



## Treasury Inspector General for Tax Administration Office of Audit

### REDUCING THE PROCESSING TIME BETWEEN BALANCE DUE NOTICES COULD INCREASE COLLECTIONS

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## Highlights

Highlights of Report Number: 2011-30-112 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The notice stream is the least costly of the Internal Revenue Service's (IRS) three-phase approach to collecting unpaid taxes. While the notice stream collects billions of dollars in delinquent taxes annually, reducing the time between notices could result in millions more being collected annually. If the IRS does not effectively pursue collection of unpaid tax through the notice stream, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS balance due notice stream is effectively collecting taxes owed and providing timely service to taxpayers. The audit was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

### WHAT TIGTA FOUND

During Fiscal Year 2010, the IRS sent approximately 21.9 million balance due notices to individuals to try to collect approximately \$67.9 billion in 11.6 million balance due modules. More than one-half of the 11.6 million balance due modules that entered the notice stream were closed as fully paid or an installment agreement was established, but only 16.5 percent of the total assessment amount was collected. By a wide margin, the first notice (the Master File notice) closed the most modules, collected the most money, and generated the most taxpayer responses.

Balance due modules not resolved after the Master File notice continue in the notice stream, and the taxpayers receive various sequences of notices. While the statutory requirement to provide notice of a balance due is met with the Master File notice, the IRS may send up to three reminder notices. The IRS allows 35 days

between notices for the taxpayer to respond, but our analysis shows that the time between notices can be reduced to reflect taxpayer response times. As these balance due modules progress within the notice stream, the probability of collection diminishes. TIGTA estimates that by reducing the time between each notice by seven days, the notice stream could potentially collect an additional \$363 million each year. However, a study analyzing the impact of reducing the time would be needed to quantify the benefits. In addition, taxpayers could potentially save \$1.8 million each year in interest payments.

Our analysis of the 11.6 million balance due modules that entered the notice stream in Fiscal Year 2010 also showed the notice stream does not always treat taxpayers with more than one delinquency the same. As a result, the IRS may not use collection resources most effectively.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS consider reducing the time between each notice by seven days and consider establishing a business rule to address taxpayers with more than one balance due module entering the notice stream at the same time. The IRS agreed with TIGTA's recommendations and plans to take corrective actions. However, in their response, the IRS stated 35 days between notices was necessary to process taxpayer inquiries and correspondence. Our report noted the IRS has controls in place to prevent the next notice from being sent when taxpayers' correspondence is being processed. The IRS also disagreed with the outcome measures, stating that while it may be appropriate to consider private collection curves when reviewing the IRS collection process, the IRS has enforcement tools not available to private industry. It is unclear why the IRS refers to its enforcement tools because collection rates in private industry are higher than in the IRS. Further, the IRS Office of Research has reported the probability of collection diminishes as taxpayers' balance due accounts age.

### 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/201130112fr.pdf>.

Email Address: [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

Phone Number: 202-622-6500

Web Site: <http://www.tigta.gov>