



Treasury Inspector General for Tax Administration Office of Audit

TAXPAYER PAYMENTS WERE IMPROPERLY TRANSFERRED TO THE EXCESS COLLECTION FILE

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Highlights

Highlights of Report Number: 2011-30-020 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayer payments that cannot be applied to the proper taxpayer account are transferred to the Excess Collection File (XSF). The Internal Revenue Service (IRS) did not always properly document and approve requests for transfers or adequately notify taxpayers of their right to have payments refunded before it transferred the payments to the XSF. When this situation occurs, there is an increased risk that taxpayers will not recover their payments.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS is properly managing and processing excess collections. This was a followup review to previous TIGTA audits related to the XSF.

WHAT TIGTA FOUND

When research is required on a request for transfer to the XSF, the Excess Collections File Addition (Form 8758) should be fully completed to ensure credits are correctly added to the XSF. TIGTA reviewed a statistically valid random sample of 86 small-dollar cases with transfers between \$50,000 and \$100,000 and another random sample of 66 large-dollar cases in which the transfer to the XSF was more than \$1 million. TIGTA determined that the documentation was not sufficient in 135 (96 percent) of 140 requests (12 cases were not reviewable). TIGTA estimates that requests were not properly documented for 729 taxpayers with credits totaling more than \$604 million transferred from their accounts into the XSF.

Of the 66 cases in the large-dollar sample, 56 required managerial approval. However, for 13 (23 percent) of the 56 cases, managerial approval was not obtained. The absence of managerial approval may indicate that the managers are not reviewing the

requests. TIGTA estimates that 26 taxpayers had credits of more than \$145 million transferred to the XSF with no managerial approval.

Taxpayers who submit a payment of tax when the IRS is barred from making an assessment must be refunded their payment if they make a timely claim for refund. However, TIGTA determined that, in general, this was not occurring. Taxpayers were not adequately notified because the letter required to be issued to taxpayers was sent to only six of 37 taxpayers. Also, the letter does not provide the taxpayer with sufficient information about how to claim a refund. TIGTA estimates that 224 taxpayers, involving more than \$116 million, were not adequately notified of their right to receive a refund.

WHAT TIGTA RECOMMENDED

TIGTA recommended to the Directors, Submission Processing and Accounts Management, Wage and Investment Division, to improve the guidance and forms associated with the XSF program to ensure more consistent processing, approval, and communication with taxpayers.

IRS officials agreed with our recommendations and are planning corrective actions. The IRS plans to revise the guidance pertaining to transfers to the XSF for clarification and consistency and revise Form 8758 to include a line for managerial approval. Also, management plans to request a program change to systemically issue a letter for payments received after the assessment statute expiration date or with an amended return. Finally, the IRS plans to revise the letter to clarify how to claim a refund.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201130020fr.pdf>

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