
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Trends in Compliance Activities Through
Fiscal Year 2016*

September 11, 2017

Reference Number: 2017-30-072

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 2016

Highlights

**Final Report issued on
September 11, 2017**

Highlights of Reference Number: 2017-30-072
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

The IRS's compliance programs continue to be affected by reductions in the number of staff assigned to work cases, although enforcement revenue produced by these programs did not change significantly. Future State projects are underway to improve processes in a variety of areas, including contacting delinquent taxpayers earlier, developing new processes to deliver inventory to Collection and Examination functions, and optimizing outreach and communication.

In addition, recent legislation has necessitated renewed development in areas such as the Private Debt Collection program, as well as creating processes to coordinate with the Department of State in using passport denial or revocation to promote taxpayer compliance.

After a small decrease in Fiscal Year (FY) 2015, the IRS budget for FY 2016 increased \$290 million from \$10.9 billion to \$11.2 billion. Meanwhile, the combined number of enforcement personnel decreased between 5 and 8 percent each year since FY 2012 (14,829) and resulted in the lowest number over the past 10 years in FY 2016 (11,195). Although staffing continued to decline during FY 2016, enforcement revenue collections increased \$89 million from \$54.2 billion in FY 2015 to \$54.3 billion. At the same time unpaid assessments increased from \$411.8 billion in FY 2015, to more than \$421.8 billion at the end of FY 2016.

Closures of fully paid Taxpayer Delinquency Accounts by the IRS's Collection Operations have remained essentially unchanged over the last five years, fluctuating between 1.8 to 1.9 million from FY 2012 through FY 2016. Taxpayer Delinquency Investigation closures decreased for the seventh straight year, from 5.1 million in FY 2010 to 2.3 million in FY 2016.

Examination staffing in FY 2016 reached a 20-year low with only 8,847 employees, a decrease of 4 percent from FY 2015 (9,189) and 23 percent lower than FY 2012 (11,432). In FY 2016, the number of examinations conducted by the IRS decreased approximately 9 percent from those conducted during FY 2015, and was almost 32 percent lower than FY 2012. The IRS examined 1,035,000 (one of every 143) individual income tax returns in FY 2016. This was 16 percent less than the number of examinations performed in FY 2015 (1,228,000) and 30 percent fewer examinations than the five-year high reported in FY 2012 of 1,482,000. Consistent with the decline in individual examinations, fewer corporate tax returns were examined during FY 2016 (21,136) than any year since FY 2004.

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 11, 2017

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 2016 (Audit # 201730015)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. This audit is included in our Fiscal Year 2017 Annual Audit Plan and addresses the Major Management Challenge of Improving Tax Compliance.

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

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



*Trends in Compliance Activities Through
Fiscal Year 2016*

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Trends in Compliance Activities Through Fiscal Year 2016

Abbreviations

ACS	Automated Collection System
ASFR	Automated Substitute for Return
CSCO	Compliance Services Collection Operations
FY	Fiscal Year
IP PIN	Identity Protection Personal Identification Numbers
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



Trends in Compliance Activities Through Fiscal Year 2016

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, the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the IRS's Collection and Examination function activities.¹ Our data analyses were performed in TIGTA's Dallas, Texas, office during the period February through June 2017. 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 recent reports.

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



Trends in Compliance Activities Through Fiscal Year 2016

Results of Review

Challenges Affecting the Internal Revenue Service During Fiscal Year 2016

The IRS's compliance programs experienced a variety of results and challenges during Fiscal Year² (FY) 2016. Results in the compliance programs continue to be affected by reductions in the number of staff assigned to work cases, although enforcement revenue produced by these programs did not change significantly. While the IRS continues to work through the challenges that are the result of resource reductions, other challenges include the development of new and emerging programs resulting from recent tax legislation.

The IRS's compliance programs support the mission of the IRS through a variety of activities that are intended to encourage or facilitate compliance with tax laws. In recent years, the IRS has been working to develop or transform the Future State of these operations to meet taxpayer needs in an environment of changing technology. Projects are underway to find efficiencies or improve processes in a variety of areas including working to contact delinquent taxpayers earlier to prevent the accumulation of future liabilities, developing new processes to deliver taxpayer inventory to Collection and Examination functions, and optimizing outreach and communication within and outside of the IRS.

As the IRS works to improve its efficiency and effectiveness, the compliance programs continue to be faced with the challenge of improving taxpayer compliance. The ability to secure delinquent tax returns, examine tax returns, and collect delinquent taxes has a direct impact on the IRS's ability to reduce the Tax Gap.

Tax liabilities that are not paid on time and may not be subsequently collected, either voluntarily or as the result of enforcement activities, contribute to the Net Tax Gap. In May 2016, the IRS made improvements to the accuracy and comprehensiveness of the estimation process in order to update its estimate of the Net Tax Gap to \$406 billion for Tax Years 2008 through 2010.³ This

² See Appendix VI for a glossary of terms.

³ *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010*, IRS Pub. 1415 (Rev. May 2016), available at <http://www.irs.gov/uac/IRS-The-Tax-Gap>. Unlike prior Tax Gap estimates that pertain to a single tax year, these estimates reflect an estimated average compliance rate and associated average annual Tax Gap for Tax Years 2008 through 2010. The annual Gross Tax Gap was estimated to be \$345 billion in 2001, \$450 billion in 2006, and \$458 billion in Tax Years 2008 through 2010. The IRS noted that the December 2007 through June 2009 recession and the weak recovery that followed contributed to the Gross Tax Gap remaining substantially unchanged from the previous Tax Year 2006 estimate.



Trends in Compliance Activities Through Fiscal Year 2016

amount is approximately 5 percent more than the estimate for Tax Year 2006 (\$385 billion) and approximately 40 percent more than the estimate for Tax Year 2001 (\$290 billion).⁴

The IRS continues to develop new compliance programs and processes due to recent tax legislation while still focusing on preventing identity theft

Recent legislation has necessitated renewed development in areas such as the Private Debt Collection program, as well as creating processes to coordinate with the U.S. Department of State in using passport denial or revocation to promote taxpayer compliance.

Congress enacted the Fixing America's Surface Transportation Act⁵ in December 2015, and Section 32102 of this law requires the IRS to use private debt collection agencies for the collection of outstanding inactive tax receivables. During FY 2016, the IRS met with private debt collection agencies to request input and answer questions prior to soliciting bids for collection services. In September 2016, the IRS selected four contractors to which cases will be assigned. IRS officials have continued developing the program into FY 2017. In April 2017, the IRS began private collection of certain overdue Federal tax.

Once the IRS determines that a taxpayer owes money but can no longer actively work the case due to factors such as the age of the receivable or lack of resources, it will notify taxpayers via written correspondence that their account is being transferred to a private debt collection agency. The agencies will send a second, separate letter to the taxpayer and their representative confirming this transfer. In addition to establishing internal guidelines for employees, the IRS has also developed and published information on its website notifying the public of this new legislation. The website explains how taxpayers can respond to the private collection agencies, and also provides contact information for each of the four agencies, as well as additional information on how to avoid being a victim of scam telephone calls.

During FY 2016, the IRS also worked to coordinate with the Department of State to implement Internal Revenue Code Section 7345, which is also part of the Fixing America's Surface Transportation Act.⁶ This law requires the IRS to notify the Secretary of State that an individual has a seriously delinquent tax debt.⁷ The Secretary of State may in turn deny issuing or renewing a passport or revoke the individual's current passport.

⁴ The IRS's changes to its estimation processes allowed the IRS to estimate, for the first time, the Net Tax Gap by type of tax. The estimated Net Tax Gap during Tax Years 2008 through 2010 for individual income tax was \$291 billion, corporation income tax was \$35 billion, employment tax was \$79 billion, and estate and excise tax combined was \$1 billion.

⁵ Pub. L. No. 114-94, Sec. 32102 (2015).

⁶ Pub. L. No. 114-94, Sec. 32101 (2015).

⁷ A seriously delinquent tax debt is an unpaid, legally enforceable Federal tax liability greater than \$50,000, which has been assessed, and the taxpayer has received a Notice of Federal Tax Lien or a levy has been issued. Taxpayers are not considered to have a seriously delinquent tax debt if they are involved in settling their debt through an offer in compromise, installment agreement, or are legally contesting the debt.



Trends in Compliance Activities Through Fiscal Year 2016

IRS officials worked with internal and external stakeholders during FY 2016 to develop and deploy a strategy to implement this legislation. The IRS continues to actively work with the Department of State to handle potential obstacles, such as the development of a systemic external data exchange and the protection of Personally Identifiable Information. IRS officials also developed a process flow, timeline, work breakdown structure, and communication plan in order to provide structure and direction to the development and implementation of this legislation. In an attempt to minimize the burden on resources for both the IRS and Department of State, and assess the program efficiencies and effectiveness, the IRS worked with various stakeholders to implement a staggered release of certified taxpayers to the Department of State.⁸ This staggered release is intended to gauge taxpayer response and will begin with an incremental volume of individual taxpayer debt.

In FY 2017, the IRS continued working with the Department of State to implement this new provision by finalizing the interagency agreements prior to transferring any taxpayer data. The IRS also plans to develop key metrics and measures for the program.

While developing these new programs and processes, the IRS continued to combat growing tax schemes such as identity theft and refund fraud. Due to the additional funding of \$290 million received in FY 2016, the IRS was able to continue to focus on cybersecurity programs in an effort to safeguard taxpayer data. The IRS identified and mitigated 678 cyber incidents and blocked the transmission of more than 66,000 unencrypted e-mails from leaving the IRS network, thereby preventing the inadvertent disclosure of potentially sensitive data.

During a recent review aimed at assessing the effectiveness of the IRS's continued efforts to detect and prevent identity theft, TIGTA noted a reduction in the number of undetected fraudulent tax returns.⁹ Specifically, more than 568,000 Tax Year 2013 undetected potentially fraudulent tax returns with tax refunds totaling more than \$1.6 billion were identified, which was a reduction of more than \$523 million from the prior year. The false reporting of wages and withholding continues to account for the largest amount (\$1.3 billion) of undetected potentially fraudulent tax return refunds. However, with the enactment of the Consolidated Appropriations Act of 2016,¹⁰ third-party income and withholding documents were required to be submitted to the Social Security Administration for Tax Year 2016 on or before January 31, 2017. These submissions are anticipated to significantly reduce the number of undetected tax returns as third-party information becomes more timely available.

In an effort to provide relief to identity theft victims, the IRS issued Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers beginning in FY 2011. The IP PIN is intended to prevent the misuse of a taxpayer's Social Security Number and allows a tax return or

⁸ A certified taxpayer is a taxpayer with a seriously delinquent tax debt as defined in footnote six.

⁹ TIGTA, Ref. No. 2017-40-017, *Efforts Continue to Result in Improved Identification of Fraudulent Tax Returns Involving Identity Theft; However, Accuracy of Measures Needs Improvement* p. 14 (Feb. 2017).

¹⁰ H.R. 2029 Pub. L. 114-113 (2016).



Trends in Compliance Activities Through Fiscal Year 2016

refund to be processed without delay. The IRS issued more than 2.7 million IP PINs in Processing Year 2016.¹¹

TIGTA recently reviewed more than 30,000 tax returns filed with an IP PIN between January and May 2016, and found that approximately 37 percent of the returns were not manually reviewed by an IRS tax examiner. This manual review is required by the IRS as part of its risk mitigation strategy after a breach was discovered in May 2015 involving the authentication process of the IP PIN application. TIGTA also found that taxpayer accounts were not consistently updated to ensure that IP PINs were generated for taxpayers. Specifically, after the IRS resolved an identity theft case confirming the taxpayer was a victim, it did not generate IP PINs for approximately 2 million affected taxpayers.

In FY 2016, 44 percent of the IRS's appropriations were allocated to enforcement of tax laws, such as those previously discussed. Although the amount of funding available to develop new programs and processes and to enforce tax laws and fight tax fraud increased in FY 2016, the number of personnel on hand to perform this work continued to decline.

Funding increased while staffing continued to decrease in FY 2016

After a small decrease in FY 2015, the IRS budget for FY 2016 increased \$290 million (3 percent), from \$10.9 billion to \$11.2 billion. The increase was part of an administrative provision specifically intended to improve customer service, identify and prevent refund fraud and identity theft, and enhance cybersecurity to safeguard taxpayer data. The IRS categorizes its appropriations by the following core areas: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization.¹²

Figure 1 shows the amount of appropriation by core area for FY 2016.

