



Treasury Inspector General for Tax Administration Office of Audit

MULTIPLE CHANNELS ARE USED TO PROVIDE INFORMATION TO SMALL BUSINESS TAXPAYERS, BUT MORE INFORMATION IS NEEDED TO UNDERSTAND THEIR NEEDS

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Highlights

Highlights of Report Number: 2011-40-010 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Small Business/Self-Employed (SB/SE) Division serves approximately 57 million taxpayers. It supports the Internal Revenue Service's (IRS) goal to improve customer service by educating and informing these taxpayers of their tax obligations, developing educational products and services, helping them understand and comply with applicable laws, and protecting the public interest by applying the tax law with integrity and fairness to all.

WHY TIGTA DID THE AUDIT

The IRS attributes \$148 billion (43 percent) of the tax gap to unreported income earned by unincorporated businesses and the associated unpaid self-employment tax. The first goal in the 2009-2013 IRS Strategic Plan is to improve service to make voluntary compliance easier. This audit was initiated to determine whether the services provided by the SB/SE Division to its customers will assist the IRS in achieving its customer service goals.

WHAT TIGTA FOUND

Research is needed to identify the needs and preferences of small business taxpayers. The IRS is conducting research on individual taxpayers to incorporate taxpayer needs in making service improvement decisions, but it has only begun to devote sufficient resources to conduct comparable research to determine the needs of the small business taxpayer.

Analysis of the accounts of approximately 19 million taxpayers who filed at least 1 U.S. Individual Income Tax Return (Form 1040) Profit or Loss From Business (Schedule C) for the period January 1 through July 24, 2010, showed that more than 17 million (90 percent) had Schedule C net profit/loss (gross receipts or sales minus expenses) of \$25,000 or less.

The IRS is taking steps to improve customer service to small business and self-employed taxpayers. Outreach to small business taxpayers is based on multiple sources and delivered through a variety of channels. The SB/SE Division's Communications, Liaison, and Disclosure function has developed a process to help the IRS determine what services and information to provide these taxpayers. This allows it to extend outreach and education and to deliver information and materials through various channels.

The Communications, Liaison, and Disclosure function maintains the Issue Management Resolution System and the Outreach Initiative Database to track significant issues and identify trends. However, the Issue Management Resolution System is not complete because employees do not always appropriately enter issues, and the System does not help the IRS identify industry needs because the impacted industry was identified for only 25 percent of the national issues submitted in Calendar Year 2009. Further, 14 percent of the records were missing from the Outreach Initiative Database.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS (1) evaluate the effectiveness of the industry codes in the Issue Management Resolution System and (2) ensure that sufficient preventive controls are activated for the Outreach Initiative Database to provide an adequate audit trail to record changes or deletions as well as the associated reasons.

The IRS agreed with the recommendations and plans to perform a review of industry selections to identify the need to add/modify the existing selections and determine if the Industry field should become a required field. Additionally, during the initial development of the Outreach Initiatives Database, SB/SE Division Web technicians deleted some unused views as part of the testing and refinement process. This action created some confusion and the practice of deleting views has been discontinued. All views now being created remain in either the active or the archived database.

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/201140010fr.pdf>

Email Address: inquiries@tigta.treas.gov
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