



*The Automated Substitute for Return
Program Brings Some Taxpayers Into
Compliance; However, Program
Enhancements Are Needed*

March 23, 2010

Reference Number: 2010-40-033

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2(a) = Law Enforcement Criteria



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 23, 2010

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance; However, Program
Enhancements Are Needed (Audit # 200840026)

This report presents the results of our review to determine the effect of the Automated Substitute for Return (ASFR) Program (also referred to as 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. The audit was included in the Treasury Inspector General for Tax Administration's Fiscal Years (FY) 2008 and 2009 audit plans under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

The ASFR 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.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Synopsis

For FYs 2006 and 2007, the ASFR Program closed more than 1.8 million¹ cases and assessed \$16.8 billion. For most of these cases, taxpayers did not respond to the attempts to contact them for a response to the proposed tax assessments, so the Program assessed the taxes. The Program had a positive impact on filing compliance for some taxpayers whose cases were closed in FY 2005. There were 449,820 taxpayers filing 580,819 tax returns who were brought into compliance with their tax return filing requirements. In addition, our analysis identified that 224,114 (50 percent) of the 449,820 taxpayers voluntarily filed 1 or more additional returns (for tax years as far back as 1977) after the Program closed their cases. There was also some success in collecting the tax assessed on cases closed in FY 2005. Analysis of the tax modules for the 580,819 tax returns processed showed that 284,124 (49 percent) had some type of payment or other account activity regardless of whether the taxpayer responded or agreed.

Although the ASFR Program helps to bring some taxpayers into compliance, a substantial percentage (32 percent) of cases that entered the Program's inventory for FYs 2006 and 2007 were not worked. Program inventory for the 2 years was more than 2.7 million cases; approximately 1.8 million cases (68 percent) in its inventory were worked. Available resources limit the number of cases worked in any given year. To compensate for the limited resources and lessen the impact of the inventory not worked on the Program, management initiated efforts to reduce and prioritize inventory. The Program's efforts included soft notice pilots conducted in Calendar Years 2007 and 2008 and the use of case resolution system tools.²

In September 2008, the IRS sent 953 soft notices to taxpayers and asked them to file through normal filing channels. The IRS received 50 responses (a 5 percent response rate): 20 (40 percent) taxpayers filed balance due tax returns, 16 (32 percent) taxpayers filed refund due tax returns, and 14 (28 percent) taxpayers filed zero tax due returns. Management believed the pilot had achieved some success because nonfiler taxpayers reacted to the IRS notices, which reduced inventory. Based on the results of the pilot, the IRS decided to modify an existing notice with some soft notice language.

It is too soon to know if the modified notice will improve tax compliance; however, implementing this notice could benefit the Program by allowing it to work additional cases. For example, by applying the 5 percent response rate from the pilot to the FYs 2008 and 2009

¹ The 1.8 million includes only closed cases where the taxpayer agreed or disagreed with the assessment, filed a return, did not respond to notices, or was found not liable. These closed cases reflect the Program's actual processed workload. The IRS Data Book shows 2,608,640 closed cases for the same years and includes the 1.8 million cases previously discussed along with other cases that were terminated from the ASFR Program for reasons such as being selected by other IRS programs or having returns filed before the first Program notice was issued.

² The IRS uses "soft notices" to encourage taxpayers to self-correct issues, such as nonfiling of tax returns or underreporting of income, with minimal compliance resources expended.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Program inventory of 1,651,326 cases that were not started, more than 82,566 additional cases may have been resolved without Program involvement by taxpayers filing their tax returns in response to the soft notices. The modified notice was originally considered for implementation in FY 2012; however, Program Management advised us that they are unsure when it will be implemented because it depends on the priority ranking of an ongoing Servicewide task group studying and improving written communications to taxpayers.

The ASFR Program uses various system tools such as the Integrated Data Retrieval System, the Integrated Data Retrieval System Decision Assistant Program (IDAP), and Desktop Integration (now named Account Management Services) to process cases and to provide automated assistance for case resolution. The IDAP tool can enhance case screening and case processing and result in more efficient and accurate case identification and closures. The W&I and SB/SE Divisions tracked IDAP tool usage and reported positive time savings per case of 13 minutes and 35 minutes, respectively. However, the W&I Division has not mandated use of the IDAP tool because of uncompleted programming changes needed for compliance with a law designed to make Federal agencies' electronic and information technology accessible to people with disabilities. The uncompleted programming changes prevent corrections and downloads by employees who work ASFR cases.

Account Management Services controls and assigns cases to tax examiners based on their skill levels and current workload. It eliminates manual case openings and reduces management's time spent monitoring inventory levels. The W&I Division reported that when Account Management Services was implemented, it saved managers 5 to 8 hours per week. The SB/SE Division initially did not implement it because it was not compatible with a feature in the IDAP tool and it would present an added control for the tax examiners to close. However, management later advised us that, as of October 1, 2009, the SB/SE Division implemented Account Management Services.

Some cases that exceeded the 45-day period for resolution were not properly classified as over-age inventory and management did not apply the same established time limits for all over-age inventories to be worked and resolved. Tax examiners are allowed to assign a status code "M" to suspend the 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 by 1,646 cases and audit reconsideration³ over-age inventory by 2,970 cases. W&I Division management made the decision to include Status "M" cases in their over-age inventory prior to our audit and implemented this change during FY 2008. Further, in November 2009, SB/SE Division management advised us that they have changed their position on Status "M" cases. Beginning in FY 2010, the SB/SE Division began including Status "M" cases in its over-age inventory.

³ See Appendix V for a glossary of terms.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Recommendations

We recommended that 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 and whether the ASFR Program has achieved a corresponding benefit in its ability to address additional inventory. The Commissioner, W&I Division, should coordinate with the Chief Technology Officer to ensure that programming changes are completed for the IDAP tool. In addition, the Commissioner, W&I Division, should ensure requirements are established and implemented for consistent use of the IDAP tool by all employees and team managers who work Program cases to enhance the accuracy and efficiency of case work and enable limited resources to work additional Program cases.

