

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



The Administration of Partial Payment Installment Agreements Needs Improvement

March 16, 2022

Report Number: 2022-30-021

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.

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Why TIGTA Did This Audit

This audit was initiated because taxpayers with Partial Payment Installment Agreements (PPIA) will not fully satisfy their delinquent tax liability immediately, so it is critical that they pay the maximum amount determined by a complete financial analysis. This audit was initiated to determine whether the IRS was following procedures when establishing, monitoring, and completing the required two-year financial reviews of PPIAs.

Impact on Tax Administration

Taxpayers granted a PPIA will not fully pay all of their delinquent tax liability immediately, so it is important that PPIAs are carefully and accurately administered. However, the IRS is not always properly promoting or establishing PPIAs. When this happens, taxpayers may be unaware that the PPIA is a collection tool available to them to resolve their outstanding balance.

What TIGTA Found

TIGTA found that the IRS has not provided taxpayers with adequate information on PPIAs on its public website or with the instructions pertaining to the form used to request an installment agreement, nor has the IRS created an effective means for taxpayers to request PPIAs or appeal rejected PPIAs as required by law.

PPIAs generally accounted for less than 2 percent of the new installment agreements established from Fiscal Years 2016 through 2020, while streamlined installment agreements accounted for 56 percent. Also, TIGTA found that PPIAs were established without evidence of a complete financial analysis of the taxpayers' ability to pay. From a judgmental sample of 30 PPIAs, TIGTA determined that the taxpayers' financial statement had been deleted from IRS files for 11 PPIAs because more than one year had elapsed since the PPIA was established. With no financial statement in the file, TIGTA could not determine whether the IRS had properly computed the maximum monthly payment amount the taxpayers had the ability to pay.

Collection default data indicate that the IRS is also establishing PPIAs for amounts that taxpayers cannot afford. The default rate for PPIAs is higher (23 percent) than all other types of installment agreements (9 percent), and in some years, the amount defaulted was greater than the amount placed into PPIAs. Contributing to the higher default rate, TIGTA found 1,007 taxpayers defaulted on their PPIA, with an original PPIA balance over \$197 million, when they failed to comply with an essential term of their agreement. From Fiscal Year 2016 to Fiscal Year 2020, the IRS established PPIAs for nearly \$19.7 billion, while taxpayers defaulted on PPIAs totaling \$17.6 billion.

Lastly, TIGTA found that the IRS procedures to close cases as currently not collectible should be enhanced with a PPIA option. The decision process for determining a currently not collectible case are similar to the steps taken by the IRS prior to granting a PPIA. TIGTA reviewed a random sample of 51 taxpayer accounts closed as uncollectible during Fiscal Year 2020 and determined that the IRS should have offered four of the taxpayers a PPIA instead of closing the case as currently not collectible. If PPIAs were established for these four taxpayers, TIGTA estimates that they could have paid over \$79,724 before their respective collection statutes expired. Based on our random sample, TIGTA projects that the 16,026 taxpayers who had tax liabilities closed as uncollectible could have entered PPIAs and paid a total of over \$319 million before their respective collection statutes expired.

What TIGTA Recommended

TIGTA made six recommendations to help the IRS improve administration of PPIAs. IRS management agreed to inform taxpayers of the availability of PPIAs and provide outreach; explore and consider additional changes to the instructions for Form 9465; extend AMS history note retention requirements; remind Collection employees to conduct and document a financial analysis; and request a change to Computer Paragraph 522. IRS management partially agreed to revise CNC procedures.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 16, 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Administration of Partial Payment Installment Agreements Needs Improvement (Audit # 202030013)

This report presents the results of our review to assess the controls and effectiveness of the Partial Payment Installment Agreement program. This review was part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management challenges of *Improving Tax Reporting and Payment Compliance*.

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

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

Table of Contents

Background.....Page 1

Results of ReviewPage 3

[The IRS Does Not Adequately Inform Taxpayers About Partial Payment Installment Agreements or Protect Taxpayers’ Rights in This Process](#).....Page 3

 Recommendations 1 and 2:Page 5

[Partial Payment Installment Agreements Were Established Without Evidence That Financial Analysis of the Taxpayers’ Ability to Pay Was Completed](#)Page 5

 Recommendations 3 Through 5:.....Page 11

[Currently Not Collectible Procedures Should Be Enhanced With Partial Payment Installment Agreement Options](#).....Page 11

 Recommendation 6:.....Page 14

Appendices

[Appendix I – Detailed Objective, Scope, and Methodology](#).....Page 15

[Appendix II – Outcome Measures](#)Page 17

[Appendix III – Types of Installment Agreements Offered by the IRS \(Field Collection\)](#).....Page 20

[Appendix IV – Partial Payment Installment Agreement Activity From Fiscal Year 2016 to Fiscal Year 2020](#).....Page 21

[Appendix V – Management’s Response to the Draft Report](#).....Page 22

[Appendix VI – Glossary of Terms](#)Page 30

[Appendix VII – Abbreviations](#).....Page 32

Background

All taxpayers are expected to immediately pay delinquent tax liabilities in full. When this is not possible, taxpayers may be allowed to pay their liabilities over a prescribed period of time. Taxpayers who cannot immediately fully pay their tax liabilities can enter into installment agreements (IA) with the Internal Revenue Service (IRS) to pay their tax liabilities within the Collection Statute Expiration Date (CSED).¹ A taxpayer who cannot fully pay could also request an offer in compromise (OIC) to pay a portion of the tax liability.² A Partial Payment Installment Agreement (PPIA) is an alternative that allows taxpayers who cannot afford to fully pay their tax liability within the CSED to pay a portion of their obligations over a prescribed period of time. When full payment cannot be achieved by the CSED and taxpayers have some ability to pay, the IRS can enter a taxpayer into a PPIA.

PPIAs were enacted by the American Jobs Creation Act of 2004.³ In a PPIA, the taxpayer makes regular monthly payments to the IRS, but the payments do not pay off the tax liability in full. After the terms of the PPIA are fulfilled, the IRS is prohibited from collecting the remainder of the tax debt because the collection statute will have expired. PPIAs provide taxpayers with another alternative to settle their tax obligations. As shown in Figure 1, the number of IAs established annually has trended down from 3.1 million IAs in Fiscal Year (FY) 2016 to 2.8 million in FY 2019, a decrease of 9 percent. From FY 2019 to FY 2020, the number of IAs established dropped significantly to 1.8 million, a decrease of 35 percent (or a decrease of 41 percent compared with FY 2016).

Figure 1: PPIAs and Total IAs Established From FY 2016 to FY 2020

FY	New PPIAs Established	Total Amount (PPIA)	New IAs Established ⁴	Total Amount (All IAs)
2016	48,854	\$4,481,275,462	3,115,404	\$25,351,456,573
2017	39,888	\$4,091,175,624	2,924,780	\$24,803,320,776
2018	35,516	\$4,327,329,033	2,883,035	\$24,395,480,132
2019	36,733	\$3,840,133,479	2,821,134	\$24,404,769,504
2020	21,501	\$2,939,772,574	1,825,378	\$17,778,827,629
Totals	182,492	\$19,679,686,172	13,569,731	\$116,733,854,614

Source: Collection Activity Reports for FYs 2016–2020.

During the same period, the number of PPIAs established annually also trended down, from 48,854 PPIAs in FY 2016 to 36,733 PPIAs in FY 2019, a decrease of 25 percent. From FY 2019 to FY 2020, the number of PPIAs established dropped significantly to 21,501, a decrease of 41 percent (or a decrease of 56 percent compared with FY 2016). On average, PPIAs accounted

¹ See Appendix VI for glossary of terms, and see Appendix III for the various types of IAs.

² The OIC is an agreement between a taxpayer and the IRS that settles a tax liability for payment of less than the full amount owed.

³ Pub. L. No. 108-357, 118 Stat. 1418, 1600 (2004). The IRS began using PPIAs starting January 17, 2005.

⁴ Sum total of all types of newly established installment agreements.

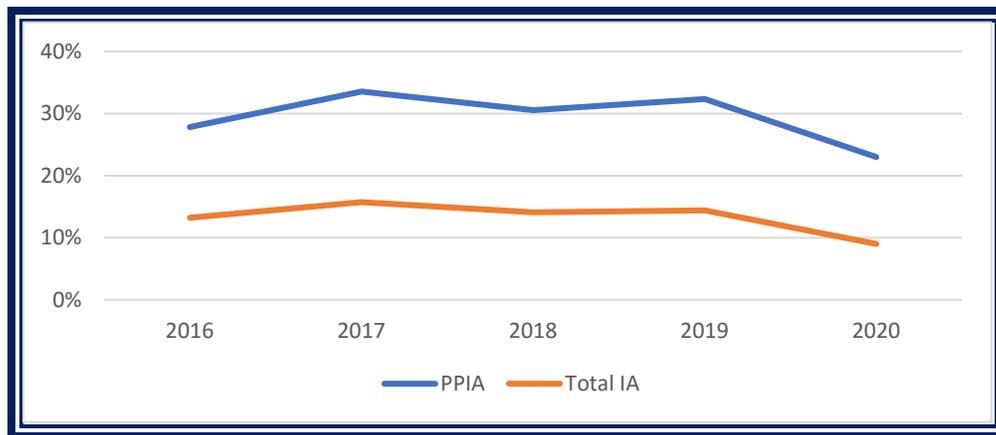
The Administration of Partial Payment Installment Agreements Needs Improvement

for less than 2 percent of the new IAs established during this period. During the same period, the delinquent tax liability pertaining to new PPIAs decreased by 34 percent, totaling nearly \$3 billion in FY 2020. The lower number of total IAs and PPIAs established during FY 2020 was likely due to the suspension of collection activity from April 2020 to July 2020 due to the Coronavirus Disease 2019 pandemic.