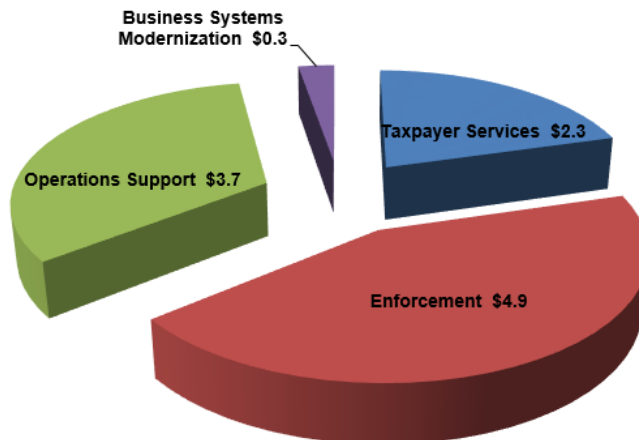
¹¹ TIGTA, Ref. No. 2017-40-026, *Inconsistent Processes and Procedures Result in Many Victims of Identity Theft Not Receiving Identity Protection Personal Identification Numbers* p. 1 (Mar. 2017).

¹² Taxpayer Services includes processing tax returns 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.



Trends in Compliance Activities Through Fiscal Year 2016

Figure 1: FY 2016 Funding by Core Appropriation (in Billions)



Source: TIGTA analysis of IRS budget appropriations.

The allocation of funds to each of these four core areas remained consistent with prior years' allocation.

Resource constraints have continued to affect the number of IRS employees available to meet the IRS mission. The number of IRS full-time equivalents decreased 1.5 percent from 78,547 at the end of FY 2015 to 77,400 at the end of FY 2016. Full-time equivalents have been reduced by approximately 14 percent since FY 2012 (89,520). Overall, IRS employment (all employees who are on permanent, temporary, and term appointments) has declined 15 percent from 97,942 employees in FY 2012 to 82,834 in FY 2016.

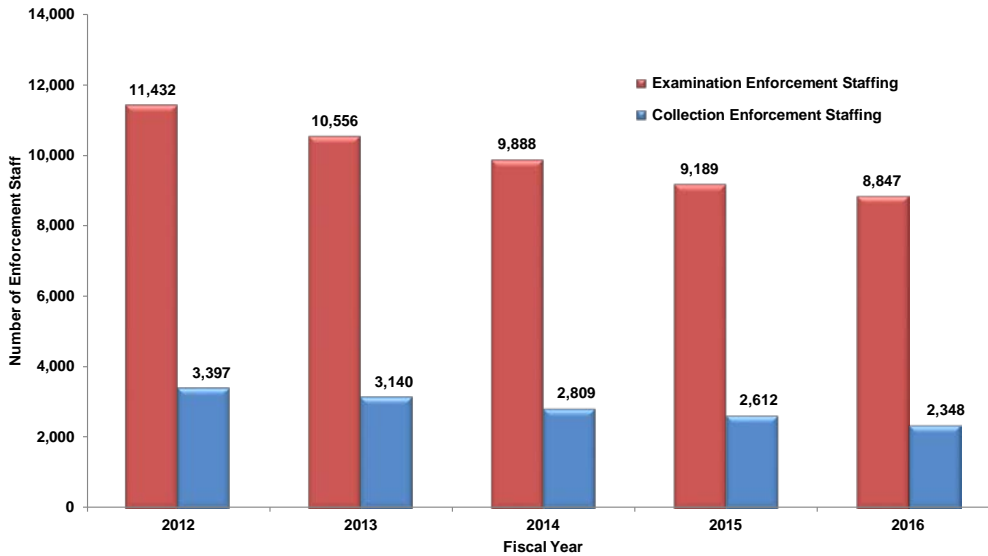
Figure 2 shows that the combined number of enforcement personnel (revenue officers, revenue agents, and tax compliance officers) has declined each year since FY 2012.¹³ The combined number of enforcement personnel decreased between 5 and 8 percent each year since FY 2012 (14,829) and resulted in the lowest number over the past 10 years in FY 2016 (11,195).

¹³ Collection and Examination functions staff located in field offices, excluding management and overhead staff.



Trends in Compliance Activities Through Fiscal Year 2016

Figure 2: Enforcement Personnel by Fiscal Year



Source: TIGTA analysis of Collection Activity Report 5000-23 and Table 37 Examination Program Monitoring

The number of enforcement personnel has decreased more than 24 percent since FY 2012 (14,829) and approximately 35 percent since the 10-year high in FY 2010 (17,206). Due to attrition and retirement, the net change in enforcement personnel in FY 2016 was a decrease of 606 employees.

The decline in the number of employees is likely to continue. In FY 2016, 22 percent of full-time permanent employees in the IRS are eligible to retire, and the IRS expects this number to increase to 34 percent by 2019. Should this loss of staffing be realized, the gap created by the loss of knowledge and experience has the potential to materially affect the administration and enforcement of tax laws. Currently, less than 10 percent of the IRS workforce is aged 35 and younger. IRS officials have expressed concern that without a sustained ability to hire a workforce with a greater projected longevity, the IRS will have difficulty developing the leaders it will need five to 10 years in the future. However, currently the decline in the number of employees has not resulted in a decrease in the amount of revenue collected.

Enforcement Revenue and Total Tax Revenue Increased During Fiscal Year 2016

Although staffing continued to decline during FY 2016, enforcement revenue collections increased \$89 million from \$54.2 billion in FY 2015 to \$54.3 billion.¹⁴ Enforcement revenue has

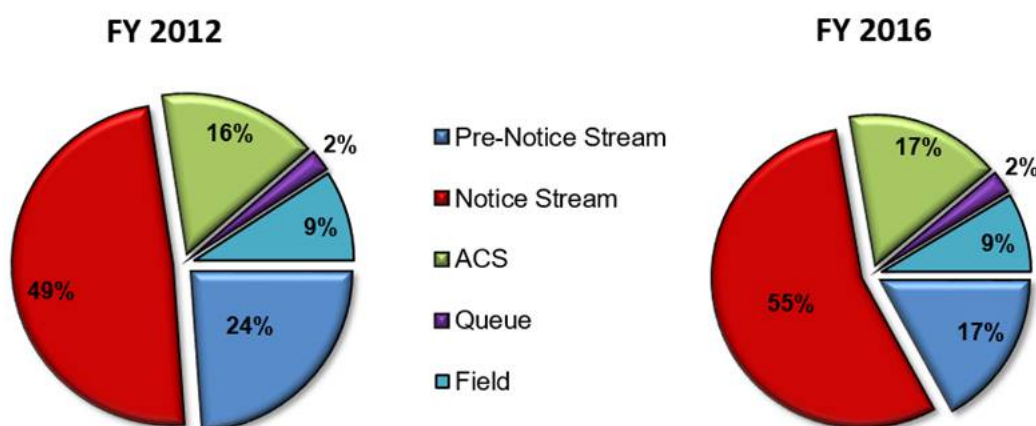
¹⁴ See Appendix IV, Figure 2.



Trends in Compliance Activities Through Fiscal Year 2016

increased more than 8 percent since FY 2012 when it measured approximately \$50.2 billion. More than one-half of the FY 2016 enforcement revenue was collected during the collection notice stream (\$30.0 billion), with the remainder collected either prior to the notice stream (\$9.2 billion), by the Automated Collection System (ACS) (\$9.1 billion), by Field Collection (\$4.7 billion), or when assigned to the queue (\$1.3 billion).¹⁵ Figure 3 shows a comparison of enforcement revenue collected during FY 2012 and FY 2016.

**Figure 3: Breakdown of Enforcement Revenue Collected
During FY 2012 and FY 2016¹⁶**



Source: TIGTA analysis of Enforcement Revenue Information System data.

While the majority of enforcement revenue is attributed to the IRS's Collection functions, more than \$9.9 billion (or approximately 18 percent) of the \$54.3 billion in FY 2016 is attributed to the examination function. Examination related revenue is attributable to examination adjustments that result in additional tax liabilities. Generally, examination related revenue is collected prior to the notice stream enforcement revenue shown in Figure 3.

Over the past five years, enforcement revenue collected from individual taxpayers has seen the greatest increase (12 percent), with \$4.3 billion more revenue collected in FY 2016 (\$38.5 billion) than in FY 2012 (\$34.2 billion). Enforcement revenue collected from businesses increased 2 percent during the same period, from \$15.6 billion in FY 2012 to \$15.9 billion in FY 2016.

¹⁵ Enforcement revenue details are based on our analysis of details from the Enforcement Revenue Information System, which is a compilation of cross-functional IRS databases that track direct hours spent on cases; the life span of enforcement cases, assessments, recommendations, collections; and the timing of revenue collected from all IRS enforcement actions.

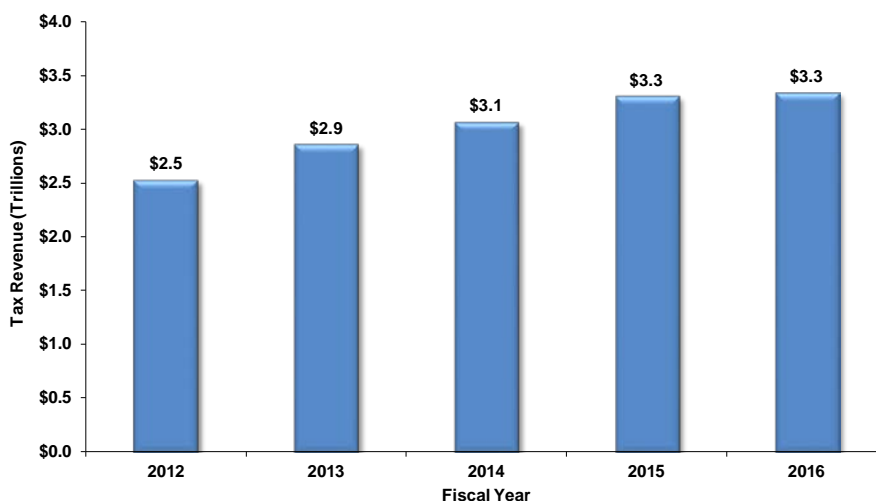
¹⁶ Pre-notice stream enforcement revenue reflects the collection of revenue before tax delinquencies are treated by the collection notice stream or included as collection inventory within the ACS, the queue, or Field Collection. The collection queue is an inventory of unassigned delinquent cases. However, revenue collections may continue to post to delinquent cases while awaiting assignment.



Trends in Compliance Activities Through Fiscal Year 2016

Similar to enforcement revenue, Figure 4 shows that the total dollars received and collected remained essentially unchanged in FY 2016.¹⁷ Although total tax revenue in FY 2016 (\$3.33 trillion) was 32 percent higher than the \$2.5 trillion reported in FY 2012, it increased approximately 1 percent from FY 2015 (\$3.30 trillion).

Figure 4: Total Tax Revenue by Fiscal Year



Source: TIGTA analysis of the IRS Data Book.

Collection Function Compliance Activities Showed Mixed Results

Collection is an important aspect of maintaining a voluntary tax compliance system. However, declining resources have affected the majority of the compliance functions. For example, the number of revenue officers has decreased 31 percent over the past five years, from 3,397 in FY 2012 to 2,348 at the end of FY 2016.¹⁸ In addition, the number of contact representatives within the ACS has decreased 22 percent, from 2,426 in FY 2012 to 1,897 in FY 2016.

Closures of fully paid Taxpayer Delinquent Accounts (TDA) have remained essentially unchanged over the last five years, fluctuating between 1.8 to 1.9 million from FY 2012 through FY 2016. Nonetheless, the number of taxpayers with TDAs in the queue increased 4 percent in FY 2016 (937,514) compared to FY 2015 (899,415), but there were 18 percent fewer taxpayers with TDAs in the queue in FY 2016 than in FY 2012 (1.1 million).¹⁹

Taxpayer Delinquency Investigation (TDI) closures decreased for the seventh straight year, from 5.1 million in FY 2010 to 2.3 million in FY 2016 (a drop of 54 percent). The number of TDIs in

¹⁷ The amount taxpayers voluntarily paid and what the IRS collected through its enforcement efforts or “total tax revenue.”

¹⁸ See Appendix IV, Figure 6.

¹⁹ See Appendix IV, Figure 11.



Trends in Compliance Activities Through Fiscal Year 2016

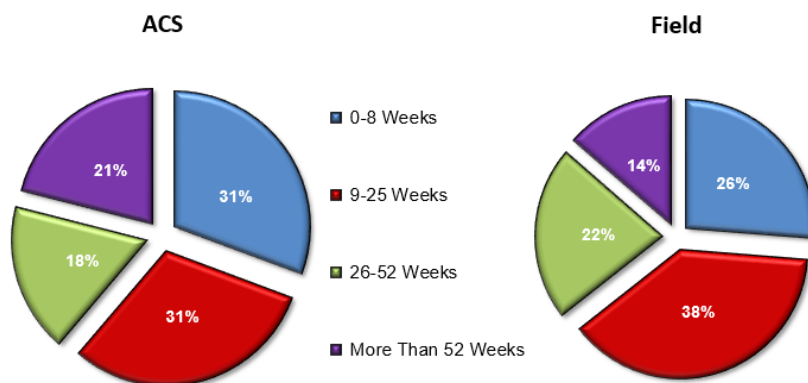
collection inventory also decreased; at the end of FY 2016 there were 30 percent fewer TDIs in inventory (2.8 million) than the five-year high of 3.9 million TDIs in FY 2012. The drop in delinquent accounts is not a result of increased compliance; rather it is a result of resource constraints and a reallocation of employees to handle other types of work.

