TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service

May 29, 2020

Reference Number: 2020-30-015

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information

Phone Number / 202-622-6500
E-mail Address / TIGTACommunications@tigta.treas.gov
Website / http://www.treasury.gov/tigta

To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.

HIGHLIGHTS

HIGH-INCOME NONFILERS OWING BILLIONS OF DOLLARS ARE NOT BEING WORKED BY THE INTERNAL REVENUE SERVICE

Highlights

Final Report issued on May 29, 2020

Highlights of Reference Number: 2020-30-015 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount paid voluntarily and on time. The average annual gross Tax Gap is estimated to be $441 billion for Tax Years 2011 through 2013, and approximately $39 billion (9 percent) is due to nonfilers, taxpayers who do not timely file a required tax return and timely pay the tax due for such delinquent returns. According to the IRS, high-income nonfilers, although fewer in number, contribute to the majority of the nonfiler Tax Gap.

WHY TIGTA DID THE AUDIT

In past audits, TIGTA identified serious lapses with the IRS's nonfiler strategy. This audit was initiated to determine whether the IRS is effectively addressing high-income nonfilers and if the new nonfiler strategy and related plans sufficiently include this segment of nonfilers.

WHAT TIGTA FOUND

The IRS is still in the process of conducting testing; however, the new nonfiler strategy appears to approach nonfiling in a more strategic manner. However, the strategy has not yet been implemented, and TIGTA identified that the new nonfiler program is spread across multiple functions with no one area being primarily responsible for oversight. In addition, more needs to be done to address high-income nonfilers. TIGTA analyzed the Individual Master File Case Creation Nonfiler Identification Process inventory for Tax Years 2014 through 2016 and identified 879,415 high-income nonfilers that did not have a satisfied filing requirement, with an estimated tax due of $45.7 billion. Of the 879,415 high-income nonfilers, TIGTA identified:

- The IRS did not work 369,180 high-income nonfilers, with estimated tax due of $20.8 billion. Of the 369,180 high-income nonfilers, 326,579 were not placed in inventory to be selected for work and 42,601 were closed out of the inventory without ever being worked. In addition, the remaining 510,235 high-income nonfilers, totaling estimated tax due of $24.9 billion, are sitting in one of the Collection function's inventory streams and will likely not be pursued as resources decline.
- The IRS removed high-income nonfiler cases from inventory, resulting in 37,217 cases totaling $3.2 billion in estimated tax dollars that will not likely be worked by the IRS.

In addition, due to the policy on working single tax year cases without regard to how many returns have not been filed by a taxpayer, the IRS is missing out on opportunities to bring repeat high-income nonfilers back into compliance. TIGTA also identified the top 100 high-income nonfilers for Tax Years 2014 through 2016 that the IRS did not address or resolve, who had estimated tax due totaling $9.9 billion.

WHAT TIGTA RECOMMENDED

TIGTA made seven recommendations, including designating a senior management official with appropriate resources and specific nonfiler duties to address nonfilers, not pausing the nonfiler program, working multiple tax year cases, and not removing high-income nonfiler cases from the inventory without resolution. The IRS disagreed with one of the recommendations, agreed with two recommendations, and partially agreed with four recommendations. The IRS disagreed with placing the nonfiler program under its own management structure. The IRS agreed not to pause the Individual Master File Case Creation Nonfiler Identification Process in the future, absent unusual circumstances.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 29, 2020

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service
(Audit # 201830036)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) effectively addressed high-income nonfilers and if the new nonfiler strategy and related plans sufficiently include this segment of nonfilers. This audit is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2020 Annual Audit Plan and addresses the IRS Major Management Challenge of Improving Tax Reporting and Payment Compliance.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Abbreviations

ASFR	Automated Substitute for Return
CCNIP	Case Creation Nonfiler Identification Process
CDW	Compliance Data Warehouse
CY	Calendar Year
FTE	Full-time Equivalent
FY	Fiscal Year
IMF	Individual Master File
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year

Background

The intentional failure to file Federal tax returns is a crime.[1] Nonfiling of tax returns can also be subject to civil fraud penalties.[2] In the past, the Internal Revenue Service (IRS) has focused on the tax compliance of high-income individuals because their noncompliance can have a significant corrosive effect on tax administration.[3] Intentional nonfiling of tax returns by those with significant financial resources and sophistication is a brazen form of noncompliance. The nonfiling of tax returns is also a substantial component of the Tax Gap.

The gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount paid voluntarily and on time. The average annual gross Tax Gap is estimated to be $441 billion for Tax Years (TY) 2011 through 2013 and approximately $39 billion (9 percent) is due to nonfilers. Of the estimated $39 billion average annual gross Tax Gap that is due to nonfilers, $37 billion (95 percent) is associated with individual nonfilers.[4]

Individuals with income over a certain threshold amount are generally required to file an income tax return by April 15 of each calendar year.[5] The IRS uses third-party information reporting to identify nonfilers who had earned income and non-earned income, such as interest, dividends, and other sources. For example, the IRS identifies nonfilers who receive income from an employer or business as reflected on information returns such as Form W-2, *Wage and Tax Statement*, and Form 1099-MISC, *Miscellaneous Income*. The income reported on such forms indicates whether the taxpayer should have filed a tax return. In addition to third-party reporting, the IRS identifies nonfilers by analyzing taxpayers' prior year filing history. Specifically, the

[1] Internal Revenue Code § 7203.
[2] Internal Revenue Code § 6651(f) provides that if the failure to file is fraudulent, penalties increase to as high as 75 percent of the tax shown on the return.
[3] Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, *Civilian Contractors Who Cheat On Their Taxes and What Should Be Done About It*, Homeland Security and Governmental Affairs Permanent Investigations, *Contractors Who Cheat on Taxes*, Statement of Mark W. Everson, Commissioner, Internal Revenue Service (June 16, 2005). Until recently, the IRS also had a Service-wide High Income High Wealth Strategy involving coordination between the Large Business and International Division and the Small Business/Self-Employed Division; however, the coordination among those functions with respect to high-income taxpayers has ceased.
[4] Nonfilers are taxpayers who do not timely file a required tax return and timely pay the tax due for such delinquent returns.
[5] Internal Revenue Code §§ 6012 and 6072. There are certain situations when an individual tax return is not required to be filed the 15th day of April. For example, these situations could include individuals with tax returns based on a fiscal year under Internal Revenue Code § 6072 and individuals that request an extension to file a tax return, not to exceed six months from the original filing due date, under Internal Revenue Code § 6081. A calendar year begins January 1 and ends on December 31.

IRS attempts to identify nonfilers who filed in the prior year but failed to file a tax return for the current tax year.

To identify potential nonfilers, the Nonfiler Inventory and Analysis group, which is part of the Collection function in the Small Business/Self-Employed (SB/SE) Division, analyzes available data twice a year to identify an inventory of nonfilers.[6] The Nonfiler Inventory and Analysis group performs a process referred to as the Individual Master File (IMF) Case Creation Nonfiler Identification Process (CCNIP) and is completed for each tax year on a stand-alone basis, *i.e.*, the process is performed two times a year for each tax year, but it only includes data from the applicable tax year being reviewed. The IMF CCNIP is the IRS's main process to identify individual nonfilers. Once the nonfilers are identified, the IRS categorizes the cases based on a number of characteristics, such as the amount of third-party reported income, withholding data, and estimated tax due and assigns each case a selection code that is used to prioritize IMF CCNIP inventory, *i.e.*, the population of cases that show a potential for securing a tax return. In addition to the selection code, the IRS estimates the potential balance due amount for each nonfiler case within each selection code category and applies a score that is also used to prioritize IMF CCNIP inventory. According to IRS procedures, high-income nonfiler cases present a high compliance risk; therefore, these should typically be selected for review and issued a notice.[7]

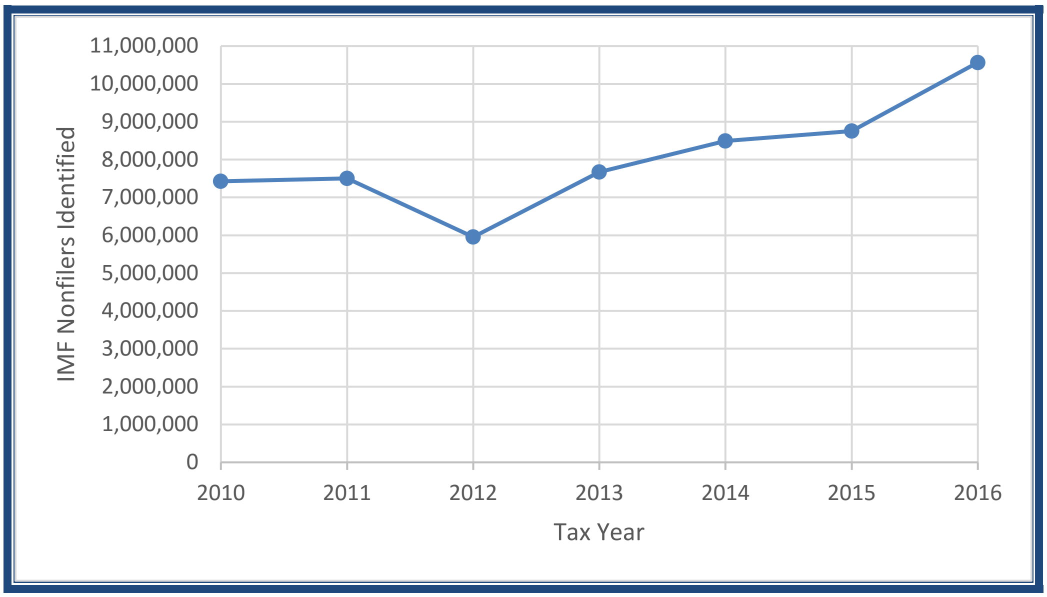
The Collection function determines the number of nonfiler cases from IMF CCNIP inventory that will be selected for delinquency notification depending on available resources. These cases will be issued the first delinquent return notice, Computer Paragraph 59, *First Notice – Return Delinquency*, and if the taxpayer fails to respond, a second delinquent return notice will be issued. If the taxpayer fails to respond to the second delinquency notice, the taxpayer's case is placed into a Taxpayer Delinquency Investigation (TDI) status and forwarded to a compliance inventory stream for potential further treatment. However, when a case is forwarded to a compliance inventory stream, this does not necessarily mean that the case will be worked. We have previously identified serious lapses in the IRS's nonfiler programs. For example, in a recent Treasury Inspector General for Tax Administration (TIGTA) review, we reported that SB/SE Division Collection function management halted the Automated Substitute for Return (ASFR) Program from September 2015 through May 2016 and did not issue notices to new TDI cases in ASFR inventory.[8] If the nonfiler fails to respond to the IRS regarding a case that is in