Similar to other IAs, the taxpayers must make their monthly payments on time and remain compliant with all of their tax obligations during the term of the PPIA. If a taxpayer misses two monthly payments, the IRS sends the taxpayer a letter instructing them to contact the IRS. If the taxpayer contacts the IRS, the IRS must attempt to get the taxpayer back on track. If the taxpayer does not contact the IRS or does not make another payment, the taxpayer defaults on the PPIA and the PPIA is terminated.

A default notice is sent to the taxpayer explaining the reasons for terminating the PPIA and the corrective actions the taxpayer can take. Figure 2 shows the default rates for PPIAs and total IAs from FY 2016 to FY 2020. As Figure 2 illustrates, the default rate for PPIAs nearly mirrored the pattern of total IAs over the five-year period; however, the PPIA default rate was, on average, 16 percentage points higher than total IAs.

Figure 2: PPIA and Total IA Default Rates From FY 2016 to FY 2020



Source: *Collection Activity Reports*.

Unlike other IAs, the American Jobs Creation Act of 2004 requires the IRS to assess the financial condition of taxpayers with a PPIA every two years. To comply with this requirement, the IRS performs an automated review process on PPIAs at the two-year mark. At the two-year mark, the automated review process uses

The default rate for PPIAs is, on average, 16 percentage points higher than total IAs.

The manual review requires the taxpayer to submit updated financial information and the IRS to perform an updated complete financial analysis. The purpose of the manual review is to determine whether the taxpayer can afford to increase their monthly installment amount, have it reduced, or keep it the same.

Results of Review

The IRS Does Not Adequately Inform Taxpayers About Partial Payment Installment Agreements or Protect Taxpayers' Rights in This Process

Congress added the PPIAs provision in Internal Revenue Code (I.R.C.) § 6159(a) so that taxpayers with some ability to pay can make payments in installments that will facilitate partial collection of their tax liability. Unlike streamlined IAs or guaranteed IAs, the IRS has more discretion to approve or disapprove PPIAs.⁵ As previously stated, PPIAs generally accounted for less than 2 percent of the new IAs established from FYs 2016 through 2020.⁶ At the end of FY 2020, PPIAs made up 1.7 percent of all IAs in the IRS inventory, while streamlined IAs accounted for 56 percent.

The small number of PPIAs may be due to the lack of information provided to taxpayers or outreach efforts aimed at increasing awareness of PPIAs. For instance, the IRS public website (www.irs.gov) does not contain information on the PPIA or how to request a PPIA. The topic ribbon on the IRS public website home page has a link directly to payment options (Pay). However, none of the subsequent IA links provide information on PPIAs. The information on IAs does not mention the possibility of partially paying a balance due:

By approving your request, we agree to let you pay the tax you owe in monthly installments instead of immediately paying the amount in full.

From FY 2016 through FY 2020, the number of PPIAs established generally accounted for less than 2 percent of new IAs.

The IRS tax topics and tips researchable through the IRS public website provide taxpayers with a wide range of tax information, including assistance with the filing of their tax returns, responding to IRS notices, and tax payment options. At the time of our review, the IRS tax topics did not promote the benefits of a PPIA. Specifically, our search for “partial payment installment agreement,” “partial pay,” and “installment agreement” did not return any results pertaining to PPIAs.

Further, Form 9465, *Installment Agreement Request*, and its instructions do not mention the PPIA. When we discussed with IRS management, the IRS confirmed that there is no separate IRS form to request a PPIA because taxpayers can use Form 9465 to propose an agreement to pay less than the full amount of the liability within the CSED.⁷

⁵ I.R.C. § 6159(c) provides for guaranteed IAs for balances due of less than \$10,000 if the taxpayer is otherwise tax compliant, and Internal Revenue Manual 5.14.5.2 (Dec. 23, 2015) provides for streamlined IAs for balances due of as much as \$50,000 if the taxpayer is otherwise compliant. Generally, a streamlined IA may be granted for taxpayers with unpaid balances of \$50,000 or less. The minimum payment amount is determined by dividing the balance by 72 (months), and the IA must fully pay the unpaid balance prior to the expiration of the CSED. To enter into a streamlined IA, taxpayers are not required to submit information pertaining to their financial condition. See Appendix III for additional information on the types of IAs offered by the IRS.

⁶ See Appendix IV for additional data on PPIA activity.

⁷ Line 11a of Form 9465 asks the taxpayer to enter the amount that they can pay and line 11b provides instructions if the amount the taxpayer provides in line 11a will not fully pay their outstanding tax liability.

In contrast, the IRS provides in-depth information on OICs on the IRS public website with a FAQs [Frequently Asked Questions] page and a video on how to complete an OIC application as well as Form 656-B, *Form 656 Booklet, Offer in Compromise*.⁸ In regards to the OIC, the IRS can accept partial satisfaction of the taxpayer's tax liability over time using periodic payments.⁹ Unlike PPIAs, the IRS also has an online OIC qualifier tool so that taxpayers can see for themselves if they qualify for an OIC.

Taxpayers who have tax liabilities are sent IRS collection notices that do not refer to the PPIA. Despite the intent of Congress, taxpayers will not likely be granted a PPIA unless proposed by the IRS. Unless revenue officers or Automated Collection System employees make the decision whether to place taxpayers accounts into Currently Not Collectible (CNC) status or place taxpayers on a PPIA, taxpayers may be unaware the PPIA is a collection option available with the IRS. Under the Taxpayer Bill of Rights, taxpayers have the right to be informed, and this should include the right to request PPIA agreements to address delinquent tax accounts with the IRS.¹⁰ Taxpayers are also statutorily entitled to an independent review of any IA request, including a PPIA, that is denied as well as to a hearing before the Office of Appeals for a rejected IA.¹¹ However, because there is no clearly established mechanism for a taxpayer to request a PPIA and information about PPIAs is very limited, taxpayers appear to be effectively denied these rights. When we asked the IRS how taxpayers are supposed to ask for a PPIA when there is no designated IRS form or mechanism to request one, IRS officials indicated that IRS employees will assess whether a PPIA is appropriate when the taxpayer's response to line 11a on Form 9465 is provided in response to the instruction "*Enter the amount you can pay.*" However, a taxpayer completing line 11a will have received no information from the IRS on the form or the instructions that this is the method by which IRS employees will evaluate whether a PPIA is warranted.

Providing adequate information about PPIAs, providing a specific mechanism on Form 9465 to request PPIAs, and ensuring that taxpayers' rights to administrative review and appeal are protected will improve the availability of PPIAs. The IRS Burden Reduction program (housed in the Small Business/Self-Employed (SB/SE) Division), whose mission it is to reduce taxpayer burden, highlighted on the IRS Internet website changes to IRS Form 9465 making it easier for taxpayers to request an IA, yet the SB/SE Division Collection function has to date been unwilling to place any information about PPIAs on the Form 9465 or the form's instructions. While the IRS offered various rationales during this audit for being reluctant to add specific information about PPIAs on Form 9465, at the close of the audit, IRS officials stated that the main reasons for not being willing to provide any information about PPIAs on the Form 9465 is that: (1) A change is not necessary because the form already allows the taxpayer to propose any amount to pay monthly; (2) IRS employees would be inundated with PPIA requests if taxpayers were made aware of PPIAs on the form; and (3) rejected PPIAs would cause taxpayers to flood the Office of Appeals while pursuing their statutory rights to appeal. This would lead to an avoidable and inefficient expenditure of resources to address PPIA proposals for taxpayers that do not qualify as well as an undesirable customer experience for the taxpayer. The same argument could be made for denying taxpayers information on other statutorily provided collection alternatives,

⁸ Relates to Form 656, *Offer in Compromise*.

⁹ I.R.C. § 7122(c)(1)(B), *Periodic payment offers*.

¹⁰ I.R.C. § 7803(a)(3) lists the 10 taxpayer rights, with the first being the right to be informed.

