



*Trends in Compliance Activities Through
Fiscal Year 2013*

September 12, 2014

Reference Number: 2014-30-062

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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HIGHLIGHTS

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2013

Highlights

**Final Report issued on
September 12, 2014**

Highlights of Reference Number: 2014-30-062 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

This report is a compilation of statistical information reported by the IRS. The data presented in this report provide taxpayers and stakeholders with information about how the IRS focuses its compliance resources and the impact of those resources on revenue and compliance over time.

WHY TIGTA DID THE AUDIT

TIGTA conducts this review annually in response to continuing stakeholder interest in the analysis and trending of Collection and Examination function activities. The overall objective was to provide various statistical information regarding Collection and Examination function activities.

WHAT TIGTA FOUND

Between Fiscal Years (FY) 2010 and 2013, the IRS's appropriated budget decreased 7.4 percent, from \$12.1 billion to \$11.2 billion after sequestration. Sequestration had a significant impact on the IRS's FY 2013 budget.

These budget reductions resulted in decreases in the number of employees available to provide services to taxpayers and enforce the tax laws. Specifically, the number of full-time equivalents decreased by nearly 9 percent, from 94,618 at the end of FY 2010 to 86,310 at the end of FY 2013, including a 4 percent reduction between FYs 2012 and 2013. The number of enforcement personnel decreased by more than 1,000 employees during FY 2013.

As resources decreased, the IRS's responsibilities have expanded. For example, in

FY 2013, the IRS continued implementing tax-related portions of the Affordable Care Act and the Foreign Account Tax Compliance Act.

Despite these challenges, total dollars received and collected (gross collections) increased for the third straight year to \$2.9 trillion (a 13 percent increase) in FY 2013. Enforcement revenue collected also increased from \$50.2 billion in FY 2012 to \$53.3 billion in FY 2013 due, in part, to several large Appeals case settlements. Tax return filings continued to increase as did gross accounts receivable, which increased to \$400 billion.

The FY 2013 Collection function activities showed mixed results. The amount collected on delinquent accounts by both the Automated Collection System and Field Collection decreased. The Collection function continued to receive more delinquent accounts than it closed, although the number of delinquent accounts in the Collection queue decreased due, in part, to the removal of millions of accounts that were not resolved. Fewer Notices of Federal Tax Lien were filed, fewer levies were issued, and fewer seizures were made. Meanwhile, taxpayers' use of payment options such as offers in compromise increased.

The Examination function conducted 6 percent fewer examinations in FY 2013 than in FY 2012. The decline in examinations occurred across all tax return types, including individual, corporation, S corporation, and partnership. Seventy percent of return examinations were conducted via correspondence. While the number of tax return examinations declined, productivity indicators were mixed. The dollar yield per hour for most return types increased. However, the no-change rates increased for some types of examinations (corporations and partnerships), while it decreased for others (individuals and S corporations).

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. IRS officials were provided an opportunity to review the draft report and did not provide any comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 12, 2014

**MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT**

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through
Fiscal Year 2013 (Audit # 201430011)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This review is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Although we made no recommendations in this report, we did provide Internal Revenue Service officials an opportunity to review the draft report. They did not provide us with any report comments.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report. Please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations), if you have any questions.



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Trends in Compliance Activities Through Fiscal Year 2013

Abbreviations

ACA	Patient Protection and Affordable Care Act of 2010
ACS	Automated Collection System
FY	Fiscal Year
IRS	Internal Revenue Service
NFTL	Notice of Federal Tax Lien
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration



Background

Given the responsibility for administration of the Nation's tax code, the Internal Revenue Service (IRS) must consider its mission in planning and executing various legislative changes as well as in evaluating its performance and the results of its programs. The IRS's mission is to:

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Each year,¹ the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the IRS's Collection and Examination function activities. Our data analyses were performed in TIGTA's Philadelphia, Pennsylvania, office during the period April through June 2014. Nationwide data from IRS management information systems were used during our review. Due to time and resource constraints, we did not audit the IRS systems to validate the accuracy and reliability of that information. We did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of this report are included in Appendix IV. A glossary of terms is included in Appendix VI.

Most of the calculations throughout the report and Appendix IV are affected by rounding. All initial calculations were performed using the actual numbers rather than the rounded numbers that appear in the report. Much of the data included in this report update prior TIGTA reports on compliance trends. Appendix V presents a list of those reports.

¹ TIGTA did not perform this review in Fiscal Year 2012.



Results of Review

Challenges Affecting the Internal Revenue Service During Fiscal Year 2013

In Fiscal Year (FY) 2013, the IRS continued working to fulfill its mission with declining resources. Between FYs 2010 and 2013, the IRS operated under multiple continuing resolutions. Although the continuing resolutions allow for agencies to continue operating, they do so in a more restricted manner than under regular appropriations. Additionally, sequestration, which went into effect in FY 2013, significantly reduced the IRS's budget, which created additional management challenges for the IRS in achieving its mission.

These budget reductions have resulted in decreases in the number of employees available to provide services to taxpayers and those needed to enforce the tax laws. During FY 2013, the decline in personnel contributed to a decrease in the number of examinations and an increase in the number of delinquent taxes being assigned to an inactive status. However, enforcement revenue increased during FY 2013 due, in part, to several large appeal case settlements.

Resources continued to decrease in FY 2013

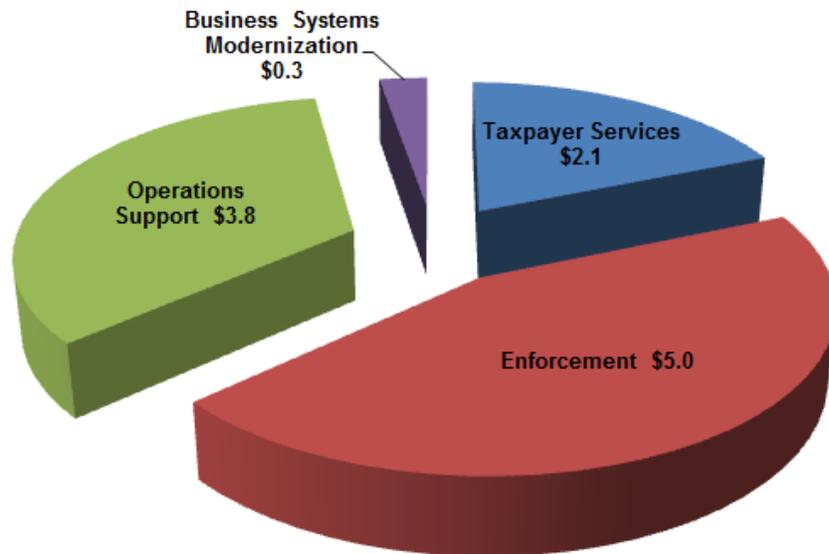
The IRS's appropriated budget decreased in FY 2013 to \$11.2 billion. While the IRS's FY 2014 appropriated budget increased to \$11.3 billion, it is still 8 percent less than the \$12.1 billion appropriated in FY 2010. The President's and IRS Oversight Board's FY 2015 budget requests for the IRS included increases of 11 percent and 20 percent, respectively.

IRS appropriations for FY 2013 are categorized in the following core areas: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization. Figure 1 shows the amount of appropriation by core area.²

² Taxpayer Services includes processing tax returns and related documents and assistance for taxpayers in filing returns and paying taxes. Enforcement includes examination of tax returns, collection of delinquent balances, and the administrative and judicial settlement of taxpayer appeals of examination findings. Operations Support includes administrative services, policy management, and IRS-wide support. Business Systems Modernization includes capital asset acquisitions of information technology systems to modernize key tax administration systems.



Figure 1: Fiscal Year 2013 Funding by Core Appropriation (in Billions)



Source: TIGTA analysis of IRS budget appropriations.

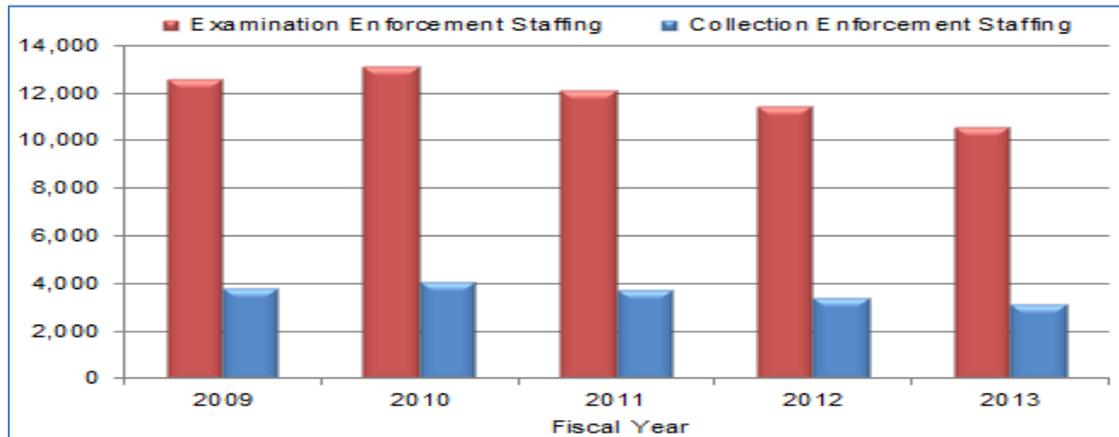
Decreases in funding continue to affect the number of IRS employees available to meet the IRS mission. The number of IRS full-time equivalents decreased from 94,618 at the end of FY 2010 to 86,310 at the end of FY 2013. Full-time equivalents have been reduced by nearly 9 percent over this time period, including a 4 percent reduction between FYs 2012 and 2013.

Figure 2 shows that gains in enforcement personnel³ (revenue officers, revenue agents, and tax compliance officers) in prior years have been more than offset since FY 2011 by declines in this area. Hiring initiatives during FYs 2009 and 2010 led to the largest increase in the number of IRS enforcement personnel since FY 1999.

³ Collection and Examination functions staff located in field offices, excluding management and overhead staff.



Figure 2: Enforcement Personnel by Fiscal Year



Source: TIGTA analysis of Collection Activity Report 5000-2 and Table 37 Examination Time Reports.

Enforcement personnel decreased almost 8 percent from FY 2012 to FY 2013. Since FY 2010, the combined number of enforcement personnel has decreased by 20 percent, from 17,206 in FY 2010 to 13,696 at the end of FY 2013.

Resources were used to implement new tax legislation during FY 2013

As IRS resources have decreased, its responsibilities have expanded. In FY 2013, the IRS was responsible for implementing tax-related portions of the Foreign Account Tax Compliance Act⁴ and the Patient Protection and Affordable Care Act of 2010⁵ (ACA). The Foreign Account Tax Compliance Act requires U.S. taxpayers as well as foreign banks, investment funds, and insurance companies to report on the offshore accounts worth more than \$50,000 that are held by U.S. taxpayers. In August 2013, the IRS implemented a secure online registration system for financial institutions to register with the IRS under the Foreign Account Tax Compliance Act.

The ACA seeks to provide more Americans with access to affordable health care by creating a new Health Insurance Marketplace, enforcing patient/consumer protections, and providing Government subsidies for people who cannot afford insurance. During FY 2013, the IRS continued to implement changes necessary to meet its responsibilities associated with the ACA. TIGTA reported⁶ in FY 2014 that the IRS continues to move forward in this respect by revising or developing new tax forms, instructions, and publications; training IRS employees; revising internal processes and procedures; issuing revenue procedures and regulations; developing a customer service strategy; and providing outreach to taxpayers and tax professionals. In

⁴ Pub. L. No. 111-147, Subtitle A, 124 Stat 71, *96-116 (2010) (codified in scattered sections of 26 U.S.C.).

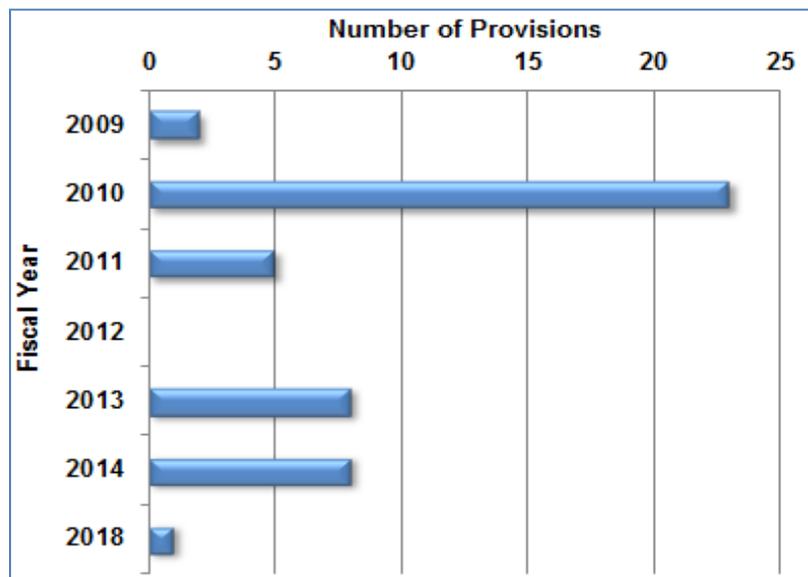
⁵ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered section of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

⁶ TIGTA, Ref. No. 2014-43-006, *Affordable Care Act: The Customer Service Strategy Sufficiently Addresses Tax Provisions; However, Changes in Implementation Will Create Challenges* (Dec. 2013).



addition, in order to mitigate implementation changes that may occur to ACA tax provisions, the IRS has developed an oversight and monitoring process to identify ACA-related actions that may affect its operations. Figure 3 shows the effective legislation dates for ACA provisions affecting the IRS.

Figure 3: Number of Affordable Care Act Provisions by Fiscal Year



Source: TIGTA analysis of the ACA Provisions.

In FY 2013, the IRS successfully implemented a new ACA-related computer system to support the health insurance marketplace. The system analyzes prior year tax return filings, provides verification of income levels and filing status, and determines if a taxpayer is claimed as a dependent by another taxpayer. During FY 2013, the IRS responded to more than 5 million information requests from the health insurance marketplace to verify income and family size.

Tax return filings have increased during FY 2013

Overall, tax return filings increased by more than 3.1 million in FY 2013, from 186.7 million in FY 2012 to 189.9 million in FY 2013. This is the highest number of tax returns ever filed. Since Calendar Year 2009, the number of returns filed has increased by more than 3 percent.⁷

The number of returns electronically filed also continues to increase. The IRS reported that in FY 2013 nearly 73 percent of major returns were filed electronically. This is up from FY 2012,

⁷ Filings data are from the IRS Data Book, which presents examination coverage and provides return filings on a calendar year basis because examination activity is generally associated with returns filed in the previous calendar year.



Trends in Compliance Activities Through Fiscal Year 2013

when the percentage of electronically filed returns filed was reported at 71 percent. The electronic filing increase in FY 2013 also included increases in both home computer filings (3.9 percent increase) and electronically filed business returns (3.5 percent increase).

Enforcement Revenue and Gross Collections Increased During Fiscal Year 2013

Since FY 1990, the Government Accountability Office has included enforcement of tax laws as one of the 30 high-risk areas in the Federal Government.⁸ The Government Accountability Office states:

Given that the Tax Gap has been persistent and dispersed across different types of taxes and taxpayers, coupled with tax code complexity and a globalizing economy, reducing the Tax Gap will require applying multiple strategies over a sustained period of time.

For Tax Year 2001, the IRS estimated the Gross Tax Gap at \$345 billion. In FY 2012, the IRS estimated the Gross Tax Gap for Tax Year 2006 to be \$450 billion, which is an increase of 30 percent. The IRS attributed the increase to the growth in total tax liabilities between Tax Years 2001 and 2006 and not to any significant change in taxpayer compliance rates.

Enforcement revenue collected increased \$3.2 billion⁹ (6 percent) from \$50.2 billion in FY 2012 to \$53.3 billion in FY 2013.¹⁰ Despite the increase, enforcement revenue for FY 2013 was less than the enforcement revenue collected during two of the past four fiscal years. Furthermore, \$2.6 billion (81 percent) of the \$3.2 billion increase in FY 2013 was due to a number of cases in appeals or litigation that were worked in prior years.

The portion of enforcement revenue collected attributed to the Collection program¹¹ increased by more than 3 percent, from \$30.4 billion in FY 2012 to \$31.4 billion in FY 2013. However, the Examination program's portion of enforcement revenue collected decreased by almost 4 percent, from \$10.2 billion in FY 2012 to \$9.8 billion in FY 2013, which is the lowest amount in the past five years.¹²

Figure 4 shows that the total dollars received and collected (gross collections) increased for the third straight year. FY 2013 represents the largest increase in gross collections in the past

⁸ Government Accountability Office, GAO-13-283, *HIGH RISK SERIES: An Update* (Feb. 2013).

⁹ Due to rounding, the total of the detailed changes do not sum to the total difference in Total Enforcement Revenue from FY 2012 to FY 2013.

¹⁰ See Appendix IV, Figure 2.

¹¹ The enforcement revenue collected for all of the Collection program statuses including notice, installment agreement, offers in compromise, Collection queue, Field Collection, Automated Collection System, and Compliance Services Collection Operations.

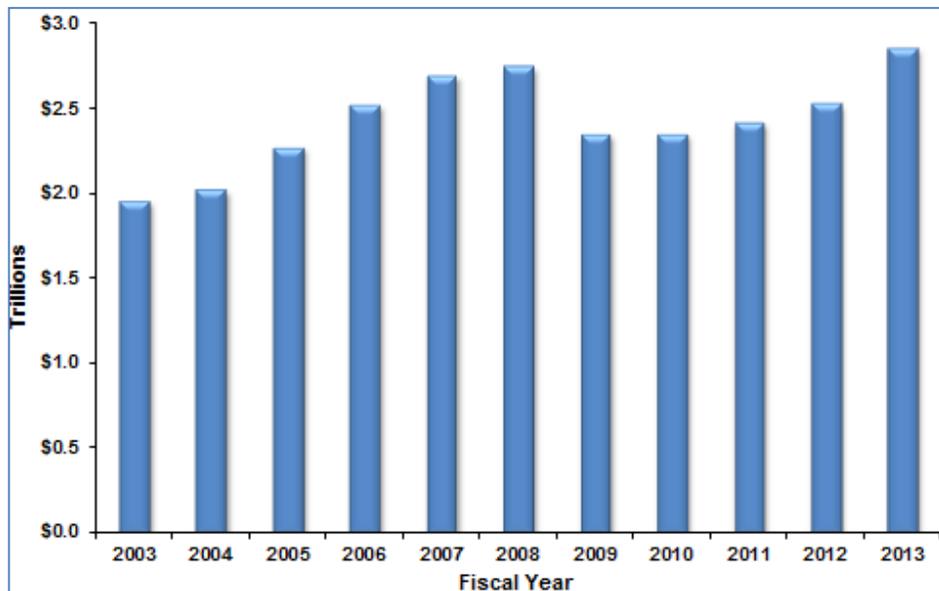
¹² In addition to amounts attributed to the Collection and Examination programs, total enforcement revenue includes amounts attributed to the Appeals and Information Returns Processing programs.