Response

IRS management agreed with all of our recommendations. They will continue discussions with the Office of Taxpayer Correspondence and the Modernization and Information Technology Services organization to prioritize the timely implementation of the new soft notice. Management will also continue to coordinate and work with the Chief Technology Officer to ensure the technical requirements for the IDAP tool are completed and pursue mandating its use. Management's complete response to the draft report is included in Appendix VII.

Office of Audit Comment

While IRS management agreed with our recommendations, the implementation date for the first corrective action indicates the programming will be delayed beyond the original implementation date for the soft notice. The IRS stated that the Modernization and Information Technology Services organization requires approximately 2 years for programming changes to implement the new soft notice. We followed up with management on this issue and were provided an explanation; however, they were unable to provide adequate justification for the time needed to add this notice.

Also, IRS management did not agree fully with our outcome measure related to the IDAP tool. Although they agreed in theory with our measures, they stated that more than half of the W&I Division employees are currently using the IDAP tool so they believe the net benefit of full implementation will be less than shown in our calculation. During our audit, we asked the IRS for information on the number of W&I Division employees using this tool; however, the IRS was unable to provide this information. As such, we did not estimate the future benefit over a 5-year



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

period. Even if a significant number of employees are using the tool, mandating its use for all employees would provide a substantial future benefit.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Table of Contents

Background	Page 1
Results of Review	Page 3
Some Nonfilers Were Brought Into Compliance, but More Could Be Contacted if Additional Analyses and Available Tools Were Used in Managing the Program.....	Page 3
<u>Recommendation 1</u> :.....	Page 11
<u>Recommendation 2</u> :.....	Page 12
Strengthening Inventory Management Controls Could Enhance Program Results and Ensure Consistent Treatment of Taxpayers.....	Page 12
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 15
Appendix II – Major Contributors to This Report	Page 17
Appendix III – Report Distribution List	Page 18
Appendix IV – Outcome Measures.....	Page 19
Appendix V – Glossary of Terms	Page 20
Appendix VI – Fiscal Years 2005–2007 Small Business/Self-Employed Division Status “M” Cases Over 60 Days Old	Page 22
Appendix VII – Management’s Response to the Draft Report.....	Page 23



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Abbreviations

ASFR	Automated Substitute for Return
FY	Fiscal Year
IDAP	IDRS Decision Assistant Program
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
W&I	Wage and Investment



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Background

Taxpayers are required to file an income tax return if their gross income during the year exceeds a certain amount, regardless of whether they owe any tax. The Internal Revenue Service (IRS) will consider the taxpayer to be a possible nonfiler if it has information that indicates a taxpayer should have filed a tax return but did not.

The Automated Substitute for Return (ASFR) Program (referred to as the Program) identifies taxpayers who did not file a required tax return and attempts to bring them into compliance. Through this Program, the IRS enforces filing compliance by securing valid income tax returns from taxpayers or preparing a Substitute for Return¹ for taxpayers with a proposed tax assessment² based on information return data reported to the IRS combined with other internal data.

The Program closed more than 1.3 million nonfiler cases during Fiscal Year (FY) 2007. Cases are closed when the taxpayer:

- Complies and files the delinquent return(s).
- Agrees with the IRS' proposed tax assessment.
- Provides information that shows the taxpayer was not liable or not required to file.
- Disagrees with or does not respond to IRS notices, and the IRS files a Substitute for Return for the taxpayer and posts the proposed tax assessment to the taxpayers' account.

The Program has an automated process that applies specific criteria, including information return data, which is used to calculate the potential tax due. The annual information return data are usually reported on Wage and Tax Statements (Form W-2) and U.S. Information Returns (Form 1099 series)³ by employers, banks, and other third parties to report wages, interest, and dividends, as well as some payments for services rendered to self-employed individuals.

Once a case meets ASFR criteria, the Program assigns each case a priority code based on conditions such as refunds put on hold, potential tax due, partnership income, Federal employees, and accounts with multiple past due tax balances. The cases with the highest priorities are worked first.⁴ Taxpayers selected for the Program are issued a Proposed Individual

¹ Internal Revenue Code Section 6020(b) gives the IRS the authority to prepare and process returns for nonfiling taxpayers.

² Internal Revenue Code Section 6212 authorizes the IRS to issue a Statutory Notice of Deficiency and post the proposed tax assessment to the taxpayer's account if the taxpayer does not respond.

³ See Appendix V for a glossary of terms.

⁴ Priority codes are 0 (highest priority) through 9 (lowest priority).



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Income Tax Assessment (Letter 2566) informing them that the IRS has not received a tax return for the tax year shown and advising them that within 30 days, the IRS must receive one of the following:

- A signed U.S. Individual Income Tax Return (Form 1040), including all schedules and forms.
- The signed consent agreeing with the proposed tax assessment.
- A statement explaining why they believe they are not required to file, or other information they would like the IRS to consider.
- The taxpayer's appeal to the proposed tax assessment.

If the IRS does not receive a response, the taxpayer is sent a statutory notice of deficiency with the proposed tax assessment or a Notice of Deficiency (Letter 3219). The tax computed by the IRS may be higher than what is actually owed because the IRS does not have the information on the taxpayer's allowable exemptions, deductions, and credits. Therefore, it is in the taxpayer's best interest to file the delinquent tax returns.

Although the Program is overseen by the Small Business/Self-Employed (SB/SE) Division, cases are worked by both the Wage and Investment (W&I) Division (which services individual taxpayers filing Forms 1040 with no accompanying Profit or Loss From Business (Schedule C), Supplemental Income and Loss (Schedule E), Profit or Loss From Farming (Schedule F), or Employee Business Expenses (Form 2106) and no international activity) and the SB/SE Division (which services individual taxpayers filing Forms 1040 with Schedules C, E, F or Forms 2106). Currently, the Program is worked in the W&I Division's Fresno, California, and Austin, Texas, Campuses and in the SB/SE Division's Brookhaven, New York, Campus. In these Campuses, up to three major functions are performed: managing accounts, pursuing taxpayer inquiries, and processing tax returns.

