



## Treasury Inspector General for Tax Administration Office of Audit

### THE AUTOMATED SUBSTITUTE FOR RETURN PROGRAM BRINGS SOME TAXPAYERS INTO COMPLIANCE; HOWEVER, PROGRAM ENHANCEMENTS ARE NEEDED

Issued on March 23, 2010

## Highlights

Highlights of Report Number: 2010-40-033 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and the Wage and Investment Divisions.

### IMPACT ON TAXPAYERS

The Automated Substitute for Return Program identifies taxpayers who did not file a required tax return and attempts to bring these taxpayers into compliance. The Internal Revenue Service (IRS) either secures an income tax return from these taxpayers or prepares a Substitute for Return for taxpayers with a proposed tax assessment based on information return data reported to the IRS combined with other internal data. The Program is bringing some taxpayers into compliance; however, more taxpayers could be contacted if Program management used available system tools.

### WHY TIGTA DID THE AUDIT

The overall objective of the audit was to evaluate the effect of the Program in the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) Divisions on enforcement yield and nonfiler compliance and to determine whether the Program effectively processed its workload.

### WHAT TIGTA FOUND

Although the Program helps bring some taxpayers into compliance, 32 percent of the Program's inventory of more than 2.7 million cases for Fiscal Years (FY) 2006 and 2007 were not worked. Available resources limit the number of cases worked by the Program. Management efforts to reduce and prioritize their inventory included soft notice pilots and case resolution tools. In 2008, the IRS received 50 responses (5 percent) to a soft notice pilot, which included balance due, refund due, and zero tax due returns. Management believed the pilot achieved some success because nonfiler taxpayers reacted to the IRS notice, which reduced inventory. Based on the pilot results, the IRS decided to modify an existing notice with some soft notice wording. It is

too soon to know if the modified notice will improve tax compliance; however, implementing the modified notice could benefit the Program by enabling it to work additional cases. The modified notice was originally considered for implementation in FY 2012, but it is awaiting review and approval by a Servicewide task group studying and improving written communications to taxpayers.

The Program uses various system tools that assist in processing cases. Due to incomplete programming changes, the W&I Division has not mandated use of the Integrated Data Retrieval System Decision Assistant Program tool that results in more efficient and accurate case identification and case closures. The programming changes are needed to comply with a law designed to make Federal agencies' electronic and information technology accessible to people with disabilities.

Some Automated Substitute for Return cases with a Status Code "M" that exceeded the 45-day period for resolution were not properly classified as over-age inventory. Status "M" is assigned to cases when the taxpayer takes longer than 14 days to respond. In FY 2007, not including Status "M" cases resulted in understatements of over-age inventory of 1,646 cases and audit reconsideration inventory of 2,970 cases. The W&I Division started including Status "M" cases in its over-age inventory in FY 2008. In FY 2010, the SB/SE Division began including Status "M" cases in its over-age inventory.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioners, W&I and SB/SE Divisions, coordinate with the executive responsible for the Taxpayer Communication Task Group to ensure the modified notice is evaluated in time to meet its originally proposed implementation date. If implemented, the results should be assessed to determine whether they are commensurate with or exceed the pilot results. The Commissioner, W&I Division, should coordinate with the Chief Technology Officer to ensure that programming changes are completed for the Integrated Data Retrieval System Decision Assistant Program tool and that all employees and team managers use it.

IRS officials agreed with our recommendations; however, the proposed implementation date for the modified notice indicates the programming will be delayed. The IRS subsequently provided an explanation for the delay, but the justification was not adequate for the additional time needed.

### 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/201040033fr.pdf>.

Email Address: [inquiries@tigta.treas.gov](mailto:inquiries@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500