Trends in Compliance Activities Through Fiscal Year 2013

10 years. Specifically, gross collections increased by 13 percent in FY 2013, to \$2.9 trillion, which is more than \$100 billion higher than the prior high of \$2.7 trillion in FY 2008.

Figure 4: Gross Collections by Fiscal Year



Source: TIGTA analysis of the IRS Data Book.

Collection Function Compliance Activities Showed Mixed Results

IRS Oversight Board surveys of taxpayer attitudes have shown that taxpayers believe it is very important that the IRS ensures that all taxpayers pay their taxes. In FY 2013, the public was firm in its belief that no segment of taxpayers should be exempt from vigorous IRS enforcement of the tax laws.

Collection is an important aspect of maintaining a voluntary tax compliance system. During FYs 2009 and 2010, the IRS hired more than 1,500 revenue officers. However, since then, the number of revenue officers has decreased 23 percent, from 4,068 in FY 2010 to 3,140 at the end of FY 2013.¹³ In addition, the number of contact representatives within the Automated Collection System (ACS) has decreased 39 percent, from 2,824 in FY 2010 to 1,730 in FY 2013.

Total dollars collected on Taxpayer Delinquent Accounts (TDA) by the ACS and Field Collection (Field) decreased again in FY 2013. Closures of fully paid TDAs decreased slightly, and fewer Taxpayer Delinquency Investigations (TDI) were closed for the second straight year. The number of taxpayers with TDAs and TDIs in the Collection queue decreased in FY 2013, which was largely due to the increase in the number of TDAs and TDIs shelved during FY 2013.

¹³ See Appendix IV, Figure 6.



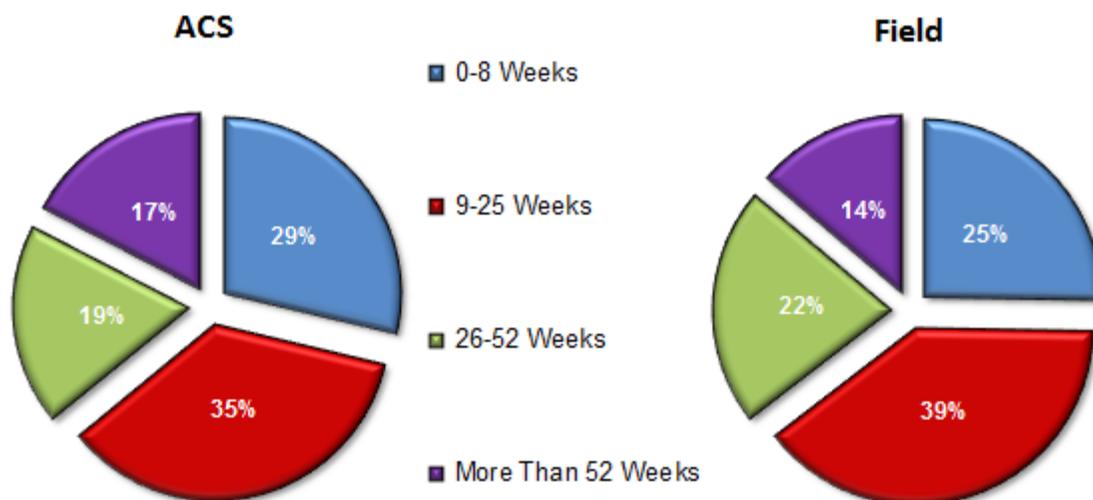
Trends in Compliance Activities Through Fiscal Year 2013

New TDA receipts continued to outpace closures. The IRS also reduced its use of Notices of Federal Tax Lien (NFTL), levies, and seizures. Considering the trend in decreasing resources and increasing TDAs, the Collection function will need to achieve efficiency and productivity gains to ensure that the Tax Gap does not widen.

TDA collections

The decreases in TDA collections were driven by the Field. After increasing for three straight fiscal years, Field TDA collections decreased more than 5 percent to \$3.1 billion in FY 2013. Collections on TDAs by the ACS increased 1 percent, to \$2.8 billion during FY 2013. Figure 5 shows that both the ACS and the Field continued to make the majority of collections within the first year of receipt.¹⁴ The majority of collections were made within the first 25 weeks (six months).¹⁵

Figure 5: Percentage of Dollars Collected during FY 2013 by the Number of Weeks the TDA Was Assigned to the ACS and the Field



Source: IRS Collection Activity Report 5000-2.

Compared with FY 2012, the number of TDA receipts decreased, while the number of TDA closures increased in FY 2013. However, the IRS continues to receive more new TDAs than it closes. TDA closures, as a percentage of TDA receipts, also decreased in FY 2013 to 76 percent, down from 80 percent in both FYs 2011 and 2012.¹⁶

¹⁴ Time in function does not include time that each tax module may have spent in another IRS function.

¹⁵ See Appendix IV, Figures 9 and 10.

¹⁶ See Appendix IV, Figure 16 and 18.

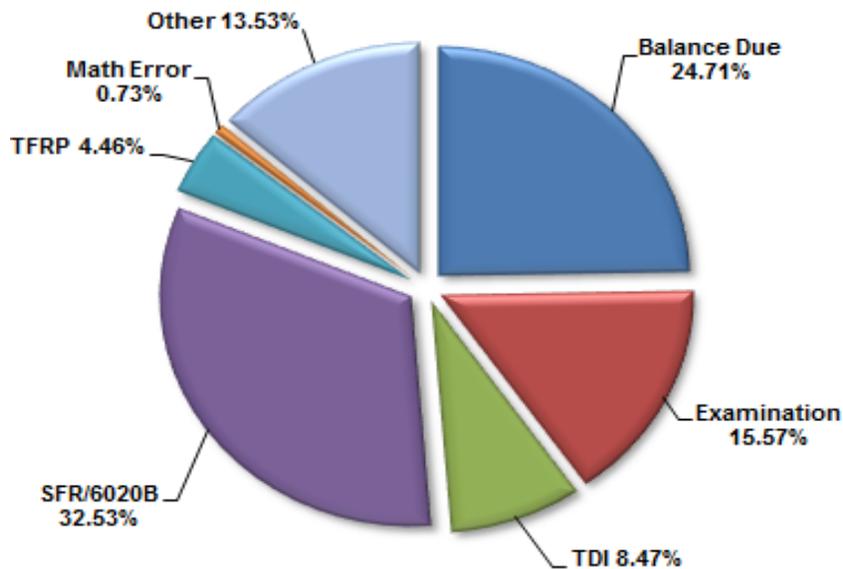


Accounts receivable

The amount of gross accounts receivable increased 2 percent (to \$400 billion) in FY 2013. This is the smallest percentage increase since FY 2002. While the accounts receivable has grown in each of the past five years, the percentage of these increases has been smaller in recent years.¹⁷ The smaller increases in the accounts receivable could be attributed in part to increases in gross collections. Gross collections have increased in each of the last three fiscal years, including an increase of 13 percent from FY 2012 to FY 2013.¹⁸

Broken down by source of assessment, the Substitute for Return Program portion has increased to more than 32 percent of accounts receivable in FY 2013, an increase from 29 percent of accounts receivable in FY 2009. The portions attributed to the remaining programs either decreased or increased no more than 2 percent since FY 2009.¹⁹ Figure 6 shows the accounts receivable by source of assessment.

Figure 6: Fiscal Year 2013 Percentage of Accounts Receivable by Source of Assessment



Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. SFR = Substitute for Return. TFRP = Trust Fund Recovery Penalty.

¹⁷ See Appendix IV, Figure 2.

¹⁸ See Appendix IV, Figure 1.

¹⁹ See Appendix IV, Figure 3.



TDI closures

The number of TDI tax periods closed because delinquent tax returns were received by the IRS decreased by 15 percent in FY 2013.²⁰ This decrease follows a 23 percent decrease in FY 2012. The decreases were likely the result of fewer TDI issuances over the past two fiscal years.

The Collection queue

The number of taxpayers with TDAs in the Collection queue (hereafter referred to as the queue) decreased in FY 2013 for the first time since FY 2010. At the end of FY 2013, there were approximately 848,000 taxpayers with TDAs in the queue, which is more than 25 percent less than the number of taxpayers with TDAs in the queue at the end of FY 2012 (more than 1.1 million).²¹

In addition, the dollar value of the taxes owed in the queue decreased by nearly 21 percent. This is the first decrease in the past five years. However, the \$49.9 billion owed at the end of FY 2013 is still 16 percent more than the \$43.2 billion owed at the beginning of FY 2009. Although many of the cases in the queue may be assigned to be worked, a significant number may be sent only an annual reminder notice in an attempt to resolve the delinquency.²²

Much of the decrease in queue inventory was due to large increases in shelved and surveyed cases that were removed from the queue without being resolved. The number of TDI tax periods shelved or surveyed from the queue increased 132 percent, from 258,000 in FY 2012 to 597,000 in FY 2013. The number of TDA tax periods shelved and surveyed increased 78 percent, from 667,000 in FY 2012 to 1.2 million in FY 2013. The \$10.8 billion in delinquencies that were shelved or surveyed during FY 2013 was 82 percent more than the dollar value shelved or surveyed during FY 2012.

TDIs and TDAs shelved or surveyed from the queue increased 132 percent and 78 percent, respectively during FY 2013.

The increase in shelved and surveyed cases was largely attributable to a combination of changes in case routing criteria and a lack of resources available to work the cases within the Field. In FY 2011, the IRS amended the dollar criteria used to route cases to the ACS, which resulted in more cases being routed to the queue during FYs 2011 and 2012. Because cases are generally shelved when they remain in the queue for 52 weeks without assignment, this influx of cases awaiting assignment and subsequently not being assigned resulted in an increase in cases shelved (inactive status).

²⁰ See Appendix IV, Figure 15.

²¹ See Appendix IV, Figure 11.

²² Before an account gets assigned to the queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice process, some cases go directly to the queue, while others are worked in the ACS. Those cases in the queue that are not assigned may not receive contact aside from annual reminder notices.



The use of NFTLs, levies, and seizures

The use of NFTLs, levies, and seizures all decreased in FY 2013.²³ The overall use of NFTLs decreased 15 percent in FY 2013, with NFTLs filed by the ACS and the Field decreasing 17 percent and 14 percent, respectively. This represents the fewest number of NFTLs filed since FY 2005.

Recent changes in NFTL filing determination thresholds are the most likely cause for the decrease in this enforcement action. The Field increased the threshold for NFTL filing determinations from \$5,000 to \$10,000, and the ACS increased its threshold for systemic NFTL filing to \$25,000. While the threshold increases were made to help individuals and small businesses meet their tax obligations and reduce taxpayer burden, risk remains in potentially leaving the Government's interest in taxpayer assets to secure payment of tax debt unprotected from claims of other third-party creditors.

The IRS's use of levies has also decreased for the second straight year. Total levies issued in FY 2013 decreased by more than 37 percent from almost 3 million to approximately 1.9 million. The number of levies issued by the ACS declined 46 percent to 1.2 million in FY 2013. The Field also decreased its use of levies, from 714,000 to 639,000 (11 percent).

The IRS continues to use seizures in minimal numbers. During FY 2013, seizures decreased by more than 25 percent (to 547). This is the fewest number of seizures since FY 2005, when 512 seizures were issued. The number of seizures still remains far below the number prior to implementation of the IRS Restructuring and Reform Act of 1998.²⁴

The use of payment options

When taxpayers cannot fully pay their tax obligations on time, the IRS offers alternate payment arrangements, such as installment agreements and offers in compromise. While taxpayers must meet certain criteria to participate in these options, the IRS recently expanded the criteria as part of their Fresh Start Initiatives to allow more taxpayers to participate. These Fresh Start Initiatives, implemented beginning in February 2011, were meant to help struggling taxpayers get a fresh start with their tax liabilities by providing more payment options to taxpayers.

The number of offers in compromise has increased in each of the past five years. Accepted offers increased 31 percent, from 24,000 in FY 2012 to 31,000 in FY 2013.²⁵ Accepted offers are up nearly 190 percent since FY 2009. The dollar value of accepted offers increased more than 50 percent from FYs 2010 to 2012 but did not change materially between FYs 2012 and 2013.

²³ See Appendix IV, Figures 20, 21, and 22.

²⁴ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

²⁵ See Appendix IV, Figure 24.



Trends in Compliance Activities Through Fiscal Year 2013

The total number of installment agreements has decreased in each of the past two years with 3.2 million and 3.0 million taxpayers entering installment agreements during FYs 2012 and 2013, respectively. Although the number of taxpayers establishing installment agreements decreased, the dollar value of assessments associated with these taxpayers increased each year from FYs 2009 through 2012, when it peaked at \$24.8 billion.²⁶ In FY 2013, the dollar value of assessments associated with these taxpayers decreased to \$24.6 billion. In addition, the number of taxpayers establishing direct debit installment agreements increased more than 19 percent (to 435,000) in FY 2013, and the dollar value of these new direct debit installment agreements increased by more than 50 percent.

Collections made through installment agreements increased in each of the past four years. During FY 2013, more than \$11.1 billion was collected from installment agreements, which is 55 percent more than the \$7.1 billion collected in FY 2009. Of this amount, \$2.2 billion was collected from direct debit installment agreements, which is 218 percent more than the \$688 million collected during FY 2009.

Examination Function Compliance Activities Showed Mixed Results

Examination is also an important aspect of maintaining tax compliance. IRS Oversight Board studies of taxpayer attitudes have shown that the fear of examination is a major factor in influencing taxpayers to report taxes honestly. In FY 2013, 60 percent of taxpayers surveyed cited the fear of examination as a factor that influenced their compliance. This is a decrease compared to FY 2012, when 63 percent of taxpayers responded similarly. In addition, during FY 2012, 11 percent of taxpayers surveyed believed it was acceptable to cheat on their income taxes. In FY 2013, the percentage of taxpayers who believed this increased to 12 percent.²⁷

After hiring almost 3,300 revenue agents and tax compliance officers in FYs 2009 and 2010, there have been fewer than 200 hired in these positions over the last three fiscal years, which is the fewest number of new hires in more than 10 years. The reduced hiring has contributed to a 20 percent reduction in the overall number of Examination function personnel who conduct examinations of tax returns.

From FYs 2010 to 2013, the number of:

- Revenue agents decreased 19 percent (from 11,648 to 9,451).
- Tax compliance officers decreased 25 percent (from 1,390 to 1,045).

²⁶ See Appendix IV, Figure 23.

²⁷ IRS Oversight Board 2013 Taxpayer Attitude Survey (Feb. 2014).



Trends in Compliance Activities Through Fiscal Year 2013

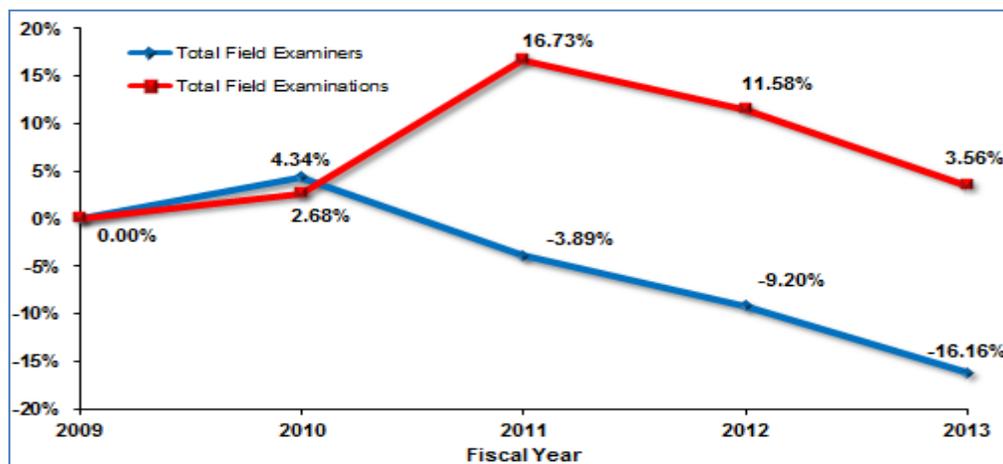
Due to reductions over the past several years, there were fewer employees conducting examinations than in any of the past five years and the fewest number of employees since FY 2003.²⁸

Overall, the number of tax returns examined decreased, and most examinations were conducted via correspondence

A decrease in the number of examinations of tax returns coincided with the reduction in examination employees. In FY 2013, the IRS conducted 6 percent fewer examinations than conducted in FY 2012. The decline in examinations occurred across all tax return types.

Figure 7 shows that the total number of field examinations declined for the second straight year after reaching a five-year high in FY 2011. The decrease in employees beginning in FY 2010 continued to affect the number of field examinations in FY 2013.

Figure 7: Percentage Change in the Number of Field Examiners and Examinations Since Fiscal Year 2009



Source: IRS Data Book and Examination Table 37.

IRS examinations can range from the issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer's records. Differentiating these two types of contact between the IRS and taxpayers is important when reviewing examination coverage rates, and caution should be taken in combining statistics from the various Examination function programs. Face-to-face examinations are generally more comprehensive and time-consuming for the IRS as well as taxpayers and typically result in higher dollar adjustments to the tax amounts. During FY 2013, 70 percent of all examinations were conducted via correspondence.

²⁸ See Appendix IV, Figure 25.



Trends in Compliance Activities Through Fiscal Year 2013

In addition to correspondence and face-to-face examinations, the IRS also uses several computer matching and automated error checking routines to verify the accuracy of tax returns.²⁹ These routines often identify adjustments to tax liabilities. However, these adjustments are not included in the traditional “audit rates” and are not reported separately as enforcement efforts. During FY 2013, the IRS continued to experience decreases in certain types of contacts associated with taxpayer math errors and underreporting.

Examination rates for the various types of tax returns decreased during FY 2013

The following paragraphs summarize examination coverage for various types of tax returns:

- *Individual Income Tax Return Examinations* – The number of individual income tax return examinations decreased for the third straight year. The IRS examined 1,404,931 (one of every 104) tax returns in FY 2013. This is approximately 11 percent fewer examinations than the 1,581,394 reported in FY 2010 (one of every 90).³⁰

During FY 2013, 81 percent of the examinations of individuals were performed by correspondence.³¹ One of every 541 individual income tax returns filed received a face-to-face examination, which is a 4 percent decrease compared with FY 2012, when one of every 522 individual returns received a face-to-face examination.

- *Corporate Income Tax Return Examinations* – Fewer corporate tax returns were examined during FY 2013 than any of the past five years.³² The number of examinations decreased in FY 2013 to a five-year low of 27,480 (one of every 70 returns filed).³³ Also in FY 2013, there were fewer corporate tax filings than in any of the last five years (1,912,105).