This review was performed in the W&I Division's Headquarters in Atlanta, Georgia; the W&I Division's Austin, Texas, Campus; and the SB/SE Division's Brookhaven Campus in Holtsville, New York, during the period January 2008 through November 2009. 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Results of Review

Some Nonfilers Were Brought Into Compliance, but More Could Be Contacted if Additional Analyses and Available Tools Were Used in Managing the Program

For FYs 2006 and 2007, the Program closed more than 1.8 million⁵ cases and assessed \$16.8 billion. For most of these cases, taxpayers did not respond; therefore, the Program assessed the tax dollars owed. In order to evaluate the Program's results in bringing the taxpayers it contacted into compliance, we analyzed Master File data⁶ for Program cases closed during FY 2005 and data for cases closed on the ASFR system during FYs 2006 and 2007. Figure 1 shows the number and disposition of cases closed in FYs 2006 and 2007.

Figure 1: Program Results for FYs 2006 and 2007

Type of Tax Return Closure	Number of Cases Closed	Percentage of Cases Closed	Potential Tax Assessments (in Billions)
Return Filed	321,244	17.3%	\$ 3.9
Agreed With Assessment	30,483	1.6%	\$ 0.2
Taxpayer Found Not Liable	91,040	4.9%	\$ 1.3 ⁷
Disagreed With Assessment	7,143	0.4%	\$ 0.1
No Response	1,409,798	75.8%	\$11.3
Total	1,859,708	100.0%	\$16.8

Source: IRS data extract from the Program's system of cases closed during FYs 2006 and 2007.

⁵ The 1.8 million includes only closed cases where the taxpayer agreed or disagreed with the assessment, filed a return, did not respond to notices, or was found not liable. These closed cases reflect the Program's actual processed workload. The IRS Data Book shows 2,608,640 closed cases for the same years and includes the 1.8 million cases previously discussed along with other cases that were terminated from the ASFR Program for reasons such as being selected by other IRS programs or having returns filed before the first Program notice was issued.

⁶ We obtained a Master File extract of FY 2005 closed ASFR case data because the IRS did not begin archiving closed cases on the ASFR system until June 2005.

⁷ Amount of potential tax computed by the ASFR Program. This tax was not actually assessed.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

FY 2005 Program results – filing compliance

The Program had a positive impact on filing compliance for some of its taxpayers whose cases were closed in FY 2005. From our analysis, we determined that 449,820 taxpayers representing 580,819 tax returns were brought into compliance with their tax return filing requirements during FY 2005 by 1 of the following methods:

- Filing tax returns.
- Agreeing with the IRS’ proposed tax assessments.
- Accepting the Substitute for Returns filed by the Program.
- Being identified as not needing to file because they were not liable for filing returns.

Analysis of additional Master File data to identify how many of the 449,820 taxpayers voluntarily filed additional tax returns after the Program closed their cases showed that 224,114 (50 percent) filed 1 or more additional returns (for tax years as far back as 1977).⁸ Figure 2 shows the data analysis results.

Figure 2: Subsequent Returns Filed for FY 2005 Closed Cases

Additional Returns Filed	Number of Taxpayers	Total Returns Filed
1 to 4 Returns	183,346	447,784
5 or More Returns	40,768	238,064
Subtotal	224,114	685,848
No Returns	225,706	0
Total	449,820	685,848

Source: FY 2005 data on the Individual Master File.

Payment compliance

Although the Program does not have responsibility for payment compliance, we noted some success in collecting the taxes assessed by the Program on the cases closed in FY 2005. We conducted a further analysis on the tax accounts for the 580,819 tax returns to determine whether payments were being made and the current account status (e.g., fully paid, in collection, or in installment agreement status). Figure 3 shows that 284,124 (49 percent) of the 580,819 tax returns processed had some type of payment or other account activity regardless of whether the

⁸ Data were extracted in April 2008.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

taxpayer agreed, filed a return, did not respond, or disagreed with the Substitute for Return filed by the ASFR Program.

Figure 3: Account Status/Taxes Paid for FY 2005 Closed Cases

Type of Closure	Current Account Status		Percentage of Total ⁹
Agreed or Return Filed	Fully Paid:	53,854	68%
	Collection Status (Partial Payment Received):	13,922	18%
	Installment Agreement:	9,435	12%
	Other:	2,119	3%
	<i>Subtotal:</i>	79,330	
Disagreed or No Response	Fully Paid:	78,555	38%
	Collection Status (Partial Payment Received):	107,200	52%
	Installment Agreement:	14,975	7%
	Other:	4,064	2%
	<i>Subtotal:</i>	204,794	
	Total:	284,124	

Source: FY 2005 data extract of account activity on the Individual Master File as of mid-April 2008.

Although the Program helps to bring some taxpayers into compliance, a substantial percentage (32 percent) of cases that entered its inventory for FYs 2006 and 2007 were not worked. Program inventory for these 2 years was more than 2.7 million cases; approximately 1.8 million cases (68 percent) in its inventory were worked. To help in assigning resources to address the large number of nonfiler cases, the Program assigns priority codes to cases meeting ASFR criteria. Most of the cases worked have a refund on a recent tax year that is being held to apply to a prior year for which no tax return was filed or are accounts with information showing that a very large tax (more than ***2(a)*****) may be due for a year for which no tax return was filed. Figure 4 shows the inventory by priority code and the percentage of cases closed during FYs 2006 and 2007.

⁹ Totals do not add up to exactly 100 percent due to rounding.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Figure 4: ASFR Inventory for FYs 2006–2007 by Priority Code

Priority Code	Definition	Cases Meeting Criteria ¹⁰	Cases Closed	Percentage Closed
0	*****2(a)***** ¹¹	975,717	926,807	94.99%
1	*****2(a)***** *****	659,699	81,325	57.80%
2	Potential Balance Due of Greater Than ****2(a)*****	380,061	379,748	99.92%
3	Potential Balance Due of *****2(a)*****	51,255	21,956	42.84%
4	Potential Balance Due of *****2(a)*****	43,014	10,211	23.74%
5-8	Potential Balance Due of *****2(a)*****	339,879	79,073	23.27%
9	Terminated	60,588	60,588	100.00%
	ASFR Corporate Inventory (Not Started) ¹²	208,402	0	0.00%
	TOTAL	2,718,615	1,859,708	68.41%

Source: FYs 2006–2007 ASFR closed case data provided by the IRS.