The IRS continued to reduce its use of collection actions such as filing Notices of Federal Tax Lien (NFTL) and issuing levies, while increasing the use of direct debit installment agreements. Continued reductions in enforcement personnel requires the IRS to make efficient and effective use of such compliance tools to ensure that tax compliance does not further erode and the Tax Gap does not widen.

TDA collections, closures, and available inventory

TDA collections during FY 2016 (\$7.3 billion) were 6 percent higher than the five-year low of \$6.8 billion during FY 2013, but 3 percent higher than the TDA collections in FY 2012 (\$7.0 billion). In FY 2016, TDA collections were highest for the ACS and Field Collection, with each function collecting \$3.1 billion in revenue,²⁰ followed by the queue (\$1.1 billion) and Compliance Services Collection Operations (CSCO) (\$5.2 million). When compared to FY 2015, this represents a 2.5 percent increase in Field Collection (from \$3.0 billion), a 9 percent increase in the queue (from \$1.0 billion), a 5 percent decrease for the ACS (from \$3.3 billion), and a 16 percent decrease for the CSCO (from \$6.2 million). Figure 5 shows that both the ACS and Field Collection continued to make the majority of collections within the first year of receipt.²¹

Figure 5: Percentage of Dollars Collected During FY 2016 by the Number of Weeks the TDA Was Assigned to the ACS and the Field²²



Source: IRS Collection Activity Report 5000-2.

²⁰ See Appendix IV, Figure 8.

²¹ Time in function does not include time that each tax module may have spent in another IRS function.

²² The percentages may not total 100 percent due to rounding.



Trends in Compliance Activities Through Fiscal Year 2016

Collections early in the life of a debt are critical because the probability of collecting funds diminishes over time. The National Taxpayer Advocate Service conducted a research study of the IRS's collectibility curve as part of the FY 2015 Annual Report to Congress.²³ The research confirmed what the collection industry widely believes to be the case—that collectibility decreases over time. In line with the timeliness of collections presented in the research, the majority of IRS collections continue to be made within the first 25 weeks (approximately six months).²⁴

The number of TDAs generated for the Collection functions decreased 6 percent from FY 2012 to FY 2016. While the number of TDAs issued to the ACS increased by 5 percent from FY 2012 through FY 2016, the number of TDAs issued to Field Collection, the queue, and the CSCO decreased by 36 percent, 17 percent, and 93 percent, respectively, during the same period. IRS officials attributed the significant decline in the CSCO TDAs to the decline in Automated Substitute for Return assessments that are issued as part of the nonfiler program, which have decreased 86 percent since FY 2012.

Inventory in the ACS has grown each year since FY 2012. From FY 2012 to FY 2016, the number of taxpayers with delinquencies in the ACS has grown 43 percent (from 3.5 million to 5.0 million), while the amount of delinquencies attributed to these taxpayers increased nearly 78 percent (from \$30.4 billion to \$54.0 billion). More recently, the number of taxpayers with delinquencies in the ACS increased 6 percent from FY 2015 (4.7 million) to FY 2016 (5 million),²⁵ while the amount of their delinquencies increased 3 percent during the same time period (\$52.4 billion to \$54.0 billion, respectively).

The number of TDA tax periods closed as uncollectible by the ACS had declined in recent years, but increased in FY 2016. Uncollectible closures by the ACS in FY 2016 (730,000) increased more than 1 percent from FY 2015 (721,000). The ACS shelved approximately 14 percent fewer tax periods in FY 2016 (320,000) than in FY 2012 (374,000), and 16 percent less than in FY 2015 (380,000).²⁶ The dollar value associated with these shelved delinquencies declined by 26 percent from FY 2012 (\$1.2 billion) to FY 2016 (\$892 million) and declined 6 percent from FY 2015 (\$949 million).

The number of taxpayers with TDAs in the queue increased in FY 2016, with approximately 938,000 taxpayers having delinquent accounts in the queue. This was an increase of 4 percent from the number of taxpayers in the queue at the end of FY 2015 (899,000), but is about

²³ *National Taxpayer Advocate, Annual Report to Congress, Volume 2, TAS Research and Related Studies*, IRS Pub. 2104B p. 33 (*IRS Collectibility Curve*) (Rev. Dec. 2015). TAS = Taxpayer Advocate Service. The Taxpayer Advocate Service's methodology included analyzing liabilities entering TDA status from Calendar Year 2003 through Calendar Year 2012.

²⁴ See Appendix IV, Figures 9 and 10.

²⁵ See Appendix IV, Figure 12.

²⁶ The IRS uses shelving to temporarily remove low priority and low collectability TDA and TDI cases from active collection inventory.



Trends in Compliance Activities Through Fiscal Year 2016

18 percent less than the 1.1 million in FY 2012.²⁷ The value of the delinquencies in the queue decreased by approximately 3 percent, from \$57.5 billion in FY 2015 to \$55.8 billion in FY 2016, but are 12 percent less than the \$63 billion in FY 2012. Although many of the cases in the queue may be assigned to be worked, a significant number of taxpayers may be sent only an annual reminder notice in attempt to resolve the delinquency.²⁸

Many tax periods that remain unassigned in the queue for 52 weeks or more are shelved. The majority of shelved accounts are placed in that status via the queue. The number of tax periods shelved from the queue increased 10 percent from FY 2015 (788,000) to FY 2016 (868,000). Although, the number of shelved tax periods from the queue was 27 percent less in FY 2016 than the five-year high of 1.2 million tax periods in FY 2013. The delinquencies associated with these closures in FY 2016 (\$7.4 billion) were 32 percent less than those delinquencies shelved in FY 2013 (a five-year high of \$10.8 billion) and 7 percent more than the associated delinquencies in FY 2015 (\$6.9 billion).

Tax periods closed as uncollectible by the field decreased 9 percent from FY 2015 (463,000) to FY 2016 (420,000). Uncollectible closures in FY 2016 were 39 percent less than the five-year high in FY 2012 (682,000). Delinquencies associated with uncollectible closures in the field have declined 21 percent from FY 2012 (\$17.2 billion) to FY 2016 (\$13.6 billion).

The decline in the number of revenue officers affects the number of TDAs that can be assigned in Field Collection. The decline in available resources may also affect the number of TDAs in the queue awaiting assignment. Overall, more TDAs were generated than the IRS closed. While both closures and receipts decreased in FY 2016, TDA closures as a percentage of TDA receipts increased slightly from 75 percent in FY 2015 to 78 percent in FY 2016.²⁹

TDI closures

In FY 2016, the number of successful TDI resolutions (a closure is successful if the taxpayer files a delinquent tax return) decreased for the fourth straight year, decreasing 51 percent since FY 2012, from 982,000 to 485,000. In FY 2016, TDIs closed decreased 28 percent from FY 2015. While the number of successful closures is decreasing, the number of TDI tax periods shelved or surveyed has varied.³⁰ TDI tax periods shelved or surveyed from the queue increased to a five-year high of 622,000 in FY 2016, an increase of 34 percent from the 463,000 tax periods shelved or surveyed in FY 2015. Field Collection had a larger increase of 51 percent

²⁷ See Appendix IV, Figure 11.

²⁸ Before accounts get assigned to the queue, the IRS has already sent notices to the taxpayers about the delinquencies. After the notices 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.

²⁹ See Appendix IV, Figure 16.

³⁰ IRS survey closures are considered permanent closures of resolved TDI cases (although a manual entry can reverse the closure).



Trends in Compliance Activities Through Fiscal Year 2016

from FY 2015 (486) to FY 2016 (736). At the same time, TDIs shelved or surveyed by the ACS decreased 19 percent, from 120,000 in FY 2015 to 97,000 in FY 2016.

New TDI inventory received has declined approximately 46 percent from FY 2012 (2.0 million) to FY 2016 (1.1 million). Available TDI inventory at the end of FY 2016 (2.8 million) was 9 percent less than available inventory at the end of FY 2015 (3.0 million) and 30 percent less than available inventory at the end of FY 2012 (3.9 million). Available inventory in the queue experienced the greatest decline of 22 percent, from 695,000 in FY 2015 to 545,000 in FY 2016.

This decline in available inventory corresponds to the decrease in delinquent return notices issued to nonfilers over the past few years. Nonfiler cases identified by the IRS first go through a notice phase, in which up to two delinquent return notices are sent to the nonfilers to remind them to file a tax return. If the taxpayer fails to resolve the nonfiler case during this notice process, a TDI case may be generated. However, due to resource constraints and the reallocation of employees to handle other types of work, Collection function management has been reducing the number of notices issued to nonfilers in recent years, which in turn has reduced the number of TDI cases. Specifically, comparing FY 2012 to FY 2016, the number of delinquent return notices created is down 57 percent, from 4.0 million in FY 2012 to 1.7 million in FY 2016.

During FY 2016, TIGTA found that the filing rate is higher for those nonfilers receiving a delinquent return notice than those not issued a notice and that the decision to shift resources from nonfilers was based on IRS's assessment of other higher-priority work.³¹ TIGTA estimated that for FY 2015 alone, nonfilers owed the IRS approximately \$15.8 billion in taxes, and that suspending delinquent return notices may result in the IRS foregoing billions of dollars in additional tax revenue each year.

Unpaid assessments

Unpaid assessments shown in Figure 6 reflect the cumulative total of all Federal taxes due and legally enforceable, including compliance assessments and write-offs. Compliance assessments include amounts that have not been agreed to by the taxpayer or determined by a court, while write-offs represent those amounts for which the IRS does not expect to make further collections.³² Unpaid assessments increased \$10.1 billion (more than 2 percent), from

³¹ TIGTA, Ref. No. 2016-30-085, *Improvements to the Nonfiler Program Could Help the Internal Revenue Service More Effectively Address Additional Nonfilers Owning Billions of Dollars in Taxes* p. 10 (Sep. 2016).

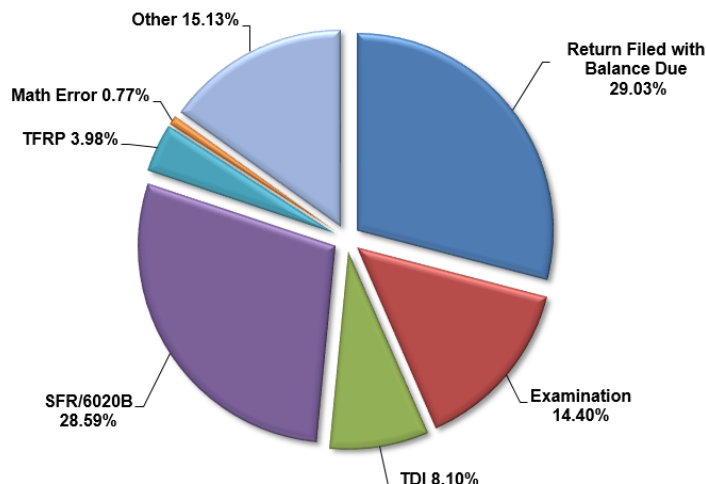
³² During prior audits of IRS financial statements, the Government Accountability Office noted that limitations of the IRS's financial system require the IRS to create, through a labor-intensive manual estimation process including multibillion-dollar adjustments, the value of Federal taxes receivable (Government Accountability Office, GAO-16-146, *Financial Audit: IRS's Fiscal Years 2015 and 2014 Financial Statements* (Nov. 12, 2015)). In response to the recommendations, the IRS has taken actions to improve management and reporting of unpaid assessments and developed a long-term action plan.



Trends in Compliance Activities Through Fiscal Year 2016

\$411.8 billion in FY 2015, to more than \$421.8 billion at the end of FY 2016.³³ Figure 6 shows the unpaid assessments by source of assessment.

**Figure 6: FY 2016 Percentage of
Unpaid Assessments 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.

From FY 2015 to FY 2016, assessments related to returns filed with a balance due and math error assessments each increased by 13 percent. IRS officials explained that they have little control over fluctuations in the returns filed with a balance due, as these amounts are based on taxpayers filing a tax return but not paying their full tax liability. Accounts receivable decreased for the following sources during FY 2016: Substitute for Return/6020b assessments decreased by 6 percent, Examination decreased by 3 percent, Trust Fund Recovery Penalty assessments decreased by 2 percent, and TDI assessments decreased by less than 1 percent.