Over the past five years, the number of corporate tax returns examined with assets of less than \$10 million decreased 4 percent, from 18,298 in FY 2009 to 17,604 in FY 2013. These examinations decreased by 17 percent in the past year alone, from the five-year high in FY 2012 of 21,164. As examinations of these returns have reached lows, filings have also dropped over the past five years. Corporate tax return filings with assets of less than \$10 million have decreased nearly 14 percent since FY 2009, with a 2 percent decrease since FY 2012.

²⁹ See Appendix IV, Figures 49 and 50.

³⁰ This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 33 and 34.

³¹ We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.

³² This information excludes returns for foreign corporations, S corporations, and cooperative associations.

³³ See Appendix IV, Figures 33, 39 and 40 for coverage by size of corporation.



Trends in Compliance Activities Through Fiscal Year 2013

- *S Corporation Tax Return Examinations* – The number of S corporation examinations decreased 14 percent from the 21,658 examinations conducted in FY 2012. However, the number of S corporation examinations in FY 2013 (18,670) was nearly 7 percent more than the number examined in FY 2009 (17,455). In FY 2012, one of every 206 S corporation returns filed were examined, compared with one of every 240 filed in FY 2013.³⁴ S corporation return filings increased for the fifth straight year, reaching 4.5 million in FY 2013.
- *Partnership Return Examinations* – The number of partnership returns examined decreased 11 percent to 14,870 in FY 2013 after increasing to 16,691 in FY 2012. One of every 211 returns filed in FY 2012 were examined. This decreased to one of every 239 in FY 2013.³⁵ Partnership return filings increased to 3.6 million in FY 2013.
- *Other Tax Type Examinations (fiduciary, employment, excise, estate, and gift taxes)* – The overall number of examinations in these five classes was 87,836 for FY 2013. This is a 13 percent decrease in examinations from FY 2012, when the number of examinations was more than 101,000.

Each of the five other tax type returns experienced decreases in the number of examinations between FYs 2012 and 2013. Excise return examinations decreased by 25 percent and estate return examinations decreased by 14 percent. During FY 2012, only one of the five other tax types (estate) experienced decreases in the number of examinations.³⁶ The return filings increased for all five of these other tax type returns in FY 2013. Estate return filings and excise return filings increased 123 percent and 52 percent, respectively.

Examination function productivity indicators have mixed results

Figure 8 shows the dollar yield per hour for FYs 2009 through 2013 for revenue agents and tax compliance officers. The dollar yield per hour for revenue agent examinations of individuals decreased 10 percent between FYs 2012 and 2013. The dollar yield per hour for revenue agent examinations of corporations increased 58 percent between FYs 2012 and 2013. The dollar yield per hour for tax compliance officer examinations of individual returns has remained relatively unchanged over the past five years. Between FYs 2012 and 2013, the dollar yield per hour for examinations of individuals by tax compliance auditors decreased by 2 percent.

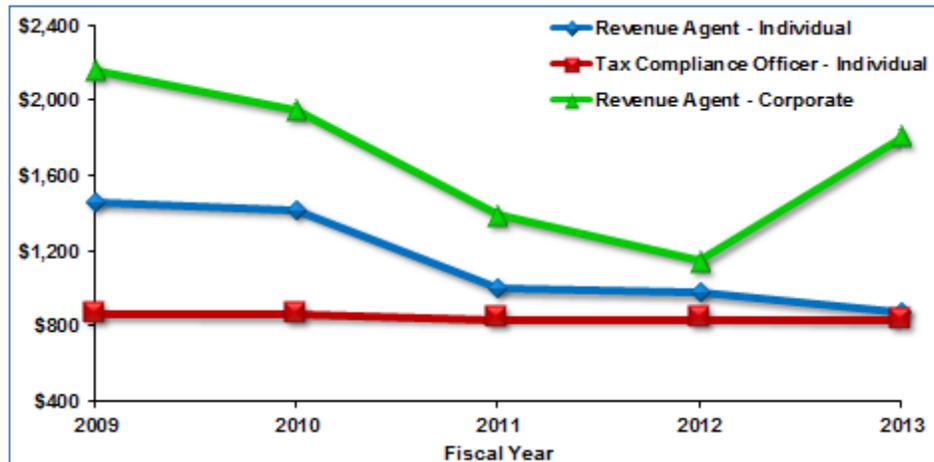
³⁴ See Appendix IV, Figures 33 and 42.

³⁵ See Appendix IV, Figures 33 and 43.

³⁶ The decrease in Estate examinations during FY 2012 coincided with a 46 percent decrease in filings during FY 2011.



Figure 8: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Examination Table 37.

The dollar yield per hour for the examination of corporate tax returns by revenue agents increased for the first time in five years but is 16 percent less than the dollar yield per hour in FY 2009. The increase in this indicator is due to a 74 percent increase in the dollars per return between FYs 2012 and 2013.³⁷

The dollar yield per hour for the examination of individual returns examined by revenue agents continued to decrease for the fifth straight year. This coincided with an 18 percent decrease in the dollars per return during FY 2013. Alternately, the dollar yield per hour attributable to tax compliance officer examinations of individual returns decreased without a corresponding decrease in the dollars per return.³⁸

In addition to the above return types, the dollars examined of partnership, S corporation, and large corporations (those with assets of more than \$10 million) drove the examination productivity. While there were fewer examinations of these returns in general, increases in the dollars per return in all of these categories resulted in increases in their associated dollar yields per hour.

Another important measure of audit productivity is the percentage of audited tax returns that result in recommended adjustments to the tax return. The IRS associates a high percentage of audited tax returns that result in recommended adjustments with greater audit productivity, while audits that result in no change are considered unproductive. The no-change rates for:

- Revenue agent examinations of individual tax returns reached a five-year low in FY 2011 (8 percent). Since then, the no-change rate gradually increased to 10 percent in FY 2013.

³⁷ See Appendix IV, Figure 28.

³⁸ See Appendix IV, Figures 27 and 30.



Trends in Compliance Activities Through Fiscal Year 2013

- Tax compliance officer examinations of individual tax returns continued to remain at either 9 or 10 percent between FYs 2009 and 2013.
- Revenue agent examinations of corporate tax returns increased to 29 percent³⁹ during FY 2013.
- Revenue agent examinations of partnership returns increased during FY 2013 to 47 percent. The no-change rate increased in FY 2010 (44 percent) and FY 2011 (48 percent) and decreased in FY 2012 to 44 percent.
- Revenue agent examinations of S corporations continue to decrease from 39 percent in FY 2011 to 33 percent in FY 2012 and 31 percent in FY 2013.

Conclusion

The IRS faced many challenges during FY 2013, including implementing provisions related to new tax legislation and operating with fewer resources and employees. Several indicators showed the negative effect of these challenges, including a continued increase in accounts receivable, an increase in the number of cases that might never be worked, and a decrease in the overall number of examinations of tax returns. While some indicators are positive, including increases in gross collections, enforcement revenue, and dollar yield per hour on examinations of corporations, the negative trends continue to be cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.

³⁹ See Appendix IV, Figure 31.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide various statistical information regarding Collection and Examination function activities. To accomplish our objective, we:

- I. Obtained and analyzed information relating to compliance activities.
 - A. Obtained and analyzed Collection function data.¹ This includes but is not limited to:
 1. Staffing.
 2. Direct and indirect time.
 3. TDAs and TDIs.
 4. Enforcement actions (NFTLs, levies, and seizures).
 - B. Obtained and analyzed Examination function data. This includes but is not limited to:
 1. Staffing.
 2. Direct and indirect time.
 3. Coverage of individual and business tax returns compared to the number of returns filed for each type of return.
 4. Productivity results for individual and business tax returns.
 - C. Obtained and analyzed other compliance related data. This includes but is not limited to:
 1. Enforcement revenue.
 2. Gross collections and accounts receivable.
 3. Math error, Automated Underreporter, and Automated Substitute for Return cases.
 - D. Reviewed applicable TIGTA and Government Accountability Office reports for relevant information.
 - E. Assessed the impact of new legislation and budget issues on compliance activities.
 - F. Discussed aberrations in the data with applicable IRS personnel.

¹ Due to time and resource constraints, we did not audit the IRS systems to validate the accuracy and reliability of data.



Trends in Compliance Activities Through Fiscal Year 2013

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 did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.



Appendix II

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Appendix III

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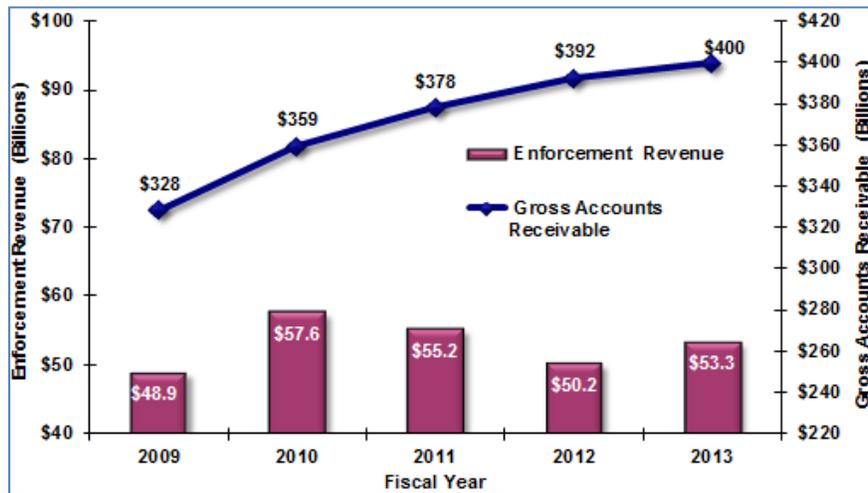
Trends in Compliance Activities Through Fiscal Year 2013

Figure 1: Gross Collections by Type of Tax¹



Source: TIGTA analysis of the IRS Data Book.

Figure 2: Amount of Enforcement Revenue Collected Compared to Gross Accounts Receivable



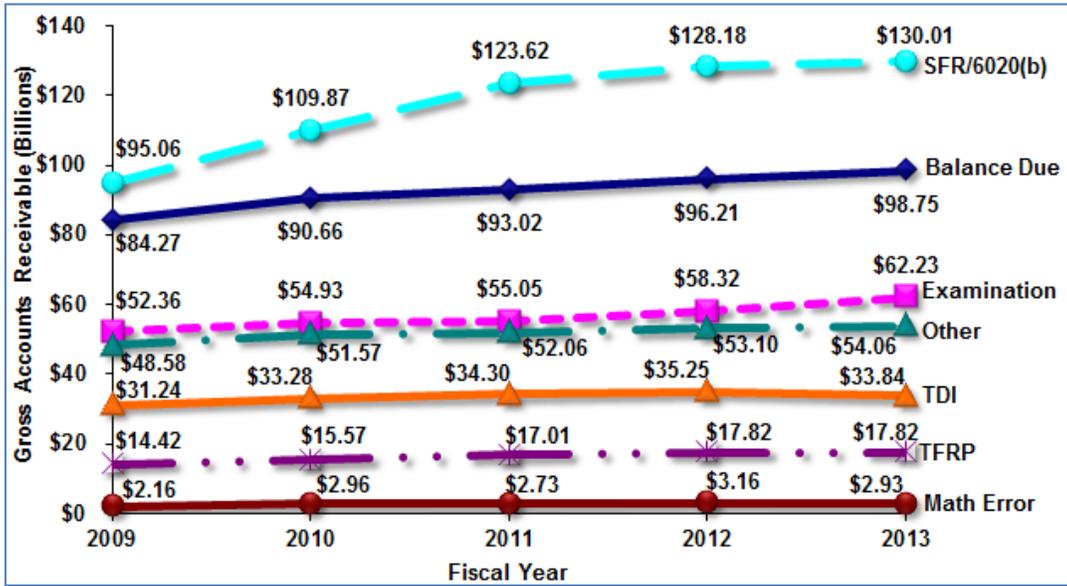
Source: Office of Research, Analysis, and Statistics and Chief Financial Officer.

¹ Estate and trust income tax for FY 2013 equaled approximately \$81 billion. The total line includes excise, estate, and gift taxes, not just individual, corporate, and employment taxes.



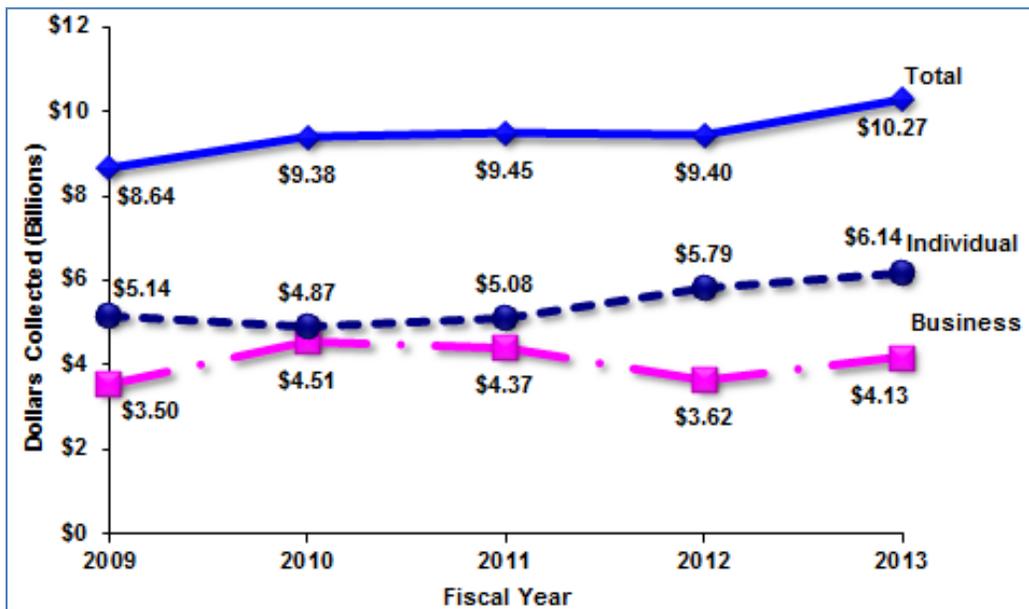
Trends in Compliance Activities Through Fiscal Year 2013

Figure 3: Gross Accounts Receivable by Source of Assessment



Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. SFR = Substitute for Return. TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status

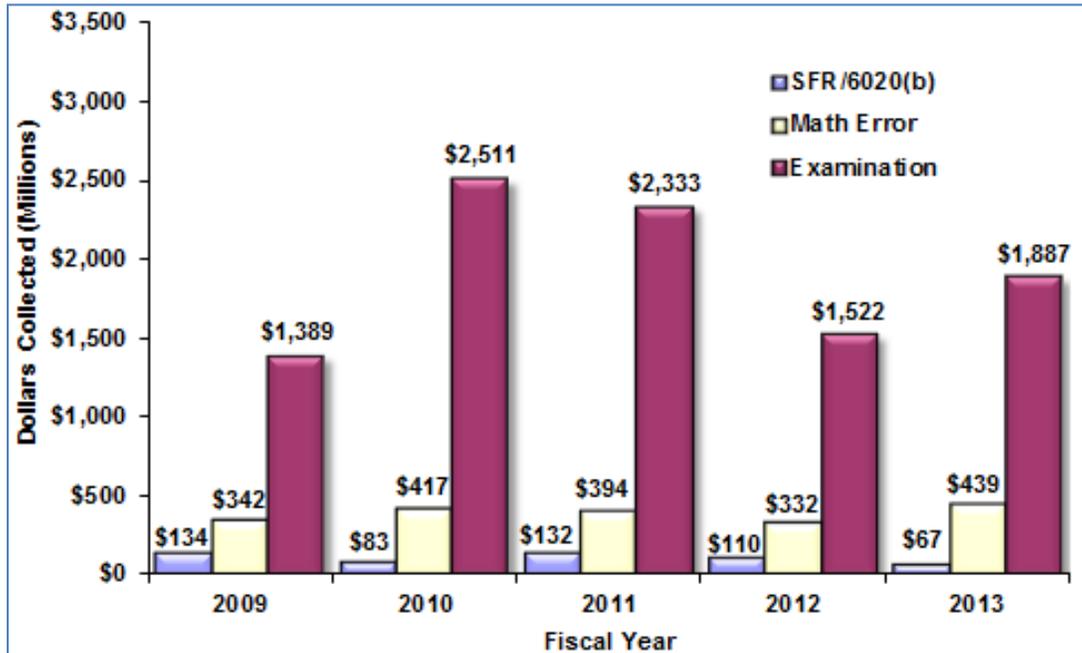


Source: Collection Activity Report 5000-2/242.



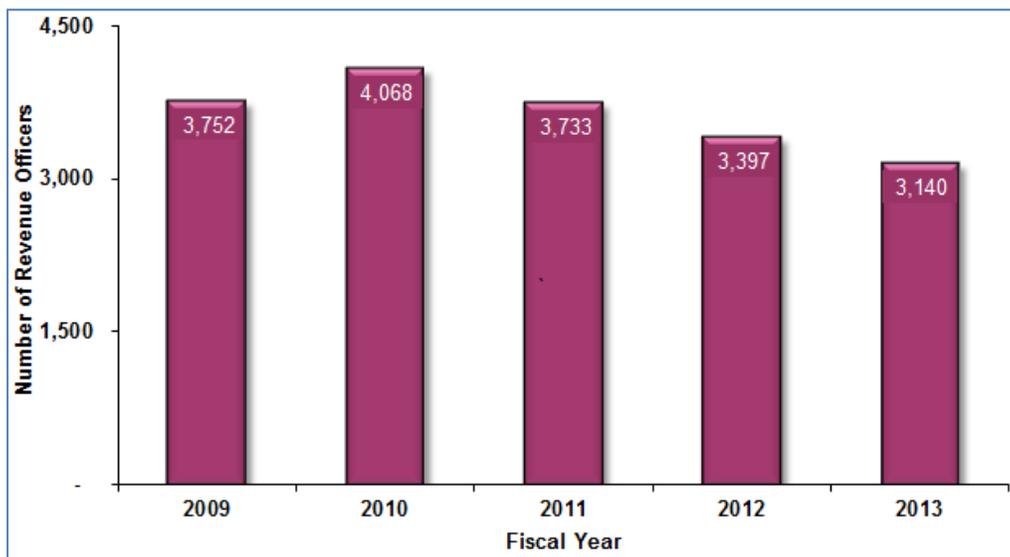
Trends in Compliance Activities Through Fiscal Year 2013

Figure 5: Amount Collected During Notice Status for Selected Sources of Assessment



Source: Collection Activity Report 5000-2/242. SFR = Substitute for Return

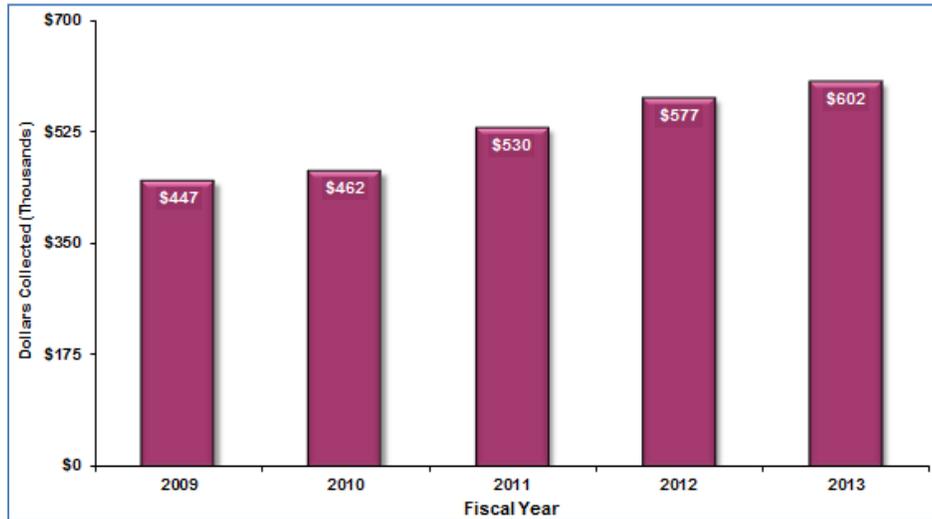
Figure 6: Number of Revenue Officers in the Field Assigned Delinquent Cases at the End of Each Fiscal Year



Source: Collection Activity Report 5000-23.