Available resources limit the number of cases worked in any given year. To compensate for the limited resources and lessen the impact of the inventory not worked on the Program, management initiated efforts to reduce and prioritize their inventory. The Program’s efforts included soft notice pilots conducted in Calendar Years 2007 and 2008 and the use of case resolution system tools.

The results of the soft notice pilot

The IRS uses “soft notices” to encourage taxpayers to self-correct issues, such as nonfiling of tax returns or underreporting of income, with minimal compliance resources expended. For example, a soft notice could say:

*Our records show that we have not received the following [list of] returns from you
... or information has been reported to us from some of your payers and may not be*

¹⁰ Total cases closed in FYs 2006 and 2007 plus ending inventory as of September 25, 2007.

¹¹ The Priority Code 0 – Refund Hold cases are assigned the highest priority to ensure refunds are applied to other outstanding balances because the refund statute expiration date is typically a short time period.

¹² Total cases in the Corporate Inventory were not broken down by Priority Code until FY 2008, so it is shown as a separate item to arrive at total cases meeting criteria for the Program.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

all-inclusive, please be sure to report all of your income when filing your tax return. We request you file your return immediately and pay in full any taxes due.

In contrast, the language in the Program letters informs taxpayers that the IRS has not received a tax return for the tax year shown; therefore, it has computed the tax, penalties, and interest based on reported income. The taxpayer has 30 days to file and sign a completed tax return or consent to the tax assessment in the letter. If he or she does not respond within 30 days, he or she will receive a notice of deficiency letter showing the tax assessed.

In September 2007, Program management conducted a soft notice initiative with a focus on sending notices to taxpayers with lower priority cases that were not worked as part of the current workload; specifically, taxpayers with cases in priority codes 6 through 9. Management stated that the initial response from the initiative was very low. Nonetheless, they believed that the low response rate might not have been accurate because the taxpayers could have responded through the Program's toll-free telephone line. In September 2008, Program management conducted another soft notice pilot to evaluate the effectiveness of sending a soft notice to taxpayers with delinquent tax returns to direct them to file through the IRS' normal filing channels instead of sending the taxpayer a 30-day Proposed Individual Income Tax Assessment letter requiring a response to the Program. Letters were sent to 953 randomly selected taxpayers from its priority codes 2 through 8 Program inventory. Management received only 50 responses.¹³ Of the 50 responses, 20 (40 percent) taxpayers filed balance due tax returns, 16 (32 percent) taxpayers filed refund due tax returns, and 14 (28 percent) taxpayers filed zero tax due returns. Management conducted a cost analysis of implementing the soft notice compared to continuing to work the cases in the Program and send the 30-day assessment letter. They determined that it cost \$28.73 per case to send the soft notice and work the case when the taxpayer responds by sending a tax return. In addition, it cost \$33.69 for the Program to send the letter and work the case when the taxpayer responds with the tax return.

Management believed the pilot had achieved some success because nonfiler taxpayers reacted to the IRS notices, which reduced inventory. Management considered whether to create a new notice or modify an existing notice with soft language. The cost to create the new notice was not included in the cost to send and work the notice; however, IRS management concluded that the cost to process returns received as a result of the 30-day letter is more costly than the initial programming for a new notice. They decided to minimize costs and modify an existing notice with soft notice language. Program management decided that a modified notice should be sent to taxpayers who are directly assigned to the Program after going through campus and/or field collection efforts. At the time of the pilot, the largest number of taxpayers who were assigned met the assessment selection criteria with a potential net tax assessment of ***2(a)*****.

¹³ Program management had to suspend working its cases to conduct the random selection. Priority codes 0 through 1 were not included in the selection process because they were high priority and management decided not to suspend working them.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

These taxpayers were categorized in the priority codes 2 through 8 depending upon how many tax returns they had not filed but should have filed. In general, the more returns owed or unfiled, the lower the assigned priority code number which signaled a higher priority case to be worked. Program management decided to issue a modified notice with soft language to taxpayers who met the net tax assessment selection criteria of *****2(a)*****.

The modified notice was originally considered for implementation in FY 2012; however, Program management advised us that they are unsure when it will be implemented because it depends on the priority ranking of an ongoing Servicewide task group studying and improving written communications to taxpayers.

Figure 5 shows the current Program notice process and proposed notice process with the number of additional days taxpayers can be given to respond and/or file requested returns.

Figure 5: Current and Proposed Notice Process for the ASFR Program

Type of Notice/Letter	Current ASFR Notice Timeline	Proposed 2 nd TDI Notice/Letter Timeline
1 st TDI Notice ¹⁴	42 days	42 days
2 nd TDI Notice ¹⁵ (<i>Modified Notice With Soft Notice Language</i>)	N/A ¹⁶	49 days
Total Time to Respond Before Addressed by the ASFR Program	42 days	91 days
Letter 2566 (30-Day ASFR Letter)	30 days	30 days
Letter 3219 (90-Day ASFR Letter)	90 days	90 days
Total Potential Number of Days Taxpayers Have to Respond	162 days	211 days

Source: ASFR Program management. TDI = Taxpayer Delinquency Investigation

It is too soon to know the overall effectiveness of the modified notice on tax compliance; however, implementing the modified notice could help the Program address additional cases by:

- Avoiding the need to issue ASFR notices for taxpayers who respond to the modified notice with the requested return.

¹⁴ This notice will allow the taxpayer 6 weeks to respond. We multiplied 6 weeks times 7 days which equals 42 days.

¹⁵ The 2nd notice will allow the taxpayer 6–8 weeks, an average of 7 weeks, to respond.

¹⁶ Not applicable to this process.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

- Allowing limited Program resources who would have worked these cases to work additional ASFR cases.

For example, by applying the 5 percent response rate from the pilot to the FYs 2008 and 2009 Program inventory of 1,651,326 cases that were not started, more than 82,566 additional cases may have been resolved by taxpayers filing their tax returns without Program resource involvement.

The Program's use of system tools to resolve cases

The Program uses the ASFR system, the Integrated Data Retrieval System (IDRS), the IDRS Decision Assistant Program (IDAP), and Desktop Integration to process cases and to provide automated assistance for case resolution. We found inconsistent use of these computer systems between the W&I and SB/SE Divisions.

