Treasury Inspector General for Tax Administration
Office of Audit

COLLECTION ACTIONS FOR IN-BUSINESS TRUST FUND ACCOUNTS CLOSED AS CURRENLY NOT COLLECTIBLE NEED IMPROVEMENT

Issued on August 24, 2010

Highlights

Highlights of Report Number: 2010-30-095 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The large number of in-business taxpayers that are accumulating trust fund tax liabilities is a major tax compliance problem for the Internal Revenue Service (IRS). Overall, TIGTA determined that the Collection Field function needs to improve collection actions for in-business trust fund accounts closed as currently not collectible. Because not all required collection actions were taken, taxpayers continued to accumulate additional trust fund taxes. Taxpayers who do not voluntarily pay their share of taxes create unfair burden on honest taxpayers and diminish the public's respect for the tax system.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to determine whether the IRS Collection Field function appropriately evaluates and monitors in-business trust fund accounts closed as currently not collectible.

WHAT TIGTA FOUND

The Collection Field function did not take all appropriate collection actions prior to closing in-business taxpayer accounts as currently not collectible. In 20 (33 percent) out of 61 cases reviewed, revenue officers did not always secure, verify, and/or analyze information to determine taxpayers' current financial condition and/or determine whether the taxpayers were current with filing requirements. When all required collection actions are not performed while a revenue officer is determining collectability of an in-business trust fund account, additional liabilities may accrue. TIGTA estimates that improving controls to ensure required collection actions are pursued could potentially prevent approximately $84 million in liabilities from accruing per year, which is approximately $420 million over the next five years.

Mandatory followup reviews were not always requested and performed after in-business trust fund accounts were closed as currently not collectible. In 45 (49 percent) of 92 cases reviewed, mandatory followup reviews were not performed. These accounts were not available for further collection actions. TIGTA estimates that improving controls to ensure mandatory followup reviews are performed would make approximately $46 million of in-business trust fund liabilities available for collection each year, which is about $230 million for the next five years.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) provide training to Collection Field function managers and revenue officers, with additional emphasis on the importance of securing, verifying, and analyzing financial information; 2) ensure the Integrated Collection System and Internal Revenue Manual are updated to include verification of income and expense requirements; 3) continue development and implementation of a systemic process within the Integrated Collection System to require the scheduling of mandatory followup reviews; and 4) update Centralized Case Processing function procedures to clarify mandatory followup review procedures and require periodic monitoring prior to mandatory followup review dates.

In their response to the report, IRS officials agreed with the recommendations and outcome measures. The IRS has taken steps to implement several corrective actions and plans to take additional steps to address TIGTA's concerns.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2010reports/201030095fr.pdf.