



## Treasury Inspector General for Tax Administration Office of Audit

### EXPANSION OF THE DELINQUENT RETURN REFUND HOLD PROGRAM COULD IMPROVE FILING COMPLIANCE AND HELP REDUCE THE TAX GAP

Issued on May 14, 2014

## Highlights

Highlights of Report Number: 2014-30-023 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and Wage and Investment Divisions.

### IMPACT ON TAXPAYERS

The IRS has the authority to delay issuing income tax refunds for up to six months while it investigates return delinquencies from other tax years. Holding refunds encourages taxpayers to take action and resolve their delinquent filing obligations earlier.

### WHY TIGTA DID THE AUDIT

In Calendar Year 2012, the Delinquent Return Refund Hold Program (Program) collected nearly \$242 million, which was applied to balances due on delinquent returns. This audit was initiated to determine the effectiveness of the Program as a tool to promote filing compliance.

### WHAT TIGTA FOUND

For Calendar Years 2008 through 2012, the Program held an average of 156,422 refunds per year. During the same period, the Program secured an average of 64,222 returns from taxpayers per year and coordinated with the ASFR program to prepare and post an additional 117,895 substitute returns per year.

TIGTA reviewed two separate random samples of 30 taxpayer cases each in which a refund was held and the refund hold was either manually or systemically released. Results showed employees properly followed procedures when working cases and when refund holds were released.

TIGTA compared delinquent return data for a population of refund hold cases with a certain dollar amount above the threshold criteria to a population of cases with a certain dollar amount below the threshold criteria (*i.e.*, refunds were not held for these cases). Analysis showed that 88 percent of delinquencies associated with the held refunds were subsequently resolved, compared with less than one percent of delinquencies associated

with cases for which refunds were not held, thus indicating the value of this Program in improving filing compliance.

IRS management has considered expanding the Program by lowering the dollar threshold but has not because of limited resources. However, taxpayers who become compliant with their prior period filing requirements could remain compliant in future years and reduce the need for additional enforcement resources in subsequent filing seasons. TIGTA also identified other opportunities for expansion.

The IRS has not established performance measures to evaluate the Program's primary goal of increasing taxpayer filing compliance. As a result, management does not have complete information about how well the Program is achieving its goal, or if it is an effective tool for improving taxpayer filing compliance over time.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) consider opportunities to expand the use of the Program as resources become available and 2) develop specific performance measures to compare actual results with management's goal to improve filing compliance.

In response to the report, IRS management agreed with both recommendations. However, management did not commit to a specific corrective action plan to expand the Program and agreed only to explore the development of performance measures, with implementation dependent on the availability of resources.

TIGTA continues to believe that expansion of the Program is important as it represents an opportunity to increase both taxpayer filing compliance and revenue at a lower cost than traditional Collection programs. In addition, until specific performance measures are implemented, management will not have complete information about how well the Program is achieving its goals.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201430023fr.pdf>

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