The IDAP tool can enhance case screening and case processing and result in more efficient and accurate case identification and closures. The IDAP tool is used to research the taxpayer's account transactions on the IDRS and prompts the tax examiner with the case type. The IDAP tool also prompts the tax examiner with reminders, questions that should be addressed, or steps that need to be completed in order to close a case.

Since FY 2006, all SB/SE Division tax examiners have used the IDAP tool. In early FY 2008, the W&I Division made the IDAP tool available, but all tax examiners did not use it. W&I Division management stated that a formal request was needed for programming changes that would adapt the IDAP tool for corrections and downloads at the W&I Division campuses working Program cases. Once these programming changes were made, W&I Division management indicated they planned to make the IDAP tool mandatory.

We asked both Divisions how much time they saved on average per case using the IDAP tool. The W&I Division conducted its study during our audit, while the SB/SE Division conducted its study in October 2005, prior to our audit. Both the W&I and SB/SE Divisions tracked IDAP tool usage and reported positive time savings per case of 13 minutes¹⁷ and 35 minutes, respectively.¹⁸ Management did not provide information to indicate why the time savings was significantly different between the W&I and SB/SE Divisions. Each Division allocates resources to work ASFR cases differently. Tax examiners in the W&I Division split their time between ASFR cases and one or two other programs, while in the SB/SE Division, the tax examiners work only ASFR cases.

¹⁷ The W&I Division reported time savings of 12 and 14 minutes for the Austin and Fresno Campuses, respectively; an average of 13 minutes for both.

¹⁸ The time savings were measured by the IRS and are provided for informational purposes only. We did not verify the data provided.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Using the W&I Division time savings average of 13 minutes for the 84,690 W&I Division closed cases where the taxpayer filed a return in FY 2007,¹⁹ the time savings would have potentially allowed tax examiners to work more than 14,600 (17 percent) additional cases during FY 2007.²⁰ By not using the IDAP tool program-wide, productivity gains are not realized, and fewer cases are worked and closed.

In February 2009, W&I Division management made a formal request for programming changes; however, this request for programming changes has not been completed because the tool was not compliant with a law designed to make Federal agencies' electronic and information technology accessible to people with disabilities. The tool was scheduled for testing in June with an expected rollout in FY 2010. This expected rollout has been further delayed because programming has still not been completed, and there is no revised expected rollout date.

Desktop Integration is an inventory control system that is linked to various IRS computer systems that the W&I Division implemented for the Program in March 2004. Some of the improvements experienced by the W&I Division from the use of Desktop Integration are:

- The system opens the IDRS control and assigns cases to tax examiners based on their skill levels and current workload. It eliminates manual IDRS case openings and reduces management's time spent monitoring inventory levels.
- The system monitors each employee's inventory level and assigns cases as needed, which eliminates the need for management to provide weekly work orders for each employee.
- Employees have no need to maintain a manual inventory record and update it with daily receipts, closures, and adjustments. Inventory reports are available systemically, which enables managers to monitor employees' inventories at anytime instead of using weekly Program reports.
- The system histories are input to the taxpayers' record based on actions taken, eliminating the need for a written history sheet. The history function enables other IRS functions, such as the Taxpayer Advocate Service, Examination function, and others, to access the history to understand how the Program case was worked instead of ordering the hard copy case file, which may take days to receive.
- It provides an extra control for employees by creating a case history and systemically closing the IDRS control.

¹⁹ The data were taken from the W&I Division ASFR Cumulative Management Information Report for FY 2007.

²⁰ The 84,690 cases x 13 minutes [time savings] / 75 minutes [on average to process a return case]
= 14,680 cases. 14,680 cases / 84,690 cases = 17 percent.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

The W&I Division reported that when Desktop Integration was implemented, it saved managers 5 to 8 hours per week, which equates to an additional 13 to 20 percent²¹ more time in a work week. Prior to October 1, 2009, use of Desktop Integration, now named Account Management Services, was only mandatory in the W&I Division. The SB/SE Division initially reported that it determined Account Management Services to be counter-productive because it was not compatible with a feature in the IDAP tool and it would present an added control for the tax examiners to close. In the SB/SE Division, the managers and team leads manually determined case assignments and then issued them to employees on the IDRS. Management advised us that, as of October 1, 2009, the SB/SE Division implemented Account Management Services for its ASFR Program.

The Program's objective is to bring the taxpayers it contacts into compliance with their tax obligations. Program strategies and system tools should be designed to assist the Program in meeting its objective, if appropriately and consistently applied. When available data are insufficient to make key decisions and all system tools are not fully engaged, it limits the ability to manage the Program in order to bring taxpayers into compliance.

Recommendations

Recommendation 1: The Commissioners, W&I and SB/SE Divisions, should 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 and whether the Program has achieved a corresponding benefit in its ability to address additional ASFR inventory.

Management's Response: IRS management agreed with this recommendation. They will continue discussions with the Office of Taxpayer Correspondence and Modernization and Information Technology Services organization to prioritize the timely implementation of the new soft notice. The IRS will monitor implementation of enhancements to income reporting on the IDRS. Management will use the enhancements to include taxpayer income and proposed tax information in the notice. They will also work with Modernization and Information Technology Services organization to develop reporting methods to validate the effectiveness of the new soft notice.

Office of Audit Comment: While IRS management agreed with this recommendation, the implementation date for the corrective action indicates the programming will be delayed beyond the original implementation date for the soft notice. IRS management stated that the Modernization and Information Technology Services

²¹ The 5 hours [saved] / 40 hours [in a work week] = 13 percent; 8 hours [saved] / 40 hours [in a work week] = 20 percent.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

organization requires approximately 2 years for programming changes to implement the new soft notice. We followed up with management on this issue and were provided an explanation; however, they were unable to provide adequate justification for the time needed to add this notice.

Recommendation 2: The Commissioner, W&I Division, should coordinate with the Chief Technology Officer to ensure that programming changes are completed for the IDAP tool. In addition, the Commissioner should ensure requirements are established and implemented for consistent use of the IDAP tool by all employees and team managers who work Program cases to enhance the accuracy and efficiency of case work and enable limited resources to work additional Program cases.

