Treasury Inspector General for Tax Administration
Office of Audit

THE 2009 OFFSHORE VOLUNTARY DISCLOSURE INITIATIVE INCREASED TAXPAYER COMPLIANCE, BUT SOME IMPROVEMENTS ARE NEEDED

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Highlights

Highlights of Report Number: 2011-30-118 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Taxpayers with undisclosed foreign accounts or assets who do not submit a voluntary disclosure run the risk of detection by the Internal Revenue Service (IRS). If caught, these taxpayers face the imposition of substantial penalties, including the fraud and foreign information return penalties, as well as an increased risk of criminal prosecution. By making an offshore voluntary disclosure, taxpayers can become compliant, avoid substantial civil penalties, and generally eliminate the risk of criminal prosecution.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS's voluntary disclosure practices were effective, especially with the high volume of cases received, and to determine whether all cases have been appropriately assigned and worked. The audit is included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Globalization.

WHAT TIGTA FOUND

The IRS's voluntary disclosure practices were effective, and cases were being appropriately assigned and verified even with the unusually high volume of disclosure requests received and accepted. However, some improvements are needed.

Our review of 60 closed voluntary disclosure cases showed that 18 cases had no evidence of the taxpayers reconciling the unreported income in their offshore accounts to their amended or newly filed delinquent tax returns. In 28 cases, information from the taxpayers' financial accounts and promoters either was not captured or was incorrectly transcribed on the data collection system used for current and subsequent data mining efforts. In 31 cases, voluntary disclosure agreements were not printed on IRS watermarked paper or initialed by revenue agents on each page to ensure no alterations to the original document were made by taxpayers.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Large Business and International Division, implement a requirement for taxpayers to provide a detailed reconciliation of unreported income. The Commissioner, Large Business and International Division, and the Commissioner, Small Business/Self-Employed Division, should develop a quality review process to ensure all data relating to voluntary disclosures are properly transcribed for future data mining and require revenue agents to initial each page of the voluntary disclosure agreement before submitting it to taxpayers for their signature.

In their response to the report, IRS management agreed with two of the three recommendations. Management stated that a reconciliation of all unreported taxpayer income from offshore accounts is already a requirement of the 2011 Offshore Voluntary Disclosure Initiative. In addition, management plans to implement procedures to conduct a 100 percent review of inputs to the E-Trak Offshore Voluntary Disclosure Program system. However, management disagreed with our recommendation to require revenue agents to initial each page of the voluntary disclosure agreement before submitting it to taxpayers for their signature.

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/201130118fr.pdf.