The Taxpayer Advocate Service recently reported on the abatement rate of the unpaid assessments for business filers. For example, in FY 2012, it was reported that the IRS abated approximately 80 percent of math error assessments, 65 percent of penalty assessments, 40 percent of Substitute for Return assessments, and approximately 15 percent of examination assessments.³⁴

³³ See Appendix IV, Figure 3.

³⁴ *National Taxpayer Advocate, Annual Report to Congress, Volume 2, TAS Research and Related Studies*, IRS Pub. 2104-B p. 81 (*Collecting Business Debts: Issues for the IRS and Taxpayers*) (Rev. Dec. 2016).
TAS = Taxpayer Advocate Service.



Trends in Compliance Activities Through Fiscal Year 2016

The use of liens, levies, and seizures continues to decrease due to declines in staffing³⁵

The IRS's use of liens continued to decline in FY 2016. Issuances of NFTLs decreased almost 9 percent in FY 2016 (464,000) compared to issuances in FY 2015 (509,000). This is the fewest issued since FY 2002. During FY 2016, NFTLs issued by the ACS declined slightly, from 202,000 in FY 2015 to 199,000 (2 percent). NFTLs issued by Field Collection decreased by 14 percent, from 307,000 in FY 2015 to 265,000 in FY 2016. The IRS attributes this decrease to a decline in Field Collection revenue officer staffing, which saw a 10 percent decline from FY 2015 (2,612) to FY 2016 (2,348).

The IRS's use of levies decreased 41 percent from approximately 1.46 million during FY 2015 to 869,000 in FY 2016. This was the fewest number of levies issued since FY 2002. Although the number of levies issued by Field Collection decreased by approximately 9 percent, levies issued by the ACS experienced a more substantial decrease of approximately 62 percent. Specifically, the ACS issued 337,000 levies in FY 2016 compared to approximately 881,000 levies in FY 2015. As a result of decreasing staff resources, which declined 12 percent in FY 2016 to 2,419 ACS employees, the IRS decreased levy issuances from the ACS in an effort to reduce taxpayer correspondence as a result of levy notice issuances, thereby allowing the IRS to focus resources on over-age inventories.

For the first time since FY 2011, the number of seizures increased. During FY 2016, the number of seizures increased 2 percent from 426 in FY 2015 to 436. The number of seizures remains far below the number prior to implementation of the IRS Restructuring and Reform Act of 1998.³⁶ TIGTA recently made recommendations to improve managerial oversight and ensure consistent treatment of seized assets.³⁷

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 expanded the criteria to provide more payment options to taxpayers.

The number of new offer in compromise receipts submitted by taxpayers decreased for the third year in a row. The number of offers accepted decreased by about 3 percent, from 27,417 in FY 2015 to 26,663 in FY 2016. The dollar value of accepted offers increased more than 10 percent for the same period, from \$205 million to \$226 million in FY 2016.³⁸

³⁵ See Appendix IV, Figures 20 through 22.

³⁶ Pub. L. No. 105-206, 112 Stat. 685.

³⁷ TIGTA, Ref. No. 2015-30-036, *Seizure Sale Procedures Were Not Always Followed and Can Be Improved* (May 2015).

³⁸ See Appendix IV, Figure 24.



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Installment agreements have fluctuated between 2.98 million and 3.27 million since FY 2012, including a 4 percent increase from FY 2015 (2.99 million) to FY 2016 (to 3.12 million). The dollar value of liabilities associated with these installment agreements also fluctuated from FY 2012 through FY 2016, including an increase from \$24.7 billion in FY 2015 to \$25.4 billion (approximately 3 percent) in FY 2016.³⁹

The number of direct debit installment agreements has increased by 128 percent since FY 2012, growing from 365,000 to 833,000 in FY 2016. This included a 24 percent increase between FY 2015 (672,000) and FY 2016.

The amount collected through installment agreements has also increased in each of the past five years. Total collections attributed to installment agreements grew 19 percent from FY 2012 (\$10.7 billion) to FY 2016 (\$12.7 billion). Collections from direct debit installment agreements increased 24 percent from \$3.6 billion in FY 2015 to \$4.5 billion in FY 2016. Since FY 2012, collections from direct debit installment agreements have increased more than 200 percent (from \$1.49 billion).

TIGTA recently reported that taxpayers benefit from a more convenient transaction, characterized by a direct debit installment agreement and are also less likely to default on their agreement compared to those who enter into traditional installment agreements.⁴⁰ TIGTA's review also found that IRS procedures suspended revenue collection when a taxpayer enters default status, but that when the default arises from a new liability, the taxpayers want to include the new balance due into their existing direct debit installment agreement. TIGTA recommended revisions to procedures to benefit both the IRS and taxpayer, which could also increase revenue collection.

Examination Function Compliance Activities Generally Decreased

Examination is a vitally important aspect of maintaining a voluntary tax compliance system because 85 percent of the Gross Tax Gap is comprised of underreported tax on timely filed returns.⁴¹ Although hiring increased in FY 2016, it did not make up for recent attrition and retirements. Examination staffing in FY 2016 reached a 20-year low with only 8,847 employees, a decrease of 4 percent from FY 2015 (9,189) and 23 percent lower than FY 2012 (11,432).

From FY 2012 to FY 2016:

- The number of revenue agents decreased 22 percent (from 10,216 to 7,937).

³⁹ See Appendix IV, Figure 23.

⁴⁰ TIGTA Ref. No. 2016-30-011, *Direct Debit Installment Agreement Procedures Addressing Taxpayer Defaults Can Be Improved* p. 1 (Feb. 2016).

⁴¹ *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010*, IRS Pub. 1415 p. 9 (Rev. May 2016), available at <http://www.irs.gov/uac/IRS-The-Tax-Gap>.



Trends in Compliance Activities Through Fiscal Year 2016

- The number of tax compliance officers decreased 28 percent (from 1,154 to 832).

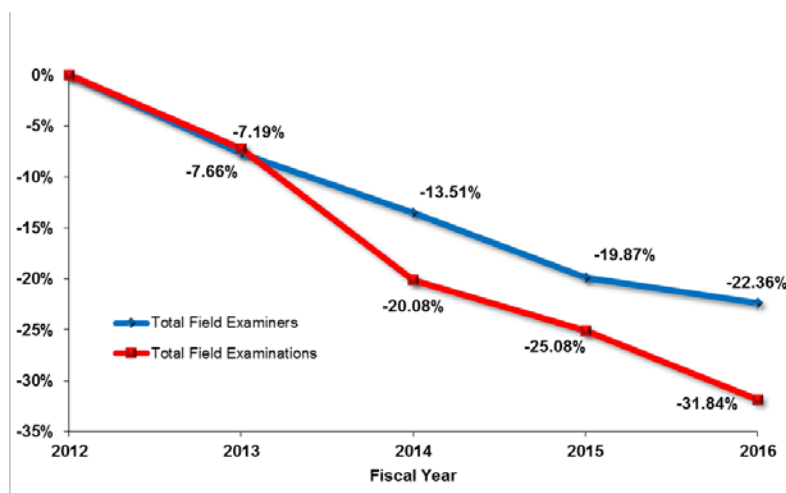
While the number of examination staff has declined, as we detailed previously, more than \$9.9 billion of enforcement revenue was attributed to the examination function in FY 2016, which is approximately 36 percent more than the \$7.3 billion in FY 2015. Although this is 21 percent less than the \$12.5 billion attributed to the examination function in FY 2014, TIGTA reported that 24 examination cases with the highest dollar amounts accounted for nearly \$5 billion of the \$12.5 billion collected by the examination function in FY 2014.⁴² The amount attributed to the examination function in FY 2016 remains in line with the \$10.2 billion and \$9.8 billion collected in FY 2012 and FY 2013 respectively.

Overall, the number of tax returns examined decreased, and most examinations continue to be conducted via correspondence

Losses in the number of examination employees continued to affect the number of examinations of tax returns. In FY 2016, the number of examinations conducted by the IRS decreased approximately 9 percent from those conducted during FY 2015. However, the number of examinations was almost 32 percent lower than the number conducted during FY 2012.

Figure 7 shows that over the past five years, the continued loss of resources has caused the total number of field examinations to decline. Over the past three years, the decline in field examinations has exceeded the loss of examiners.

**Figure 7: Percentage Change in the Number of
Field Examiners and Examinations Since FY 2012**



Source: IRS Data Book and Table 37 Examination Program Monitoring.

⁴² TIGTA Ref. No. 2016-30-004, *Trends in Compliance Activities Through Fiscal Year 2014* p. 7 (Nov. 2015).



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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 and taxpayers and typically result in higher dollar adjustments to the tax amounts. During FY 2016, 71 percent of all examinations were conducted via correspondence, which is in line with the previous four-year average.

In addition to correspondence and face-to-face examinations, the IRS also uses several computer-matching and automated error-checking programs to verify the accuracy of tax returns. These routines often identify and recommend adjustments to tax liabilities. However, these adjustments are not included in the traditional examination coverage calculations and are not reported separately as enforcement efforts.

During FY 2016, the IRS continued to experience decreases in contacts associated with taxpayer underreporting, Automated Substitute for Return (ASFR), and math errors.⁴³ Similar to the decline in TDI cases, the number of ASFR cases generated also declines when fewer delinquent return cases are generated. However, IRS management halted ASFR issuances completely from September 2015 through May 2016 due to resource constraints and the assignment of resources to other collection activities that were deemed a higher priority. Although the ASFR is one of the IRS's primary tools used to enforce filing compliance, the IRS reported in the FY 2016 Data Book that there were \$542.8 million of additional assessments in FY 2016. This represents a substantial decline compared to the \$6.7 billion of additional assessments that were reported for FY 2012.

Examination rates for most types of tax returns decreased during FY 2016

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 sixth straight year. The IRS examined 1,035,000 (one of every 143) tax returns in FY 2016. This is 16 percent less than the number of examinations performed in FY 2015 (1,228,000) and 30 percent fewer examinations than the five-year high reported in FY 2012 of 1,482,000 (one of every 97).⁴⁴

During FY 2016, of the 1,035,000 individual tax returns that were examined, 852,000 (82 percent) of the examinations were performed by correspondence. This is

⁴³ See Appendix IV, Figures 57 and 58.

⁴⁴ This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 33 and 34.



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approximately 17 percent less than the 1,022,000 performed by correspondence during FY 2015.⁴⁵ One of every 811 individual income tax returns filed received a face-to-face examination, which is a 14 percent decline compared with FY 2015, when one of every 714 individual returns received a face-to-face examination. This is the least number of individual examinations in either category since FY 2004.

As shown in Figure 8, examinations have decreased across all subcategories of individual returns, with the exception of international returns, which have increased since FY 2012.

**Figure 8: Percentage Change in the Number of
Individual Tax Returns Examined⁴⁶**

Tax Return Type	Returns Examined					Percentage Change	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2012 - 2016	FY 2015 - 2016
Total Positive Income Less Than \$200,000							
Individual Nonbusiness without EITC	486,590	464,445	387,658	369,910	296,869	-39%	-20%
Individual Business without EITC	252,147	225,661	204,176	209,440	185,905	-26%	-11%
Individual Business and Nonbusiness with EITC	558,531	538,562	480,989	478,032	428,207	-23%	-10%
Total Positive Income \$200,000 to \$1,000,000							
Individual Nonbusiness	86,716	84,702	81,730	71,280	45,480	-48%	-36%
Individual Business	51,372	47,836	43,179	51,151	42,893	-17%	-16%
Total Positive Income More Than \$1,000,000							
Individual Business & Nonbusiness	40,965	39,421	34,361	39,753	28,260	-31%	-29%
Other							
Individual International	5,645	4,304	10,386	8,551	7,341	30%	-14%

Source: IRS Data Book.

Tax return examinations for individuals with Total Positive Income between \$200,000 and \$1,000,000 (nonbusiness) experienced the largest decrease (more than 36 percent) from FY 2015 to FY 2016, followed by individual tax returns with more than \$1,000,000 in income which decreased nearly 29 percent during the same period.⁴⁷ These subcategories have also had the largest declines in recommended additional tax, as the result of examinations, over the past five years. From FY 2012 to FY 2016, the recommended additional tax for individuals with Total Positive Income of \$200,000 to \$1,000,000 (nonbusiness) decreased 47 percent and individuals with Total Positive Income more than \$1,000,000 decreased 52 percent, as shown in Figure 9. Specifically, for those returns with more than \$1,000,000 in income the IRS examined 28,260 of these returns during FY 2016 (one in 17), which is approximately 29 percent less than the 39,753 examined in FY 2015 (one in 10). More than 2 percent of all IRS examinations were conducted on taxpayers with more than \$1,000,000 in income and the average

⁴⁵ 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.

⁴⁶ In general, examination activity is associated with returns filed in the previous calendar year.

⁴⁷ See Appendix IV, Figures 40 and 43.



