



## Treasury Inspector General for Tax Administration Office of Audit

### IMPROVEMENTS ARE NEEDED TO ENSURE THE BUSINESS MASTER FILE CASE CREATION NONFILER IDENTIFICATION PROCESS IS WORKING EFFECTIVELY

Issued on February 17, 2012

## Highlights

Highlights of Report Number: 2012-30-020 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

### IMPACT ON TAXPAYERS

Each year, the IRS identifies more potential business nonfiler cases than it has the capacity to work. Many of the worked cases are closed because the business was not required to file a tax return, which is generally an unproductive use of the IRS's enforcement resources and burdensome to taxpayers. In addition, taxpayers who do not file and pay their taxes create an unfair burden on compliant taxpayers.

### WHY TIGTA DID THE AUDIT

TIGTA initiated this audit to determine whether the Business Master File Case Creation Nonfiler Identification Process (BMF CCNIP) implementation was effective in targeting business nonfilers who may be delinquent in filing their required tax returns by improving workload selection and casework quality.

### WHAT TIGTA FOUND

TIGTA's comparison of the Baseline Business Case goals to Collection Activity Report data for Fiscal Years 2010 and 2011 showed nonliable case closures increased rather than decreased as expected. In addition, the number of returns secured increased as expected, but this may have been caused by an increase in the total closed inventory. The percentage of returns secured compared with the entire closed inventory decreased in Fiscal Year 2010, but increased in Fiscal Year 2011.

IRS officials advised us that they believe it is too early to measure BMF CCNIP performance results. However, the Baseline Business Case established a proactive approach to risk management, and very specific goals and dates after BMF CCNIP implementation. TIGTA does not believe it is proactive to allow additional time to pass when indications suggest an opportunity to make improvements.

TIGTA also determined that many of the BMF CCNIP cases assigned high-priority selection codes also had conflicting, low-priority primary codes (Primary Code B). There is a higher risk that collection actions may be delayed and revenue will remain uncollected on these cases. In addition, some of the BMF CCNIP selection code criteria were inconsistent and not formally documented.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Enterprise Collection Strategy, Small Business/Self-Employed Division: 1) determine the causes of increases or decreases in closure types and make selection code adjustments; 2) monitor all higher priority selection code cases to ensure they are not also designated as Primary Code B; 3) determine whether cases that have been suspended from further collection activity need further evaluation or collection actions; and 4) formalize clear and consistent selection code criteria.

In their response to the report, IRS officials agreed with Recommendations 1, 2, and 4, and plan to take appropriate corrective and monitoring actions. IRS officials stated they do not agree with Recommendation 3 due to current resource constraints and believe that the resource cost would outweigh the benefits of this recommendation. As resource constraints change, management plans to consider whether actions in this area are appropriate.

TIGTA continues to believe that identification and analysis of the cases suspended from further collection activity is important. Because the BMF CCNIP has already scored these cases as higher priority, there is a greater likelihood of taxpayers filing a return and paying taxes.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201230020fr.pdf>.