Management's Response: IRS management agreed with this recommendation. They will continue to coordinate with the Chief Technology Officer to ensure support, prioritization, selection, and release of the IDRS IDAP tool by the new Integrated Automation Technologies team. Once the IDAP tool conforms to all technical requirements, they will pursue mandating its use. A task force is currently reviewing existing tools and tools in development for transition to the Integrated Automation Technologies team. Updates and support of the IDAP tool will be contingent on Modernization and Information Technology Services organization funding and priorities.

Strengthening Inventory Management Controls Could Enhance Program Results and Ensure Consistent Treatment of Taxpayers

Some cases that exceeded the 45-day period for resolution were not properly classified as over-age inventory and management did not apply the same established time limits for all over-age cases to be worked and resolved. Therefore, management's treatment of the two classes of over-aged inventory resulted in the inconsistent treatment of taxpayers. Management should ensure with its actions and management controls that it monitors performance measures and indicators.²² These control activities ensure completeness and accuracy of information used to meet management objectives.

A case is considered over-age if more than 45 days have passed from the date that the IRS received the return and the Program has not closed the case. Over-age Program cases are considered a priority to complete once they have exceeded the 45-day period for resolution. When a taxpayer responds to a request for information such as missing schedules but the information provided is not sufficient, tax examiners should make up to three attempts (two telephone calls and one letter) to contact the taxpayer in order to obtain the additional information. Tax examiners may assign a status code "M" to suspend the cases when the taxpayer takes longer than 14 days to respond. Program management decided that Status "M"

²² *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, dated November 1999).



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

cases which are more than 45 days old should not be counted in determining the volume of over-age cases because the taxpayer caused the delay.

We analyzed the IRS' calculations of the number and percentage of over-age cases using the available data for FYs 2005 through 2007. We found that none of the Status "M" cases more than 45 days old were included in the Program's over-age calculations. In FY 2007, not including Status "M" cases resulted in the understatement of over-age inventory by 1,646 cases and the understatement of audit reconsideration over-age inventory by 2,970 cases.²³ Figure 6 shows W&I and SB/SE Divisions' combined understatements for FYs 2005 through 2007.

Figure 6: FYs 2005–2007 Analysis of Program Over-Age Inventory

Fiscal Year	Over-Age Cases (Non-Status "M")	All Over-Age Cases	Percentage Understated	Over-Age Reconsiderations (Non-Status "M")	All Over-Age Reconsiderations	Percentage Understated
2005	1,536	4,106	63%	2,094	3,178	34%
2006	1,302	3,650	64%	541	954	43%
2007	530	2,176	76%	904	3,874	77%

Source: IRS over-age inventory for FYs 2005–2007.

W&I Division management made the decision to include Status "M" cases in their over-age inventory prior to our audit and implemented this change during FY 2008. SB/SE Division management maintained that they could not control when the taxpayer would respond; therefore, Status "M" cases were not included.

Not working the Status "M" cases unfairly allowed some taxpayers a substantial amount of additional time before cases were closed and tax assessments were posted to their accounts. For example, in FY 2007, SB/SE Division Status "M" case taxpayers received 62 additional days on average beyond other cases closed and assessed within 15 days of the 45-day criteria. Moreover, some taxpayers' cases were over-aged more than 1,000 days. Figure 7 shows the number of SB/SE Division Status "M" case taxpayers for the 3 fiscal years.

²³ Cases understated: Regular cases: 2,176 – 530 = 1,646 cases; Reconsideration cases: 3,874 – 904 = 2,970 cases.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

**Figure 7: FYs 2005–2007 SB/SE Division
Status “M” Case Taxpayers**

Fiscal Year	Number of Over-Age Status “M” Taxpayers	Average Number of Days Cases Were Open Over 60 Days²⁴
2005	1,057	47
2006	581	53
2007	737	62

Source: Our analysis of IRS SB/SE Division over-age inventory for FYs 2005–2007.

For FYs 2005 through 2007, more than 660 taxpayers were not allowed the additional days before their cases were closed and tax assessments were made to their accounts. These taxpayers were associated with more than 1,300 cases in the SB/SE Division’s over-age Program inventory.²⁵ We believe that improperly classifying and not applying established time standards for suspended over-age Program inventory allowed poor case management practices and unfair extensions for some taxpayers and made it more difficult to obtain case resolution and tax assessments.

Management Action

In November 2009, SB/SE Division management advised us that they have changed their position on Status “M” cases. Beginning in FY 2010, the SB/SE Division began including Status “M” cases in their over-age inventory.

²⁴ Appendix VI shows the number of Status “M” cases for the 3 FYs aged from 61 to more than 999 days (the date range on the ASFR system is limited to 3 digits).

²⁵ See Appendix IV for the methodology for computing the number of taxpayers and their over-age cases.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this review was to evaluate the effect of the ASFR Program in the W&I and SB/SE Divisions on enforcement yield and nonfiler compliance and to determine whether the Program effectively processed its workload. To accomplish the objective, we:

- I. Gained an understanding of how ASFR cases were selected for work by the examiners and processed on the ASFR system. We also determined if future ASFR Program changes were planned.
- II. Evaluated whether all ASFR cases were included in the ASFR system. We determined the criteria for case inclusion and obtained a list of the ASFR cases located on the Master File for FY 2005. In conjunction with our Office of Information Technology, we reviewed program codes and determined that ASFR cases on the Master File were actually selected and included in the ASFR database.
- III. Identified the percentage of cases considered over-age (more than 45 days) for ASFR cases and ASFR reconsideration cases for FYs 2005 through 2007 by requesting a list of over-age cases as of September 30 of 2005, 2006, and 2007 (or the closest available dates). We obtained an explanation from management for the reasons for the over-age cases.
- IV. Evaluated the overall enforcement yield for the FY 2005 closed cases where an assessment was made and forwarded to the Collection function. We obtained a Master File extract to identify payments, offsets, and credit transactions that were applied to assessed balances to estimate the amount of tax actually collected on the accounts through mid-April 2008. We divided the total amount of tax collected by the total tax assessments posted to these accounts, which was the collection yield. We also determined the percentage of taxpayers who made payments on ASFR cases closed in 2005 (payment compliance rate).
- V. Determined whether the ASFR Program is processing its workload in a manner which encourages nonfiler voluntary compliance.
 - A. Determined if the cases worked in FY 2005 promoted filing compliance.
 - B. Used the Master File data extract of ASFR cases closed during FY 2005 and obtained FYs 2006 and 2007 filing information for those taxpayers who were assessed taxes by the Program in FY 2005 through assistance from our Office of Information Technology.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

- C. For the taxpayers identified, determined which taxpayers did and did not file returns in FYs 2006 and 2007.