[6] Although available data are used to identify potential nonfilers, such as tax return filing history and information obtained from third-party reporting, there are various reasons why a taxpayer may not be required to file a tax return (for example, a taxpayer may have subsequently filed a tax return after being identified as a potential nonfiler during the analysis). It is important to note that while there may be an indication that a tax return is due, the individuals identified are potential nonfilers, and all references made to nonfilers in this report should be interpreted as such.
[7] According to Internal Revenue Manual 5.19.2.8, a high-income nonfiler is any nonfiler with a total income greater than or equal to $100,000.
[8] TIGTA, Ref. No. 2017-30-078, *A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance* (Sept. 2017).

TDI status, the IRS is authorized under Internal Revenue Code Section 6020(b) to use available data, such as third-party information, to determine and assess a tax liability.[9] Nonfiler cases in TDI status may remain on the IRS's Master File for six years.[10]

The number of individual nonfilers has been increasing over the years. For TYs 2010 through 2013, the IMF CCNIP typically identified more than 7 million nonfilers annually; for TYs 2014 and 2015, it has increased to over 8 million nonfilers identified annually; and in TY 2016, the number of nonfilers identified jumped to more than 10 million.[11] Figure 1 illustrates the upward trend in the number of nonfilers the IMF CCNIP identified each tax year.

Figure 1: Number of Nonfilers Identified by Tax Year



Source: IRS SB/SE Division Nonfiler Strategic Plan, dated May 31, 2018, and IMF CCNIP nonfiler data from the IRS's Compliance Data Warehouse (CDW).

Pursuing nonfilers is one of the IRS's most efficient enforcement strategies because issuing nonfiler notices can be a cost-effective tool that requires little more than automated notices. Previous IRS research studies from decades ago noted that at that time, the IRS pursued most

---

[9] There is no Assessment Statute Expiration Date for unfiled tax returns.
[10] The IRS Master File is the database that stores various types of taxpayer account information and includes individual, business, and employee plans and exempt organizations data. IRS Policy Statement P-5-133 states that enforcement of delinquency procedures would normally be for delinquent tax returns less than six years old and that enforcement beyond this period will not be taken without prior managerial approval.
[11] A programming error in TY 2012 resulted in a significant decrease in the number of nonfilers identified by the IMF CCNIP.

nonfiler leads.[12] However, with some exceptions, that no longer appears to be the case.[13] After two prior TIGTA reports that addressed lapses in IRS nonfiler enforcement (including the suspension of the ASFR Program),[14] the IRS began to draft a new nonfiler strategy. The SB/SE Division has made several revisions to the nonfiler strategy over the years with the most recent revision being made in Calendar Year (CY) 2018 after TIGTA reports were issued. The final and most recent version is dated May 31, 2018 (hereafter referred to as the new nonfiler strategy). The new nonfiler strategy appears to approach nonfiling in a more strategic manner by performing more analytical research and testing. The primary purpose of the new nonfiler strategy is to provide the SB/SE Division a strategic framework to address nonfilers. The document also provides background, context, and available data for a better understanding of the challenges posed by nonfilers and the SB/SE Division's response to those challenges.

The IRS's vision of this nonfiler strategic framework is to reduce the nonfiler portion of the Tax Gap through early intervention with the least burden on taxpayers. To accomplish this vision, the IRS developed three primary goals, which include to:

A: Identify and prioritize nonfiler work that maximizes dollars collected.

B: Promote continued filing compliance through programs built to encourage voluntary taxpayer filing.

C: Increase operational efficiencies across existing nonfiler programs.

Goal A focuses on securing payment from the taxpayer, whereas Goal B focuses on securing a tax return from the taxpayer. Goals A and B are complementary, and when they are balanced, the IRS is able to optimize resources to achieve the overall vision of Goal C.

To accomplish these goals, the IRS created three additional measures to evaluate IMF CCNIP inventory. These three measures will assist the IRS to determine: the probability of securing a tax return, the probability of a balance due if the nonfiler filed a tax return, and the estimated balance due amount if the nonfiler was to file a tax return. The IRS plans to use these measures in the TY 2017 IMF CCNIP and going forward. The IRS is also in the process of conducting "test and learn" analytic research. One test that the IRS is currently conducting is sending a

---

[12] In a research study designed to identify the determinants of noncompliance, the IRS's Research function noted: "Because of its high marginal revenue-to-cost ratio, the TDI nonfiler program would be the cheapest way to induce $10 billion [in additional revenue], but it would have to be expanded to over five times its 1991 size, which is clearly not feasible (most nonfiler leads are already pursued)." *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results*, 95th Annual Conference on Taxation (Nov. 14 - 16, 2002).

[13] Criminal Investigation continues to pursue nonfiler cases with 254 investigations initiated in Fiscal Year (FY) 2018 and 206 investigations initiated in both FY 2017 and FY 2016. Publication 3583, *IRS: Criminal Investigation Annual Report 2018*, Appendix p. 126 (November 2018).

[14] TIGTA, Ref. No. 2017-30-078, *A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance* (Sept. 2017) and TIGTA, Ref. No. 2016-30-085, *Improvements to the Nonfiler Program Could Help the Internal Revenue Service More Effectively Address Additional Nonfilers Owing Billions of Dollars in Taxes* (Sept. 2016).

preemptive notice in the form of a postcard and a soft notice in the form of a letter to nonfilers prior to the issuance of the Computer Paragraph 59 notice. This test allows the IRS to explore possibilities to curb nonfiler behavior before it begins by determining how nonfilers respond to these notices. The IRS's preliminary results indicate that preemptively contacting taxpayers may be effective to improve filing compliance, and the results suggest that a letter may be more effective than a postcard. This test began in April 2018, and the IRS's goal is to have it completed by September 2019. The IRS is also testing the potential of raising the Refund Hold threshold, which it hopes will demonstrate tradeoffs between resource costs, number of returns secured, and amount of dollars collected.[15] This test is also still in process, and the IRS estimates that the results may not be available until CY 2020.

In addition to the added measures in the IMF CCNIP and the test and learn analytic research, the IRS is in the process of developing the Nonfiler Program Assessment Model, which will enable the SB/SE Division to allocate resources with greater analytic insight and allow better planning for a sustained presence in nonfiler enforcement. The Nonfiler Program Assessment Model is a tool that will allow the IRS to track cases from start to finish and assess how the nonfiler cases should be prioritized. Although we believe the IRS is taking steps to improve upon its nonfiler strategy, it is too early to be able to measure the overall progress that is being made.

This review was performed with information obtained from the SB/SE Division Nonfiler Inventory and Analysis function in Atlanta, Georgia, and the SB/SE Division Headquarters in Lanham, Maryland, during the period August 2018 through November 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

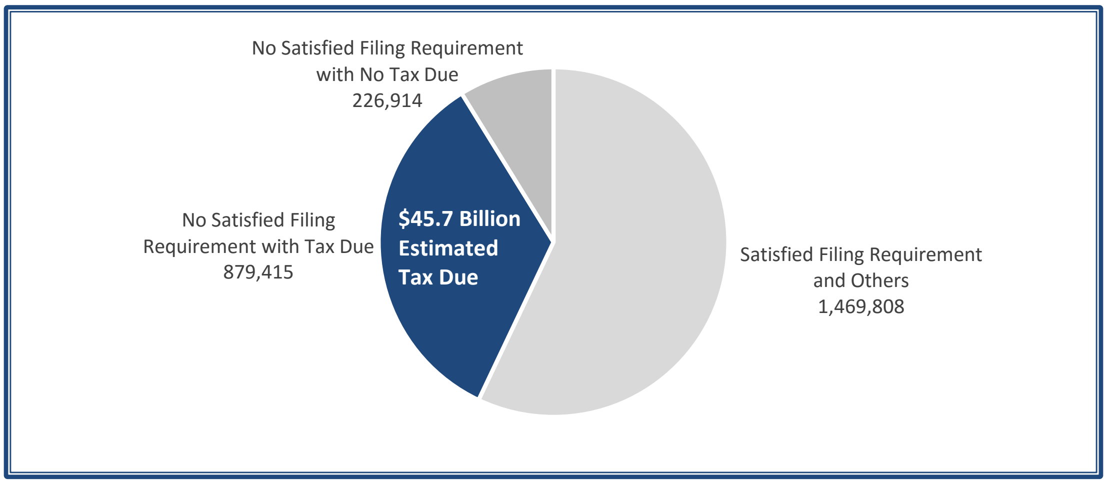
[15] A Refund Hold case is when a taxpayer with an open TDI case files a tax return claiming a refund and the IRS places the refund on hold and issues ASFR assessments for all open TDI cases. According to Internal Revenue Manual 25.12.1.2 (2) (12-19-2017), to be considered a Refund Hold case, the refund must meet a certain dollar threshold. As part of this testing, the IRS is increasing the dollar threshold amount.