Trends in Compliance Activities Through Fiscal Year 2016

recommended additional tax dollars per return of \$82,300 is highest for this group of individual taxpayers than any other.

Figure 9: Recommended Additional Tax for Examined Returns

Tax Return Type	Returns Examined					Percentage Change	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2012 - 2016	FY 2015 - 2016
<u>Total Positive Income Less Than \$200,000</u>							
Individual Nonbusiness <i>without</i> EITC	\$2,836,009	\$2,539,709	\$2,016,422	\$2,154,951	\$1,692,461	-40%	-21%
Individual Business <i>without</i> EITC	\$2,283,167	\$2,233,223	\$2,022,452	\$2,148,920	\$1,934,914	-15%	-10%
Individual Business and Nonbusiness with EITC	\$2,590,499	\$2,551,733	\$2,147,027	\$2,350,288	\$2,221,007	-14%	-6%
<u>Total Positive Income \$200,000 to \$1,000,000</u>							
Individual Nonbusiness	\$1,501,534	\$1,447,899	\$1,189,093	\$1,302,685	\$793,638	-47%	-39%
Individual Business	\$1,272,054	\$1,117,754	\$1,016,628	\$1,155,895	\$879,871	-31%	-24%
<u>Total Positive Income More Than \$1,000,000</u>							
Individual Business & Nonbusiness	\$4,797,652	\$4,126,034	\$3,389,240	\$3,143,773	\$2,325,234	-52%	-26%
<u>Other</u>							
Individual International	\$29,993	\$33,306	\$104,549	\$51,807	\$17,549	-41%	-66%

Source: IRS Data Book.

Examinations of individual returns with less than \$25,000 in income, that claimed the Earned Income Tax Credit, declined more than 11 percent from FY 2015 (460,000) to FY 2016 (408,000) and have decreased more than 23 percent since FY 2012 (532,000).⁴⁸ For those individuals who had less than \$25,000 in income and did not claim the Earned Income Tax Credit, examinations declined approximately 3 percent from FY 2015 (95,000) to FY 2016 (92,000) and decreased approximately 25 percent since FY 2012 (122,000). Examinations of individual returns with less than \$25,000 in income and claiming the Earned Income Tax Credit made up more than 35 percent of all examinations in FY 2016.⁴⁹

- *Corporate Income Tax Return Examinations* – Consistent with the decline in individual examinations previously discussed, fewer corporate tax returns were examined during FY 2016 than any year since FY 2004.⁵⁰ The IRS attributes the decrease in corporate examinations to the decrease in enforcement personnel. The number of corporate examinations decreased in FY 2016 to 21,136 (one of every 89 returns filed).⁵¹ Also in FY 2016, there were fewer corporate tax filings (1,887,000) than in any year since we have been conducting this annual review. During FY 2016, 8 percent of the examinations of corporate income tax returns were performed by correspondence.

⁴⁸ See Appendix IV, Figure 38.

⁴⁹ This includes taxpayers filing all Forms 1040, *U.S. Individual Income Tax Return*, those with and without business income, reporting an Earned Income Tax Credit claim. These returns are classified by size of total gross receipts. Individual business returns have total gross receipts reported on Form 1040 Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, or Form 1040 Schedule F, *Profit or Loss From Farming*.

⁵⁰ This information excludes returns for foreign corporations.

⁵¹ See Appendix IV, Figures 44 through 48, for coverage by size of corporation for the past five years.



Trends in Compliance Activities Through Fiscal Year 2016

Over the past five years, the number of corporate tax returns examined with assets of less than \$10 million decreased more than 33 percent, from 21,164 in FY 2012 to 14,136 in FY 2016, and decreased more than 14 percent from Fiscal Year 2015. As examinations of these returns have reached five-year lows, total filings have also dropped over the past five years. Corporate tax return filings with assets of less than \$10 million decreased 7 percent from FY 2012 (1.9 million) to FY 2016 (1.8 million). In addition, the average recommended additional tax dollars collected per return after examination decreased by 12 percent for field examinations and 1 percent for correspondence examinations in FY 2016, to \$41,834 and \$28,002, respectively.

While the number of tax returns filed by corporations with assets greater than \$10 million has steadily increased over the last five years, the number of examinations for these corporations is at the lowest level in almost three decades. However, the IRS still examines approximately one out of every 10 returns for large corporations, and the average recommended additional tax dollars collected per return for field examinations increased in FY 2016 to \$2.2 million, which is 68 percent higher than FY 2015 (\$1.3 million) and 34 percent higher than FY 2012 (\$1.6 million).

The number of corporate tax returns examined, with assets of \$10 million to less than \$100 million, has declined each of the past five years to 2,532 in FY 2016. These examinations decreased 13 percent from FY 2015 (2,913) and 47 percent from the 4,809 examinations conducted in FY 2012. Examinations of corporations with assets of \$100 million to \$250 million saw a similar decrease. The 914 examinations in FY 2016 were 23 percent lower than FY 2015 (1,185) and almost 51 percent lower than FY 2012 (1,854).

The number of corporate tax returns examined with assets of more than \$250 million has declined each of the past three years. There were 3,007 examinations of these corporations during FY 2016, which is 9 percent less than the 3,312 examinations performed in FY 2015 and 27 percent less than the 4,089 examinations performed in FY 2012.

Filings of tax returns in these asset categories have varied. From FY 2015 to FY 2016, filings of corporations with \$10 million to less than \$100 million in assets increased 3 percent (42,727 to 43,911), those with assets of \$100 million to \$250 million decreased 1 percent (8,317 to 8,225), and those with assets of more than \$250 million increased almost 1 percent (15,440 to 15,565).

- *S Corporation Tax Return Examinations* – The number of S corporation examinations decreased 15 percent from FY 2015 (18,595) to FY 2016 (15,869) and is 27 percent lower than the five-year high in FY 2012 (21,658). In FY 2016, one of every 295 S corporation returns filed were examined, compared with one of every 248 filed in



Trends in Compliance Activities Through Fiscal Year 2016

FY 2015, and one of every 206 in FY 2012.⁵² S corporation return filings have continued to increase every year since FY 1988, to almost 4.7 million in FY 2016. During FY 2016, approximately 2 percent of the examinations of S corporations were performed by correspondence.

- *Partnership Return Examinations* – The number of partnership returns examined decreased 24 percent from FY 2015 (19,212) to 14,645 in FY 2016. Examinations have decreased by 12 percent since FY 2012, when 16,691 examinations were conducted. Due to a focus on partnership examinations in FY 2015, one of every 196 returns filed were examined; however, this number decreased to one of every 263 returns being examined in FY 2016.⁵³ The number of partnership return filings increased each of the past five years and increased by almost 3 percent in FY 2016 (from 3.8 million in FY 2015 to 3.9 million). During FY 2016, approximately 2 percent of the examinations of partnership returns were performed by correspondence.

Congress passed legislation in October 2015 that was expected to streamline IRS examinations of large partnerships and collection of any adjustments.⁵⁴ Major changes include that, beginning with returns filed for tax years after December 2017, partnerships will identify a single partnership representative to represent the partnership during examination. In general, the IRS will have the ability to collect partnership-level adjustments from the partnership rather than from the partners themselves.

During FY 2016, the IRS worked with the Office of Chief Counsel and Department of the Treasury to provide input to proposed regulations. Concurrently, the IRS identified various new and existing forms, notices, and letters, and system changes needed to administer the new rules. The proposed regulations on the new partnership rules were published in January 2017, but shortly thereafter the rules were pulled from publication due to a Presidential Executive Order on freezing administrative guidance.⁵⁵ The proposed regulations were re-published on June 14, 2017, and provide for a public comment period. A public hearing is scheduled for September 18, 2017. Officials noted that the new processes and procedures will be needed in January 2019 or shortly thereafter.

- *Other Tax Type Examinations (fiduciary, employment, excise, estate, and gift taxes)* – The overall number of examinations in these five classes marked a five-year low of 76,406 in FY 2016. There has been a 24 percent decrease in these types of examinations since the five-year high in FY 2012 (101,007).

⁵² See Appendix IV, Figures 34 and 50.

⁵³ See Appendix IV, Figures 34 and 51.

⁵⁴ Pub. L. No. 114-74 129 Stat. 584 (2015) (Sec. 1101 Partnership Audits and Adjustments).

⁵⁵ Exec. Order 13,771, *Reducing Regulation and Controlling Regulatory Costs* (Jan. 30, 2017).



Trends in Compliance Activities Through Fiscal Year 2016

Examinations of fiduciary returns decreased 38 percent from FY 2015 (5,288) to 3,284 in FY 2016. Gift return examinations saw a similar decrease of 27 percent to 1,843 in FY 2016. Employment return examinations increased less than 1 percent, with estate and excise return examinations increasing 15 percent and 2 percent, respectively. Filings of these “other” tax return types decreased with the exception of excise and estate tax returns, which increased just more than 1 percent in FY 2016.

During FY 2016, there were no examinations through correspondence conducted for estate or gift tax returns. Employment and excise correspondence examination rates were 30 percent and 15 percent, respectively.

Examination function productivity indicators showed mixed results

In FY 2016, the dollar yield per hour for revenue agent examinations of individual returns decreased more than 6 percent, from \$969 in FY 2015 to \$907 in FY 2016.⁵⁶ Also in FY 2016, dollars recommended per return by revenue agents examining individual returns increased 1 percent, from \$31,974 in FY 2015 to \$32,379 in FY 2016.⁵⁷ In addition, the hours expended per return by revenue agents increased 8 percent during this period, from 33 hours per return to 35.7 hours per return.

The dollars recommended per return and hours expended per return for examinations of individuals by tax compliance auditors reached five-year highs in FY 2016, increasing 13 percent and 2 percent, respectively. Specifically, the dollars recommended per return increased from \$7,040 in FY 2015 to \$7,981 in FY 2016, while the hours expended per return increased from 8.7 to 8.9 during the same period. The increase in dollars recommended per return likely drove the 11 percent increase in the dollar yield per hour for examinations of individuals by tax compliance auditors, which increased from \$809 in FY 2015 to \$897 in FY 2016.⁵⁸

The dollar yield per hour for the examination of corporate tax returns by revenue agents decreased 10 percent in FY 2016 (to \$1,206), following a 22 percent increase in FY 2015 (to \$1,339) and a 39 percent decrease in FY 2014 (to \$1,098). This measure continues to be driven by changes in the dollars recommended per return, which decreased 4 percent in FY 2016 (to \$141,019 per return), increased 27 percent in FY 2015 (to \$147,540 per return), and decreased 43 percent in FY 2014 (to \$116,491 per return).⁵⁹

The dollar yield per hour for revenue agent examinations of partnerships and large corporations (non-Coordinated Industry Cases with assets of more than \$10 million) both decreased in FY 2016 by 43 percent (from \$16,078 in FY 2015 to \$9,154) and 7.5 percent (from \$1,478 in

⁵⁶ See Appendix IV, Figure 26.

⁵⁷ Dollars recommended reflects the sum of examinations’ manual assessments, cumulative assessments, unagreed amounts, and adjustments. Cumulative assessments are computer generated through the IRS’s Audit Information Management System and do not include manual assessments, unagreed amounts, or adjustments.

⁵⁸ See Appendix IV, Figures 26 and 31.

⁵⁹ See Appendix IV, Figure 29.



Trends in Compliance Activities Through Fiscal Year 2016

FY 2015 to \$1,367), respectively. Although the dollars recommended per return for revenue agent examinations of S corporations increased approximately 2 percent, from \$177,838 in FY 2015 to \$180,941 in FY 2016 (after a 26 percent decrease in FY 2015), the dollars recommended per hour decreased 5 percent, from \$3,045 to \$2,890.

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.

We noted the following trends in no-change rates, *i.e.*, the percentage of examinations for which the examiner closed the case with no recommended tax change.

- Revenue agent no-change rates for examinations of individual tax returns decreased from 11 percent in FY 2012 to 8 percent in FY 2016.
- Tax compliance officer no-change rates for examinations of individual tax returns decreased from 9 percent in FY 2012 to 7 percent in FY 2016.
- Revenue agent no-change rates for examinations of corporate tax returns remained the same as FY 2015 at 31 percent, which is the highest level in five years and more than the 28 percent reported for FY 2012.⁶⁰
- Revenue agent no-change rates for examinations of partnership returns of 46 percent in FY 2016 decreased from 49 percent in FY 2015, but increased from the FY 2012 rate of 44 percent.
- Revenue agent no-change rates for examinations of S corporations decreased 14 percent in FY 2016 to 31 percent. This number remains 6 percent lower than the 33 percent reported in FY 2012.