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 determined the following internal controls were relevant to our audit objective: Program case selection criteria and prioritization to provide the most productive cases to work for its employees and inventory controls to manage current and over-age case inventory. We evaluated these controls by interviewing management, reviewing an ASFR system data extract and program codes, and reviewing Master File data extracts of closed Program cases.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Kyle Andersen, Director

Deborah Drain, Audit Manager

James O'Hara, Audit Manager

Steven Stephens, Acting Audit Manager

Lynn Ross, Lead Auditor

Pamela DeSimone, Senior Auditor

Sylvia Sloan-Copeland, Auditor

Arlene Feskanich, Senior Information Technology Specialist

James Allen, Information Technology Specialist

Judith Harrald, Information Technology Specialist

Kevin O'Gallagher, Information Technology Specialist



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Campus Filing and Payment Compliance, Small Business/Self-Employed Division SE:S:CCS
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Filing and Payment Compliance, Wage and Investment Division SE:W:CP:FPC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division SE:S
 Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measures:

- Inefficient Use of Resources – Potential; employees could have worked more than 14,600 additional ASFR Program cases if they had used the IDAP tool (see page 3).

Methodology Used to Measure the Reported Benefits:

To determine the number of additional cases Program employees could have worked if they used the IDAP tool, we multiplied the W&I Division time savings estimate of 13 minutes by 84,690 W&I Division closed cases where the taxpayer filed a return in FY 2007. The number of closed cases was taken from the W&I Division ASFR Cumulative Management Information Report for FY 2007. We divided the output by 75 minutes, which is the average time to process a return case; it yielded 14,680 additional cases for FY 2007.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; the ASFR Program could have closed 82,566 additional cases from its inventory that had not been started for FYs 2008 and 2009 without using limited Program resources if the modified notice with soft language had been implemented (see page 3).

Methodology Used to Measure the Reported Benefit:

To determine the number of cases closed, we used the total FYs 2008 and 2009 inventory of 1,651,326 cases not started and multiplied by 5 percent, which is the response rate experienced from the pilot that was conducted in September 2008. The Program could have closed 82,566 additional cases from its inventory.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix V

Glossary of Terms

Audit Reconsideration – A reevaluation of previously closed ASFR Program cases because the taxpayer submitted additional or new information to support an issue on the Substitute for Return tax return that may reduce the tax previously assessed.

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.

Form 1040 – U.S. Individual Income Tax Return – Used to report individual taxpayers' income and taxes owed to the Federal Government.

Form 1099 Series – U.S. Information Returns – A series of forms used to report dividends, interest, rents/royalties, and other miscellaneous income.

Form 2106 – Employee Business Expense – Filed with Form 1040; used to file for certain business expense deductions.

Form W-2 – Wage and Tax Statement – Used to report wages earned and taxes withheld.

Individual Master File – The IRS database that maintains transactions or records of individual tax accounts.

Integrated Data Retrieval System – A computer system with the capability of retrieving and updating stored taxpayer information; it works in conjunction with a taxpayer's account records.

Master File – IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

Priority Code 9 – The default priority code for all cases loaded to the ASFR system. Cases are then moved to the most appropriate priority code (codes 0-8). Cases may remain or be moved to Priority Code 9 for tax assessments of zero, cases being too old to work, or cases that are missing income documentation. These cases are updated with the appropriate closing status until they are terminated or removed from the ASFR system.

Refunds Put on Hold – The IRS holds refunds to ensure that they are applied to other outstanding balances for taxpayers because the refund statute expiration date is typically a short time period.

Schedule C (Form 1040) – Profit or Loss From Business (Sole Proprietorship) – An individual person, conducting business as an independent contractor or as a sole proprietor, uses this schedule to report income and expenses of the business activity.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Schedule E (Form 1040) – Supplemental Income and Loss – Used to report supplemental income and loss from rental activities.

Schedule F (Form 1040) – Profit or Loss From Farming – Used to report profit and loss from farming.

Status Code “M” – Cases put in suspense due to long-term delays in receiving information from the taxpayer.

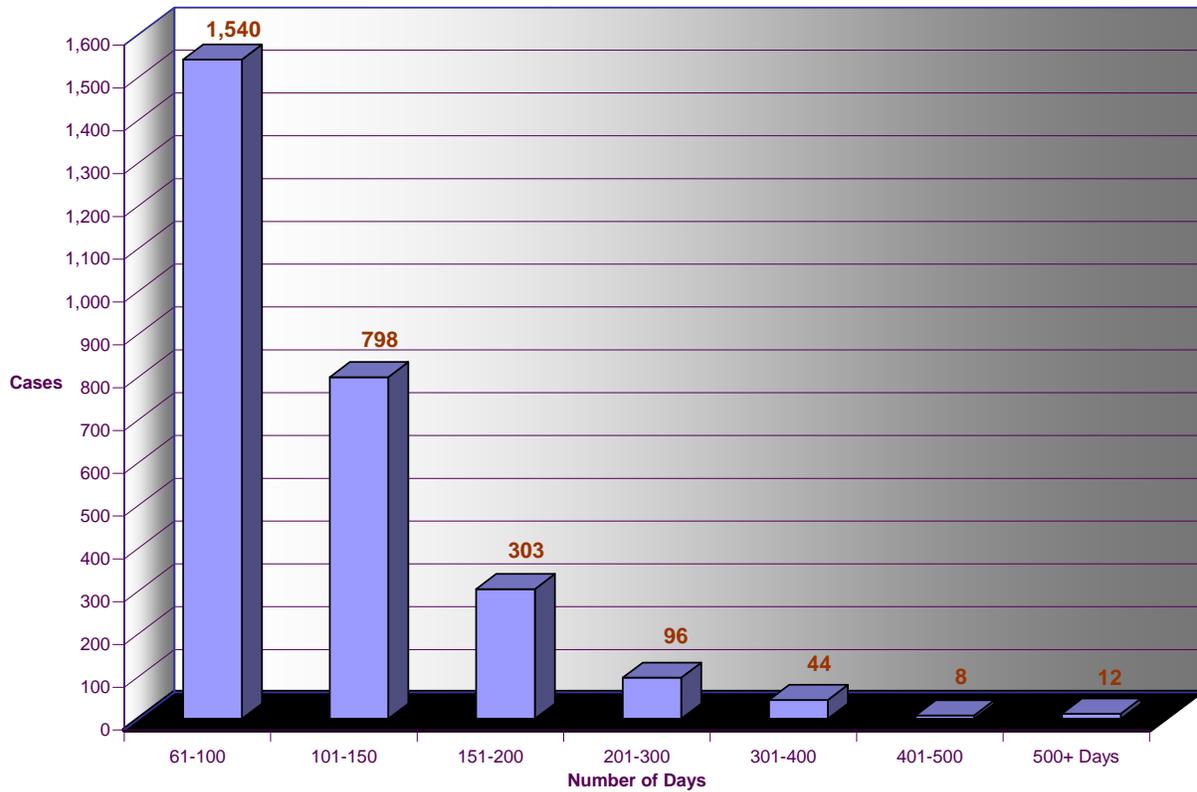
Taxpayer Delinquency Investigation – A notice sent to a taxpayer who has not filed a tax return.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix VI