Results of Review

More Action Is Needed to Address High-Income Nonfilers

As mentioned previously, approximately $37 billion of the $441 billion average annual gross Tax Gap for TYs 2011 through 2013 is due to individual nonfilers. According to the new nonfiler strategy, high-income nonfilers, although fewer in number, contribute to the majority of the nonfiler Tax Gap. We analyzed TYs 2014 through 2016 IMF CCNIP inventory data to identify the number of high-income nonfilers and matched the inventory against the IRS's IMF database to determine the status of the high-income nonfilers.[16] As of the end of December 2018, approximately 34 percent (879,415/2,576,137) of the high-income nonfilers did not have a satisfied filing requirement and had estimated tax due of $45.7 billion.[17] Figure 2 summarizes the total number of high-income nonfilers we identified during our analysis.

Figure 2: High-Income Nonfilers, TYs 2014 Through 2016



Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

---

[16] The IMF is the IRS's database that maintains transactions or records of individual tax accounts.

[17] We considered a nonfiler to have satisfied their filing requirement if, after being identified in the IMF CCNIP, a tax return was filed or if the IRS determined that the nonfiler was no longer required to file a tax return. For example, a taxpayer would no longer be required to file if the IRS determined that the taxpayer had income below the filing requirement or had little or no tax due. We also included other nonfilers in this segment who were referred to either the Examination function or Criminal Investigation or that the IRS was unable to locate. Specifically, we identified 13,949 high-income nonfilers referred to the Examination function, 12 high-income nonfilers referred to Criminal Investigation, and 2,298 high-income nonfilers the IRS was unable to locate.

High-Income Nonfilers Owing Billions of Dollars

We found that a large portion of the estimated tax due involves a small portion of the high-income nonfilers. Figure 3 shows the 879,415 high-income nonfilers that do not have a satisfied filing requirement in ranges based on the estimated tax due. Although the lowest two ranges account for approximately 80 percent of the total high-income nonfilers, the estimated tax due for these ranges represents 27 percent of the $45.7 billion. In contrast, the highest two ranges account for less than 1 percent of the total nonfilers but represent approximately 34 percent of the total estimated tax due.

Figure 3: Ranges of Estimated Tax Due of High-Income Nonfilers Having No Satisfied Filing Requirement for TYs 2014 Through2016[18]

Range of Estimated Tax Due	Total for TYs 2014 - 2016			
	Number of Nonfilers	Percentage	Estimated Tax Due	Percentage
Above $1,000,000	1,891	0.2%	$13.5 Billion	29%
$500,000.01 to $1,000,000	3,272	0.4%	$2.2 Billion	5%
$100,000.01 to $500,000	53,723	6%	$9.8 Billion	22%
$50,000.01 to $100,000	114,924	13%	$7.7 Billion	17%
$10,000.01 to $50,000	410,665	47%	$11.1 Billion	24%
Total	**879,415**	**100%**	**$45.7 Billion**	**100%**

Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

We also identified the top 100 high-income nonfilers with the largest estimated tax due that have not been resolved for each tax year, *i.e.,* TYs 2014 through 2016.[19] As mentioned previously, our analyses summarized in Figures 2 and 3 are the results as of the end of December 2018. We researched these top high-income nonfilers to determine if any have since been resolved in the following six to eight months. We evaluated 118 cases for TY 2016, 107 cases for TY 2015, and 109 cases for TY 2014 to identify the top 100 in each year, totaling 300 cases, which have not

[18] Amounts may not total due to rounding.
[19] We considered the high-income nonfiler as being resolved if the taxpayer has since provided a tax return, the IRS created a tax return for the taxpayer, or the IRS determined that a tax return was no longer required.

been resolved. We found that 18 cases in TY 2016, seven cases in TY 2015, and nine cases in TY 2014 were resolved, meaning that the taxpayer has since provided a tax return, the IRS created a tax return for the taxpayer, or the IRS determined that a tax return was no longer required. Figure 4 shows the results of the top 100 high-income nonfilers that have not been resolved for each tax year. Out of the total 300 nonfilers, we identified 143 of the top high-income nonfilers for all three tax years (10 for TY 2016, *1* for TY 2015, and *1* for TY 2014), with estimated tax due of $5.8 billion, which have not been worked. Ninety-nine of these nonfiler cases have not been placed into TDI inventory to even be selected for work, and 44 cases have been closed out of TDI inventory without being worked. The remaining 157 of the top high-income nonfilers for all three tax years (90 for TY 2016, *1* for TY 2015, and *1* for TY 2014), with estimated tax due of $4 billion, were in the Collection or Examination function inventory streams for possible further treatment. Specifically, of these 157 high-income nonfilers, 150 are in the Collection function TDI inventory and the other seven have been referred to the Examination function. As mentioned previously, although the majority of these 157 high-income nonfilers are in the Collection function TDI inventory, this does not mean that these cases will be worked, and according to the IRS, outstanding cases in TDI status are generally not pursued as resources decline.[20] Appendix V provides a more detailed summary of the top 100 high-income nonfilers.

[20] Of the 99 cases that have not been place into TDI inventory, 94 of them that have estimated tax due of $3.6 billion are for TY 2015. Of the 44 cases that have been closed out of TDI inventory without any resolution, *1* cases are for TY 2016 and 36 cases are for TY 2014 with estimated tax due of $635 million and $1.6 billion, respectively.

High-Income Nonfilers Owing Billions of Dollars

Figure 4: Summary of the Top 100 High-Income Nonfilers Having an Estimated Tax Due and No Satisfied Filing Requirement[21]

Tax Year	Cases in Inventory[22]	Cases Not Placed in TDI Inventory[23]	Cases closed Out of TDI Inventory but Not worked	Total Cases
2014				
Number	*1*	*1*	36	**100**
Estimated Tax Due	$1.0 Billion	$7.5 Million	$1.6 Billion	**$2.6 Billion**
2015				
Number	*1*	94	*1*	**100**
Estimated Tax Due	$62.5 Million	$3.6 Billion	$21.9 Million	**$3.7 Billion**
2016				
Number	90	*1*	*1*	**100**
Estimated Tax Due	$2.9 Billion	$20.3 Million	$634.7 Million	**$3.5 Billion**
Total Cases	**157**	**99**	**44**	**300**
Total Estimated Tax Due	**$4.0 Billion**	**$3.6 Billion**	**$2.2 Billion**	**$9.9 Billion**

Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and matched with tax account information from the IMF and additional tax account research.

These top 100 high-income nonfilers for all three tax years, 2014 through 2016, have total estimated tax due of approximately $9.9 billion, making up 22 percent of the $45.7 billion associated with the 879,415 high-income nonfilers. High-income nonfilers are a small percentage of the nonfiler population; however, they reflect a higher noncompliance risk than other nonfilers and working these cases generates a greater return on investment. Therefore, the IRS has an incentive to pursue high-income nonfiler cases. For each tax year, we provided the IRS with a list of the top 100 high-income nonfilers that have not been resolved. The IRS reviewed the top 100 high-income nonfilers for TY 2016 and agreed with the overall status of these cases.

[21] Amounts may not total due to rounding.
[22] Cases in inventory include 150 cases that are in the Collection function TDI inventory and seven cases that were referred to the Examination function by the Collection function and are in the Examination function inventory.
[23] Cases not placed into inventory include 96 cases for which no delinquency notices were issued and three cases for which a delinquency notice was issued, but the cases are not in TDI inventory.

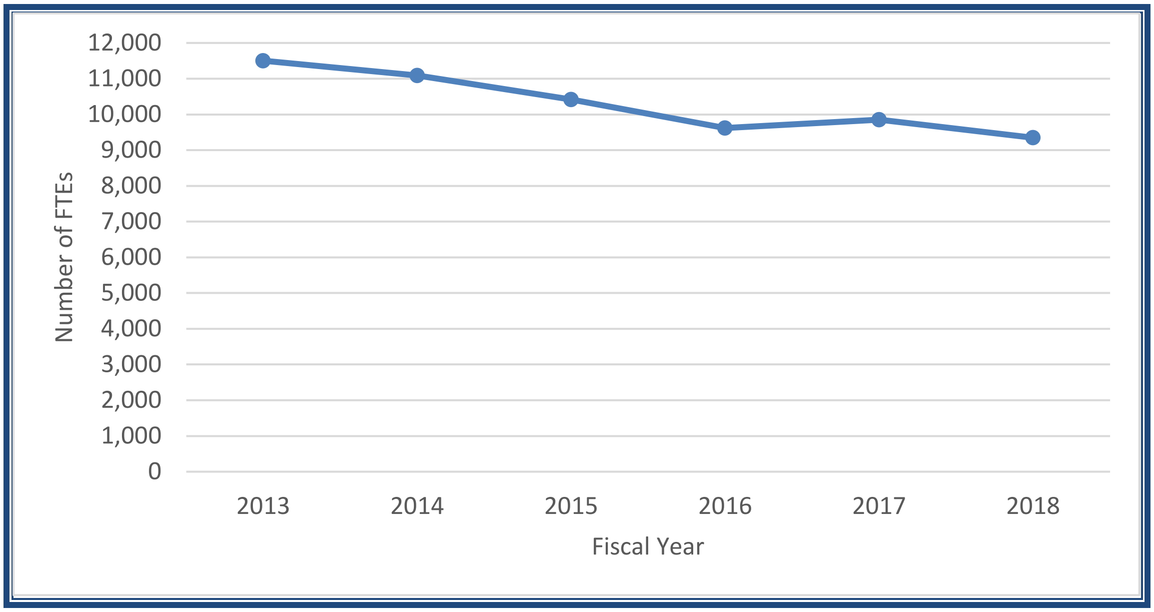
There are nine nonfiler programs: two of which identify nonfilers using the IRS Master File, two are worked by the Examination function, and the remaining five are worked by the Collection function.[24] The nonfiler program is spread across multiple functions with no one IRS area responsible of the program as a whole, which may make it challenging for the IRS to evaluate the overall effectiveness of the nonfiler programs. As mentioned previously, the IRS revised its nonfiler strategy (the new strategy is dated May 31, 2018). The nonfiler program organizationally appears mainly under the IRS's Collection function; however, the IRS's Examination function can also select nonfiler cases. IRS officials also stated that a steering committee, made up of four executives from the SB/SE Division Examination function, four executives from the SB/SE Division Collection function, and one executive from the SB/SE Division Research function, was implemented in December 2018. According to IRS officials, the purpose of the steering committee is to oversee the execution of the new nonfiler strategy and, as of October 24, 2019, has met three times since implementation. The steering committee is planning to continually meet and oversee the new nonfiler strategy to ensure that the nonfiler program is implemented effectively.