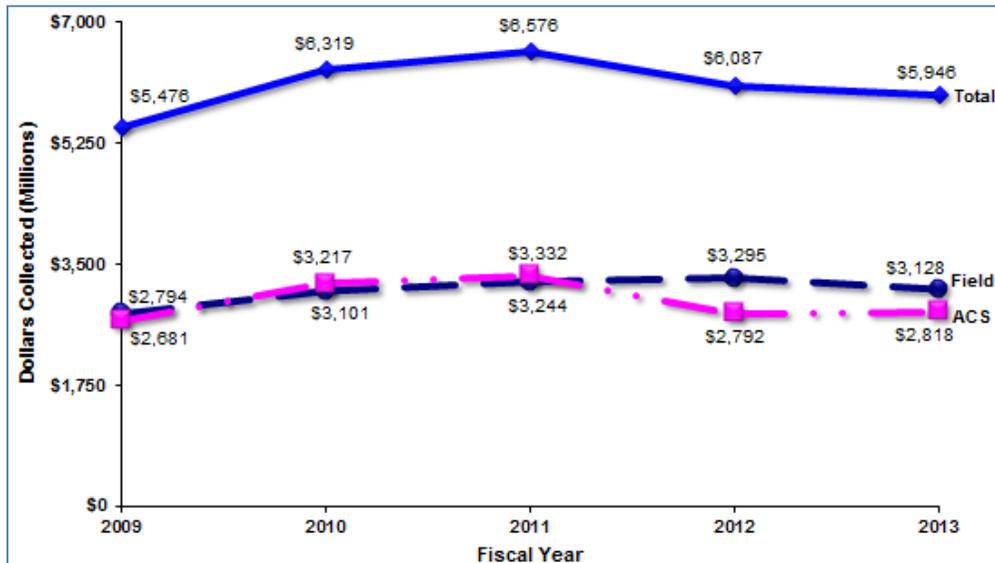


Figure 7: Average Dollars Collected Per Staff Year on TDA Tax Periods by the Field



Source: TIGTA analysis of Collection Activity Reports 5000-2 and 5000-23.

Figure 8: Net Amounts Collected on TDA Tax Periods by the Field and the ACS²



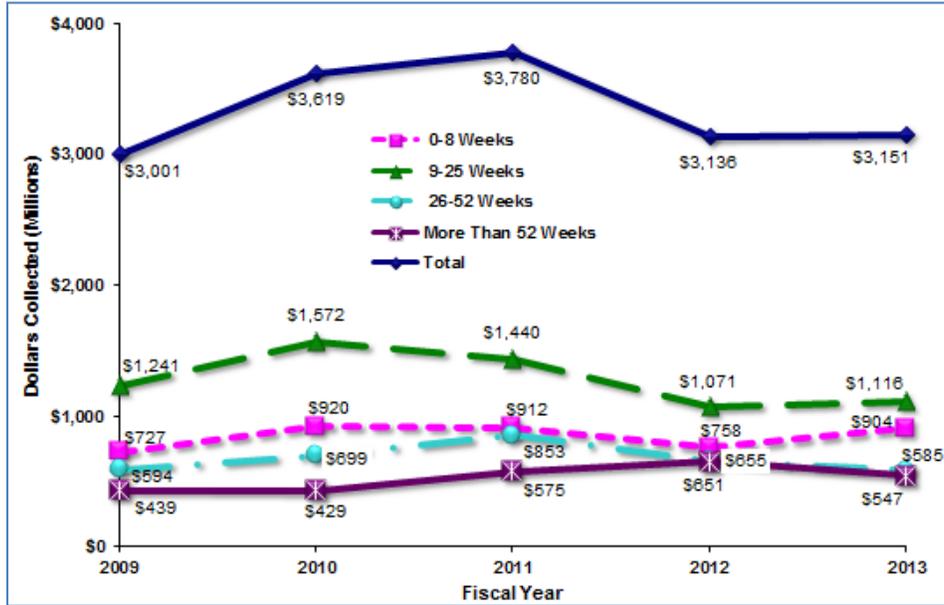
Source: Collection Activity Report 5000-2.

² The dollars collected shown in Figure 8 are the net amounts collected after adjustments, such as refunds, are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.



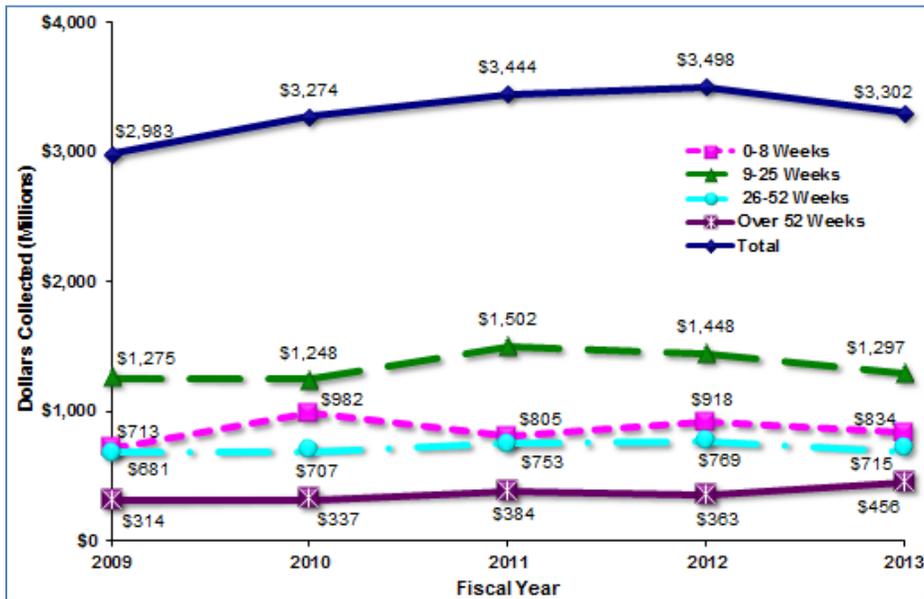
Trends in Compliance Activities Through Fiscal Year 2013

Figure 9: Total Dollars Collected by Number of Weeks Assigned to the ACS



Source: Collection Activity Report 5000-2.

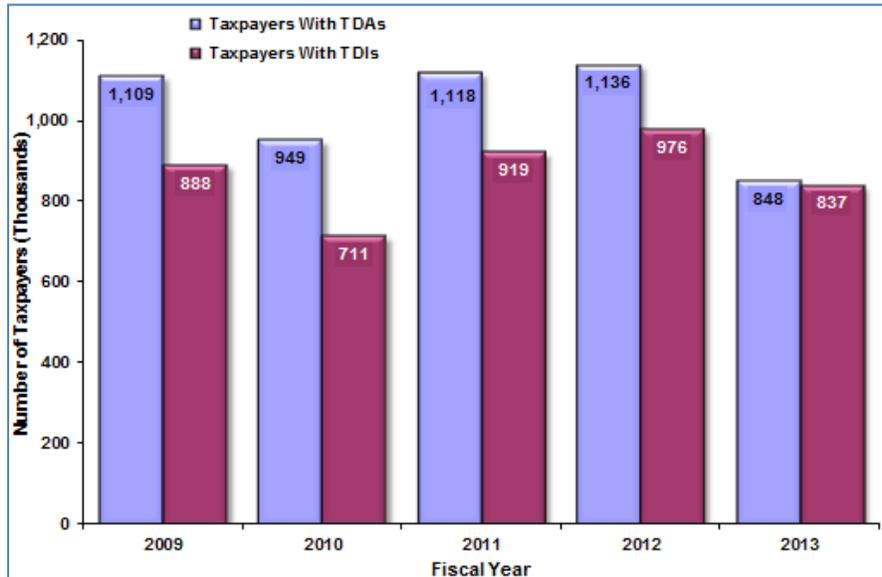
Figure 10: Total Dollars Collected by Number of Weeks Assigned to the Field



Source: Collection Activity Report 5000-2.

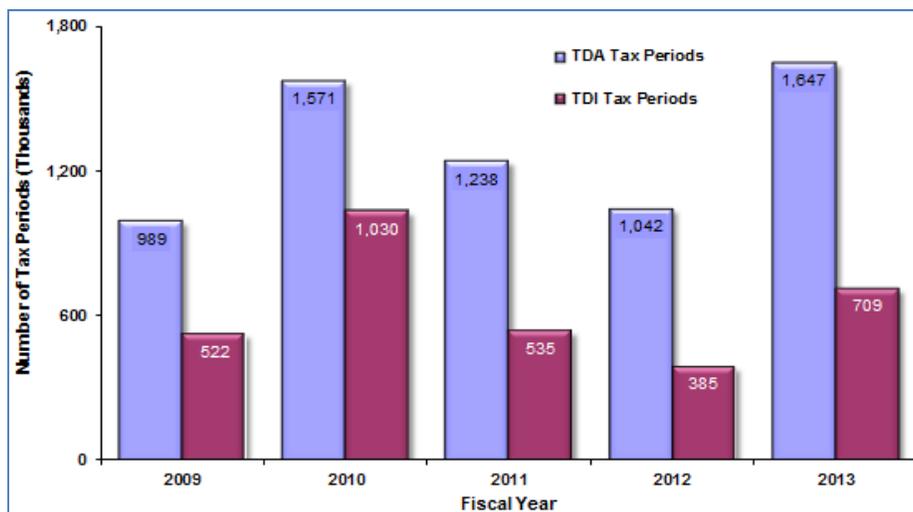


Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue³



Source: Collection Activity Reports 5000-2 and 5000-4.

Figure 12: TDA and TDI Tax Periods Shelved or Surveyed

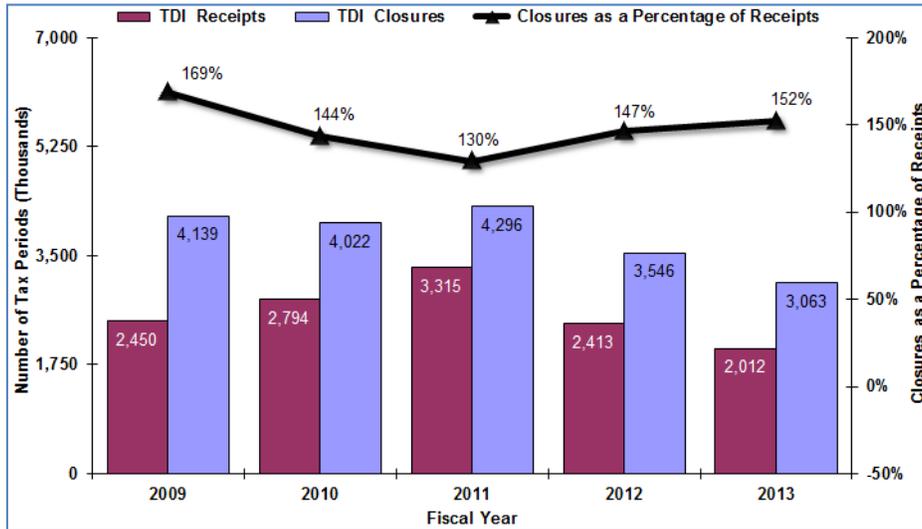


Source: TIGTA analysis of Collection Activity Reports 5000-2 and 5000-4.

³ In FYs 2010 and 2013, the IRS removed from the queue large numbers of TDA cases that were considered to be potentially less productive than other queue inventory (see Figure 12). The decrease in TDAs can be at least partially attributed to removals of these less productive cases.

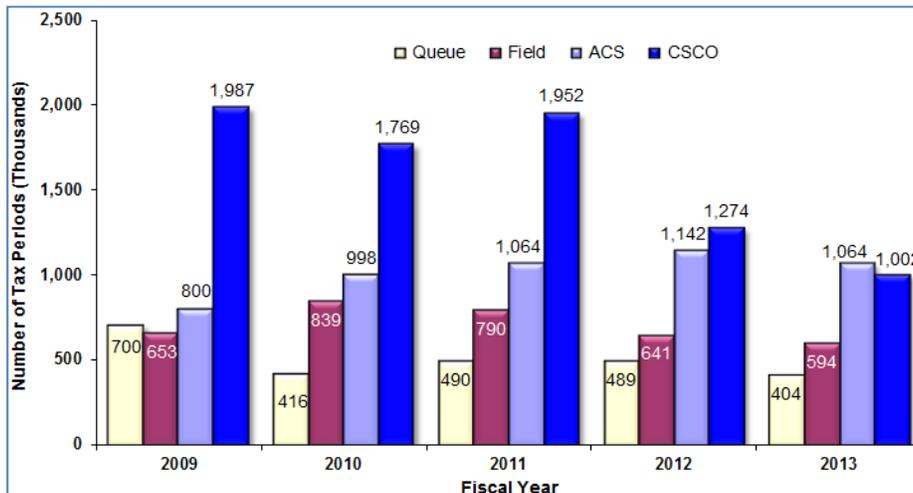


Figure 13: Gap Between TDI Tax Period Receipts⁴ and Closures, Including TDI Tax Period Closures As a Percentage of Receipts⁵



Source: TIGTA analysis of Collection Activity Report 5000-4.

Figure 14: Number of TDI Tax Periods Closed by Collection Functions



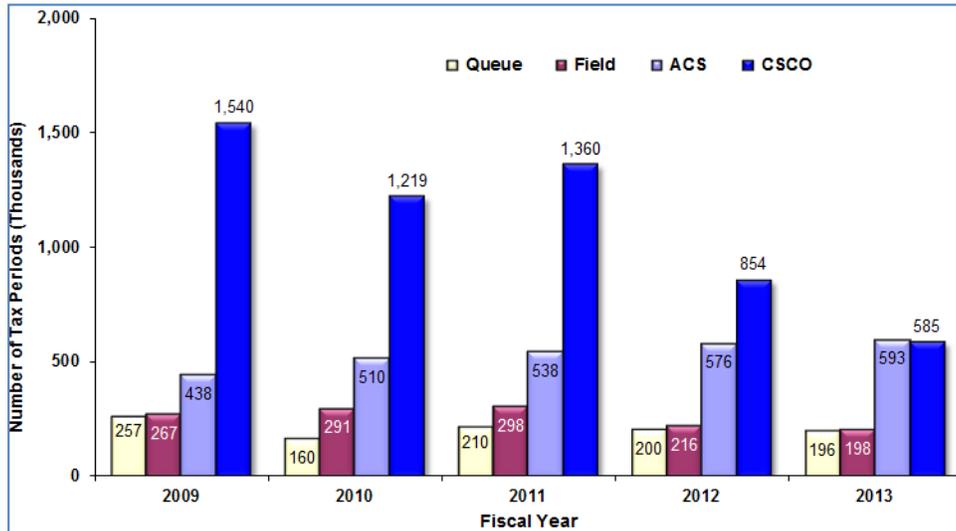
Source: TIGTA analysis of Collection Activity Report 5000-4. CSCO = Compliance Services Collection Operations.

⁴ Collection Activity Report 5000-4 does not count subsequent TDI tax periods added to an existing TDI as a new receipt but does correctly count them in the ending inventory.

⁵ The closures shown in Figures 13 and 14 do not include the TDIs shelved or surveyed, which are shown in Figure 12.

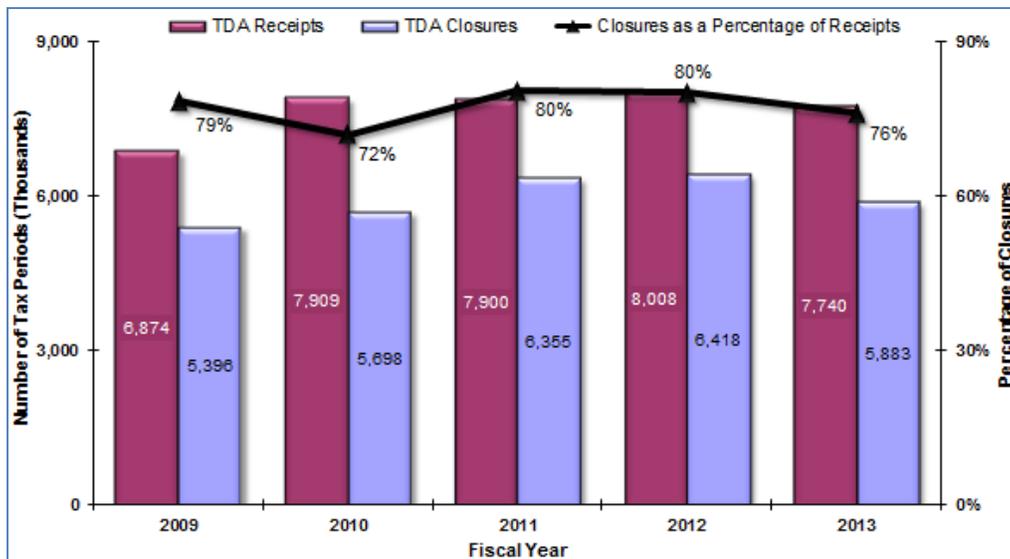


Figure 15: Number of TDI Tax Periods Closed by Collection Functions With Receipt of a Delinquent Tax Return



Source: TIGTA analysis of Collection Activity Report 5000-4. CSCO = Compliance Services Collection Operations.