*Fiscal Years 2005-2007
Small Business/Self-Employed Division
Status "M" Cases Over 60 Days Old*



Source: Our analysis of IRS over-age inventory.



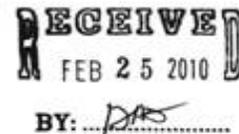
*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Appendix VII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



FEB 18 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Automated Substitute for Return
Program Brings Some Taxpayers Into Compliance; However,
Program Enhancements Are Needed (Audit # 200840026)

Thank you for the opportunity to respond to the draft report entitled: *The Automated Substitute for Return Program Brings Some Taxpayers Into Compliance; However, Program Enhancements Are Needed*. We appreciate your review of the program.

While I agree with your overall conclusions, your report does not adequately acknowledge the contributions the Automated Substitute for Return (ASFR) program makes in bringing non-filing taxpayers into compliance, reducing the tax gap, and helping taxpayers to understand and meet their tax responsibilities.

During Fiscal Year (FY) 2008 and FY 2009, the ASFR program resolved more than 1.9 million accounts and assessed \$26.8 billion. Contact letters were issued to 1.7 million taxpayers, requesting 2.3 million delinquent tax returns during the same time period. As a result of the contact letters issued during FY 2008 and FY 2009, ASFR has secured 934,837 voluntarily filed returns.

Since FY 2007, we have improved our ASFR work processes both systemically and procedurally. We have enhanced inventory selection and prioritization, thereby improving the delivery of inventory based on available collection resources. One significant improvement involved the prioritization of Refund Hold accounts, where taxpayer refunds are held pending the filing of delinquent tax returns. In FY 2009, this improvement allowed us to offset \$372 million to delinquent tax years.

As we continue to identify and implement process improvements, we will expand our efforts to develop a new ASFR soft notice that will provide the taxpayer with third party payor documents to assist in preparing their delinquent tax returns.



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

2

While we look to deliver a balanced approach to address our non-filer population, we are mindful of the need to allocate resources between our Taxpayer Delinquency Investigation, Refund Hold, and ASFR programs in a way that maximizes downstream collections and program efficiencies.

Though we agree in theory with the outcome measures you outlined in Appendix IV, we do not agree with the numbers you have cited. The Integrated Data Retrieval System Decision Assisting Program tool is not mandatory for Wage and Investment employees at this time; yet, more than half are currently using it and experiencing the time savings you cited. We agree the new soft notice would have increased our closure rate and we are tirelessly pursuing the implementation of a comprehensive and productive notice as expeditiously as we can.

Attached are our specific comments on your recommendations. If you have any questions, please contact me, or a member of your staff may contact Denice Vaughan, Director, Filing and Payment Compliance, Wage and Investment Division, at (404) 338-9116.

Attachment



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

Attachment

RECOMMENDATION 1

The Commissioners, W&I and SB/SE Divisions, should 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 and whether the Program has achieved a corresponding benefit in its ability to address additional ASFR inventory.

CORRECTIVE ACTION

We agree with this recommendation. We will continue our discussion with the Office of Taxpayer Correspondence, formerly known as Taxpayer Communication Taskgroup, and Modernization and Information Technology Services (MITS) to prioritize the timely implementation of the new soft notice. We will monitor implementation of enhancements to income reporting on the Integrated Data Retrieval System (IDRS). We will use the enhancements to include taxpayer income and proposed tax information in the notice. We will work with MITS to develop reporting methods to validate the effectiveness of the new soft notice.

IMPLEMENTATION DATE

December 15, 2013

RESPONSIBLE OFFICIALS

Director, Filing and Payment Compliance, Wage and Investment Division
Director, Filing and Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 2

The Commissioner, W&I Division, should coordinate with the Chief Technology Officer to ensure that programming changes are completed for the IDAP tool. In addition, the Commissioner should ensure requirements are established and implemented for consistent use of the IDAP by all employees and team managers who work Program cases to enhance the accuracy and efficiency of case work and enable limited resources to work additional Program cases.

CORRECTIVE ACTION

We agree with this recommendation. We will continue to coordinate with the Chief Technology Officer to ensure support, prioritization, selection, and release of the IDRS Decision Assisting Program (IDAP) tool by the new Integrated Automation Technologies (IAT) team. Once the IDAP tool conforms to all technical requirements, we will pursue



*The Automated Substitute for Return Program
Brings Some Taxpayers Into Compliance;
However, Program Enhancements Are Needed*

2

mandating its use. A task force is currently reviewing existing tools and tools in development for transition to the IAT team. Updates and support of the IDAP tool will be contingent on MITS funding and priorities.

IMPLEMENTATION DATE

December 15, 2011

RESPONSIBLE OFFICIAL

Director, Filing and Payment Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.