The steering committee is a positive step, but it does not address nonfilers IRS-wide. For example, the steering committee is only made up of SB/SE Division executives and lacks any involvement by the Large Business and International Division or Criminal Investigation. The Large Business and International Division works high-income individual taxpayers above certain income thresholds, and Criminal Investigation is responsible for pursuing criminal investigations of the tax laws.

From Fiscal Year 2013 through Fiscal Year 2018, there was a 19 percent decline in staff resources within the Collection function.[25] Figure 5 shows this decline in staffing resources. The impact of the declining staff resources is that fewer delinquency notices are being issued resulting in fewer nonfiler cases being started. This causes lower nonfiler inventory levels and ultimately decreases revenue collected from nonfiler casework.

[24] The nine nonfiler programs include the IMF and Business Master File Return Delinquency programs, which identify nonfilers using the Master File; the Substitute for Return and Substitute for Return Reconsiderations programs worked by the IRS Examination function; and the Automated 6020(b), ASFR, ASFR Reconsiderations, Refund Hold, and Withholding Compliance programs worked by the IRS Collection function.
[25] Fiscal year is any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

**Figure 5: Total Collection Function
Full-Time Equivalents (FTE) by Fiscal Year[26]**



Source: Fiscal year FTE data provided by the IRS.

As the resources allocated to nonfiler programs continue to decline, the nonfiler component of the Tax Gap continues to grow. Because of this decline in resources, it is imperative for the IRS to maximize the effect of its resources and work cases that not only bring in highest tax dollars but also pose the greatest compliance risk. The Taxpayer First Act provides the IRS with the authority to restructure in order to optimize efficiency.[27] One way the IRS may be able to achieve efficiency working high-income nonfiler cases is by creating a team, consisting of Collection and Examination function employees, that specifically focuses on these types of cases, ensuring that the appropriate skill set is applied and these cases will continue to be worked.

Hundreds of thousands of TYs 2014 through 2016 high-income nonfilers have gone unaddressed

High-income nonfilers pose a high compliance risk and, according to the IRS, are considered high-priority cases; therefore, these taxpayers should typically be selected for the appropriate enforcement, *i.e.*, either issued delinquency notices followed by Collection or Examination

---

[26] A FTE is a measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. Based on available data from the Office of Management and Budget, for FYs 2014 and 2015 one FTE was equal to 2,088 staff hours, for FY 2016 one FTE was equal to 2,096 staff hours, and for FYs 2017 and 2018 one FTE was equal to 2,080 staff hours.
[27] Pub. L. No. 116-25.

function employee contact if necessary or referral to Criminal Investigation. High- income nonfiler cases identified by the IRS generally first go through a notice phase during which one or two notices are sent to remind high-income nonfilers to file. If the high-income nonfiler fails to respond to the delinquency notice, the account is moved into a TDI status. The TDI case is assigned a score that determines into which compliance treatment stream it will be assigned. Therefore, high-income nonfiler cases are only forwarded to a compliance function for possible further treament after the tax account is in a TDI status. As we noted previously, a case in TDI status that is forwarded to a compliance function's inventory does not necessarily mean that the case is worked by that compliance function. However, if the IRS does not notify the high-income nonfiler, the case does not get entered into the compliance treatment stream where it can possibly be worked.

Figure 6 summarizes the status, as of the end of December 2018, for TYs 2014 through 2016 high-income nonfilers that do not have a satisfied filing requirement and have an estimated tax due. We analyzed the status of the 879,415 high-income nonfilers and found that 369,180 high-income nonfilers, with estimated tax due of $20.8 billion, were not worked because 326,579 were never placed into the TDI inventory and 42,601 were closed out of the TDI inventory without being worked. Of the 326,579 not placed in TDI inventory, 296,144 of the high-income nonfilers were identified from the TY 2015 IMF CCNIP inventory with total estimated tax dollars of more than $15.7 billion. This represents almost 35 percent of the $45.7 billion associated with the total high-income nonfilers with no satisfied filing requirement and an estimated tax due. The delinquency notices were not issued for TY 2015 because the IRS paused the IMF CCNIP program for TY 2015 to realign resources to address challenges within the SB/SE Division's Automated Collection System function. The remaining 510,235 high-income nonfilers, with estimated tax due of $24.9 billion, are in a TDI status but had not been resolved at the time of our analysis. As mentioned previously, outstanding cases in TDI status are generally not pursued as resources decline. Appendix VI provides a more detailed summary of Figure 6.

High-Income Nonfilers Owing Billions of Dollars

Figure 6: Status of High-Income Nonfilers Having an Estimated Tax Due and No Satisfied Filing Requirement for TYs 2014 Through 2016[28]

Status Description	Total for TYs 2014 - 2016	
	Number	Estimated Tax Due
Cases in inventory[29]	510,235	$24.9 Billion
Cases not placed into TDI Inventory[30]	326,579	$17.3 Billion
Cases closed out of TDI Inventory but not worked	42,601	$3.4 Billion
Total Cases	**879,415**	**$45.7 Billion**

Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

One challenge the SB/SE Division Collection function is facing is the significant decline in staffing resources. This decline in staffing resources has resulted in the Collection function decreasing or pausing the IMF CCNIP, resulting in significantly fewer delinquency notices issued to nonfilers. The issuance of a delinquency notice is the starting point for a nonfiler case to receive further treatment. Generally, two delinquency notices are issued prior to the case being forwarded for further treatment. Therefore, if either notice is not issued, the case may never receive further treatment unless the case is selected for another reason, such as the nonfiler's tax return for a separate tax year is under audit. The number of nonfiler cases that are selected to be issued delinquency notices depends upon the amount of available resources in the Collection function.

According to the new nonfiler strategy, the IRS conducted research and surveys to uncover trends in nonfiler behavior and identify opportunities to mitigate noncompliance. One IRS survey found that almost 90 percent of the nonfilers filed the following tax year after being treated.[31] We believe that it is imperative that the IRS not pause the IMF CCNIP for high-income nonfilers to ensure that at a minimum, delinquency notices are issued to high-income nonfilers.

[28] Amounts may not total due to rounding.
[29] All 510,235 case in inventory are in the Collection function TDI inventory.
[30] Cases not placed into inventory include 309,785 cases for which no delinquency notices were issued and 16,794 cases for which a delinquency notice was issued but the cases are not in TDI status.
[31] Treatment of these nonfilers included the issuance of delinquency notices and worked by one of the following functions: Automated Collection System, ASFR, Examination, or Collection and includes nonfiler cases in which the returns were secured by the notice process.

By focusing on single tax year cases, the IRS may be missing out on opportunities to bring high-income nonfilers back into compliance

When a high-income nonfiler is selected to be worked, the case is first issued two delinquency notices. If the high-income nonfiler case is not resolved during the notice process, the case will be forwarded to a compliance treatment stream. Under the current policy, the ASFR Program only assesses tax for a single tax year regardless of whether the nonfiler is noncompliant for multiple tax years, *i.e.*, repeat nonfiler. As of May 2012, the ASFR Program began processing only single tax year cases, instead of multiple tax year cases, with the exception of the ASFR Refund Hold cases. If the nonfiler is assessed and does not pay, the case is placed into the uncollectible inventory. Due to a September 2017 TIGTA report, the IRS re-evaluated this policy of only working single tax year cases and concluded that the Collection function should continue using the current policy.[32] However, we do not believe that this conclusion aligns with one of the primary goals of the new nonfiler strategy, which is to identify and prioritize nonfiler work based on maximizing dollars collected. Furthermore, all tax years are worked if the case is an ASFR Refund Hold case; whereas, under this policy only a single tax year is worked if the case is not a Refund Hold case. This policy does not appear to provide equitable treatment to taxpayers.