¹¹ I.R.C. § 7122(e) (this section applies to OICs but cross references I.R.C. § 6159 to extend these rights to IAs as well).

such as OICs, and we believe that this is not a sound basis to provide no information about PPIAs or an effective means for taxpayers to request PPIAs.

The Director, Collection Policy, SB/SE Division, should:

Recommendation 1: Inform taxpayers of the availability of PPIAs and provide outreach and information in the following areas: 1) tax topics and tips on the IRS public website; 2) Form 9465 instructions by specifically referencing PPIAs (including what is required to qualify for a PPIA) and by indicating that, if taxpayers cannot afford to pay enough to repay the total amount due, then they should indicate what they can pay in box 11a on Form 9465; and 3) collection notices (Collection notice stream series).

Management's Response: IRS management agreed with this recommendation and plans to expand its discussion of PPIAs on the IRS's website and add PPIAs to the discussion of payment options in an IRS tax topic to increase awareness. IRS management will also consider changes to Form 9465 instructions concerning PPIAs in conjunction with their corrective action for Recommendation 2.

Recommendation 2: Collaborate with impacted internal stakeholders, including the Taxpayer Experience Office and the Taxpayer Advocate Service, to explore and consider additional potential changes to the instructions for Form 9465 concerning PPIAs.

Management's Response: IRS management agreed with this recommendation and plans to collaborate with internal stakeholders, including the Taxpayer Experience Office and the Taxpayer Advocate Service, to explore additional changes to Form 9465 instructions concerning PPIAs and submit recommendations for any changes by November 2023.

Partial Payment Installment Agreements Were Established Without Evidence That Financial Analysis of the Taxpayer's Ability to Pay Was Completed

To enter into a PPIA, the taxpayer must agree to pay the monthly installment amount determined by a complete financial analysis. A complete financial analysis includes a monthly income and expenses comparison and verification of the taxpayer's income and assets. Taxpayers are required to submit a financial statement in order to provide the IRS with current financial information necessary for determining how they can satisfy an outstanding tax liability.¹² The Collection employee performing the analysis verifies the taxpayer's income and assets using the Integrated Data Retrieval System via specific command codes. These command codes provide access to information on the IRS Master File pertaining to information documents submitted by a third party, *e.g.*, wage statements and investment income, and tax return information. Also, equity in assets must be addressed and, if appropriate, be used to make a payment. The financial analysis determines the maximum monthly payment amount the taxpayer has the ability to pay.

To determine whether the IRS conducted a complete financial analysis prior to granting a PPIA, we reviewed a judgmental sample of 30 cases from a total population of 11,453 PPIAs cases

¹² Form 433-F, *Collection Information Statement*.

established during FYs 2017 and 2018.¹³ Given the date these PPIAs were established, they would have undergone the required two-year PPIA review.

We determined that 11 of these PPIAs were established without evidence that a financial statement was completed and submitted by the taxpayer. The IRS advised us that the financial statement was deleted from the electronic case file before we reviewed the file. In addition, the electronic case files [REDACTED]

When a PPIA is established without a complete financial analysis, there is a higher risk that the taxpayers are not paying the maximum amount they can afford. There is also a higher risk that the taxpayer cannot afford the payments in the agreement. The lack of documentation for these cases prevented us from determining whether the taxpayer had the ability to pay more. However, even if the taxpayers make all payments required by the terms of these PPIAs, the delinquent tax liability that the taxpayers will still owe would be nearly \$1,287,582 (an average of \$117,053).

A default on a PPIA could be an indication that the taxpayer may not be in a financial position to continue making the payments over a sustained period of time. The taxpayers in six of 11 sampled PPIAs without a complete financial analysis defaulted on their PPIAs. As a result of each PPIA default, the taxpayer must pay an additional user fee, and the IRS has to expend additional resources to reinstate the agreement.¹⁴

The IRS quality and program reviews of accuracy results for financial analyses on IAs and PPIAs have indicated similar findings. The IRS uses the National Quality Review System as its primary quality measurement system. This system is an important control component because it identifies managerial, technical, and procedural problems and provides a basis for corrective actions. The IRS uses the system to assess the quality of its overall IA program. We reviewed the system's Field Collection quality attribute Verifying/Analyzing Ability to Pay as it pertains to IAs. This attribute involves the verification that taxpayer financial information is secured so that the IRS is able to make an accurate IA payment determination. From FY 2016 to FY 2019, results show that Field Collection was only successful in 43 percent to 51 percent of the cases reviewed. Also, in 2016, the Taxpayer Advocate Service reported in its annual report that the IRS is failing to properly evaluate taxpayers' living expenses and is placing taxpayers in IAs they cannot afford.¹⁵

Financial analysis documentation is not maintained in IRS systems for PPIAs

Internal Revenue Manual (IRM) guidance states that all case histories require documentation on the Accounts Management System (AMS) explaining the basis for the decision to proceed with

¹³ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

¹⁴ The fee is \$225 and \$149 for IAs manually established and those submitted through the IRS's Online Payment Agreement system, respectively. If the taxpayer makes their installment payments by way of a direct debit from the taxpayer's bank account, then the fee is \$107 or \$31, respectively. As of January 1, 2019, the reinstatement user fee for manually established IAs and those submitted via the Online Payment Agreement system are \$89 and \$10, respectively.

¹⁵ IRS, *National Taxpayer Advocate, Annual Report to Congress, 2016*. See Most Serious Problem #17, pp. 230–238, INSTALLMENT AGREEMENTS (IAs): The IRS Is Failing to Properly Evaluate Taxpayers' Living Expenses and Is Placing Taxpayers in IAs They Cannot Afford.

or deny a PPIA.¹⁶ If the PPIA was established in the field, Collection personnel are required to document the actions taken on the case, including IAs, in the IRS's Integrated Collection System. Regarding the lack of financial statements and history notes, the IRS advised us that, since FY 2009, its one-year business retention procedures call for financial statements maintained in AMS to be current (completed and provided within the last year) when a Collection employee is working with a taxpayer to resolve an issue. As a result, the IRS discards Forms 433-F, *Collection Information Statement*, older than one year. According to IRS officials, the one-year retention period ordinarily meets the business needs for revenue officers and Automated Collection System employees because their guidelines require a new Collection Information Statement (CIS) if the current CIS is more than 12 months old. However, IRS officials acknowledge that their internal controls can benefit from an increased retention period and are working to extend the retention period.

Concerning the lack of AMS history notes for selected PPIA cases, IRS officials also explained that AMS history notes would have dropped off if there was no subsequent AMS account access for two years. We disagree that this meets the business needs of the PPIA process. When a systemic two-year review results in a manual review, financial information from the initial review is critical to determine if there was any improvement in the financial condition of the taxpayer (specifically, whether the financial condition of the taxpayer improved [REDACTED]).¹⁷

Further, the IRS needs to preserve documentation that complies with established guidance and supports its collection actions. By not maintaining the case history, there will be no written basis available to explain crucial decisions and actions IRS employees take on taxpayer cases. For situations in which taxpayers appeal collection and administrative decisions, a complete case history will provide the IRS with detailed historical information that can be used to uphold decisions and mitigate challenges.

Collection default data indicate that the IRS is establishing PPIAs for amounts that taxpayers cannot afford

Since the IRS started granting PPIAs in January 2005, they have had a higher default rate than other types of IAs. For FY 2020, the default rates were:

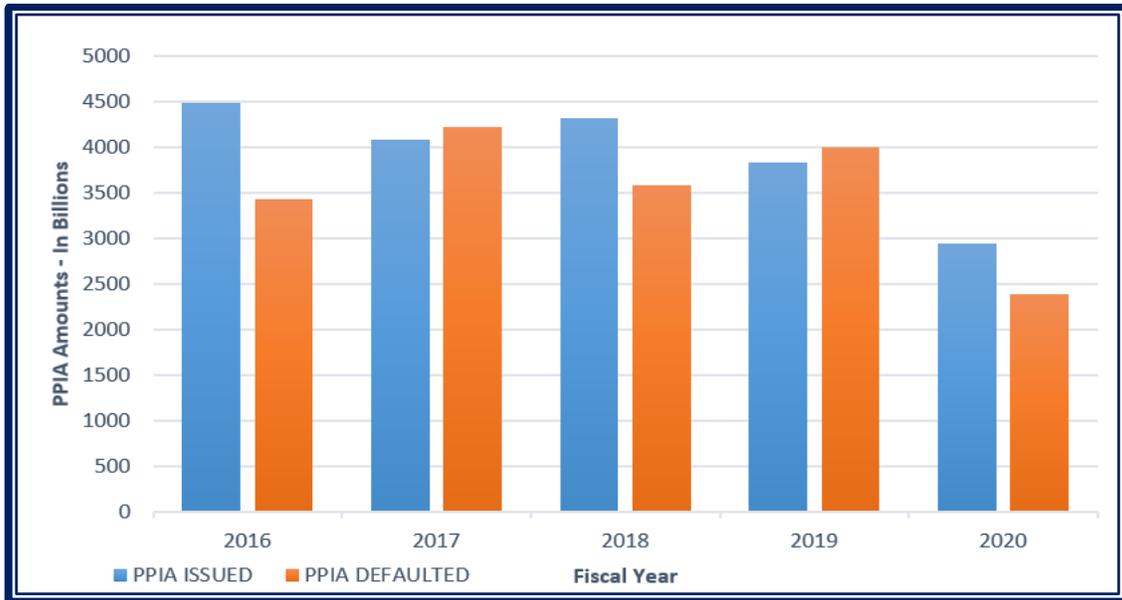
- 9.03 percent for all IAs combined.
- 9.53 percent for streamlined IAs.
- 23.34 percent for PPIAs.