Conclusion

During FY 2016, the IRS worked to implement initiatives related to the Fixing America's Surface Transportation Act that allowed for the use of private debt collectors, as well as the use of passport denial or revocation to promote taxpayer compliance. After meeting with private debt collection agencies to request input and answer questions in FY 2016, the IRS selected four contractors in September 2016 and began assigning cases to private debt collection agencies in April 2017. The IRS also made progress during FY 2016 in coordinating with the Department of State in using passport denial or revocation to promote taxpayer compliance. Both of these initiatives are expected to impact the IRS's ability to collect delinquent accounts. TIGTA has ongoing audit work and additional audit work planned in these areas.

⁶⁰ See Appendix IV, Figure 32.



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The IRS continued to experience the effects of reduced resources during FY 2016. Although IRS funding increased slightly in FY 2016, the decrease in available personnel limits the number of examinations and other enforcement activity as evidenced by the declines in examinations conducted during FY 2016. Despite these challenges, the IRS continued to increase the total amount of revenue it collects each year. It is not clear that this trend will continue. If IRS resources continue to diminish, it is likely that revenue from enforcement will begin to decline at some point. The IRS must continue to take steps to be as efficient as possible in order to maintain an effective and fair tax administration system.



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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 included but was not limited to:
 1. Staffing.
 2. Direct and indirect time.
 3. Delinquent account inventories and unfiled return investigations.
 4. Enforcement actions (liens, levies, and seizures).²
 - B. Obtained and analyzed Examination function data. This included but was 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 included but was not limited to:
 1. Enforcement revenue.
 2. Gross collections and accounts receivable.
 3. Math error, Underreporter, and ASFR cases.
 - D. Reviewed applicable TIGTA and Government Accountability Office reports for relevant information.

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

² See Appendix VI for a glossary of terms.



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- E. Assessed the impact of new legislation and budget issues on compliance activities.
- F. Discussed aberrations in the data with applicable IRS personnel.

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.



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Appendix II

Major Contributors to This Report

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Glen Rhoades, Director
Curtis Kirschner, Audit Manager
Julia Woods, Lead Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Commissioner, Large Business and International Division
Commissioner, Small Business/Self-Employed Division
Commissioner, Wage and Investment Division
Director, Office of Research, Applied Analytics, and Statistics
Director, Office of Audit Coordination



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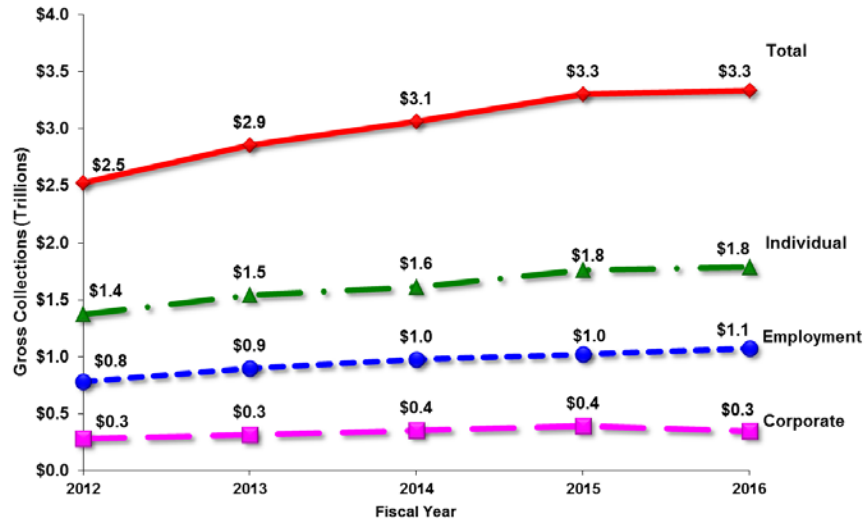
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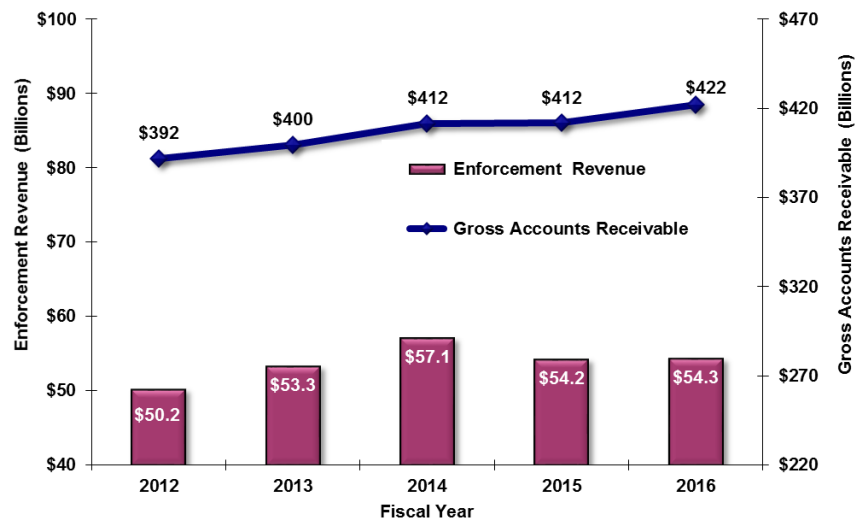
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Figure 1: Total Tax Revenue by Type of Tax¹



Source: TIGTA analysis of the IRS Data Book.

Figure 2: Amount of Enforcement Revenue Collected Compared to Unpaid Assessments



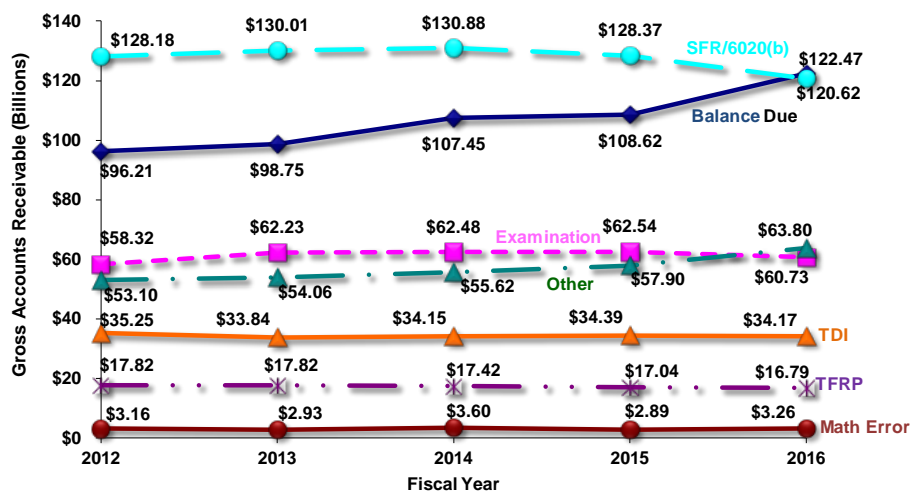
Source: Offices of Research, Applied Analytics, and Statistics and the Chief Financial Officer.

¹ The total line includes excise, estate, and gift taxes, not just individual, corporate, and employment taxes.



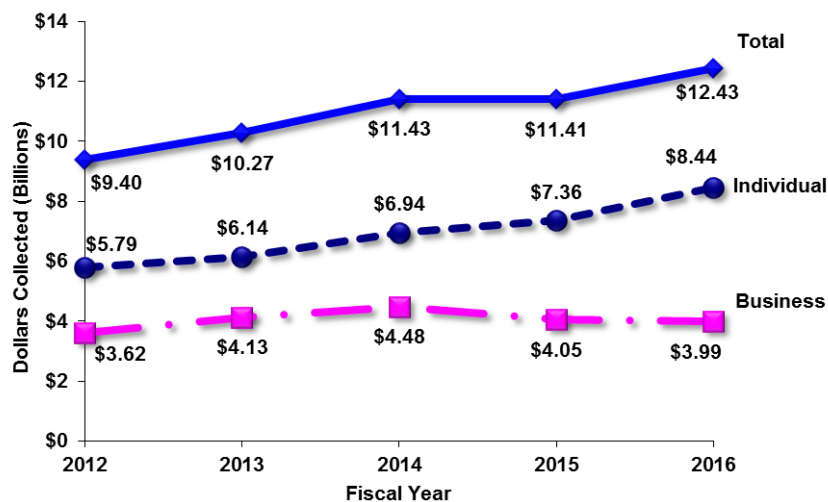
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Figure 3: Unpaid Assessments by Source of Assessment



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 Status²



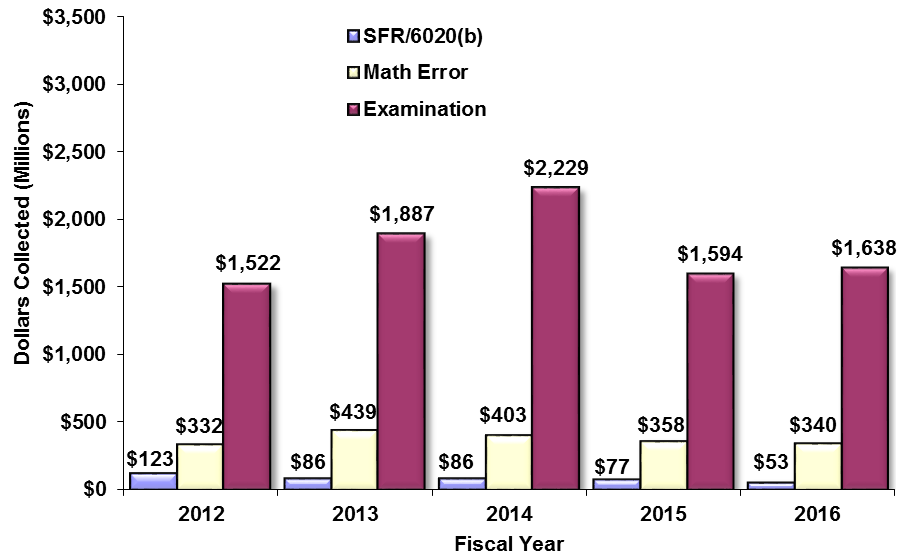
Source: Collection Activity Report 5000-2/242.

² The total of individual and business collections may not equal the total as graphed due to rounding.



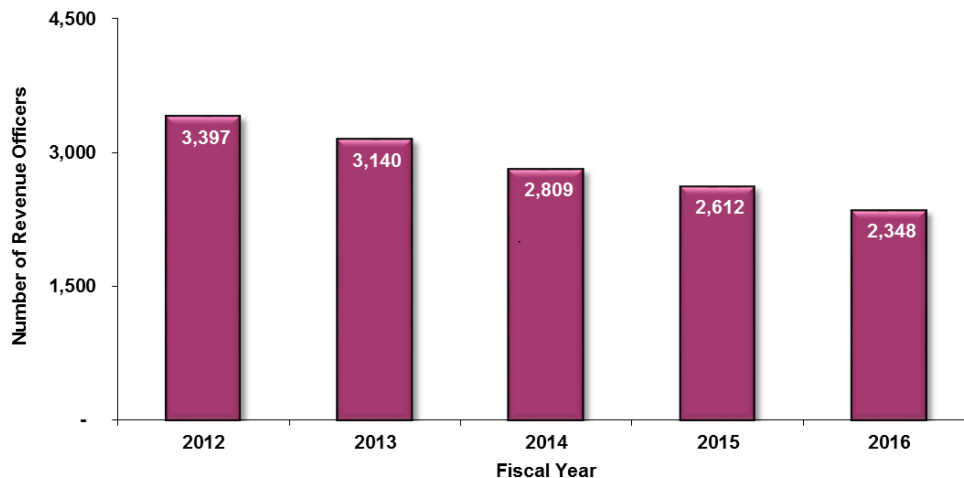
Trends in Compliance Activities Through Fiscal Year 2016

**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**

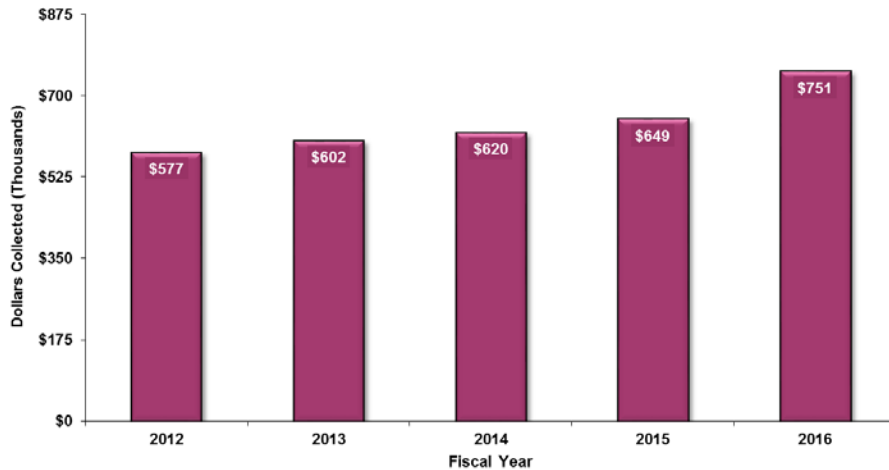


Source: Collection Activity Report 5000-23.