As part of the ASFR re-evaluation study, the IRS evaluated 22,139 single tax year cases. The study estimates that the single tax year policy increased the total number of favorable closures between 8,700 and 11,100.[33] In addition, this single tax year treatment allows the ASFR Program to work more taxpayers than when it worked multiple tax years per case. According to the IRS, since this policy went into effect, less time is spent working multiple tax years, and the IRS is able to contact more nonfilers using the same level of resources. However, the IRS estimated, by working the single tax year cases, the total taxes collected actually had a decrease of approximately $6.5 million. Therefore, by only working the single tax year cases, the IRS is able to reduce the uncollectible inventory by working only one tax year, instead of multiple tax years, but by doing so the potential dollars collected are considerably lower. Although the uncollectible inventory may be lower, the untreated delinquent multiple tax year cases may end up remaining in an open TDI status, creating a larger inventory of open TDIs. The study also identified thresholds of collectability for single and multiple tax year cases. During the study, the IRS collected more on a single tax year for taxpayers that had greater than $115,000 in potential assessments and collected more on multiple tax years for taxpayers that had less than $115,000 in potential assessments. Although the study concluded that certain cases were more productive at different thresholds, the IRS continued with the policy of working single tax year cases only.

---

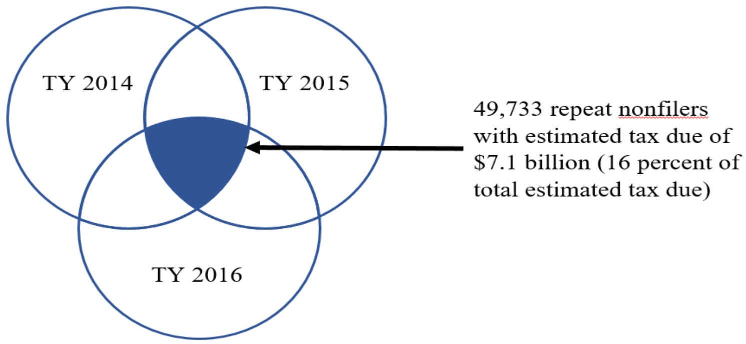
[32] TIGTA, Ref. No. 2017-30-078, *A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance* (Sept. 2017).
[33] The IRS considered a favorable closure as one in which the IRS secured a tax return or determined that the taxpayer is not liable for tax or that the taxpayer previously filed a tax return.

Additionally, another TIGTA review found that the IRS paused the IMF CCNIP program for TY 2013 and did not issue notices to approximately 1.1 million TY 2013 nonfilers with expired extensions, of which 244,000 were high-income nonfilers.[34] As a result, the IRS evaluated TY 2013 high-income nonfilers with expired extensions to determine which cases remain unaddressed by a Collection function and identified 35,897 high-income nonfilers who are required to file and did not file as of November 2017. Due to resource constraints, the IRS limited the 35,897 high-income nonfilers to only cases that had a single tax year with a tax greater than $1,500, which resulted in 16,328 cases that were issued delinquency notices. These 16,328 high-income nonfiler cases had an estimated tax due of $787 million. During follow-up discussions with the IRS, we learned that of the remaining 19,569 (35,897 – 16,328) untreated high-income nonfiler cases, 13,177 of them were multiple tax year cases with tax due of $1,500 or greater and had an overall estimated tax due of approximately $1.3 billion. This is a 65 percent increase in the overall estimated tax due as compared to the overall estimated tax due for the single tax year cases.

In CY 2017, the IRS SB/SE Division Research function conducted a study of nonfiler patterns using IMF CCNIP data for TY 2011 and looked at prior and later years, TYs 2009 through 2014. The IRS found that one-time nonfilers accounted for 24 percent of the TY 2011 IMF CCNIP population, while the remaining 76 percent were nonfilers for multiple tax years. Furthermore, during our analysis of the 879,415 high-income nonfilers that did not have a satisfied filing requirement and had an estimated tax due totaling $45.7 billion, we found 49,733 nonfilers who were identified in all three IMF CCNIP inventories, TYs 2014 through 2016. These 49,733 high-income nonfilers did not file for all three tax years and had a total estimated tax due of more than $7.1 billion, representing approximately 16 percent of the total estimated $45.7 billion. Figure 7 shows the number of high-income nonfilers for all three tax years, TYs 2014 through 2016, and the estimated tax due for each tax year.

[34] TIGTA, Ref. No. 2016-30-085, *Improvements to the Nonfiler Program Could Help the Internal Revenue Service More Effectively Address Additional Nonfilers Owing Billions of Dollars in Taxes* (Sept. 2016).

Figure 7: Repeat (Multiple Tax Years) High-Income Nonfilers Having an Estimated Tax Due for TYs 2014, 2015, and 2016



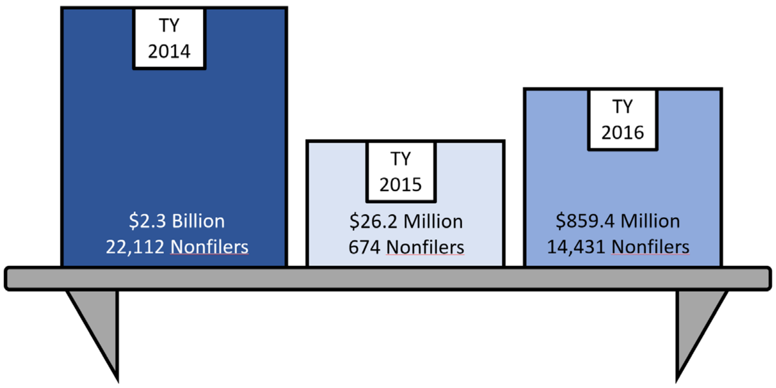
Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

The new nonfiler strategy does not contain action items specific to how the IRS plans to work and prioritize repeat nonfilers. We believe multiple tax year, high-income nonfilers pose a high risk, and the IRS should re-evaluate whether multiple tax year cases should be worked especially taking into account the significant number of high-income nonfilers that are repeat offenders.

High-income nonfiler cases are being shelved

We analyzed the high-income nonfiler cases for TYs 2014 through 2016 and found 37,217 high-income nonfiler cases with estimated tax due totaling $3.2 billion that had been shelved as of the end of December 2018. Of the 37,217 shelved high-income nonfiler cases, 22,112 cases were for TY 2014 with estimated tax due totaling more than $2.2 billion. This represents 24 percent ($2,280,706,796/$9,431,776,969) of the $9.4 billion of total estimated tax due for TY 2014 high-income nonfilers with no satisfied filing requirement and a tax due that we identified earlier. Figure 8 shows the number of high-income nonfilers with no satisfied filing requirement and an estimated tax due in shelved status for TYs 2014 through 2016.

Figure 8: Shelved High-Income Nonfilers Having an Estimated Tax Due and No Satisfied Filing Requirement



Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

According to IRS policy, enforcement of delinquency procedures is normally for cases less than six years old, and enforcement beyond this period will not be undertaken without prior managerial approval.[35] However, we identified TY 2014 cases that were shelved, forestalling enforcement action, as early as November 2015, which is less than one year after the TY 2014 tax return due date. According to the IRS, sometimes IRS functions may do a mass shelving to decrease inventory, which helps reduce the demand for resources. It is concerning that high-income nonfilers, which are high-priority cases, are being shelved, especially when these cases are not six years old. By shelving high-income nonfiler cases, the IRS may miss opportunities to bring these taxpayers back into compliance, resulting in the potential loss of billions of dollars in revenue.

Recommendations

The Commissioner, SB/SE Division, should:

Recommendation 1: Designate a senior management official with appropriate resources and specific nonfiler duties to address nonfiling, including high-income taxpayers and repeat nonfilers.

> ***Management's Response:*** The IRS disagreed with the recommendation. The IRS's nonfiler efforts involve the Collection and Examination functions and Criminal Investigation. An Executive Steering Committee provides oversight of nonfiler program performance and strategic planning to ensure coordination across SB/SE Division

[35] IRS Policy Statement P-5-133.

business units. IRS management stated they will continue to strengthen the Executive Steering Committee by adding the Director, Fraud Enforcement Office, to the committee and will consider the appointment of a single committee chair as the Executive Steering Committee charter is revised.

Office of Audit Comment: Steering Committees can play a role in guiding project goals from an executive level. However, we are concerned that the IRS's Nonfiler Committee is not the most effective way to ensure that more high-income nonfiler cases are worked. For example, in the Committee's five-page charter, the words "high-income nonfiler" do not appear. There is only a vague reference to establishing a SB/SE Division Nonfiler Strategy for Fiscal Year 2019 and beyond. We believe more significant restructuring and accountability is required. We find support for our recommendation in the IRS's own 2018 Nonfiler Strategic Plan, which involved the IRS's Office of Research, Applied Analytics, and Statistics function and states: "*A challenge for aligning nonfiler operations across SB/SE is the multiple business processes at work, process that developed over time as different compliance challenges and automation opportunities emerged. SB/SE will benefit from more formalized business process management, both to measure and manage service delivery for customers and to support the models that increasingly will determine how SB/SE achieves its desired results, in terms of efficiency, revenue, and short/long-term compliance*."

Recommendation 2: Consider a reallocation of resources in the Collection and Examination functions (along with support from Criminal Investigation) to ensure that most, if not all, high-income nonfilers are subject to enforcement action, such as creating a team that specifically focuses on high-income nonfiler cases, ensuring that the appropriate skill set is applied and these cases will continue to be worked.

Management's Response: The IRS partially agreed with this recommendation. The IRS stated that its resources must be applied in a balanced approach across its different compliance programs. The IRS stated nonfiler cases will be placed into the Collection function workstream as appropriate. IRS management agrees that high-income nonfilers constitute a problem, and accordingly, IRS management created and completed specialized Revenue Officer Compliance Sweeps at the beginning of CY 2020, which focused on high-income nonfilers.