Figure 16: Gap Between TDA Tax Period Receipts and Closures, Including TDA Closures As a Percentage of Receipts⁶



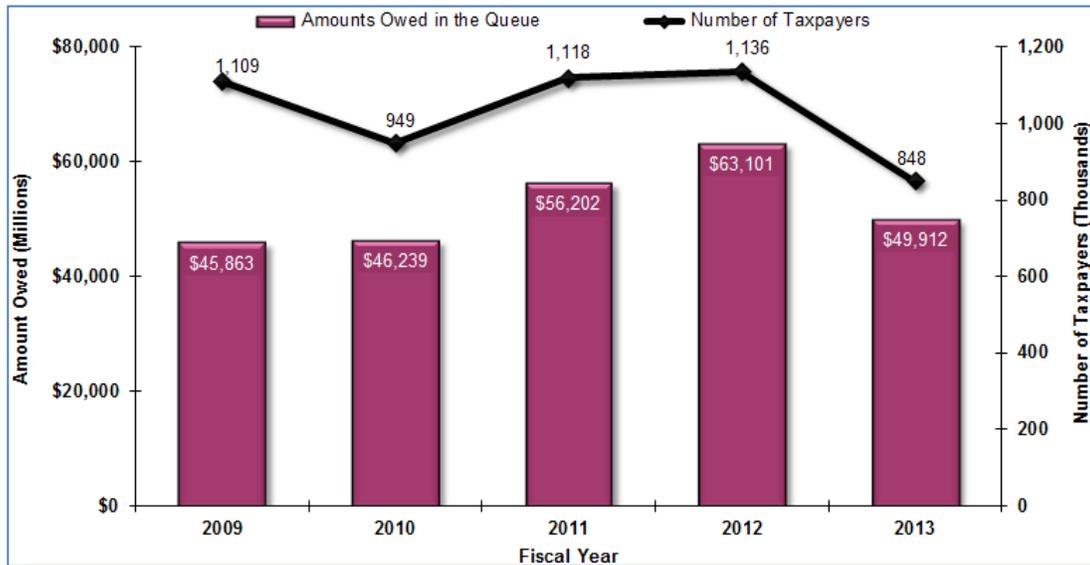
Source: TIGTA analysis of Collection Activity Report 5000-2.

⁶ The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.



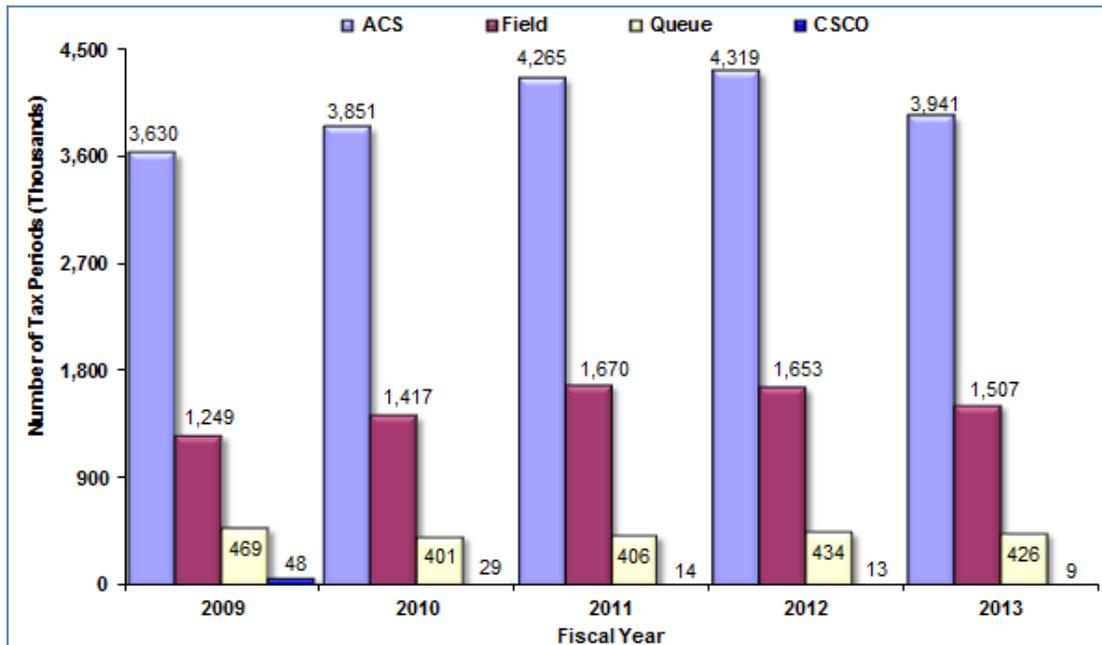
Trends in Compliance Activities Through Fiscal Year 2013

Figure 17: Number of Taxpayers and Amount Owed in Queue Inventory



Source: TIGTA analysis of Collection Activity Report 5000-2.

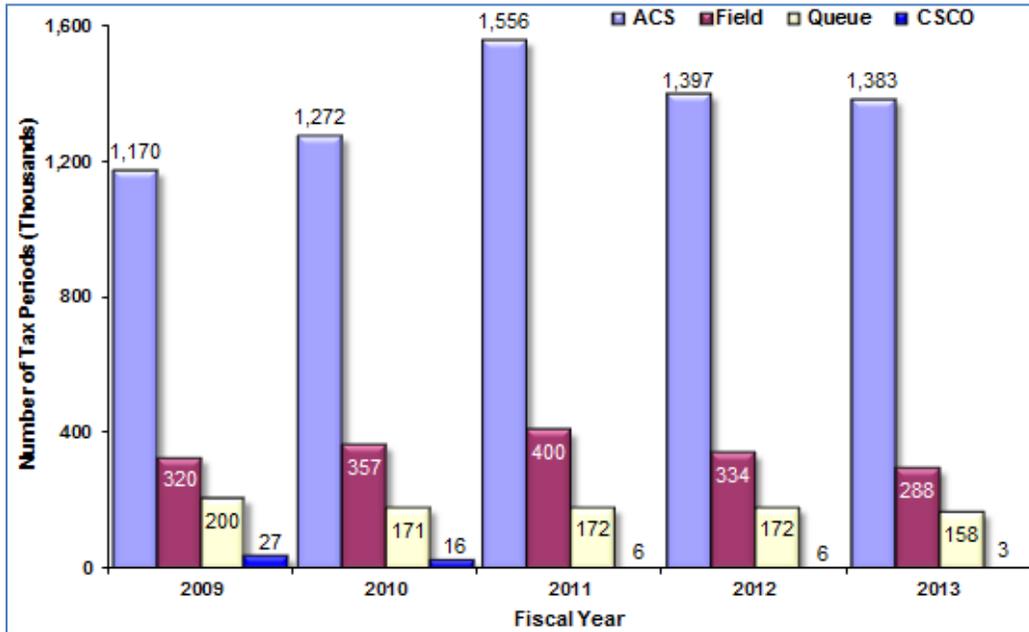
Figure 18: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts



Source: TIGTA analysis of Collection Activity Report 5000-2. CSCO = Compliance Services Collection Operations.

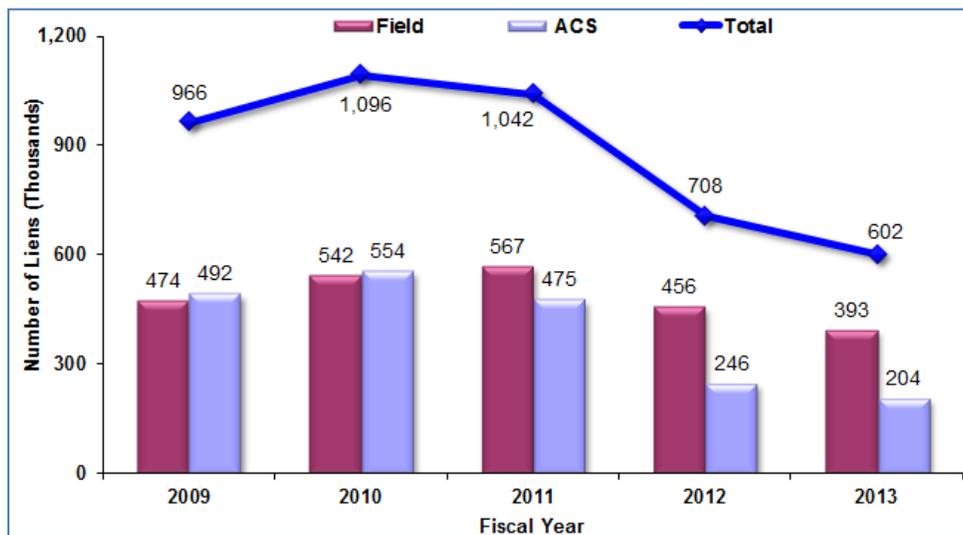


Figure 19: Number of TDA Tax Periods Closed With Full Payment by Collection Functions



Source: TIGTA analysis of Collection Activity Report 5000-2. CSCO = Compliance Services Collection Operations.

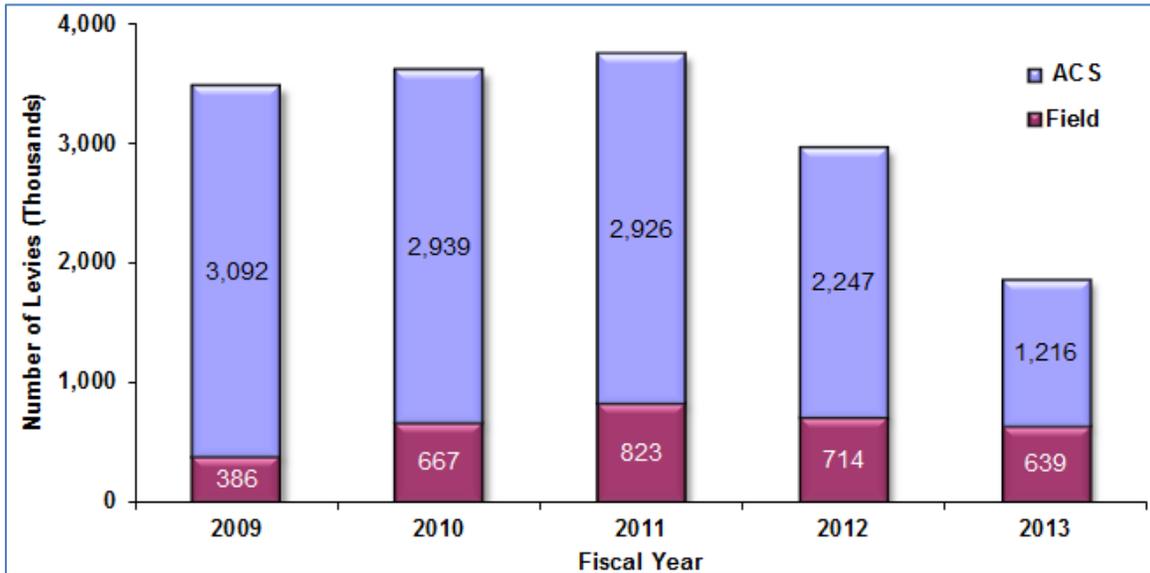
Figure 20: Number of NFTLs Filed by the Field and the ACS



Source: TIGTA analysis of Collection Activity Report 5000-23 and 5000-25.

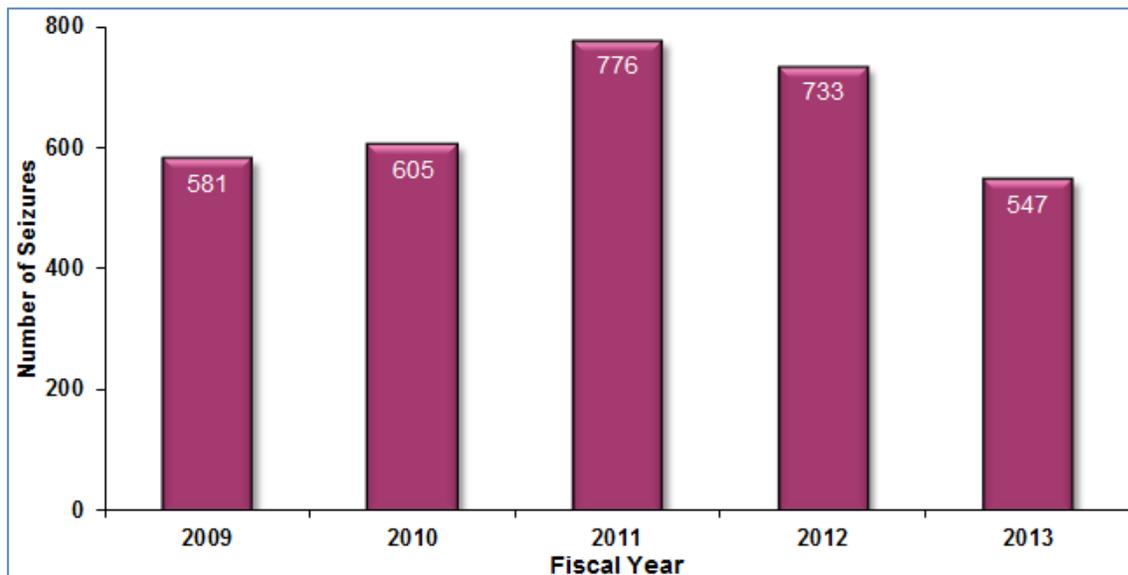


Figure 21: Number of Levies Issued by the Field and the ACS



Source: TIGTA analysis of Collection Activity Report 5000-23 and 5000-24.

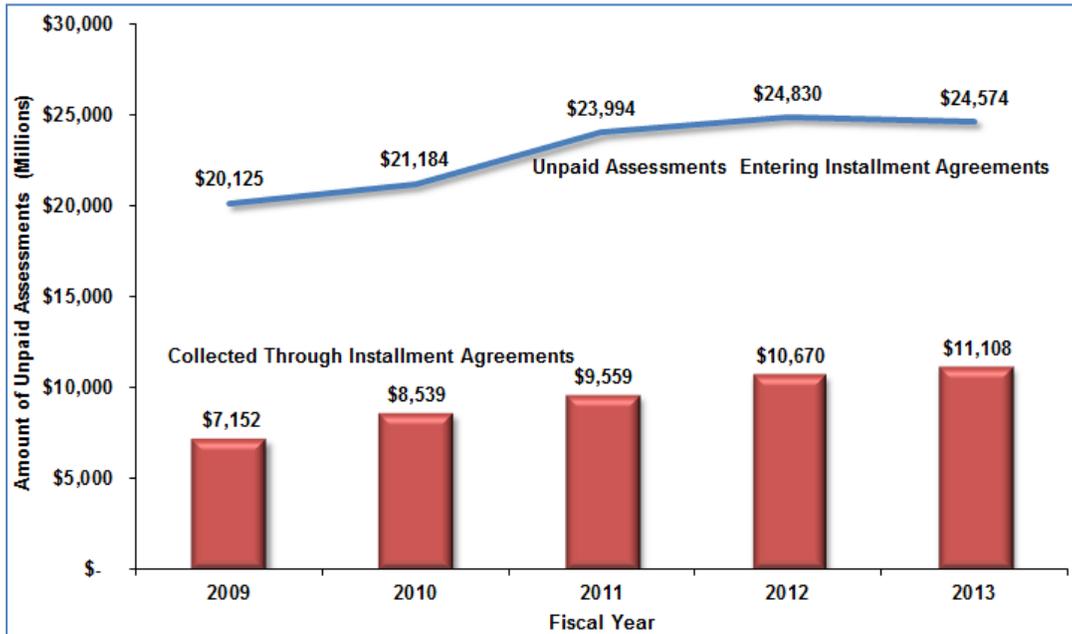
Figure 22: Number of Seizures



Source: TIGTA analysis of Collection Activity Report 5000-23 and 5000-24.

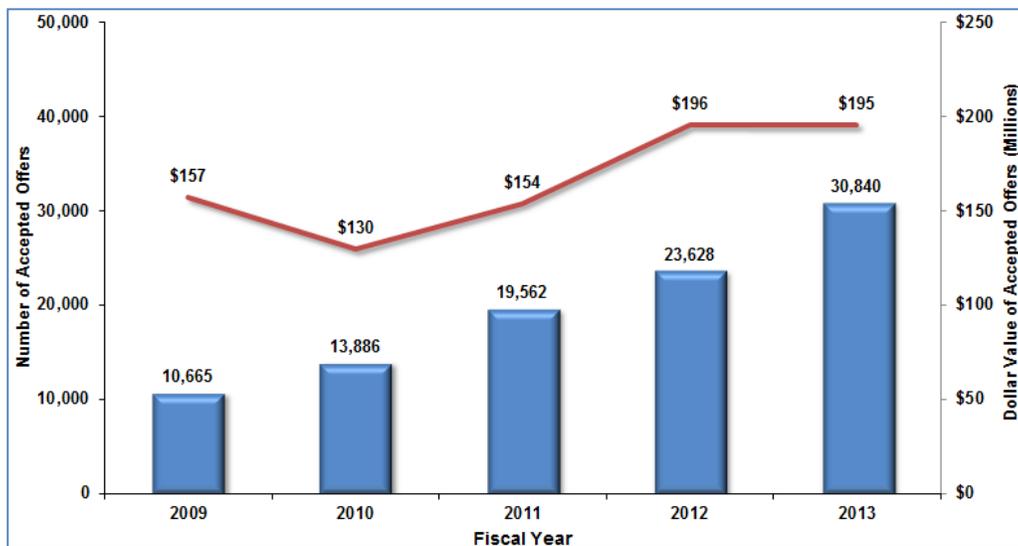


Figure 23: Amounts of Unpaid Assessments Entering Installment Agreements and Collected Through Installment Agreements



Source: Collection Activity Report 5000-6.

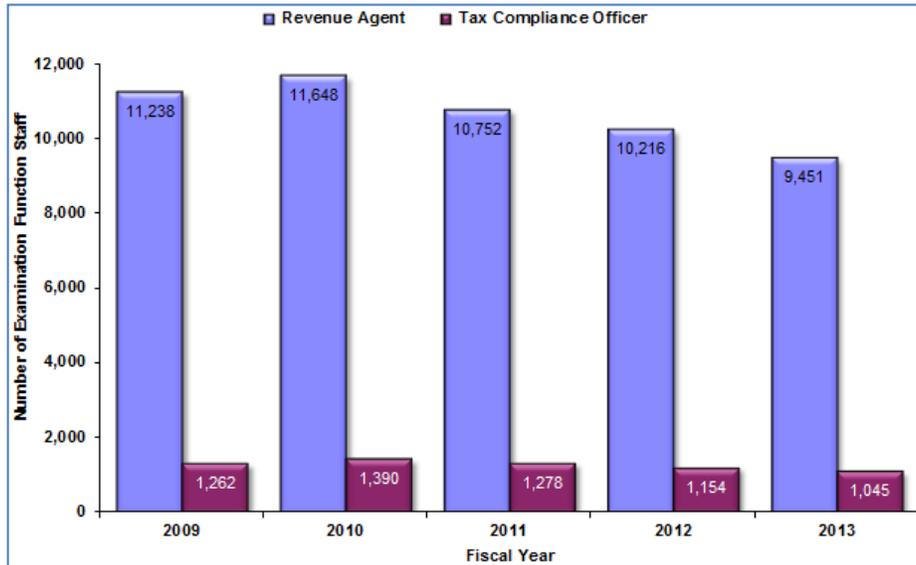
Figure 24: Number and Value of Accepted Offers in Compromise



Source: Collection Activity Report 5000-108.