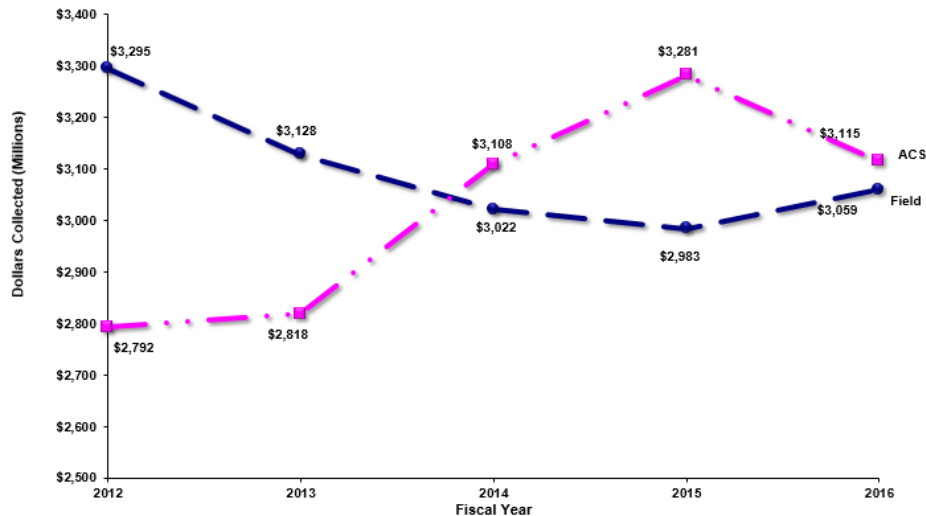
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**Figure 7: Average Dollars Collected
per Staff Year on TDA Tax Periods by the Field**



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 ACS³**



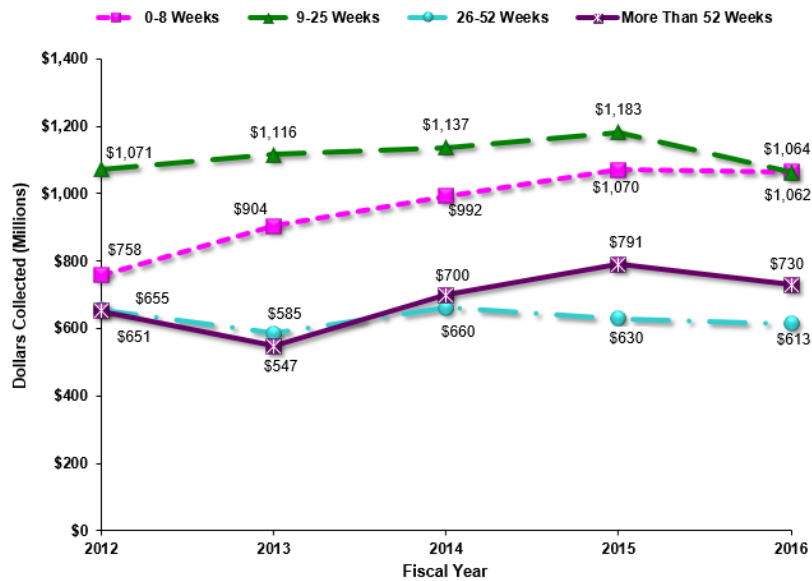
Source: Collection Activity Report 5000-2.

³ 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.



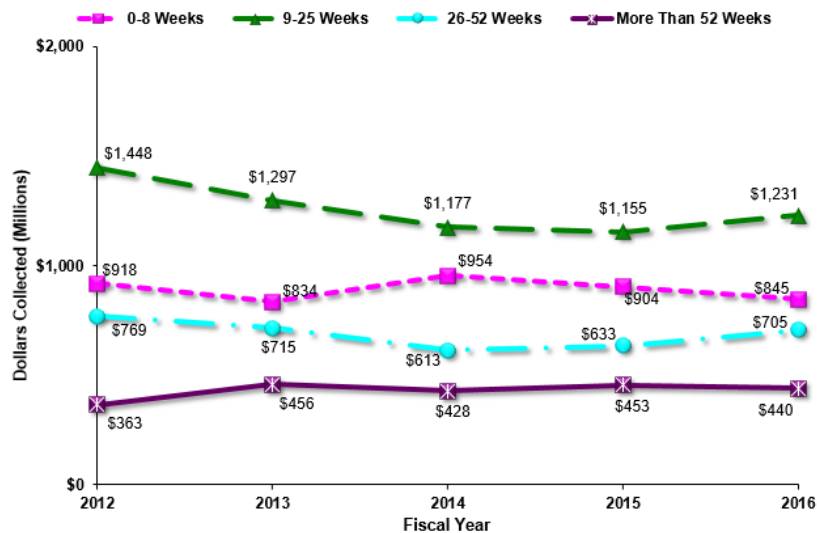
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**Figure 9: Total TDA Dollars Collected by
Number of Weeks Assigned to the ACS**



Source: Collection Activity Report 5000-2.

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

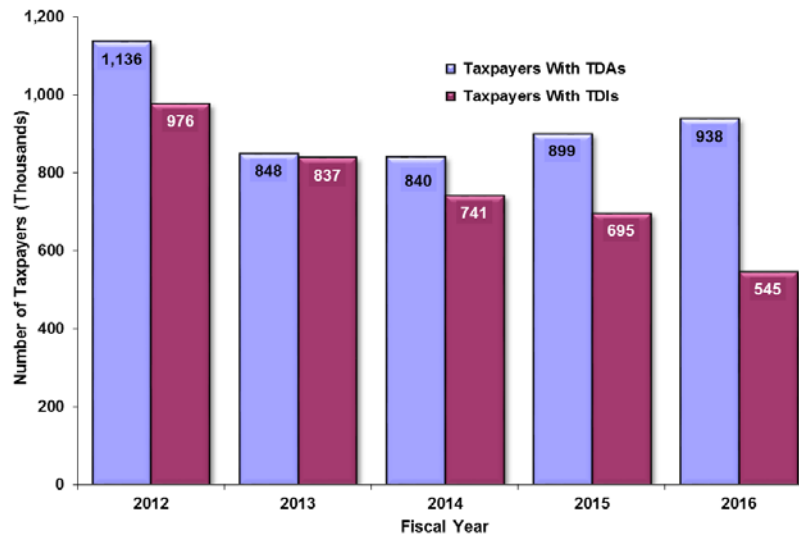


Source: Collection Activity Report 5000-2.



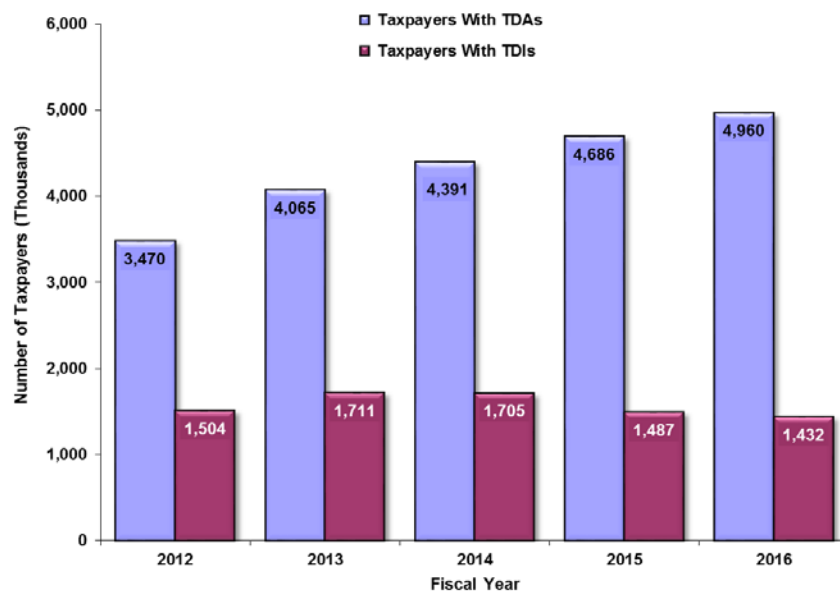
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Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue



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

Figure 12: Taxpayers With TDAs and TDIs Maintained in the ACS

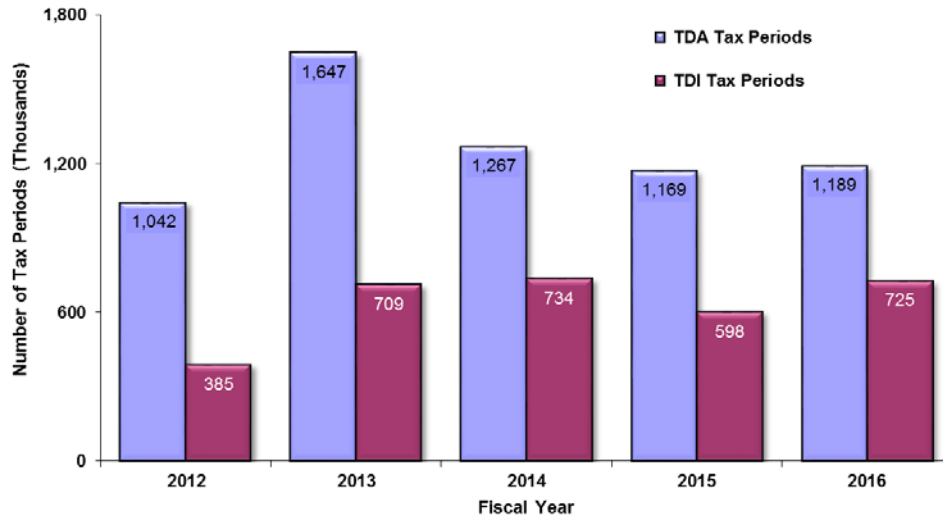


Source: Collection Activity Reports 5000-2 and 5000-4.



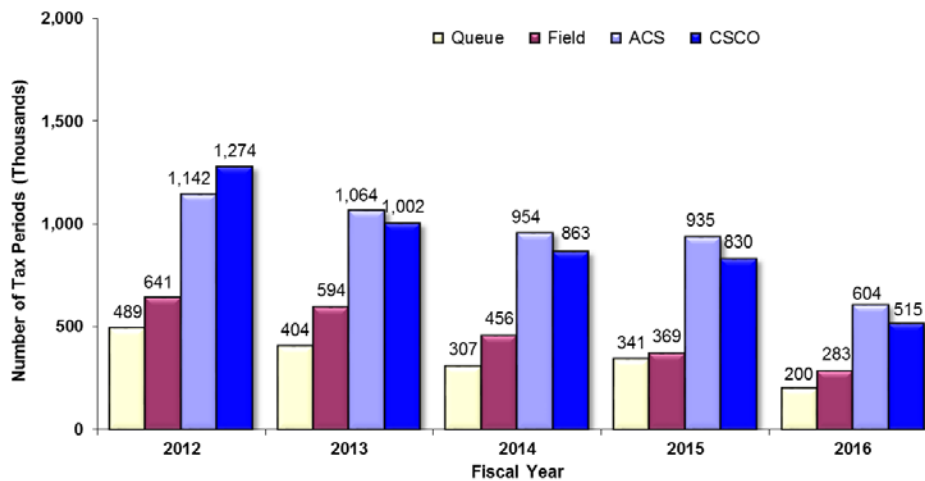
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Figure 13: TDA and TDI Tax Periods Shelved or Surveyed



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

Figure 14: Number of TDI Tax Periods Closed by Collection Functions⁴



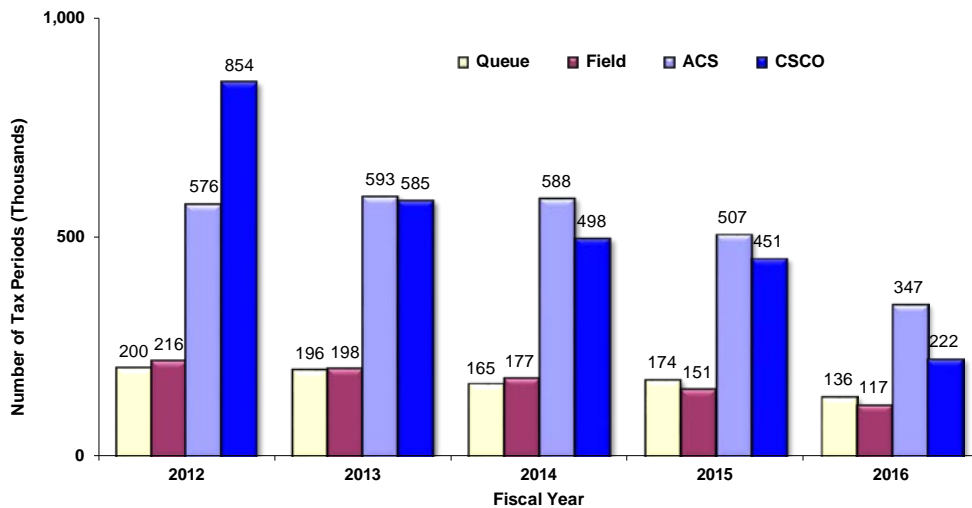
Source: TIGTA analysis of Collection Activity Report 5000-4.