Office of Audit Comment: The Revenue Officer Compliance Sweeps will likely help in this area. However, enhancements are needed in resource allocation to ensure that the most egregious nonfilers are pursued systematically. If high-income taxpayers believe the IRS's effort in this area is temporary or intermittent, it is unlikely to have a long-term benefit on voluntary tax compliance.

Recommendation 3: Prioritize nonfilers so that the IMF CCNIP is not paused in the future and develop a nonfiler strategy that ensures that delinquency notices are issued to all high-income nonfilers so, at a minimum, these cases will be entered into the inventory stream.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS stated that it does not plan to pause the IMF CCNIP in the future, absent unusual circumstances.

Recommendation 4: Analyze the population of TY 2014 through 2016 high-income nonfilers and issue notices to those high-income nonfilers identified during this review as never being placed into TDI inventory or closed out of TDI inventory without being worked. In addition, consider working the top 100 nonfiler cases identified from TYs 2014 through 2016 that have not been resolved by referring the cases to the Collection function, the Examination function, or Criminal Investigation special agents for enforcement action.

> ***Management's Response:*** The IRS partially agreed to this recommendation. The IRS stated that all high-income nonfilers for TYs 2016 through 2018 were selected, and the IRS plans to continue to select all high-income nonfilers in the future.
>
> ***Office of Audit Comment:*** Although the IRS stated it selected all high-income nonfilers for TYs 2016 through 2018, it does not mention addressing the two prior years, TY 2014 and TY 2015, or the top 100 high-income nonfilers that were identified. Identifying high-income nonfilers is an important first step in the compliance process. Taking enforcement action, *i.e.*, assigning the case to a revenue officer, revenue agent, or special agent, is the next important step. We provided the IRS a list of the top 100 high-income nonfilers by name who owe an estimated $9.9 billion. The IRS should at a minimum agree to pursue these 100 high-income nonfilers. However, its response does not indicate whether it plans to pursue these.

Recommendation 5: Reconsider working multiple tax year cases for all high-income nonfilers.

> ***Management's Response:*** The IRS partially agreed with this recommendation. The IRS stated that the current policy is a balanced approach and can reach more taxpayers by pursuing a single tax year. Once a single balance due module is assessed by the ASFR system, it provides IRS Collection function employees leverage in the form of enforced collection actions. When the IRS's Automated Collection System or Field Collection functions are assigned a taxpayer's case, they are responsible for bringing the taxpayer into full filing compliance and will address those prior years as appropriate.
>
> ***Office of Audit Comment:*** Although the IRS's Automated Collection System and Field Collection functions emphasize bringing taxpayers into full compliance, the ASFR function policies only focus on a single tax year's unfiled return. We are concerned that the IRS is not prioritizing cases with multiple tax years of unfiled returns, which may result in unequitable treatment of taxpayers and does not maximize taxpayer compliance.

In a pilot of its nonfiler strategy, the IRS was able to reach more nonfilers by pursuing just one year's unfiled return; however, the IRS also collected less revenue. High-income taxpayers with multiple years of unfiled returns may not be deterred from future nonfiling if the IRS only asks for one year's tax return. The policy to pursue only one year's delinquent tax return is also a deviation from its policies in other compliance areas. For example, when pursuing the collection of delinquent balance dues owed by taxpayers, the IRS does not pursue only the most recent balance due—it pursues all years' balances due for which the collection statute expiration date has not expired. Likewise, in the Examination function, the IRS generally will examine prior and subsequent years' returns to the tax return under examination.

Recommendation 6: Implement controls that will assist to identify and prioritize high-income nonfilers who are repeat offenders and include these controls in the new nonfiler strategy.

Management's Response: IRS management partially agreed with the recommendation. The IRS stated that there is a repeater component in the CCNIP hierarchy and all high-income nonfilers are selected, regardless of prior history.

Office of Audit Comment: Although the CCNIP hierarchy includes a repeater component, we identified that the IRS did not use the component to prioritize repeat high-income nonfilers in its selection process since TY 2014. A high-income taxpayer with multiple years of unfiled returns presents a greater compliance risk than a taxpayer with one unfiled return. In our report, we identified 49,733 high-income nonfilers owing an estimated $7.1 billion in tax with multiple unfiled returns for TYs 2014 through 2016. If the IRS identified repeat nonfilers, it could prioritize them for enforcement, such as the Revenue Officer Compliance Sweeps which were completed earlier this year.

Recommendation 7: Implement controls to ensure that high-income nonfilers are not shelved and include these controls in the new nonfiler strategy.

Management's Response: The IRS agreed with this recommendation. The IRS plans to continue selecting all high-income nonfilers through the CCNIP and will work them as resources allow.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS effectively addressed high-income nonfilers and if the new nonfiler strategy and related plans sufficiently included this segment of nonfilers. To accomplish our objective, we:

I. Researched and determined current applicable policies, procedures, and controls that are in place and gained an understanding of the identification, selection, and work processes of individual high-income nonfilers in the IMF CCNIP and how the new nonfiler strategy affects these processes.

   A. Reviewed IRS procedures and interim guidance memos (Internal Revenue Manual, desk procedures, *etc.*) related to individual high-income nonfilers identified in the IMF CCNIP.

   B. Conducted a walkthrough with IRS subject matter experts to develop an understanding of the workflow of the IMF CCNIP.

   C. Reviewed the new nonfiler strategy and the results of the test and learn initiatives and models related to the new nonfiler strategy, and interviewed IRS personnel to gain an understanding of the IRS's plans to address individual high-income nonfilers.

   D. Determined which IRS business unit owns the nonfiler program as a whole.

   E. Determined whether the IRS has controls in place to measure the overall effectiveness of the goals, objectives, and outcomes of the new nonfiler strategy.

II. Obtained and analyzed data from IMF CCNIP inventory data for TYs 2014 through 2016 for high-income nonfilers and determined whether they were appropriately addressed.

   A. Obtained IMF CCNIP inventory data for TYs 2014 through 2016 to identify the number of high-income nonfilers. We validated the data and determined that the data were sufficiently reliable for purposes of this report.

   B. Matched IMF CCNIP inventory data against IMF tax account information and analyzed the results to determine the status of the high-income nonfilers. We validated the results of the matched data and determined that the data were sufficiently reliable for purposes of this report.

   C. Identified the top 100 high-income nonfilers for TYs 2014 through 2016 and determined whether any enforcement action was taken.

   D. Discussed the results of our data analysis with the IRS.

III. Determined if corrective actions from prior TIGTA reports have been implemented.

A. Reviewed documentation for the IRS's corrective actions and the IRS's analysis of the population of TY 2013 high-income nonfilers with expired extensions, related to TIGTA's prior report, to improve the nonfiler program.[1]

B. Reviewed documentation for the IRS's corrective actions, related to TIGTA's prior report, to improve the ASFR Program.[2]

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRS policies, procedures, and practices for identification, selection, and processing work selection of individual high-income nonfilers. We evaluated these controls and procedures by reviewing source material, interviewing IRS management, and performing analysis on IMF CCNIP data.

[1] TIGTA, Ref. No. 2016-30-085, *Improvements to the Nonfiler Program Could Help the Internal Revenue Service More Effectively Address Additional Nonfilers Owing Billions of Dollars in Taxes* (Sept. 2016).
[2] TIGTA, Ref. No. 2017-30-078, *A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance* (Sept. 2017).

Appendix II

Major Contributors to This Report

Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Glen Rhoades, Director
Michele Jahn, Audit Manager
Tina Fitzsimmons, Lead Auditor
David Guerra, Senior Auditor
Antony Shang, Senior Auditor

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Small Business/Self-Employed Division
Deputy Commissioner, Small Business/Self-Employed Division
Director, Collection, Small Business/ Self-Employed Division
Director, Enterprise Audit Management

Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; approximately $9.3 billion in additional tax revenue by addressing 369,180 high-income nonfilers from TYs 2014 through 2016 that were not worked.[1] (see page 11).

Methodology Used to Measure the Reported Benefit:

We analyzed TYs[2] 2014 through 2016 IMF CCNIP inventory data to determine the status of high-income nonfilers identified in the IMF CCNIP. As of December 2018, approximately 2.6 million high-income nonfilers were identified by the IMF CCNIP. Of these high-income nonfilers, approximately 1.5 million had a satisfied filing requirement and the remaining 1.1 million did not have a satisfied filing requirement. As shown in Figure 1, we analyzed these high-income nonfilers with no satisfied filing requirement and identified 879,415 that had estimated tax due of $45.7 billion.

[1] Our calculation assumes that the estimated tax for these 369,180 high-income nonfilers that were not worked would be assessed and collected at the same rate as the high-income nonfilers with a satisfied filing requirement. There is a degree of uncertainty associated with the rates of assessment and collection.
[2] A tax year is a 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due.

High-Income Nonfilers Owing Billions of Dollars

Figure 1: High-Income Nonfilers Identified in IMF CCNIP Inventory Records

TY	High-Income Nonfilers With a Satisfied Filing Requirement	High-Income Nonfilers With No Satisfied Filing Requirement		
		Number	Number With Estimated Tax Due	Amount of Estimated Tax Due
2016	520,338	484,713	385,184	$19,769,431,379
2015	379,261	389,463	309,480	$16,474,672,598
2014	570,209	232,153	184,751	$9,431,776,969
Total	**1,469,808**	**1,106,329**	**879,415**	**$45,675,880,946**

Source: TIGTA analysis of nonfiler data from the IRS's CDW and other filing information obtained from the IMF.