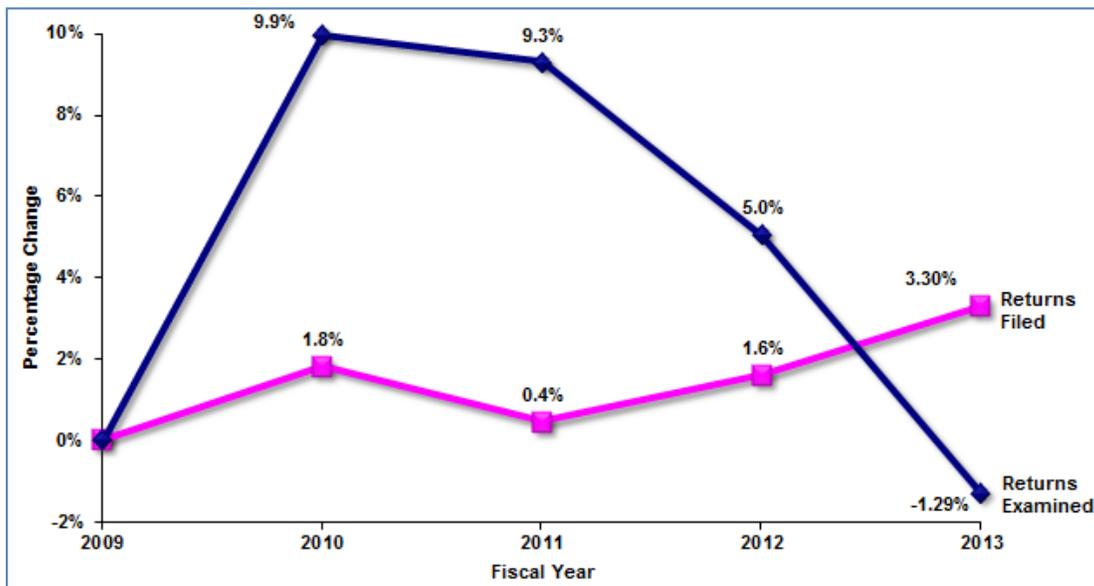


Figure 25: Number of Examination Function Staff Conducting Examinations of Tax Returns at the End of Each Fiscal Year



Source: TIGTA analysis of Examination Table 37.

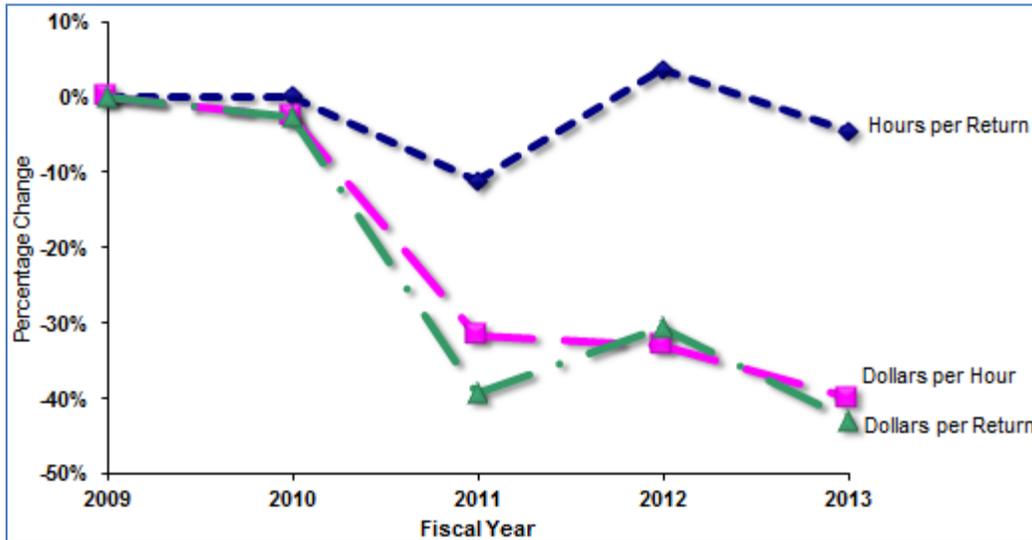
Figure 26: Percentage Change From FY 2009 of All Tax Returns Filed and Examined



Source: TIGTA analysis of the IRS Data Book.

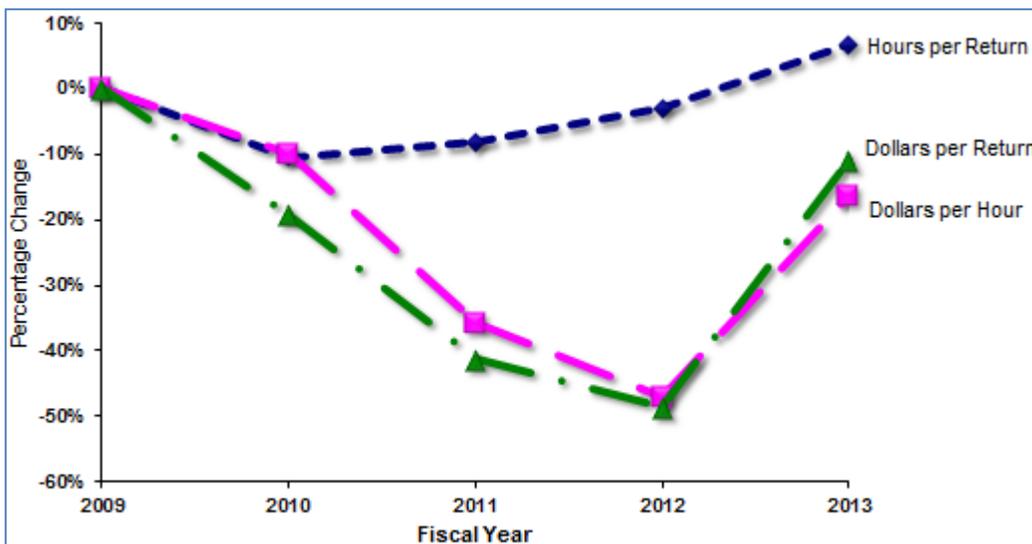


Figure 27: Revenue Agent Results on Forms 1040, U.S. Individual Income Tax Return, Percentage Change From FY 2009⁷



Source: TIGTA analysis of Examination Table 37.

Figure 28: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From FY 2009

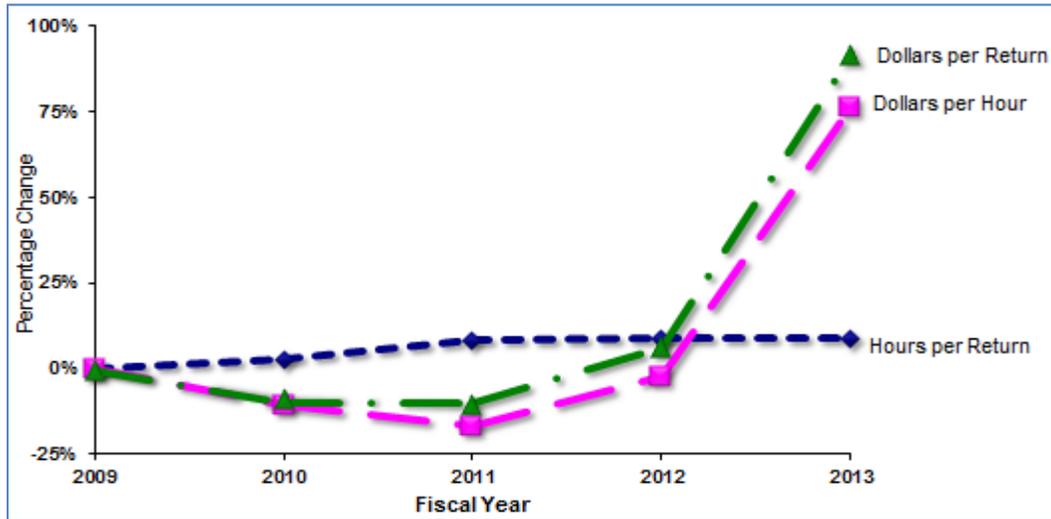


Source: TIGTA analysis of Examination Table 37.

⁷ Figures 27 through 31 do not include results from Coordinated Industry Cases or training returns.

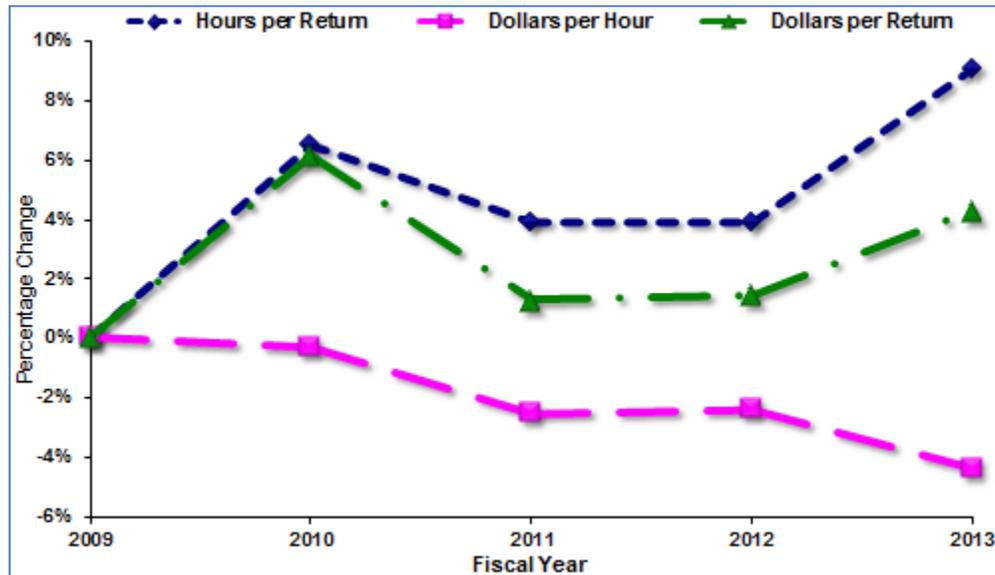


Figure 29: Revenue Agent Results on Other Types⁸ of Tax Returns, Percentage Change From FY 2009



Source: TIGTA analysis of Examination Table 37.

Figure 30: Tax Compliance Officer Results on Forms 1040, Percentage Change From FY 2009

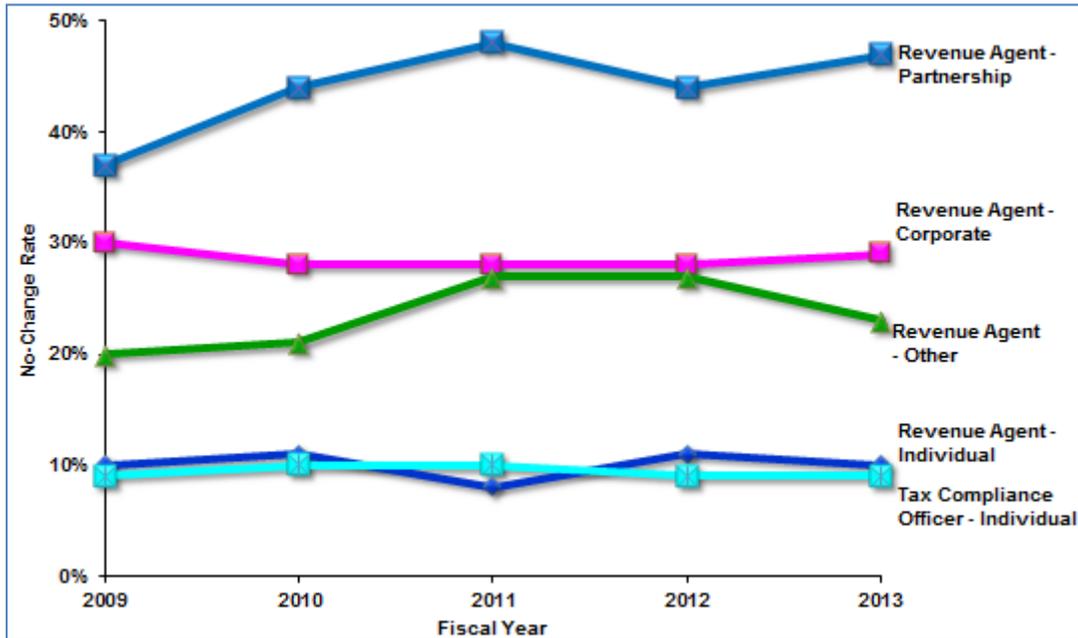


Source: TIGTA analysis of Examination Table 37.

⁸ Other types of tax returns include estate, gift, employment, Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, Form 1120-F, U.S. Income Tax Return of a Foreign Corporation, and excise.

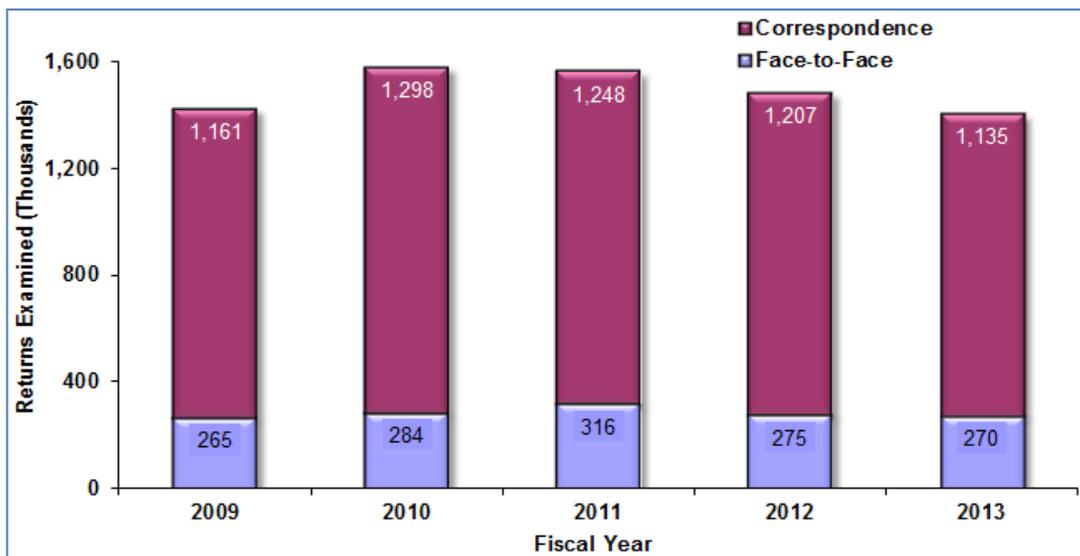


Figure 31: Revenue Agent and Tax Compliance Officer No-Change Rates for Various Types of Tax Returns



Source: TIGTA analysis of Examination Table 37.

Figure 32: Number of Forms 1040 Examined Face-to-Face or Through Correspondence



Source: Analysis of Examination Closed Case Database.



Trends in Compliance Activities Through Fiscal Year 2013

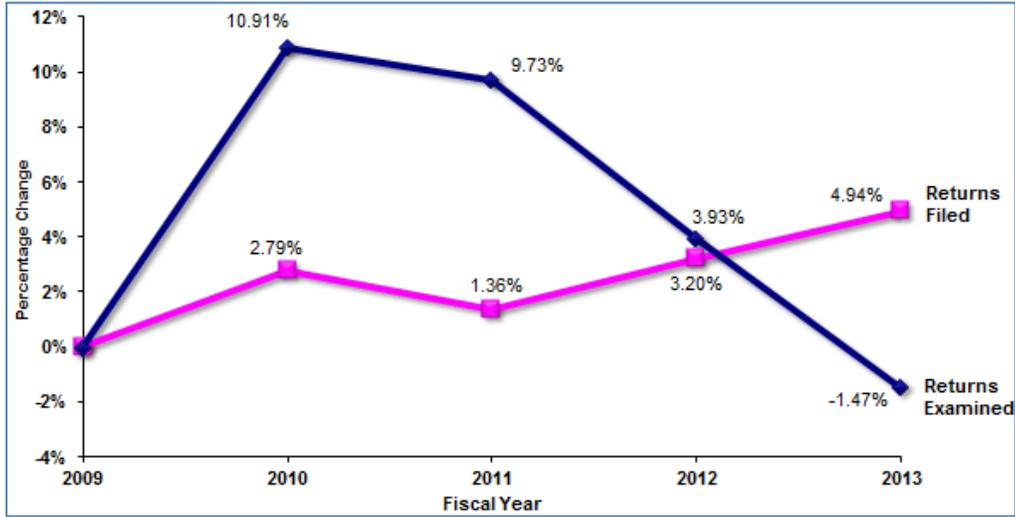
Figure 33: Numbers and Percentages of Individual and Business Tax Returns Examined

	Fiscal Year				
	2009	2010	2011	2012	2013
Individual Returns					
Individuals (Forms 1040)	1,425,888	1,581,394	1,564,690	1,481,966	1,404,931
Coverage Rate	1.03%	1.11%	1.11%	1.03%	0.96%
Business Returns					
Corporations < \$10 Million	18,298	19,127	19,697	21,164	17,604
Coverage Rate	0.85%	0.94%	1.02%	1.12%	0.95%
Corporations \$10 Million and Greater	9,536	10,207	10,459	10,752	9,876
Coverage Rate	14.55%	16.58%	17.64%	17.78%	15.84%
S Corporations (Forms 1120S)	17,455	16,327	18,519	21,658	18,670
Coverage Rate	0.40%	0.37%	0.42%	0.48%	0.42%
Partnerships	12,855	12,406	13,770	16,691	14,870
Coverage Rate	0.38%	0.36%	0.40%	0.47%	0.42%
Fiduciaries	5,259	5,298	2,909	5,070	4,501
Coverage Rate	0.17%	0.17%	0.10%	0.17%	0.15%
Employment	64,021	63,937	66,234	66,997	60,801
Coverage Rate	0.21%	0.21%	0.22%	0.23%	0.20%
Excise	17,267	18,249	19,571	22,014	16,509
Coverage Rate	1.85%	2.33%	2.40%	3.26%	1.61%
Estates	4,468	4,288	4,195	3,762	3,250
Coverage Rate	9.26%	10.12%	18.23%	29.90%	11.58%
Gift	1,569	1,777	2,623	3,164	2,775
Coverage Rate	0.61%	0.74%	1.16%	1.42%	1.07%

Source: TIGTA analysis of the IRS Data Book.