Not only are defaulted PPIAs higher than all other types of IAs, the amount defaulted on PPIAs was, in some years, greater than the amount placed into PPIAs. Figure 3 shows that, in FYs 2017 and FY 2019, the amount for defaulted PPIAs was greater than the amounts for PPIAs that were established. During the five-year period ending FY 2020, the IRS established PPIAs for nearly \$19.7 billion, while taxpayers defaulted on PPIAs totaling \$17.6 billion.

¹⁶ IRM 5.19.1.6.5.2 (Oct. 1, 2019).

¹⁷ IRM 5.4.11.9.1 (Jan. 2, 2020).

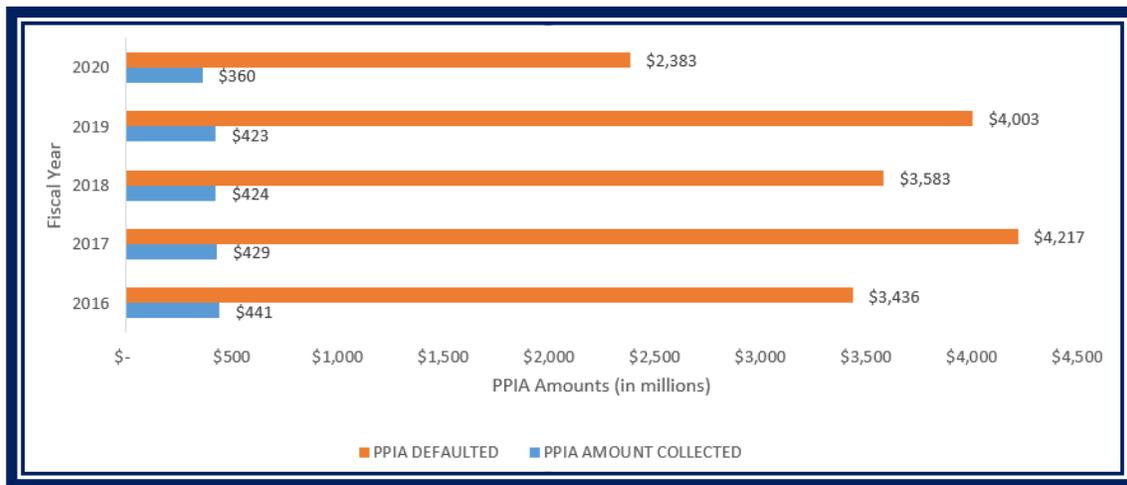
Figure 3: PPIA Amounts Issued and Defaulted (FY 2016 to FY 2020)



Source: Collection Activity Reports.

The amounts associated with the PPIAs that taxpayers defaulted on were, on average, more than eight times the amounts that the IRS collected on for PPIAs, as shown in Figure 4. In FY 2019, taxpayers defaulted on PPIAs valued at 946 percent of the amounts the IRS collected from PPIAs.

Figure 4: PPIA Amounts Collected and Defaulted (FY 2016 to FY 2020)



Source: Collection Activity Reports.

Further, from FY 2016 to FY 2020, the IRS established 182,492 PPIAs, while taxpayers defaulted on 173,268 PPIAs. The IRS collected over \$2 billion from PPIAs in the five-year period ending in FY 2020, and 18,684 PPIAs were fully paid (approximately 10 percent of established PPIAs).

Several IRS functions can grant taxpayers IAs, such as Compliance Services Collection Operations, Automated Collection System (including Special Compliance Personnel and Automated Collection System Support), Field Assistance, Collection Field function, Centralized Case Processing, and Appeals. IAs granted by the Automated Collection System accounted for over 63 percent of the PPIAs defaulted in FY 2016 to FY 2020.

In our judgmental sample of 30 taxpayers with established original PPIA amounts exceeding \$4.9 million from a population of 11,453 taxpayers, 13 taxpayers actively remitted payments that, to date, totaled \$243,332 (average of \$18,718).¹⁸ Three taxpayers fully paid the PPIAs for one or more tax years, and [REDACTED]. However, the remaining 13 taxpayers (43 percent) had defaulted at the time of our review. Specifically:

- Eight taxpayers (27 percent) defaulted before the two-year review was scheduled to occur. Six taxpayers defaulted because of new tax liabilities, [REDACTED].
- Three taxpayers [REDACTED] defaulted as a result of the two-year review by not complying with the IRS request for an updated CIS. Before the review, [REDACTED]. Altogether, these three taxpayers have paid \$56,060 (average \$18,687) towards their outstanding tax debts since establishing the PPIAs.¹⁹
- [REDACTED]
- [REDACTED]

Because eight of the 13 taxpayers (62 percent) who defaulted on their PPIAs did so before the two-year review was due to be performed, we are concerned that their financial conditions were not adequately evaluated to help ensure that they have the financial wherewithal to make the calculated payments in order to promote compliance. We were unable to determine if this was potentially the case for [REDACTED] who defaulted on their PPIAs before the two-year review occurred because the IRS also did not maintain written evidence in its systems that these taxpayers' PPIAs were properly established.

Taxpayers defaulted on their PPIAs when updated financial information statements were not submitted

As previously stated, [REDACTED] of the 13 defaulted taxpayers were making payments towards their outstanding tax debts since the IRS established the PPIAs, but they defaulted as a result of the two-year review by not complying with the IRS's request for an updated CIS. Although taxpayers may contact the IRS to request additional time to provide current financial information, we determined that, aside from sending IA payment reminders, the IRS did not follow up with the [REDACTED] to acknowledge the payments received or determine their current financial status when the taxpayer did not timely comply with the IRS's request for an updated CIS. Instead, the IRS defaulted these taxpayers.²⁰ Further, the notice sent to taxpayers requesting updated financial information does not advise taxpayers that their information could

¹⁸ Payments reflected on the IRS Master File as of March 31, 2021.

¹⁹ The three taxpayers made payments totaling \$251,060, [REDACTED]. Accordingly, [REDACTED] is not included in our calculation of the amounts paid or average payment so as not to skew the results.

²⁰ IRM 5.4.11.9.1(4) (January 2, 2020).

result in a payment reduction.²¹ We believe taxpayers whose financial condition indeed worsened would respond to these notices if they were aware that their response could reduce their monthly installment amount.

From our population of 11,453 taxpayers with PPIAs, we found that 1,007 (nearly 9 percent) taxpayers with an original PPIA balance of over \$197 million defaulted because they did not timely comply with an IRS request to provide an updated CIS, which may have contributed to the higher default rate.²² For taxpayers like these 1,007 taxpayers, along with those like the three taxpayers from our sample whose PPIAs defaulted because they did not timely provide an updated CIS, we are concerned that the IRS does not perform a targeted follow-up before initiating its automatic default procedures.²³ In addition, this default status creates a burden for taxpayers with an established PPIA to appeal, reinstate their agreement, or institute another arrangement with the IRS to address the outstanding balance. We believe additional follow-up with taxpayers would lower the PPIA default rate, stimulate uninterrupted payments, and increase voluntary tax compliance.

Systemic two-year reviews have limitations

Section 6159(d) requires the IRS to review PPIAs every two years. The primary purpose of the review is to determine whether the financial condition of the taxpayer has significantly changed so as to warrant an increase in the value of the monthly installment payments. However, a taxpayer's financial condition may warrant a decrease, instead of an increase, in the amount of payments being made. The first part of the two-year review involves an automatic check using IRS data systems to determine whether a taxpayer's financial condition improved. If the automatic check identifies a substantial improvement, the IRS performs a manual review of the taxpayer's financial condition, which requires taxpayers to submit current financial information. As a result, not every two-year review results in a request for updated financial information from the taxpayer to support that their financial condition has worsened in order to request lower PPIA payments.

Our review of the same 30 cases identified [REDACTED]

[REDACTED] Based on our review of AMS notes and information obtained from the IRS, the IRS performed the two-year review for 12 of the 30 cases. For the remaining 17 cases, the IRS had valid reasons for not completing the two-year review, such as default, suspension, or revision of the IA prior to the scheduled date of the two-year review; that the outstanding balance was paid prior to the scheduled date of the two-year review; and the IRS's inability to complete the review because of print site work interruptions and the People First Initiative, which affected normal operations through July 15, 2020.