We analyzed the 879,415 high-income nonfilers and found that 369,180 high-income nonfilers with estimated tax due of $20.8 billion were never worked. Specifically, 326,579 high-income nonfilers were never placed into TDI inventory and 42,601 high-income nonfilers were closed out of TDI inventory without being worked.[3]

To estimate the potential additional tax revenue, we analyzed the approximately 1.5 million high-income nonfilers identified in the IMF CCNIP that had a satisfied filing requirement to determine the percent of estimated tax due per the IMF CCNIP that was assessed and collected, at the time of our analysis. We filtered these records to identify all that had an estimated tax due and identified 1,169,095 high-income nonfilers with estimated tax due per the IMF CCNIP of approximately $81 billion. We matched these records against the IRS's IMF database to determine the amount of tax assessed as of December 2018. For TYs 2016, 2015, and 2014, we divided the amount of tax assessed by the estimated tax due per the IMF CCNIP and found that 59 percent, 50 percent, and 43 percent of the estimated tax due was assessed, respectively. Of the estimated tax due that was assessed, we then determined the amount that was collected. We divided the amount of tax collected by the tax assessed for TYs 2016, 2015, and 2014 and found that 93 percent, 89 percent, and 91 percent of the tax assessed was collected, respectively. Figure 2 shows the results of the tax assessed and collected for the high-income nonfilers that had a satisfied filing requirement at the time of our analysis.

[3] We found that 91 percent (or 297,357) of the 326,579 high-income nonfilers that were never placed into TDI inventory were for TY 2015. These TY 2015 high-income nonfilers never entered into TDI inventory because the IRS paused the IMF CCNIP program for TY 2015 to realign resources to address challenges within the SB/SE Division's Automated Collection System function.

High-Income Nonfilers Owing Billions of Dollars

Figure 2: Tax Assessed and Collected for High-Income Nonfilers Having a Satisfied Filing Requirement

TY	High-Income Nonfilers	High-Income Nonfilers With Estimated Tax Due					
		Number	Estimated Tax Due Per the IMF CCNIP	Amount of Tax Assessed	Percentage of Estimated Tax Due That Was Assessed	Amount of Tax Collected	Percentage of Assessed Tax That Was Collected
2016	520,338	398,704	$30,468,160,583	$18,042,610,827	59%	$16,699,710,906	93%
2015	379,261	307,197	$18,693,064,829	$9,412,910,249	50%	$8,352,068,681	89%
2014	570,209	463,194	$31,810,886,448	$13,656,859,390	43%	$12,465,173,610	91%
Total	**1,469,808**	**1,169,095**	**$80,972,111,860**	**$41,112,380,466**		**$37,516,953,197**	

Source: TIGTA analysis of nonfiler data from the IRS's CDW and other filing information obtained from the IMF.

Based on the percent of estimated tax assessed and collected for the high-income nonfilers with a satisfied filing requirement, we calculated the amount of the estimated tax that would be potentially assessed and collected if the 369,180 high-income nonfiler cases were worked. We multiplied the estimated tax due per the IMF CCNIP for each tax year by the yearly calculated percent of estimated tax due that was assessed for high-income nonfilers with a satisfied filing requirement determined in Figure 2, resulting in an estimated $10.4 billion in tax assessed. We then multiplied the estimated tax assessed by the percent of assessed tax that was collected for high-income nonfilers with a satisfied filing requirement determined in Figure 2, resulting in an estimated $9.3 billion collected. Figure 3 shows the results of our calculation to determine the potential estimated tax assessed and collected for the 369,180 high-income nonfilers that were not worked.

Figure 3: Estimated Amount of Tax Collected for High-Income Nonfilers That Have Not Been Worked

TY	Number	Estimated Tax Due Per the IMF CCNIP	Calculated Percentage of Estimated Tax Assessed	Amount of Estimated Tax Assessed	Calculated Percentage of Estimated Tax Collected	Amount of Estimated Tax Collected
2016	37,663	$2,133,082,072	59%	$1,258,518,422	93%	$1,170,422,133
2015	298,327	$15,878,116,330	50%	$7,939,058,165	89%	$7,065,761,767
2014	33,190	$2,754,634,615	43%	$1,184,492,884	91%	$1,077,888,525
Total	**369,180**	**$20,765,833,017**		**$10,382,069,471**		**$9,314,072,425**

Source: TIGTA analysis of nonfiler data from the IRS's CDW and other filing information obtained from the IMF

Management's Response: The IRS disagreed with our outcome measure related to the $9,314,072,425 in potentially increased revenue by addressing 369,180 high-income nonfilers from TYs 2014 through 2016 that were not worked. IRS management stated that the outcome measure is an estimate of the potential increased revenue that nonfilers may owe and what the IRS may collect from them, and may include taxpayers that have already filed a return or may not be required to file a tax return. In addition, the IRS stated the outcome measure does not account for the opportunity cost of shifting resources away from other audit and collection activities.

Office of Audit Comment: We maintain our position that the outcome measure is valid and reasonable as presented. We based the estimate on historical data of high-income nonfiler records that were assessed and collected at the time of our analysis and applied that percentage of estimated tax assessed and collected to the 369,180 high-income nonfiler cases. We continue to emphasize that focusing on high-income nonfilers will help the IRS address the higher risk cases for tax compliance and ensure that more productive cases are worked with the IRS's limited resources.

High-Income Nonfilers Owing Billions of Dollars

Appendix V

Detailed Summary of the Top 100 High-Income Nonfilers

Status Description	High-Income Nonfilers							
	TY 2016		TY 2015		TY 2014		Total	
	Number	Estimated Tax Due	Number	Estimated Tax Due	Number	Estimated Tax Due	Number	Estimated Tax Due
Cases in Inventory but Not Worked								
Collection TDI Inventory	87	$2,836,063,443	*1*	*****1*****	*1*	*****1*****	150	$3,820,864,084
Examination Inventory (*Cases Referred by the Collection function*)	*1*	*****1*****	*1*	*****1*****	*1*	*****1*****	7	$175,008,208
Total Cases in Inventory	90	$2,886,145,190	*1*	*****1*****	*1*	******1******	157	$3,995,872,292
Cases Not in Inventory								
No Delinquency Notice Issued	*1*	*****1*****	*1*	******1*****	*1*	*1*	96	$3,602,008,554
Delinquency Notice Issued but Not in TDI status	*1*	*****1*****	*1*	*1*	*1*	****1****	*1*	****1****
Total Cases Not Placed Into TDI Inventory	*1*	*****1*****	*1*	******1*****	*1*	****1****	99	$3,615,527,159
Cases Closed Out of Inventory but Not Worked								
Total Cases Closed Out of TDI Inventory	*1*	*****1*****	*1*	*****1*****	36	$1,593,112,836	44	$2,249,734,178
Total Cases	**100**	**$3,541,129,042**	**100**	**$3,672,190,601**	**100**	**$2,647,813,986**	**300**	**$9,861,133,629**

Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and matched with tax account information from the IMF and additional tax account research.

High-Income Nonfilers Owing Billions of Dollars

Appendix VI

Detailed Summary of Status of High-Income Nonfilers

Status Description	Number of High-Income Nonfilers							
	TY 2016		TY 2015		TY 2014		Total	
	Number	Estimated Tax Due	Number	Estimated Tax Due	Number	Estimated Tax Due	Number	Estimated Tax Due
Cases in TDI Inventory but Not Worked								
Total Cases in TDI Inventory	347,521	$17,636,349,307	11,153	$596,556,268	151,561	$6,677,142,354	**510,235**	**$24,910,047,929**
Cases Not in TDI Inventory								
No Delinquency Notice Issued	7,040	$286,213,949	296,144	$15,768,356,251	6,601	$217,774,975	309,785	$16,272,345,175
Delinquency Notice Issued but Not in TDI Status	14,163	$923,916,401	1,213	$59,852,658	1,418	$86,496,191	16,794	$1,070,265,250
Total Cases Not Placed into TDI Inventory	21,203	$1,210,130,350	297,357	$15,828,208,909	8,019	304,271,166	**326,579**	**$17,342,610,425**
Cases Closed Out of TDI Inventory but Not Worked								
Shelved[1]	14,431	$859,386,286	674	$26,194,804	22,112	$2,280,706,796	37,217	$3,166,287,886
Other[2]	2,029	$63,565,436	296	$23,712,617	3,059	$169,656,653	5,384	$256,934,706
Total Cases Closed Out of TDI Inventory	16,460	$922,951,722	970	$49,907,421	25,171	$2,450,363,449	**42,601**	**$3,423,222,592**
Total	385,184	$19,769,431,379	309,480	$16,474,672,598	184,751	$9,431,776,969	**879,415**	**$45,675,880,946**

Source: TIGTA analysis of IMF CCNIP nonfiler data from the IRS's CDW and other tax account information obtained from the IMF as of the end of December 2018.

[1] Shelved cases are delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of the Collection function's inventory because they are of lower priority than other available inventory.
[2] We found no indicator on the account to show that these cases were worked or referred to another function.

Appendix VII

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

May 7, 2020

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton Eric C. Hylton Digitally signed by Eric C. Hylton Date: 2020.05.08 12:26:57 -04'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – High-Income Nonfilers Owing Billions of Dollars are Not Being Worked by the IRS (Audit #201830036)

Thank you for the opportunity to review the above subject draft audit report. We agree that bringing nonfilers into compliance ensures fairness and reduces the burden on the taxpayers who file and fully pay their taxes on time. As Commissioner Rettig said at a recent conference, high-income nonfilers remain a major enforcement focus for the IRS.