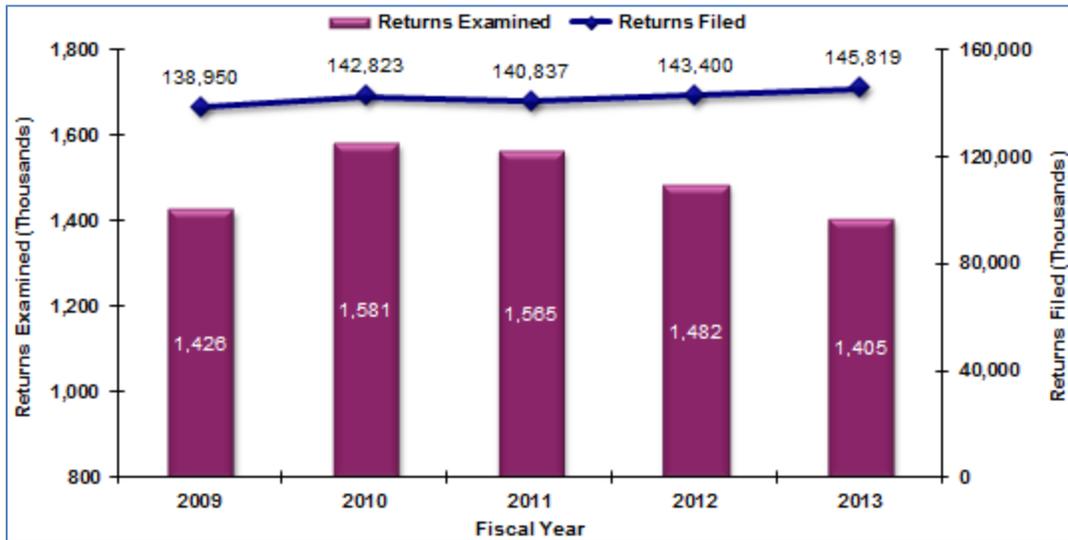


Figure 34: Percentage Change From FY 2009 of Forms 1040 Filed and Examined



Source: TIGTA analysis of the IRS Data Book.

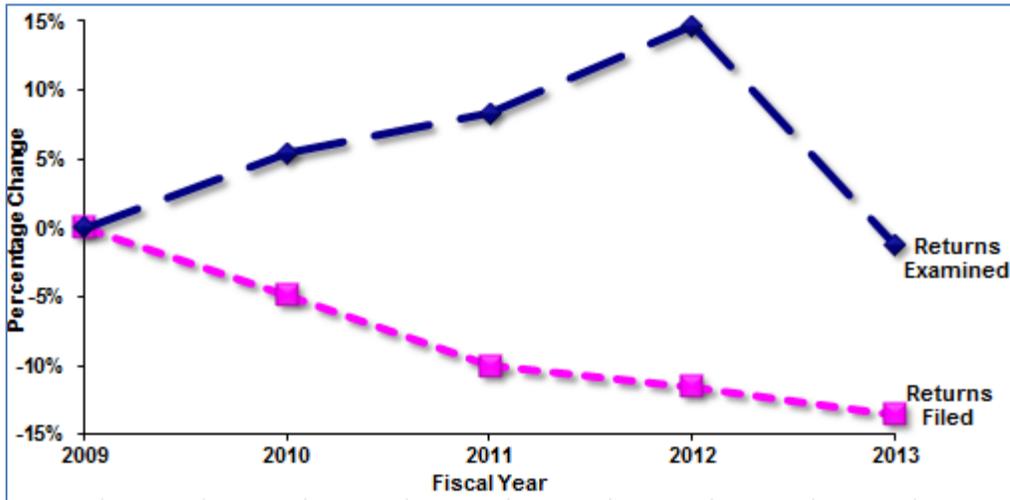
Figure 35: Number of Forms 1040 Filed and Examined



Source: TIGTA analysis of the IRS Data Book.

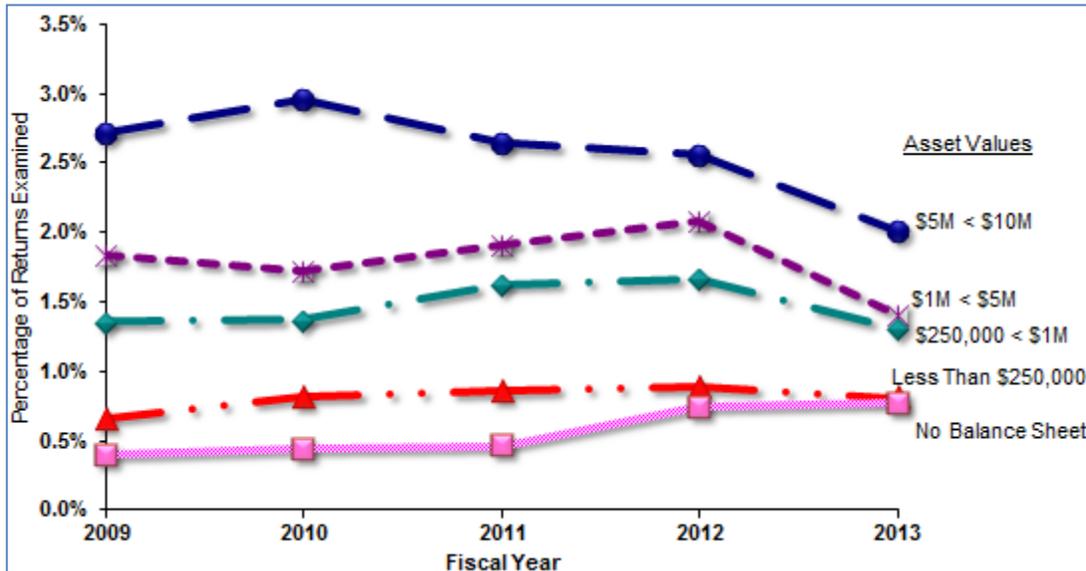


Figure 36: Percentage Change From FY 2009 of Corporate Income Tax Returns Filed and Examined⁹



Source: TIGTA analysis of the IRS Data Book.

Figure 37: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than \$10 Million

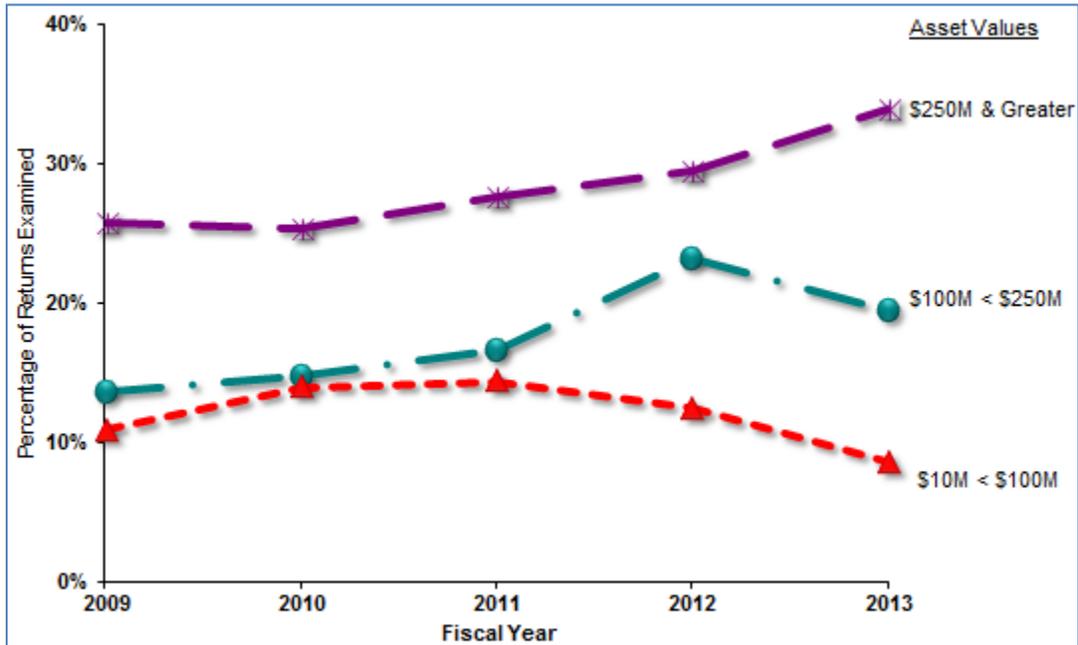


Source: TIGTA analysis of the IRS Data Book.

⁹ Excludes Form 1120S, U.S. Income Tax Return for an S Corporation, Form 1120-F, and Form 1120-C, U.S. Income Tax Return for Cooperative Associations.

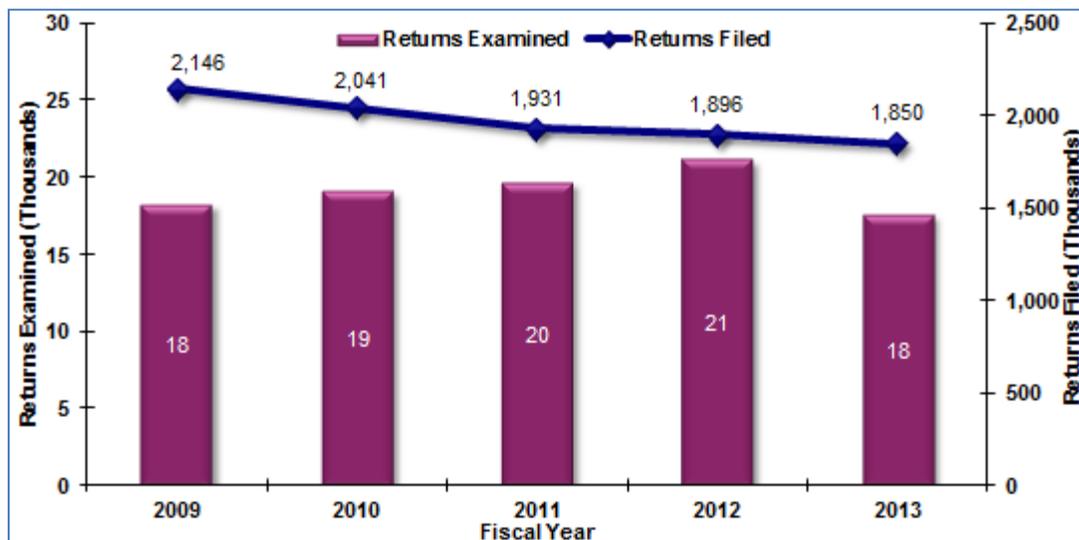


Figure 38: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of \$10 Million and Greater



Source: TIGTA analysis of the IRS Data Book.

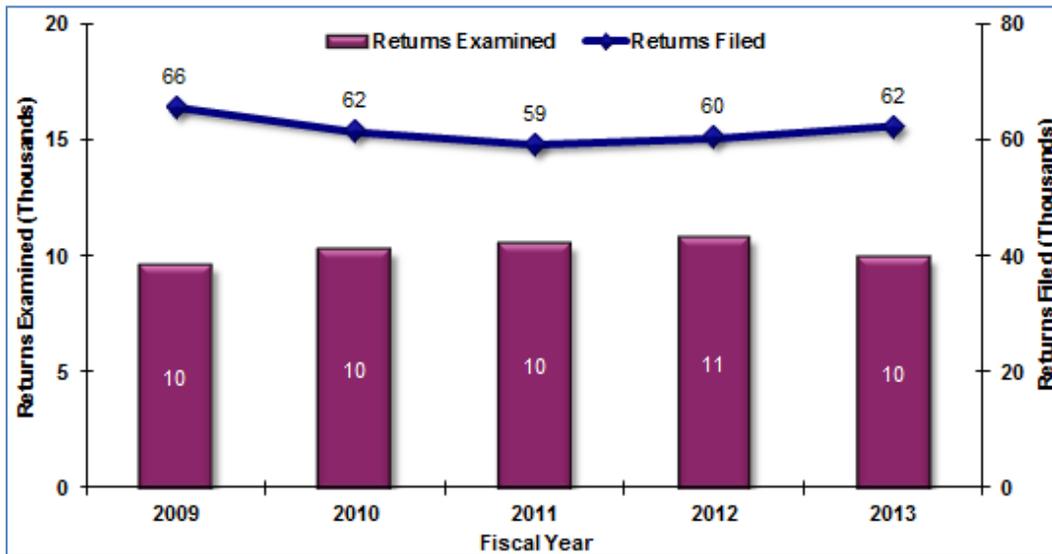
Figure 39: Number of Tax Returns Filed and Examined – Corporations With Assets of Less Than \$10 Million



Source: TIGTA analysis of the IRS Data Book.

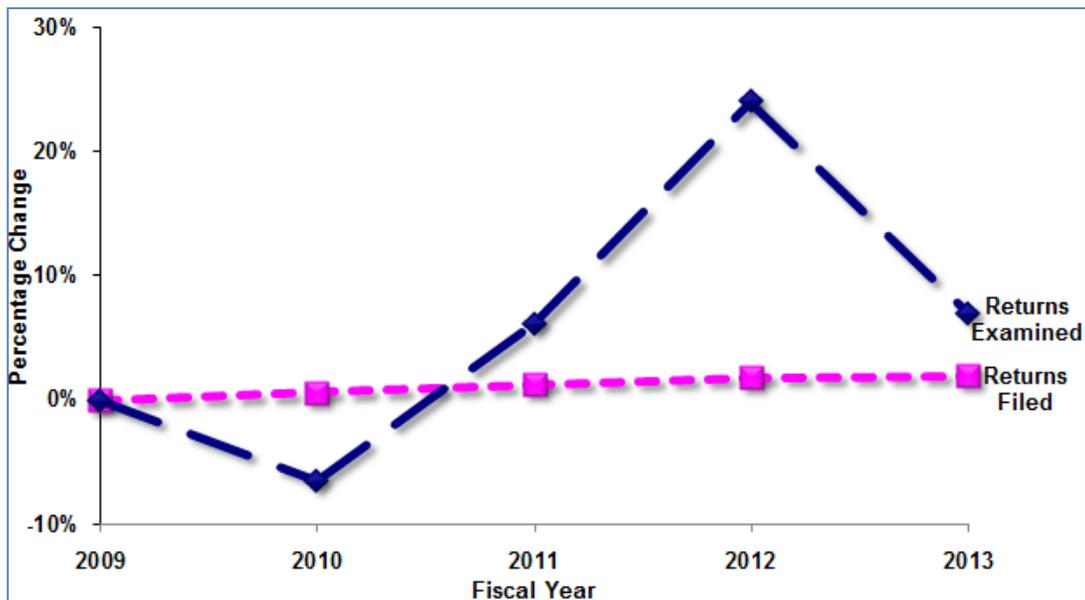


Figure 40: Number of Tax Returns Filed and Examined – Corporations With Assets of \$10 Million and Greater



Source: TIGTA analysis of the IRS Data Book.

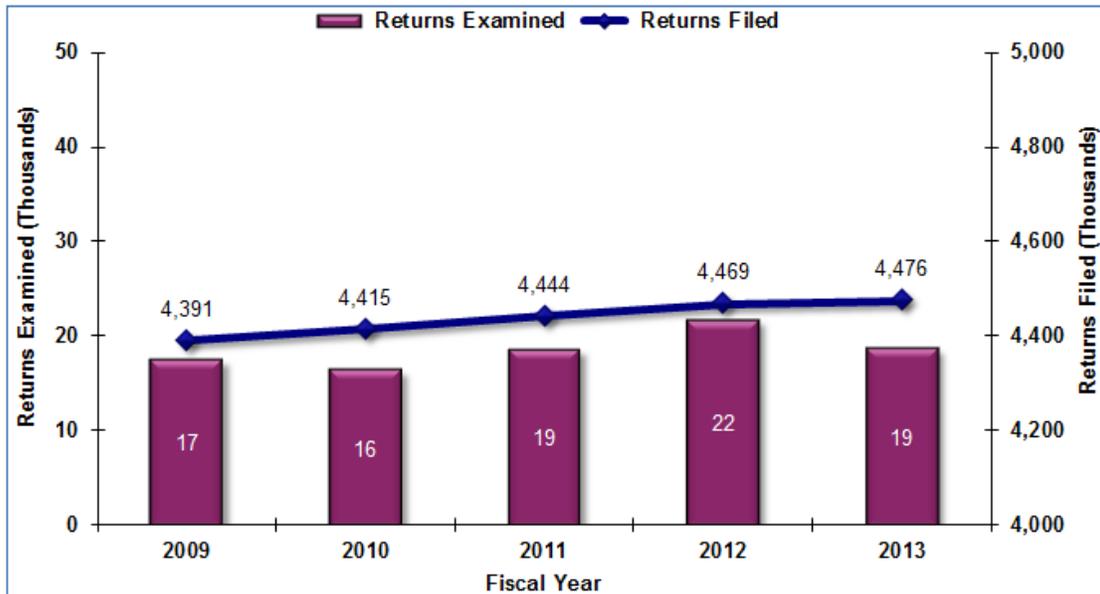
Figure 41: Percentage Change From FY 2009 of Forms 1120S Filed and Examined



Source: TIGTA analysis of the IRS Data Book.



Figure 42: Number of Forms 1120S Filed and Examined



Source: IRS Data Book.

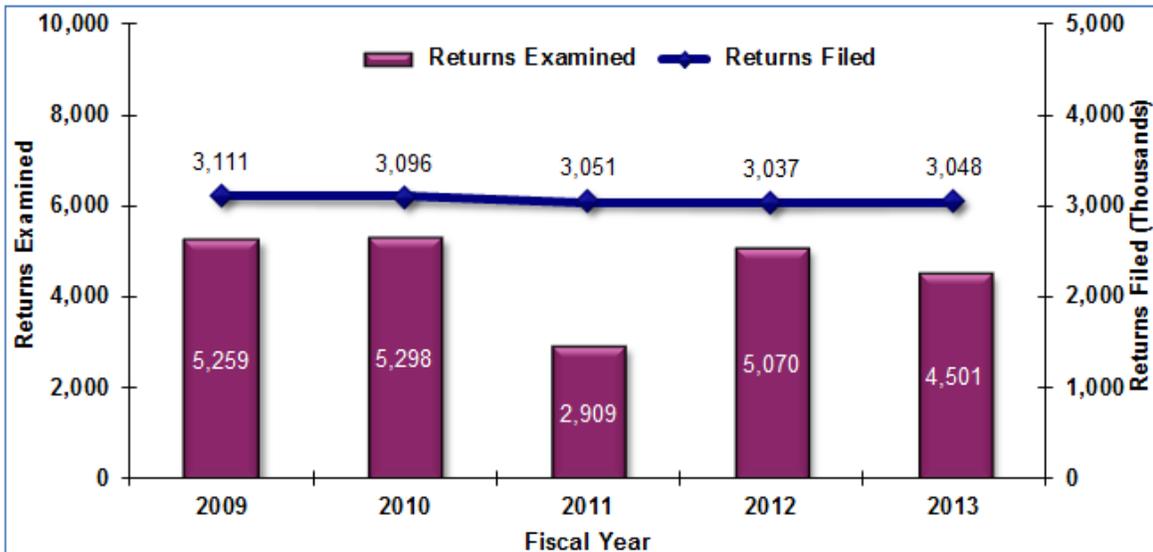
Figure 43: Number of Tax Returns Filed and Examined – Partnerships



Source: IRS Data Book.