²¹ Computer Paragraph 522, *Request for Updated Financial Information to Review Your Partial Pay Installment Agreement (PPIA)*.

²² Total original agreement amounts for the 1,007 taxpayers as of the extract date of October 22, 2020.

²³ Only [REDACTED] in our sample was already included in the population of [REDACTED]

The Director, Collection Policy, SB/SE Division, should:

Recommendation 3: Collaborate with the Wage and Investment Division's Director, Modernization, Development, and Delivery, to extend AMS history note retention requirements pertaining to taxpayers' Forms 433-F and financial analyses.

Management's Response: IRS management agreed with this recommendation and has already collaborated with the Wage and Investment Division to extend AMS retention of financial statements. The IRS stated that the functionality that purges financial statements in AMS after one year was disabled on October 5, 2021. Financial statements uploaded after October 5, 2021, will remain available in AMS while IRS's Information Technology organization evaluates solutions to align the financial statement retention period with the AMS history two-year retention period.

Recommendation 4: Remind Collection employees of the requirement to conduct a financial analysis to determine a taxpayer's ability to pay and to document the analysis when considering PPIAs.

Management's Response: IRS management agreed with this recommendation and plans to message its first-line supervisors reminding them of existing procedures and the importance of attempting to obtain taxpayer financial statements and completing a comprehensive financial analysis when considering or reviewing a PPIA. IRS management stated that the message will also emphasize documenting case histories regarding the taxpayer's ability to pay and whether a PPIA was considered. First-line supervisors will also communicate this message to employees during a group meeting.

Recommendation 5: Request a change to Computer Paragraph 522, *Installment Agreement – Review Financial Condition*, to notify taxpayers that the financial information they provide may result in a higher or lower installment amount or no change to their installment amount.

Management's Response: IRS management agreed with this recommendation and will revise Computer Paragraph 522 to notify taxpayers that the financial information they provide may result in a lower or higher installment amount or no change in the installment amount.

Currently Not Collectible Procedures Should Be Enhanced With Partial Payment Installment Agreement Options

According to IA procedures, if analysis of the taxpayer's financial condition shows a liability cannot be collected in full through an IA, the IRS employee is to discuss the possibility of a PPIA, an OIC, or a CNC status determination with the taxpayer.²⁴

The IRS has the authority to determine that some accounts are CNC and suspend collection activity by removing taxpayer accounts from the active Collection inventory. Before closing a taxpayer's account as CNC, certain basic requirements must be met. As shown in Figure 5, the

²⁴ IRM 5.14.1.4 (Sept. 19, 2014).

decision process for determining a CNC are similar to the steps taken by the IRS prior to granting a PPIA.

Figure 5: Comparison of IRM Requirements for CNC and PPIA Determinations

IRM	Currently Not Collectible	Partial Payment Installment Agreement	IRM
5.16.1.2(6)	Address any assets owned by the taxpayer in the summarizing statement will be secured prior to reporting an account CNC.	Equity in assets must be addressed and if appropriate, be used to make payment. In some cases, taxpayers will be required to use equity in assets to pay liabilities.	5.14.2.2
5.16.1.2	A CIS will be secured prior to reporting an account CNC.	A full Collection Information Statement is required for all PPIAs.	5.14.2.2.1
5.16.1.2(4)	Conduct a compliance check and document the results in the case history in circumstances when the taxpayer is contacted.	Ensure that the taxpayer is in compliance with filing, withholding, Federal tax deposit, and estimated tax payment requirements.	5.14.2.2.4
5.16.1.2(6)	Document all actions to support the CNC determination. The last history entry will be a summarizing statement supporting the CNC determination.	Document ICS with the justification for the PPIA as the best case resolution.	5.14.2.2.4(2)
5.16.1.2(8)	CNC recommendations generally Require the review and approval of the immediate manager to ensure that the investigations meets established standards of thoroughness and integrity.	All PPIAs require managerial approval.	5.14.2.2.5

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Part 5 of the IRM.

Note: ICS = Integrated Collection System.

Prior to both a CNC and PPIA determination, a financial statement is required to be obtained from the taxpayer to verify their financial condition. For the CNC, it is to confirm that the taxpayer has no ability to pay towards fully paying off their liabilities, and for the PPIA, it is to confirm that the taxpayer has some ability to pay towards the liabilities, but not to fully pay them. Given these similarities, we believe the IRS should include a step to consider offering the taxpayer a PPIA before determining to place the taxpayer in a CNC status. Currently, the IRS collects refund offsets from CNC inventory. By offering a PPIA, the IRS would have the potential to collect some of the amount owed beyond any offsets collected.

We selected a random sample of 51 taxpayer accounts with an assessed balance of \$705,241 (average \$13,828) closed as CNC during FY 2020 from a population of 204,333 with an assessed balance of \$2.6 billion (average \$12,918).²⁵ We determined if each account was properly closed as CNC during FY 2020. Similar to our review of PPIA cases, we identified 24 accounts (47 percent) for which the financial statement was not maintained in AMS for viewing.

Overall, we determined that 41 cases adequately supported the IRS’s actions based on the applicable IRS guidance. The remaining 10 cases (nearly 20 percent) had one or more instances

²⁵ Assessed balance is the sum total of the assessed tax, assessed penalties, and assessed interest at a point in time. Population included taxpayers with multiple tax accounts closed as CNC during FY 2020. When an account is closed as CNC, all affected balances owed by the taxpayer are deemed not collectible.

in which the history case notes did not fully support the CNC action or a PPIA should have been considered prior to the case being closed as CNC.²⁶ [REDACTED] we found that the detailed history notes and information maintained in IRS systems did not fully support the CNC action. Specifically, there was no evidence that a determination of the taxpayers' ability to pay was made. Because the IRS systems maintained inadequate documentation supporting the CNC action, and based on the results of our sample, we estimate that the IRS may have improperly suspended collection activity on 32,052 taxpayer accounts totaling over \$368 million.²⁷

In four of the 10 cases, we determined that the IRS should have offered the taxpayers a PPIA instead of closing the case as CNC. For example:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Overall, the assessed tax liability, penalty, and interest totaled \$159,018 for the four cases. The IRS advised us that, for three cases, PPIAs were not offered because taxpayers did not specifically request a PPIA. [REDACTED]

[REDACTED] If PPIAs were established for these four taxpayers, we estimate that they could have paid over \$79,724 before their respective

²⁶ [REDACTED] We identified 10 cases with one or more deficiencies during our review, including eight cases with unsupported CNCs, four cases for which PPIAs should have been considered before the CNC, [REDACTED]

²⁷ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the actual number is between 16,455 and 54,201. The dollar projection is based on a 90 percent empirical likelihood confidence interval. We are 90 percent confident that the actual amount is between \$104,716,965 and \$1,079,710,458.

CSEDs. Based on our random sample, we project that the 16,026 taxpayers who had a tax liability closed as CNC could have entered PPIAs and paid a total of over \$319 million before their respective CSEDs.²⁸ Although each taxpayer's financial condition is unique, the IRS is losing the opportunity to expand its use of PPIAs to collect some of the delinquent taxes owed by taxpayers in CNC status.

Recommendation 6: The Director, Collection Policy, SB/SE Division, should revise CNC procedures to include a PPIA decision point before determining to place a taxpayer in a CNC status and, in the interim, should remind Collection employees of the requirement to consider and document whether the taxpayer can afford to fully or partially pay their debt before placing the taxpayer's account in CNC status. The message should remind employees to consider all payment options, including PPIAs, when the taxpayer cannot afford to fully pay the tax debt but can pay a portion of the tax due before the CSED.

Management's Response: IRS management partially agreed with this recommendation. Management stated that they plan to message first-line supervisors to remind employees during a group meeting of the existing procedures to consider all payment options, including PPIAs, when the financial analysis shows the taxpayer is able to pay some of the tax debt before the collection statute expires. However, IRS management did not agree to revise the IRS's CNC procedures to include a PPIA decision point before placing a taxpayer in a CNC status if the taxpayer's financial condition supported partially paying off their debt.

Office of Audit Comment: IRS plans to remind its supervisors and employees of existing IRS procedures to consider all payment options including PPIAs but will not revise CNC procedures. This does not adequately address the decision points employees should make to determine whether or not a taxpayer has the financial ability to partially pay outstanding tax debt instead of closing the case as CNC. Without written guidance, employees will not be routinely prompted to consider PPIAs and, as a result, the IRS will continue to lose its opportunity to collect a portion of the delinquent taxes owed. Further, without written guidance, employees unable to attend those meetings or newly hired employees will not know to consider all payment options, including PPIAs.

