



Treasury Inspector General for Tax Administration

OPPORTUNITIES EXIST TO IMPROVE MANUAL INTEREST CALCULATIONS ON ESTATE TAX RETURNS

Issued on August 30, 2007

Highlights

Highlights of Report Number: 2007-30-163 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Because of the complexities involved in administering payment options on estate tax accounts involving Internal Revenue Code (I.R.C.) Section 6166 elections, Internal Revenue Service (IRS) computers are not programmed to assess the interest associated with these accounts. The interest must be calculated manually and is subject to human error. If interest amounts owed by taxpayers are not calculated accurately, the IRS risks collecting too little or too much money from taxpayers whose account balances are calculated in error. Interest had been calculated inaccurately on 16 percent of the estate tax cases included in our review.

WHY TIGTA DID THE AUDIT

This audit was initiated because, in a prior audit, TIGTA had determined improvements could be made in the manual calculation of interest. The overall objective of this review was to determine whether interest was being calculated correctly for estates that have elected to pay the taxes due in installments or elected an extension of time to file or pay.

WHAT TIGTA FOUND

In Calendar Years 2002 and 2003, the processing and administration of estate tax returns was consolidated from 10 IRS campuses to the Cincinnati Campus in Covington, Kentucky. Along with the consolidation, the IRS implemented several changes that significantly improved the administration of these accounts.

A qualifying estate may elect under I.R.C. Section 6166 to pay in installments that portion of its Federal estate tax attributable to a closely held business. Because of the complexities involved in administering payment options on these accounts, IRS computers are not programmed to assess interest on them. Interest must be calculated manually and assessed annually by an IRS interest specialist.

TIGTA reviewed a statistically valid sample of 99 estate tax cases involving I.R.C. Section 6166 elections for which interest had to be manually computed. Interest on 16 (16 percent) of these cases was calculated in error. On 10 of the error cases, estates were undercharged interest totaling \$81,677. On the other 6 error cases, interest was overcharged by \$3,161. Of the 16 errors identified, 9 were made by other IRS campuses prior to the cases being consolidated in the Cincinnati Campus.

These errors were not identified because the Estate and Gift Operations function at the Cincinnati Campus updates interest for the yearly billing statements by computing interest from the previous IRS billing (as opposed to the due date of the return), as outlined in the Internal Revenue Manual. In addition, these cases were not subject to their own quality review by those qualified to determine if the interest was computed correctly.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS (1) implement a quality review process of yearly manual interest calculations on estate tax cases and ensure personnel assigned to perform these reviews have the skills and expertise to identify whether interest has been computed correctly and (2) implement a procedure involving periodic manual calculation of interest on each estate tax return from the due date of the return.

In their response to the report, IRS officials agreed with the first recommendation and partially agreed with the second recommendation. They plan to establish a quality review process and identify qualified staff to conduct regular reviews of a sampling of estate tax cases with manual interest computations. They also plan to review the interest computations on I.R.C. Section 6166 installment cases every 3 years to 5 years, with the initial review checking the calculations from the due date of the estate tax return. However, for subsequent reviews, the IRS plans to check computations made since the previous review. Although IRS management did not fully agree with the second recommendation, TIGTA found their alternative corrective action to be satisfactory.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730163fr.pdf>

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037