cuts and Jobs Act of 2017, which was the first major tax reform legislation in nearly 20 years and included 119 tax provisions, and a 35-day federal government shutdown negatively impacting taxpayer service and disrupting compliance activities. These challenges are on top of an environment where the appropriations for the IRS have decreased by about 20 percent (adjusted for inflation) between 2010 and 2019 and resulted in an overall decline in staffing. Meanwhile, U.S. taxpayers filed more than 165 million income tax returns and forms resulting in a record setting $3.6 trillion of total revenue collected during FY 2019.

The report discusses examination coverage among taxpayers claiming the Earned Income Tax Credit (EITC) with income less than $25,000 versus taxpayers in higher income bands. The IRS also performs a variety of compliance activities which are not examinations, including:

- Automated Underreporter Program (AUR) which matches taxpayer income and deductions submitted by third parties against amounts reported on individual income tax returns.
- Automated Substitute for Return Program (ASFR) which uses information returns from third parties to identify tax return delinquencies and prepares substitute tax returns for certain nonfilers based on that third-party information.
- Verification of accuracy of the amounts on the tax return by checking for mathematical and clerical errors.

Each of these activities are similarly effective and efficient in enforcing taxpayer compliance. The report did not consider these activities, nor did the report consider the compliance coverage of these activities which impact taxpayer compliance in all income categories, especially those taxpayers making more than $25,000 and less than $200,000.

Additionally, as the report indicates, there have been several Congressional Acts that placed requirements on federal agencies to report improper payments made to recipients including the EITC. *Error rates on tax returns claiming EITC are around 50% with an improper payment rate of more than $17 billion each year.* The IRS annually uses events like EITC Awareness Day to promote both participation by eligible people and enhance the rate of compliance. Due to the focus on reducing improper payments by government programs, it is imperative that the IRS examine high risk returns claiming the EITC.

TIGTA correctly acknowledges in footnote 47 that the figures appearing in Table 17 of its report are based on an old method of computing audit coverage and that the IRS moved to a more accurate method in the FY 2019 Data Book. At the time TIGTA conducted the audit, data on Table 17a of the FY2019 Data Book were available; however, TIGTA did not use those data. Using Table 17a would paint an accurate picture as it compared returns *filed* in a tax year with the number of returns *audited* for the same tax year. As described in the FY 2019 Data Book, Tax Year 2015 is the last year for which we know the actual audit rates, because the IRS can still open audits for more recent years, so the data for more recent years is not yet complete. The exam coverage rate for tax year 2015 of taxpayers with incomes of $10 million or more is 8.16%. The rate for those between $1 million and $10 million is 2.53%. The rate for taxpayers claiming EITC was only 1.17%. While it may be tempting to look at the volume of audits for a particular income category, the percentage of filers audited is very important.

The report includes an informal internal calculation, found in Figures 6 and 7 where TIGTA believes this data, the net tax assessed, provides an analysis as to the success of the Examination functions' compliance efforts. We believe a more comprehensive measure of success is in order which includes a more holistic measure around the taxpayer experience. Beginning in FY21, SB/SE has added these new measures: time to resolve, time to start, and repeat taxpayers (recidivism).

If you have any questions, please contact me or Scott Irick, Director, Examination Operations, Small Business/Self-Employed Division.

Appendix V

Glossary of Terms

Term	Definition
Activity Code	A code that identifies the type and condition of returns selected for audit.
Appeals Centralized Database System	A system used by Appeals Officers, Settlement Officers, managers, and technical analysts to track case receipts, record case time, document case actions, and monitor the progress of the Appeals workload.
Audit Information Management System	Provides inventory and activity controls of active examination cases. It uses linkage to the Integrated Data Retrieval System to input status changes, adjustments, and case closing actions.
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.
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.
Correspondence Audit	An Audit that is largely handled through the mail and typically begins with the IRS mailing a computer-generated letter to the taxpayer that outlines the audit process, identifies one or more items on the tax return being questioned, and requests supporting information to resolve the questionable items
Enforcement Revenue Information System	The ERIS gathers data from across the IRS, collecting information about enforcement revenue and the associated direct time. It tracks a case from start to finish, incorporating information from various enforcement functions. The ERIS allows the IRS to report revenue and direct time information.
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.
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 measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2019, one FTE was equal to 2,088 staff hours. For FY 2020, one FTE is equal to 2,096 staff hours.
Installment Agreement	Arrangement in which taxpayers agree to pay their tax liability over time.

Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	The source of instructions to IRS staff, and includes policies, delegated authorities, procedures, instructions, and guidelines related to the operation of the IRS.
IRS Data Book	Provides information on activities conducted by the IRS such as taxes collected, enforcement, taxpayer assistance, budget, workforce, and other selected activities.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
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 function who provides customer service by explaining taxpayer rights and responsibilities, collects delinquent accounts, secures delinquent returns, counsels taxpayers on their tax filing and payment obligations, conducts tax investigations, files Notices of Federal Tax Lien, releases Federal tax liens, and performs seizures and sales of delinquent taxpayer assets.
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 estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Taxpayer Delinquency Investigation	An unfiled tax return for a taxpayer, one TDI is issued for each delinquent tax period for a taxpayer.
Taxpayer Delinquent Account	A balance due account when a taxpayer has an outstanding liability for taxes, penalties, and/or interest.

Appendix VI

Abbreviations

ACS	Automated Collection System
AUR	Automated Underreporter
CARES	Coronavirus Aid, Relief, and Economic Security
CBO	Congressional Budget Office
EITC	Earned Income Tax Credit
ERIS	Enforcement Revenue Information System
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
IA	Installment Agreement
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
LB&I	Large Business and International
RCEO	Refundable Credits Examination Operations
SB/SE	Small Business/Self-Employed
TCJA	Tax Cut and Jobs Act of 2017
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
W&I	Wage and Investment

To report fraud, waste, or abuse, call our toll-free hotline at:

(800) 366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.