²⁸ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the actual number is between 5,566 and 34,848 taxpayers. The dollar projection is based on a 90 percent empirical likelihood confidence interval. We are 90 percent confident that the actual amount is between \$82,045,287 and \$949,323,907. See Appendix II for a detailed explanation of this estimate. The point estimate and dollar projection do not account for the default rate associated with PPIAs.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the controls and effectiveness of the PPIA program. To accomplish the objective, we:

- Evaluated IRS policies, procedures, goals, and monitoring of the PPIA program. We reviewed current I.R.C. sections, IRMs, and other guidance developed by the IRS. We interviewed SB/SE Division personnel responsible for initiating PPIAs, other IAs, and other collection action activities. We also met and corresponded with SB/SE Division management and other personnel from various offices regarding the IRS's process for initiating PPIAs and CNCs.
- Reviewed prior audits, documents, and management responses to evaluate whether the corrective actions were timely and effectively implemented. We also reviewed program review results and quality review reports conducted from FYs 2016 through 2019 to identify trends of quality issues pertaining to IAs, including PPIAs.
- Evaluated the IRS's process for submitting IA requests as well as accepting and rejecting IA requests.
- Analyzed and compared PPIA statistics with other IAs and discussed the expanded use of PPIAs for taxpayers with SB/SE employees and managers involved in the process of initiating PPIAs.
- Determined if the IRS properly established PPIAs and performed the two-year financial PPIA reviews. From a universe of 11,453 taxpayers with PPIAs established during FYs 2017 and 2018, we reviewed a judgmental sample of 30 taxpayer accounts based on the taxpayer's eligibility date for the required two-year financial review.¹ Using the same universe, we also identified the population of 1,007 taxpayer accounts that were automatically defaulted on PPIAs for not providing updated financial statements. We analyzed information from SB/SE Division Headquarters Collections personnel, the Integrated Data Retrieval System, and AMS.
- Determined if the IRS followed its established CNC procedures and if a PPIA would have been a more appropriate collection tool based on the taxpayer's financial condition. From a universe of 204,333 taxpayer accounts closed as CNC during FY 2020, we reviewed a random sample of 51 taxpayer accounts to determine if IRS employees properly established the CNC and if management reviewed and approved the determination. We analyzed information from SB/SE Headquarters Collections personnel, the Integrated Data Retrieval System, and AMS. TIGTA's contracted statistician advised us on our sampling plan, including the possible error rates and sample sizes, and also assisted with developing sample projections based on the exceptions identified during the audit.

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Performance of This Review

This review was performed with information obtained from the SB/SE Division during the period of August 2020 through July 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Christina Dreyer, Director; Tim Greiner, Audit Manager; Meaghan Tocco, Acting Audit Manager; and Jamelle Pruden, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained Master File data directly from the IRS's Information Technology organization reflecting the population of PPIA cases established during FYs 2017 and 2018. We compared selected data elements to the relevant Integrated Data Retrieval System data for 15 cases. We also obtained CNC data from the Master File data on the TIGTA Data Center Warehouse. We compared CNC data, including Taxpayer Identification Number, Tax Period, Master File Tax, CSED, assessed tax, assessed penalty, and closing code to the relevant Integrated Data Retrieval System data for 10 cases. We found no significant issues and thus determined that the data are sufficient and reliable for purposes of this report.

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: the IRS's policies, procedures, and practices related to the establishment of PPIAs; PPIA two-year reviews; and the process for closing taxpayers' accounts as CNC. We evaluated these controls by interviewing management, reviewing IRS forms and letters along with IRM guidance provided to managers and employees, reviewing reports, and analyzing closed case data.

Outcome Measures

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

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 10 taxpayer PPIA electronic case files did not contain evidence that there was a financial analysis completed or the evidence was insufficient to support the IRS’s decision to grant the PPIA (see Recommendations 3 and 4).

Methodology Used to Measure the Reported Benefit:

We selected a judgmental sample of 30 taxpayers with PPIAs established during FYs 2017 and 2018 from the population of 11,453 taxpayers.¹ We reviewed the AMS and Integrated Collection System history notes and Integrated Data Retrieval System account data to determine if proper financial analyses were performed to support the granting of the PPIAs.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; eight taxpayer accounts closed as CNC had one or more instances in which the detailed history notes and information maintained in IRS systems did not fully support the CNC action (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

We selected a statistically valid sample of 51 taxpayer accounts from the population of 204,333 taxpayer accounts closed as CNC during FY 2020 with a special closing code identifying that the taxpayer was unable to pay.² For eight of the 51 taxpayer accounts, we found that the detailed history notes and information maintained in IRS systems did not fully support the CNC action. Specifically, there was no evidence that a determination of the taxpayers’ ability to pay was made.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; over \$35 million paid by 16,026 taxpayers who should have been granted PPIAs instead of having their tax accounts closed as CNC (see Recommendation 6).

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

² To select our statistically valid sample, we used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.

Methodology Used to Measure the Reported Benefit:

We selected a statistically valid sample of 51 taxpayer accounts from the population of 204,333 accounts closed as CNC with a special closing code identifying that the taxpayer was unable to pay.³ Through a review of IRS systems, including AMS, we determined that the financial condition of four taxpayers supported that they could have entered into a PPIA instead of their cases being closed as CNC. Specifically, [REDACTED]

[REDACTED] Based on the date of the CNC and the CSED, we calculated the number of months remaining on the CSED for each case. We multiplied the potential monthly installment amount by the number of months. See the table below for details.

Taxpayer	Alternative to CNC	PPIA Monthly Installment (Potential)	Total Months Remaining on CSED	Total Amount Paid (Potential)
1	Taxpayer offered to pay	\$541	114	\$61,674
2	Taxpayer offered to pay	\$150	58	\$8,700
3	TIGTA assumption	\$50	107	\$5,350
4	TIGTA assumption	\$50	80	\$4,000
				\$79,724

Based on the results of our sample and the assistance of our contract statistician, we estimate that a total of \$319,416,551 could have been paid by 16,026 taxpayers who should have been offered a PPIA instead of having their tax accounts closed as CNC.⁴

We worked with the IRS to update our methodology to account for reasonable default rates. Based on the observed default rates and IRS data about the length of historical PPIAs, only 9 percent of PPIAs reach the CSED while still making payments. The SB/SE Division Research Study determined that 11 percent of revenue was recovered (as a percentage of total balance due) between 2016 and 2021 for PPIAs established in FY 2016. We applied the 11 percent to the \$319,416,551 to estimate the five-year recovery on the 16,026 taxpayers that we believed should have been offered a PPIA:

- \$319,416,551.00 X 11 percent = \$35,135,821

Management’s Response: In their response, IRS management did not agree with our estimate of \$35,135,821 as the total recovery amount over five years on the 16,026 taxpayers who we believed should have been offered a PPIA. IRS management stated that our outcome measure assumes that the potential lost revenue is equal to the amount all taxpayers who were granted a PPIA would have paid making all monthly payments until the collection statute expires. IRS

³ To select our statistically valid sample, we used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.

⁴ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the 16,026 is between 5,566 and 34,848. The dollar projection is based on 90 percent empirical likelihood confidence interval. We are 90 percent confident that the \$319,416,551 is between \$82,045,287 and \$949,323,907.

states that their research showed that only 9 percent of PPIAs opened in FY 2016 reached the CSED and made all the payments.

Office of Audit Comment: We accounted for the IRS's concern regarding this outcome measure, which is noted in this appendix. While we specifically note that only 9 percent of PPIAs reach the CSED while still making payments, we do not claim that our outcome measure is reflecting the potential lost revenue equal to the amount all taxpayers granted a PPIA would have paid until the CSED expires. We accounted for an SB/SE Division Research Study which determined that 11 percent of revenue was recovered (as a percentage of total balance due) between 2016 and 2021 for PPIAs established in FY 2016. Accordingly, we applied the 11 percent to the \$319,416,551 to estimate recovery on the 16,026 taxpayers that we believed should have been offered a PPIA.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 1,007 taxpayers with established PPIAs who defaulted because they did not provide the IRS with current financial statements as requested (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

From our population of 11,453 taxpayers with PPIAs established in FYs 2017 and 2018 who were eligible for the required two-year financial review, we isolated 1,007 taxpayer accounts that had PPIAs automatically defaulted because the taxpayer did not timely comply with an IRS request to provide an updated CIS. Specifically, we isolated taxpayers with a suspension default reason code along with an IA action code identifying that the agreements defaulted because the taxpayer did not timely comply with an IRS request to provide an updated CIS.

Appendix III

Types of Installment Agreements Offered by the IRS (Field Collection)

	PPIA	Guaranteed Individual Master File (IMF) only	Streamlined	Streamlined	Routine
Delinquent Tax Amount	Any amount	\$10,000 or less	\$25,000 or less	\$25,001 to \$50,000	Any amount
Type of Tax	Any type	IMF income tax only	IMF, Business Master File (BMF) income, out of business BMF	IMF, out of business sole proprietor	IMF, BMF, income, out of business BMF
Payment Terms	None	Full pay in three years including accruals	Greater of unpaid balance of assessment divided by 72 or full pay by the CSED	Greater of unpaid balance of assessment divided by 72 or full pay by the CSED	Full pay by the CSED
CIS Required	Yes (financial review every two years)	No	No	No*	Yes
Lien Determination Required	Yes	No	No	No	Yes
Can CSED Be Extended	Yes, if appropriate	No	No	No	No
Must View Assets	Yes	No	No	No	Yes
Managerial Approval	Yes	No	No	No	Yes

Source: TIGTA's review of IRS's IA Table.¹

¹ The asterisk (*) indicates that the verification of ability to pay using the CIS is not required unless the taxpayer has defaulted on an IA with missed payments within the past 12 months.