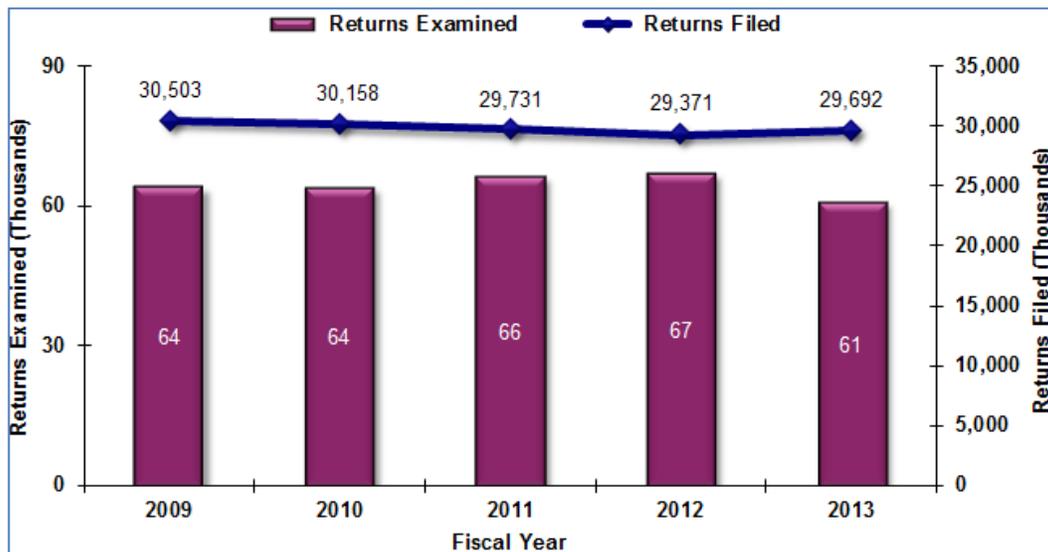


Figure 44: Number of Tax Returns Filed and Examined – Fiduciaries



Source: IRS Data Book.

Figure 45: Number of Tax Returns Filed and Examined – Employment Tax

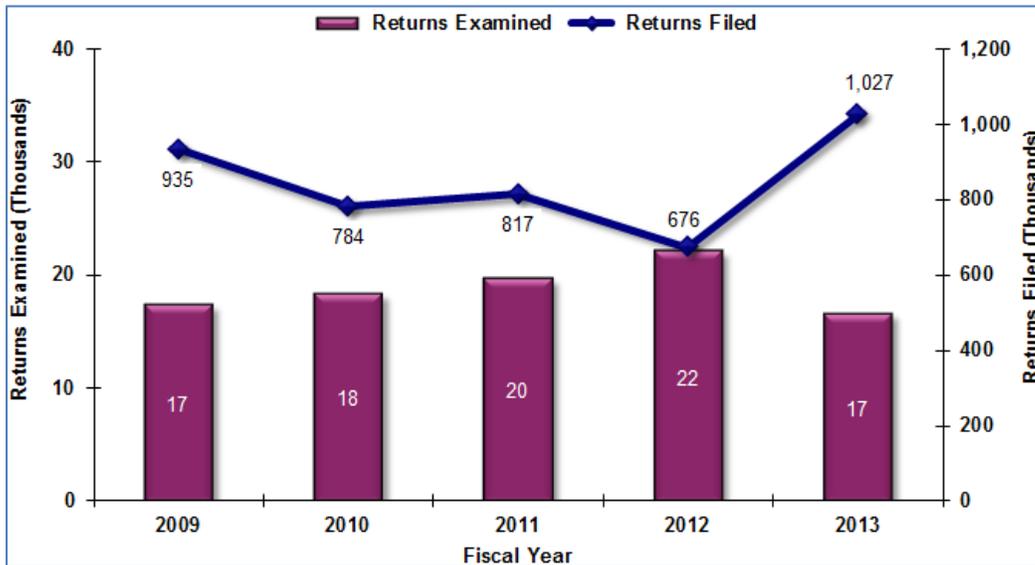


Source: IRS Data Book.



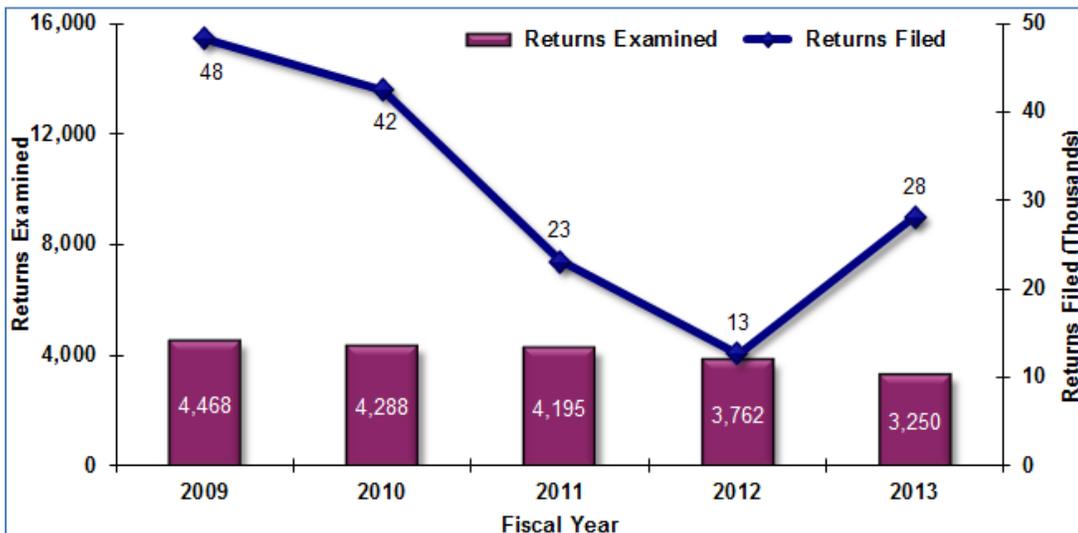
Trends in Compliance Activities Through Fiscal Year 2013

Figure 46: Number of Tax Returns Filed and Examined – Excise Tax



Source: IRS Data Book.

Figure 47: Number of Tax Returns Filed and Examined – Estates

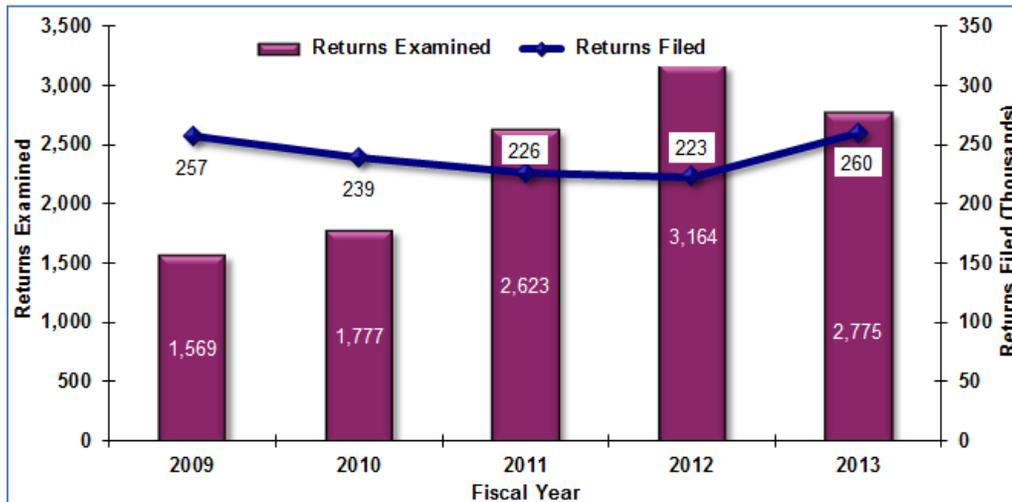


Source: IRS Data Book.



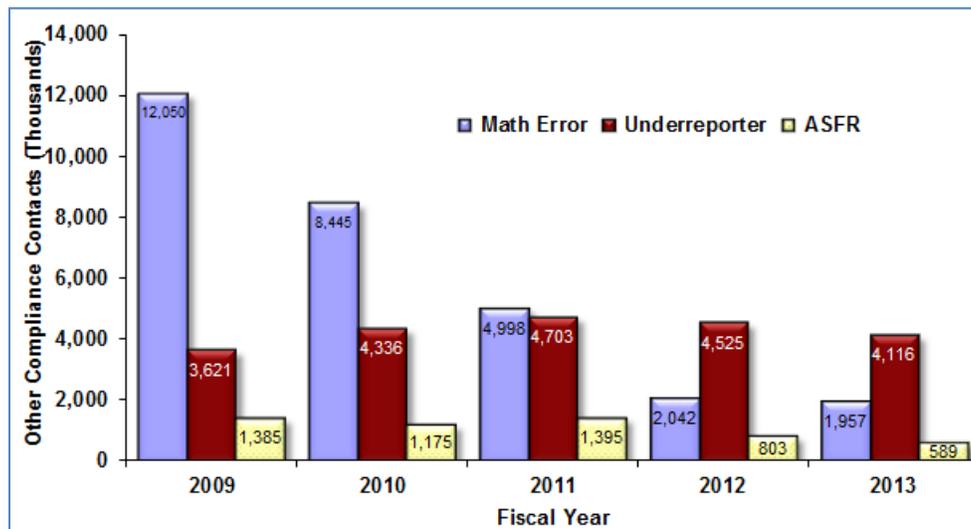
Trends in Compliance Activities Through Fiscal Year 2013

Figure 48: Number of Tax Returns Filed and Examined – Gift Tax



Source: IRS Data Book.

Figure 49: Number of Other Compliance Contacts on Forms 1040¹⁰



Source: IRS Data Book. ASFR = Automated Substitute for Return.

¹⁰ The spike in FY 2009 is at least partially due to eligible taxpayers whose circumstances changed and who may have claimed a recovery rebate credit to receive some or the entire unpaid portion of an economic stimulus payment. The FY 2009 data include cases for which the rebate recovery credit was not claimed on tax returns, but the IRS computed the credit for eligible taxpayers. In FY 2010, the Making Work Pay Tax Credit was a refundable tax credit based on earned income. The FY 2010 data include cases for which the Making Work Pay Tax Credit was not initially claimed on tax returns, but the IRS subsequently computed the credit for eligible taxpayers.



Trends in Compliance Activities Through Fiscal Year 2013

Figure 50: Other Compliance Contacts – Forms 1040 Coverage Rate

	Fiscal Year				
	2009	2010	2011	2012	2013
Math Error	12,049,948	8,445,374	4,998,266	2,042,458	1,957,031
Coverage Rate	7.81%	5.86%	3.54%	1.42%	1.34%
Automated Underreporter	3,621,000	4,336,000	4,703,000	4,525,000	4,116,000
Coverage Rate	2.35%	3.01%	3.33%	3.15%	2.81%
Automated Substitute for Return	1,385,000	1,175,000	1,395,000	803,000	589,000
Coverage Rate	0.90%	0.82%	0.99%	0.56%	0.40%

Source: TIGTA analysis of the IRS Data Book.



Appendix V

Prior Treasury Inspector General for Tax Administration Compliance Trends Reports

TIGTA, Ref. No. 2000-30-075, *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (May 2000).

TIGTA, Ref. No. 2001-30-175, *Management Advisory Report: Tax Return Filing and Examination Statistics* (Sept. 2001).

TIGTA, Ref. No. 2002-30-184, *Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001* (Sept. 2002).

TIGTA, Ref. No. 2003-30-078, *Trends in Compliance Activities Through Fiscal Year 2002* (Mar. 2003).

TIGTA, Ref. No. 2004-30-083, *Trends in Compliance Activities Through Fiscal Year 2003* (Apr. 2004).

TIGTA, Ref. No. 2005-30-055, *Trends in Compliance Activities Through Fiscal Year 2004* (Mar. 2005).

TIGTA, Ref. No. 2006-30-055, *Trends in Compliance Activities Through Fiscal Year 2005* (Mar. 2006).

TIGTA, Ref. No. 2007-30-056, *Trends in Compliance Activities Through Fiscal Year 2006* (Mar. 2007).

TIGTA, Ref. No. 2008-30-095, *Trends in Compliance Activities Through Fiscal Year 2007* (Apr. 2008).

TIGTA, Ref. No. 2009-30-082, *Trends in Compliance Activities Through Fiscal Year 2008* (Jun. 2009).

TIGTA, Ref. No. 2010-30-066, *Trends in Compliance Activities Through Fiscal Year 2009* (Jun. 2010).

TIGTA, Ref. No. 2011-30-071, *Trends in Compliance Activities Through Fiscal Year 2010* (Jul. 2011).

TIGTA, Ref. No. 2013-30-078, *Trends in Compliance Activities Through Fiscal Year 2012* (Aug. 2013).



Appendix VI

Glossary of Terms

Term	Definition
Area Office	A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.
Automated Collection System	A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Automated Substitute for Return System	A system designed to assess taxes on wage earners who fail to file tax returns. It analyzes information submitted to the IRS and historical tax return information.
Automated Underreporter	The Automated Underreporter Program matches items reported on an individual's income tax return to information supplied to the IRS from outside sources (<i>e.g.</i> , employers, banks, credit unions) to determine if the taxpayer's tax return reflected the correct amounts, ensuring the tax amount is correct.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Collection Activity Reports	A group of reports providing management information to Field and Headquarters Collection officials. The reports reflect activity associated with TDA and TDI issuances and installment agreements including issuances, dispositions, and inventories as well as Collection-related payments.
Collection Queue	An automated holding file for unassigned inventory of delinquent cases for which revenue officers are unable to be immediately assigned for contact due to limited resources.



Trends in Compliance Activities Through Fiscal Year 2013

Term	Definition
Compliance Services Collection Operations	An IRS function that mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence. This function was formerly known as the Service Center Collection Branch.
Computing Centers	IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.
Cooperative Associations	An entity that is organized and operated on a cooperative basis, allocating net profits to patrons on the basis of the business done with or for such patrons.
Coordinated Industry Case	An Examination function classification used for the largest and most complex corporations.
Corporate Income Tax Return	Form 1120, <i>U.S. Corporation Income Tax Return</i> . It is used by corporations to report the corporate income tax.
Direct Debit Installment Agreement	A monthly payment plan, to pay off delinquent amounts, in which funds are automatically debited from a taxpayer's checking account for the agreed-upon installment amount.
Dollar Yield per Hour	The amount of tax adjustments on tax returns divided by the number of hours spent examining those returns.
Employment Tax Returns	Various Form 94X return series (primarily Form 940, <i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i> , and Form 941, <i>Employer's QUARTERLY Federal Tax Return</i>) filed by businesses to report things such as employer's Federal unemployment taxes and Federal taxes withheld.
Enforcement Revenue	Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).
Estate Tax Return	Form 706, <i>United States Estate (and Generation-Skipping Transfer) Tax Return</i> , is filed for estates of certain deceased persons.



Trends in Compliance Activities Through Fiscal Year 2013

Term	Definition
Examination (Face-to-Face)	Field examinations of individuals, partnerships, or corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.
Excise Tax Return	Form 720, <i>Quarterly Federal Excise Tax Return</i> , is used to report and pay certain taxes, such as those on transportation and fuel.
Fiduciary Income Tax Returns	Income tax returns filed for estates and trusts.
Field Collection	The unit in the Area Offices consisting of revenue officers who handle face-to-face contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Field Office	Examination Area Offices consisting of revenue agents who perform examinations of individuals, partnerships, and corporations.
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.
Full-Time Equivalents	A figure calculated from the number of full-time and part-time employees in an organization that represents these workers as a comparable number of full-time employees.
Gift Tax Return	Form 709, <i>United States Gift (and Generation-Skipping Transfer) Tax Return</i> , is used to report transfers subject to the Federal gift taxes and to calculate the taxes due on those transfers.
Gross Accounts Receivable	Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.
Individual Income Tax Returns	Form 1040, <i>U.S. Individual Income Tax Return</i> , series are annual income tax returns filed by citizens or residents of the United States.



Trends in Compliance Activities Through Fiscal Year 2013

Term	Definition
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time.
IRS Data Book	Provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.
IRS Oversight Board	A nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of Internal Revenue laws and to provide experience, independence, and stability to the IRS so it may move forward in a cogent, focused direction.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
Lien	An encumbrance on property or rights to property as security for outstanding taxes.
Math Error	A program in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in tax changes.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
No-Change Rate	Percentage of examinations for which the examiner closed the case with no recommended tax change.
Notice of Federal Tax Lien	A notice filed with the appropriate local government office, protecting the Federal Government's interest in the taxpayer's assets by providing public notice of the amount of unpaid tax.
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.



Trends in Compliance Activities Through Fiscal Year 2013

Term	Definition
Overhead Staff	Support staff performing indirect duties within the function, such as automation support, technical support, and quality review.
Partnership Return	Form 1065, <i>U.S. Return of Partnership Income</i> , is used to report the income and expenses of domestic partnerships and the share distributed to each partner.
Revenue Agent	An employee in the Examination function who conducts face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes (<i>e.g.</i> , excise tax returns).
Revenue Officer	Employees in the Field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.
S Corporation Tax Return	Form 1120S, <i>U.S. Income Tax Return for an S Corporation</i> , is filed by qualifying small business corporations and includes amounts distributed to shareholders.
Seizure	The taking of a taxpayer's property to satisfy his or her outstanding tax liability.
Sequestration	Fiscal policy procedure encompassing an automatic form of spending cut equal to the difference between the cap set in the budget resolution and the amount actually appropriated.
Shelved or Surveyed Cases	Delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of the Collection function inventory because they are of lower priority than other available inventory.
Substitute for Return/6020(b) Return	Tax returns prepared by the IRS, based on Internal Revenue Code provisions, when taxpayers appear to be liable for taxes but have not voluntarily filed the returns.



Trends in Compliance Activities Through Fiscal Year 2013

Term	Definition
Tax Compliance Officer/Tax Auditor	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 from tax auditor to tax compliance officer.
Tax Examiner	In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Tax Period	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.
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 unfiled tax return(s) for a taxpayer. One TDI is issued for each delinquent tax period for a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer. One TDA exists for all delinquent tax periods for a taxpayer.
Trust Fund Recovery Penalty	When a company does not pay the taxes it withholds from employee wages, such as Social Security or individual income tax, the IRS has the authority to assess all responsible corporate officers individually for the taxes withheld via the Trust Fund Recovery Penalty.