The issues TIGTA found in this audit are reflective of the resource challenges the IRS has faced in recent years. Since Fiscal Year (FY) 2010, the IRS has lost nearly a third of its enforcement personnel, including more than half of its revenue officers (the Collection employees who work the most complex cases). To address this trend of declining resources, our budget request included funds for new and continuing investments in expanding and improving the effectiveness and efficiency of our overall tax enforcement program. We appreciate the support from Congress and the Administration, and recent budget increases enabled the IRS to hire enforcement personnel in FY 2019. However, we have an aging workforce, and retirements and attrition mean we've only had a net gain of about 1% to our compliance employee staffing.

It will take time and additional resources to restore our enforcement levels to ensure we have a strong, visible, and robust tax enforcement presence. Your audit findings make a good case for a program integrity cap adjustment allowing Congress to appropriate funding for IRS enforcement initiatives on the basis that the initiatives are projected to generate a positive return on investment.

These staffing challenges required us to make difficult decisions that impacted various compliance programs, but since FY 2018 we have increased the resources devoted to nonfiler programs. This is yielding results; dollars collected from secured delinquent returns increased by 33% from FY 2018 to FY 2019. We have also been deploying our resources in innovative ways; last year Field Collection initiated coordinated "Revenue

Officer Compliance Sweeps" (ROCS) for individual and business taxpayers in areas where there have been a limited number of revenue officers available due to declining IRS resources. The focus of these sweeps is face-to-face engagement with taxpayers and increasing Field Collection compliance presence across all communities. Beginning in FY 2020, we initiated ROCS that focus on high-income nonfilers. When these sweeps take place, we share information with the media to enhance their impact. Given their success, we are considering expanding this initiative nationwide.

It is important that taxpayers respond to nonfiler delinquency notices. Failing to do so can result in the case being assigned to our Automated Collection System or our Field Collection function or being referred to the Automated Substitute for Return (ASFR) program. (In the ASFR program, the IRS uses available data, such as third-party information, to determine and assess a tax liability). Over the past three years we have been steadily increasing the volume of cases worked via ASFR, to 380,348 in FY 2019, including 18,951 high-income nonfiler cases.

In 2018, in recognition of the importance of nonfiler programs in promoting overall compliance, we established the Small Business/Self-Employed (SB/SE) Nonfiler Strategic Plan. The Plan sets out the current SB/SE strategic framework for addressing nonfilers. It is steered by an Executive Steering Committee (ESC), chaired by the Directors of Collection and Examination. This ensures coordination among the various IRS functions involved in nonfiler efforts.

While this ESC structure has served us well, we are continuing to strengthen it. The report recommends that we designate a senior management official with appropriate resources and specific nonfiler duties to address nonfiling. In response, we are adding the director of the newly created Fraud Enforcement Office to the ESC and will consider appointing a single committee chair to strengthen accountability for delivery of the nonfiler strategy and workplans.

The report also makes recommendations involving taxpayers who fail to file for multiple years, and recommendations that would require reallocation of resources to tax years (TY) 2014 and 2015 (for which delinquency notices were not sent in some cases). Such decisions cannot be viewed in isolation, but rather must take into account our resource constraints and organizational goals and priorities and be part of a balanced approach among other compliance programs. Moreover, there is no statute of limitations on unfiled returns; when our ACS or Field Collection functions are assigned a taxpayer's case, they are responsible for bringing the taxpayer into full filing compliance and will address all unfiled returns.

We disagree with the revenue outcome measure in the report. The figures used to produce the *potential* increased revenue outcome measure are estimates of what *potential* nonfilers may owe and what the IRS may collect from them. Taxpayers identified within TIGTA's report as nonfilers may have subsequently filed a tax return or may not be required to file a tax return. The outcome measure also does not account for the opportunity cost of shifting resources away from other audit and collection activities.

Attached is a detailed response outlining our planned corrective actions. If you have any questions, please contact me or Paul Mamo, Director, Collection Operations, Small Business/Self-Employed Division.

Attachment

Attachment

RECOMMENDATION 1:
The Commissioner, SB/SE Division, should designate a senior management official with appropriate resources and specific nonfiler duties to address nonfiling, including high-income taxpayers and repeat nonfilers.

CORRECTIVE ACTION:
The IRS's nonfiler efforts involve multiple functions including SB/SE Collection, SB/SE Examination and Criminal Investigation. An Executive Steering Committee provides oversight of Nonfiler program performance and strategic planning to ensure coordination across SB/SE business units. We will continue to strengthen the ESC by adding the director of the Fraud Enforcement Office to the Executive Steering Committee and will consider the appointment of a single committee chair as we revise the ESC charter.

IMPLEMENTATION DATE:
December 15, 2020

RESPONSIBLE OFFICIAL:
Director, Headquarters Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:
The Commissioner, SB/SE Division, should consider a reallocation of resources in the Collection and Examination functions (along with support from Criminal Investigation) to ensure that most, if not all, high-income nonfilers are subject to enforcement action, such as creating a team that specifically focuses on high-income nonfiler cases, ensuring that the appropriate skill set is applied and these cases will continue to be worked.

CORRECTIVE ACTION:
Decisions as to the volume or types of nonfiler cases which will be put into the Collection work stream are work plan issues which are contingent upon resource constraints and organizational goals and priorities. Our resource allocation decisions cannot be viewed in isolation, but rather must be viewed as part of a balanced approach between the Service's balance due and nonfiler programs. However, we agree that addressing high-income nonfilers is important, and since FY 2018 we have increased the resources devoted to nonfiler programs. We completed specialized ROCS this year which focused on high income nonfilers and had planned to conduct additional sweeps

before the March 13, 2020, Presidential emergency declaration in response to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. Like the general compliance ROCS we have deployed recently, these High-Income Delinquent Filer ROCS involve assigning revenue officers to contact high-income nonfilers in a locale that has a concentration of high-income nonfilers. Information on these sweeps is shared with the media to enhance their impact.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 3:
The Commissioner, SB/SE Division, should prioritize nonfilers so that the Individual Master File (IMF) CCNIP process is not paused in the future and develop a nonfiler strategy that ensures delinquency notices are issued to all high-income nonfilers so at a minimum these cases will be entered into the inventory stream.

CORRECTIVE ACTION:
We do not plan to pause the IMF CCNIP process in the future, absent unusual circumstances. We selected all high-income nonfilers for TY 2016 through the CCNIP process, as well as for TYs 2017 and 2018, and we plan to continue doing so. Decisions as to the volume or types of nonfiler cases which will be put into the Collection work stream are work plan issues which are contingent upon resource constraints and organizational goals and priorities. Our resource allocation decisions cannot be viewed in isolation, but rather must be viewed as part of a balanced approach among other compliance programs.

We will include in the CCNIP documentation a mandate from the Director, Collection Inventory Delivery and Selection (CIDS), that, absent unusual circumstances, all high-income nonfiler cases will be started. If an unusual circumstance exception is required, it will be documented and approved by the CIDS Director.

IMPLEMENTATION DATE:
October 15, 2020

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery and Selection, SB/SE

3

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:
The Commissioner, SB/SE Division, should analyze the population of TY 2014 through 2016 high-income nonfilers and issue notices to those high-income nonfilers identified during this review as never being placed into the Taxpayer Delinquency Investigation (TDI) inventory or closed out of the TDI inventory without being worked. In addition, consider working the top 100 nonfiler cases identified from TYs 2014 through 2016 that have not been resolved by referring the cases to Collection, Examination, or Criminal Investigation special agents for enforcement action.

CORRECTIVE ACTION:
We selected all high-income nonfilers for TY 2016 through the CCNIP process, as well as for TYs 2017 and 2018, and we plan to continue doing so. It is important to point out that there is no statute of limitations on unfiled returns. When our ACS or Field Collection functions are assigned a taxpayer's case, they are responsible for bringing the taxpayer into full filing compliance and will address those prior years as appropriate.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 5:
The Commissioner, SB/SE Division, should reconsider working multiple tax year cases for all high-income nonfilers.

CORRECTIVE ACTION:
The current policy balances the need to address noncompliance of individual taxpayers while allowing the IRS to contact more nonfilers using the same level of resources. Once a single balance due module is assessed by the ASFR system, it provides our Collection employees leverage in the form of enforced collection actions. When our ACS or Field Collection functions are assigned a taxpayer's case, they are responsible for bringing the taxpayer into full filing compliance and will address those prior years as appropriate.

4

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 6:
The Commissioner, SB/SE Division, should implement controls that will assist to identify and prioritize high-income nonfilers who are repeat offenders and include these controls in the new nonfiler strategy.

CORRECTIVE ACTION:
There is a "repeater" component in our CCNIP hierarchy. However, we currently select all high-income nonfilers regardless of prior history.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 7:
The Commissioner, SB/SE Division, should implement controls to ensure that high-income nonfilers are not shelved and include these controls in the new nonfiler strategy.

CORRECTIVE ACTION:
Decisions as to the volume or types of nonfiler cases which will be put into the Collection work stream are work plan issues which are contingent upon resource constraints and organizational goals and priorities. Our resource allocation decisions for the program cannot be viewed in isolation, but rather must be viewed as part of a balanced approach amongst other compliance programs.

We selected all high-income nonfilers for TY 2016 through the CCNIP process, as well as for TYs 2017 and 2018, and we plan to continue doing so. It is important to point out that there is no statute of limitations on unfiled returns. When our ACS or Field Collection functions are assigned a taxpayer's case, they are responsible for bringing the taxpayer into full filing compliance and will address those prior years as appropriate.

5

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A