Appendix IV

Partial Payment Installment Agreement Activity From Fiscal Year 2016 to Fiscal Year 2020

IRS Collection Activity Reports extract data from the Integrated Data Retrieval System and produce management information reports to field and Headquarters Office Collection officials. The reports reflect activity associated with Taxpayer Delinquent Account and Taxpayer Delinquency Investigation issuances and IAs, including issuances, dispositions, and inventories as well as collection-related payments. We analyzed the Collection Activity Reports pertaining to PPIAs and created the following two tables.

PPIA Activity From FY 2016 to FY 2020 (Numbers)

PPIA Activity	FY2016	FY2017	FY2018	FY2019	FY2020	Totals	Average	5-Year Increase/ (Decrease)	5-Year Trend Percentage
Issued	48,854	39,888	35,516	36,733	21,501	182,492	36,498	(27,353)	-56%
Full Paid	3,979	4,199	3,866	3,574	3,066	18,684	3,737	(913)	-23%
Defaulted	37,078	43,731	35,227	35,913	21,319	173,268	34,654	(15,759)	-43%
Inventory	92,112	82,439	76,163	71,546	66,937			(25,175)	-27%
Default As a Percentage of Issued	76%	110%	99%	98%	99%	95%			

Source: TIGTA's Analysis of IRS Collection Activity Reports.

PPIA Activity From FY 2016 to FY 2020 (Dollars)

PPIA Activity	FY2016	FY2017	FY2018	FY2019	FY2020	Totals	Average	5-Year Increase/ (Decrease)	5-Year Trend Percentage
Issued	\$ 4,481,275,462	\$4,091,175,624	\$4,327,329,033	\$3,840,133,479	\$2,939,772,574	\$19,679,686,172	\$3,935,937,234	\$(1,541,502,888)	-34%
Full Paid	\$169,946,312	\$196,530,795	\$211,050,068	\$189,827,705	\$168,520,934	\$935,875,814	\$187,175,163	\$(1,425,378)	-1%
Defaulted	\$3,435,928,442	\$4,217,055,803	\$3,582,633,780	\$4,002,873,084	\$2,382,829,353	\$17,621,320,462	\$3,524,264,092	\$(1,053,099,089)	-31%
Amount Collected	\$441,137,625	\$429,498,636	\$424,141,834	\$423,027,545	\$359,552,550	\$2,077,358,190	\$415,471,638	\$(81,585,075)	-18%
Inventory	\$7,560,389,599	\$7,169,468,467	\$7,531,693,371	\$7,059,192,070	\$7,289,372,002			\$(271,017,597)	-4%
Default as Percentage of Amount Collected	779%	982%	845%	946%	663%	848%			
Default as Percentage of Amount Issued	77%	103%	83%	104%	81%	90%			

Source: TIGTA's Analysis of IRS Collection Activity Reports.

Management's Response to the Draft Report



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

February 14, 2022

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Darren John Guillot  Digitally signed by Darren J. Guillot
Date: 2022.02.15 12:03:44 -05'00'
Commissioner, Small Business/Self-Employed, Collection

SUBJECT: Draft Audit Report – The Administration of Partial Payment
Installment Agreements Needs Improvement (Audit #202030013)

Thank you for the opportunity to review and comment on the subject draft audit report, which evaluates the effectiveness of partial payment installment agreements (PPIAs). When taxpayers owe a federal tax balance that they are unable to immediately pay, installment payment agreements are an effective way for them to resolve their tax problem. The IRS offers several types of installment agreements depending on the taxpayer's circumstances. Last year 2,361,646 taxpayers established installment agreements with the IRS.

Section §6159 of the Internal Revenue Code (IRC) authorizes the IRS to enter into written agreements with a taxpayer, allowing the taxpayer to make payment on any tax in installment payments. Except in certain situations described in the statute, the IRS's authority to enter into such agreements is discretionary. In 2004, Congress amended IRC §6159 to clarify our authority to enter into installment agreements with taxpayers which do not provide for full payment of the taxpayer's liability over the life of the agreement, a PPIA. The amendment also requires the IRS to review PPIAs at least every two years to determine whether the taxpayer's financial condition has significantly changed to warrant an increase in the payment amount.

PPIAs are a small percentage of the IRS installment agreements executed each year. TIGTA found that the small number of PPIAs may be due to a lack of promotion or outreach efforts aimed at increasing awareness of PPIAs. To increase the number of PPIAs, TIGTA recommends that we inform taxpayers of their availability and establish a method for taxpayers to specifically request one. All IRS installment agreement intake channels, including Form 9465, *Installment Agreement Request*, currently provide an

option for the taxpayer to propose any monthly payment amount they can afford, have it fairly considered by the IRS, and receive appeal rights for any rejected proposal as required by law. Line 11a of the Form 9465 currently asks the taxpayer to specify the amount that they can pay and line 11b provides instructions if the amount the taxpayer provides in line 11a will not fully pay their outstanding tax liability. These instructions require the taxpayer to complete a collection information statement, which allows the IRS to determine the taxpayer's financial condition and how much the taxpayer can afford to pay. To increase awareness of PPIAs further, we will expand the discussion of PPIAs on IRS.gov and add PPIAs to IRS tax topic No. 202, *Tax Payment Options*.

The audit report makes several recommendations aimed at improving (lowering) the PPIA default rate. The Internal Revenue Manual requires Collection employees to attempt to obtain a current financial statement when conducting a financial analysis. We will remind our employees of the importance of completing a comprehensive financial analysis.

An installment agreement, including a PPIA, is established when our financial analysis demonstrates a taxpayer has an ability to pay in full or part. This program is distinctly different from the currently not collectible (CNC) hardship procedures, where the financial analysis demonstrates a taxpayer does not currently have the ability to pay. Considering PPIAs with these taxpayers, risks obligating them to monthly payments they cannot afford and potentially exacerbates a current hardship. I agree it will be beneficial to make more taxpayers aware of the PPIA and we will remind employees to consider all payment options [including PPIAs] when the taxpayer's financial condition shows that the taxpayer can afford to make payments but cannot pay their tax debt in full before the expiration of the collection statute.

PPIAs provide a practical alternative for taxpayers who have a limited ability to pay what they owe. Improving our PPIA processes to reduce the default rate and ensuring that our employees are considering these agreements as an option will assist tax administration. We appreciate your evaluation of the PPIA program and your recommendations to improve our current processes.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or Frederick W. Schindler, Director, Collection, Small Business/Self-Employed Division.

Attachment

RECOMMENDATION 1:

The Director, Collection Policy, SB/SE Division, should inform taxpayers of the availability of PPIAs and provide outreach and information in the following areas: 1) tax topics and tips on the IRS public website; 2) Form 9465 instructions by specifically referencing PPIAs (including what is required to qualify for a PPIA) and by indicating that, if taxpayers cannot afford to pay enough to repay the total amount due, then they should indicate what they can pay in box 11(a) on Form 9465; and 3) collection notices (Collection notice stream series).

CORRECTIVE ACTION:

We will expand the discussion of PPIAs at <https://www.irs.gov/payments> and add PPIAs to the discussion of payment options in IRS tax topic No. 202, *Tax Payment Options*, to increase awareness of PPIAs. We also will add a reference to <https://www.irs.gov/payments> in the instructions for Form 9465, *Installment Agreement Request*. Form 9465 currently provides that in certain circumstances, the taxpayer can establish an agreement for an amount that is less than the amount of tax they owe. Line 11a of the Form 9465 asks the taxpayer to enter the amount that they can pay and line 11b provides instructions if the amount the taxpayer provides in line 11a will not fully pay their outstanding tax liability. These instructions require the taxpayer to complete a collection information statement, which allows the IRS to determine the taxpayer's financial condition and to meet Congressional intent to determine how much the taxpayer can afford to pay when the amount the taxpayer says they can pay will only partially pay the liability. We will also explore and consider additional potential changes to the instructions for Form 9465 concerning PPIAs in conjunction with our corrective action for Recommendation #2.

IMPLEMENTATION DATE:

November 15, 2023

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

The Director, Collection Policy, SB/SE Division should collaborate with impacted internal stakeholders including the Taxpayer Experience Office and the Taxpayer Advocate Service, to explore and consider additional potential changes to the instructions to the Form 9465 concerning PPIAs.

CORRECTIVE ACTION:

We will collaborate with internal stakeholders, including the Taxpayer Experience Office and the Taxpayer Advocate Service, to explore additional changes to the instructions to the Form 9465 concerning PPIAs, and submit recommendations for any changes by the implementation date.

IMPLEMENTATION DATE:

November 15, 2023.

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:

The Director, Collection Policy, SB/SE Division, should collaborate with the Wage and Investment Division's Director, Modernization, Development, and Delivery, to extend AMS history note retention requirements pertaining to taxpayer's Forms 433-F and financial analyses.

CORRECTIVE ACTION:

We collaborated with Wage and Investment (W&I) to extend Account Management Services (AMS) retention of the financial statement. The functionality that purges the Financial Statements in AMS after 1 year was disabled as of October 5, 2021. Financial Statements from October 5, 2021 and beyond, will remain available while IT is evaluating technical solutions to align the Financial Statement retention period with the AMS History 2-year retention period. We will continue to collaborate with W&I and implement a permanent technology solution for the retention period, if possible.

IMPLEMENTATION DATE:

November 15, 2023.

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:

The Director, Collection Policy, SB/SE Division, should remind Collection employees of the requirement to conduct a financial analysis to determine a taxpayer's ability to pay and to document the analysis when considering PPIAs.

CORRECTIVE ACTION:

We will issue a message to our first-line supervisors reminding them of existing procedures and the importance of attempting to obtain a financial statement from the taxpayer and completing a comprehensive financial analysis when considering or reviewing a PPIA. That message will include material emphasizing the importance of attempting to obtain a financial statement and documenting the case histories about the taxpayer's ability to pay and whether a PPIA was considered. This message will be delivered by the first-line supervisor to employees during a group meeting.

IMPLEMENTATION DATE:

February 15, 2023

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:

The Director, Collection Policy, SB/SE Division, should request a change to Computer Paragraph 522, *Installment Agreement – Review Financial Condition*, to notify taxpayers that the financial information they provide may result in a higher or lower installment amount or no change to their installment amount.

CORRECTIVE ACTION:

We will revise the CP 522, *Installment Agreement – Review Financial Condition*, to notify taxpayers that the financial information they provide may result in a lower installment amount, a higher installment amount or no change to their installment amount.

IMPLEMENTATION DATE:

November 15, 2023

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 6:

The Director, Collection Policy, SB/SE Division, should revise CNC procedures to include a PPIA decision point before determining to place a taxpayer in a CNC status and, in the interim, should remind Collection employees of the requirement to consider and document whether the taxpayer can afford to fully or partially pay their debt before placing the taxpayer's account in CNC status. The message should remind employees to consider all payment options, including PPIAs, when the taxpayer cannot afford to fully pay the tax debt but can pay a portion of the tax due before the Collection Statute Expiration Date (CSED).

CORRECTIVE ACTION:

Our employees are instructed to complete a financial analysis before the taxpayer's account is placed in uncollectible status. After the employee has already determined the balance is currently uncollectible (through financial analysis), a taxpayer is not a candidate for a PPIA and requiring payments risks creating financial hardship. If the financial analysis shows that taxpayer can pay some or all their tax debt before the expiration of the collection statute, the employee is expected to discuss payment options with the taxpayer. In conjunction with the corrective action for Recommendation #4, we will issue a message to our first-line supervisors to remind employees of existing procedures to consider all payment options, including PPIAs, when the financial analysis shows the taxpayer can afford some payments, but cannot pay the full tax debt, before the expiration of the collection statute. That message will include material for the first-line supervisor to deliver to employees on this subject during a group meeting.

IMPLEMENTATION DATE:

February 15, 2023

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

OUTCOME MEASURE #1:

Reliability of Information – Potential; 10 taxpayer PPIA electronic case files did not contain evidence that there was a financial analysis completed or the evidence was insufficient to support the IRS's decision to grant the PPIA (see Recommendations 3 and 4).

IRS RESPONSE:

We acknowledge that the electronic case files for 10 of the taxpayer accounts reviewed by TIGTA did not include a financial analysis. The absence of the financial analysis was the result of the case file being reviewed more than 1-year after the analysis would have been conducted, and our compliance with existing procedures to delete financial analyses after 1-year. As discussed in our corrective action to Recommendation #3, we have agreed to extend the record retention period for AMS case histories, including financial analyses.

OUTCOME MEASURE #2:

Reliability of Information – Potential; eight taxpayer accounts closed as CNC had one or more instances in which the detailed history notes and information maintained in IRS systems did not fully support the CNC action (see Recommendation 6).

IRS RESPONSE:

We acknowledge that 8 of the taxpayer accounts closed as CNC had one or more instances in which the detailed history notes and information maintained in our electronic case files had been deleted. The deletion of the detailed notes and information was the result of the case file being reviewed more than 1-year after the notes and/or information would have been stored (in compliance with existing procedures). As discussed in our corrective action to Recommendation #3, we have agreed to extend the record retention period for AMS case history notes and information maintained in our electronic files.

OUTCOME MEASURE #3:

Increased Revenue – Potential; over \$35 million paid by 16,026 taxpayers who should have been granted PPIAs instead of having their tax accounts closed as CNC (see Recommendation 6).

IRS RESPONSE:

This outcome measure assumes that the potential lost revenue is equal to the amount all taxpayers granted a PPIA would have paid making all monthly payments until the CSED date. However, a recent SB/SE Research study, shows only 9% of FY 2016 PPIAs reached the CSED date and made all the payments.

OUTCOME MEASURE #4:

Taxpayer Burden – Potential; 1,007 taxpayers with established PPIAs who defaulted because they did not provide the IRS with current financial statements as requested (see Recommendation 5).

IRS RESPONSE:

The IRS is required by statute to review the financial condition of taxpayers who enter into a PPIA every 2 years to determine whether the taxpayer's financial condition has changed and they can pay more. Because completion of the review may require the IRS to review a current financial statement, every PPIA includes a provision advising the taxpayer that the agreement will default if they do not provide a financial statement when requested. The 1,007 taxpayers identified by TIGTA defaulted because they did not meet the terms of the agreement when they did not provide the IRS with current financial statements as requested.

Glossary of Terms

Term	Definition
Accounts Management Services	Web-based system that shares key business data and provides a consolidated view of taxpayer information from various IRS systems. It provides access to such functionalities as Automated Collection System history, Correspondence Imaging System cases, penalty abatement tools, financial statement worksheets, and various tax computation worksheets.
Automated Collection System	A legacy system that provides a computerized telephone tax collection system designed to assist Collection employees with automatic contact and follow-up on delinquent taxpayers.
Collection Information Statement	Form used to obtain current financial information for determining how a wage earner or self-employed individual can satisfy an outstanding tax liability.
Collection Statute Expiration Date	The date established by law by which the IRS must collect any amount due from a taxpayer for a given Tax Period. Interest can be assessed based on this date.
Currently Not Collectible	In certain circumstances, Collection personnel may determine that an account is currently uncollectible. These cases can be removed from active inventory after taking the necessary steps in the collection process.
Data Center Warehouse	A collection of IRS databases containing various types of taxpayer accounts and IRS and TIGTA employee information that is maintained by TIGTA for the purpose of analyzing data for ongoing audits.
Fiscal Year	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.
Installment Agreement	Arrangements by which the IRS allows taxpayers to pay liabilities over time.
Integrated Collection System	An information management system designed to improve revenue collection by providing revenue officers with access to the most current taxpayer information while in the field.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored taxpayer information. It works in conjunction with a taxpayer’s account records.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
National Quality Review System	Used by quality reviewers to capture national program review data obtained through case reviews. It’s also used to report the official organizational business quality results.
Offer in Compromise	An agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.

The Administration of Partial Payment Installment Agreements Needs Improvement

Term	Definition
Partial Payment Installment Agreement	Type of IA that allows a taxpayer to pay a partial payment of the balance due under specific conditions.
People First Initiative	Announced by the IRS in March 2020, this initiative was an effort to assist taxpayers facing the challenges of the Coronavirus Disease 2019 pandemic. The initiative temporarily adjusted or suspended key IRS compliance programs. The changes generally included postponing certain payments related to IAs and OICs, suspending liens and levies, suspending passport certifications of seriously delinquent taxpayers, not referring new delinquent accounts to private debt collection, and delaying new field, office, or correspondence examinations.
Revenue Officer	Employees in Field Collection function who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by IRS campuses or the Automated Collection System.
Tax Period	Refers to the year and last month of the approved accounting period of the organization.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Delinquency Investigation	An account for which it appears a tax return has not been filed by a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer.

Appendix VII

Abbreviations

AMS	Accounts Management Services
CIS	Collection Information Statement
CNC	Currently Not Collectible
CSED	Collection Statute Expiration Date
FY	Fiscal Year
IA	Installment Agreement
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OIC	Offer in Compromise
PPIA	Partial Payment Installment Agreement
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



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

(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.