⁴ The closures shown in Figure 14 do not include the TDIs shelved or surveyed, which are shown in Figure 13.



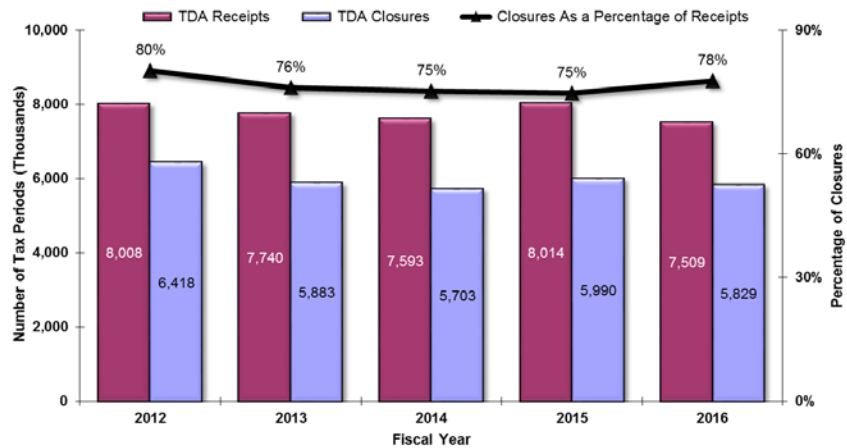
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**Figure 15: Number of TDI Tax Periods Closed by
Collection Functions With Receipt of a Delinquent Tax Return**



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

**Figure 16: Gap Between TDA Tax Period Receipts and Closures,
Including TDA Closures As a Percentage of Receipts⁵**



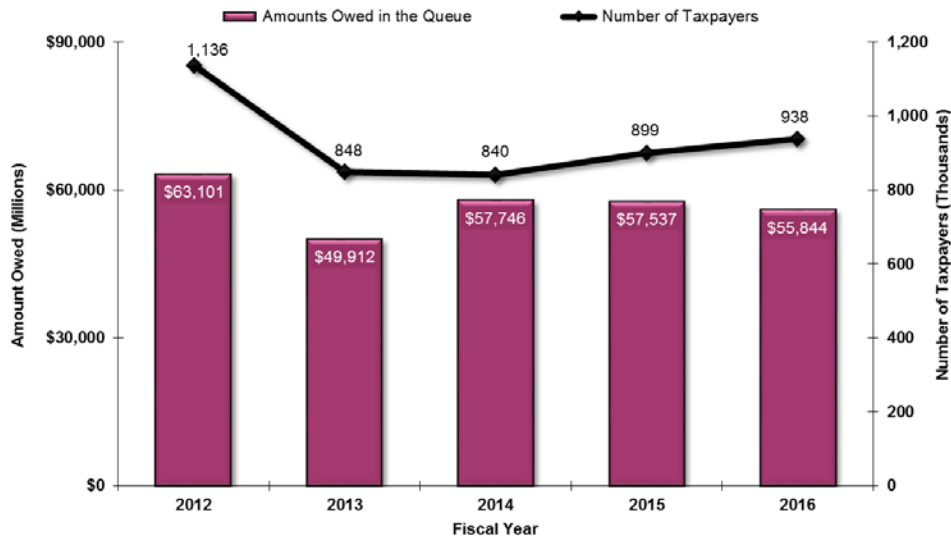
Source: TIGTA analysis of Collection Activity Report 5000-2.

⁵ The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 13.



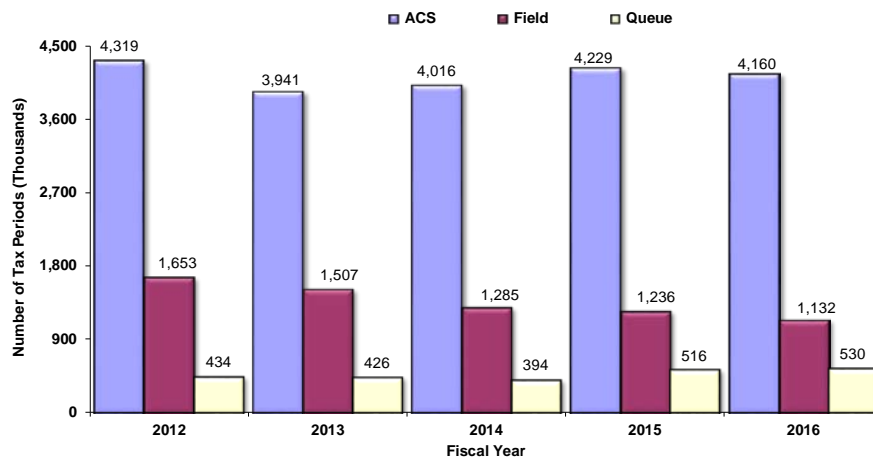
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Figure 17: Number of Taxpayers and Amounts Owed in Queue Inventory



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

Figure 18: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts⁶



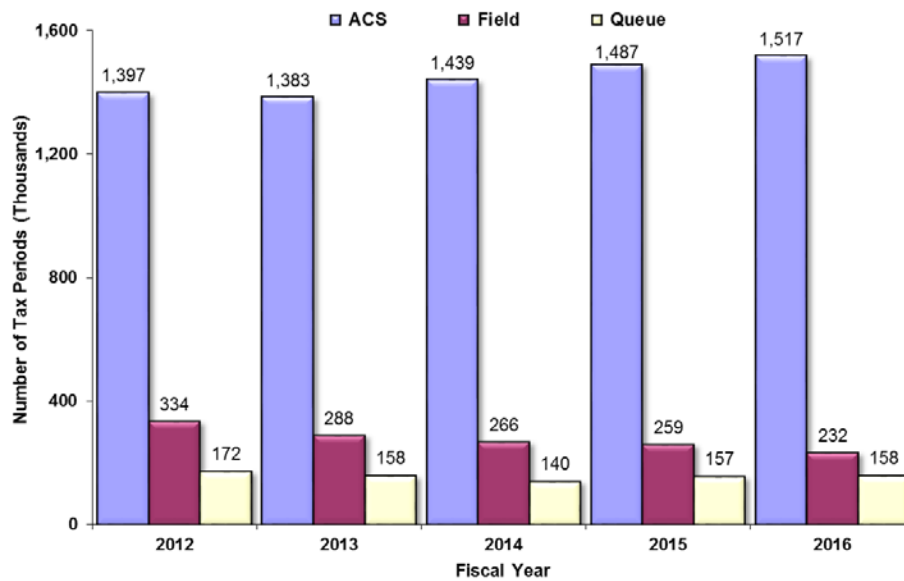
Source: TIGTA analysis of Collection Activity Report 5000-2.

⁶ From FY 2012 through FY 2016, TDA tax periods closed by the CSCO make up less than 0.20 percent of TDA closures (excluding shelved accounts) and 0.30 percent or less of TDA fully paid closures each year. They are not visible when graphed and have been excluded from Figures 18 and 19 for clarity.



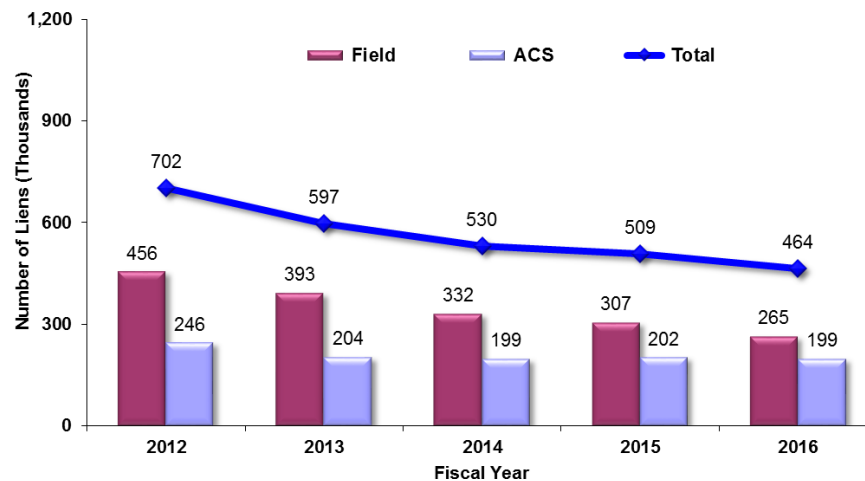
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**Figure 19: Number of TDA Tax Periods Closed
With Full Payment by Collection Functions**



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

Figure 20: Number of NFTLs Filed by the Field and the ACS⁷



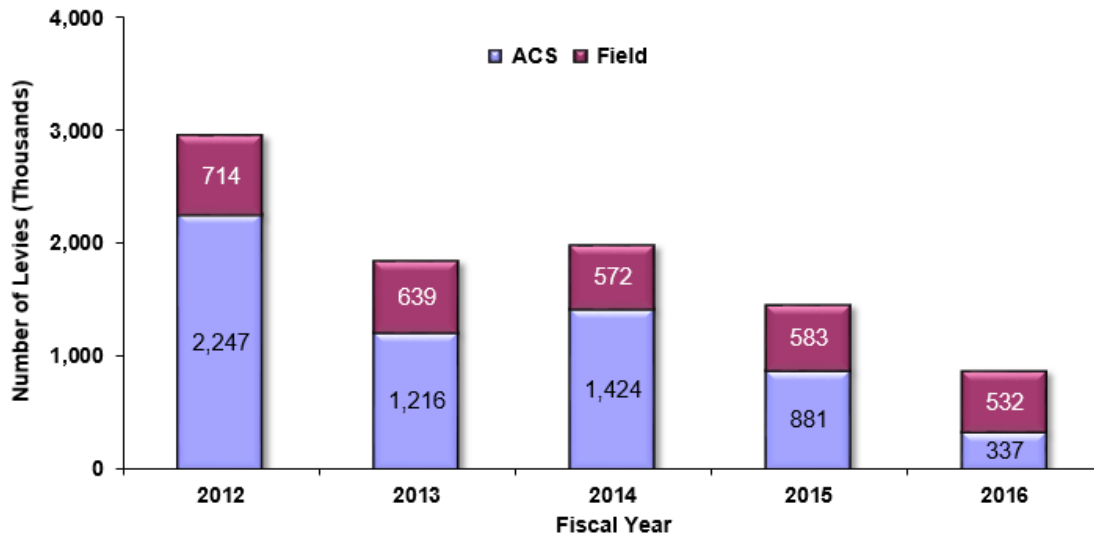
Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-25.

⁷ The total of Field and ACS NFTLs may not equal the total as graphed due to rounding differences.



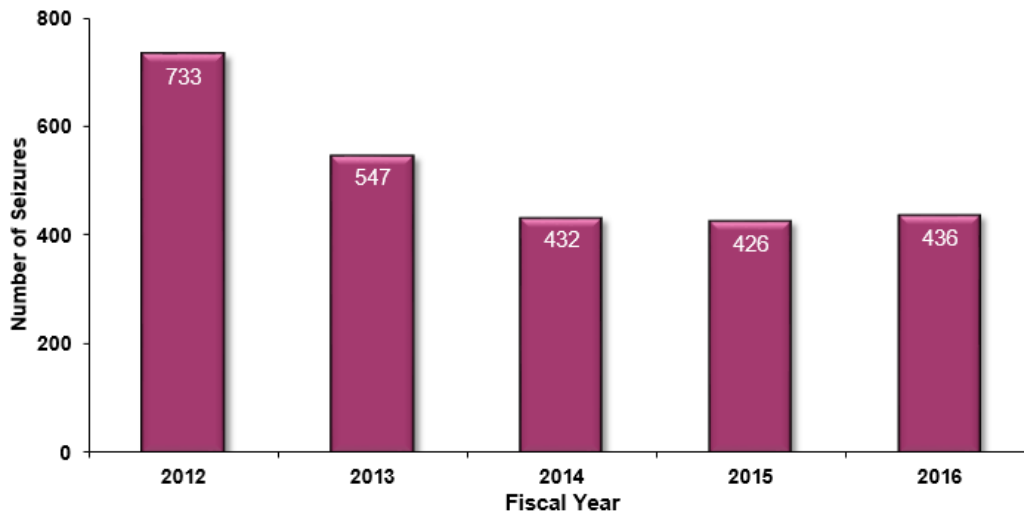
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Figure 21: Number of Levies Issued by the Field and the ACS



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

Figure 22: Number of Seizures

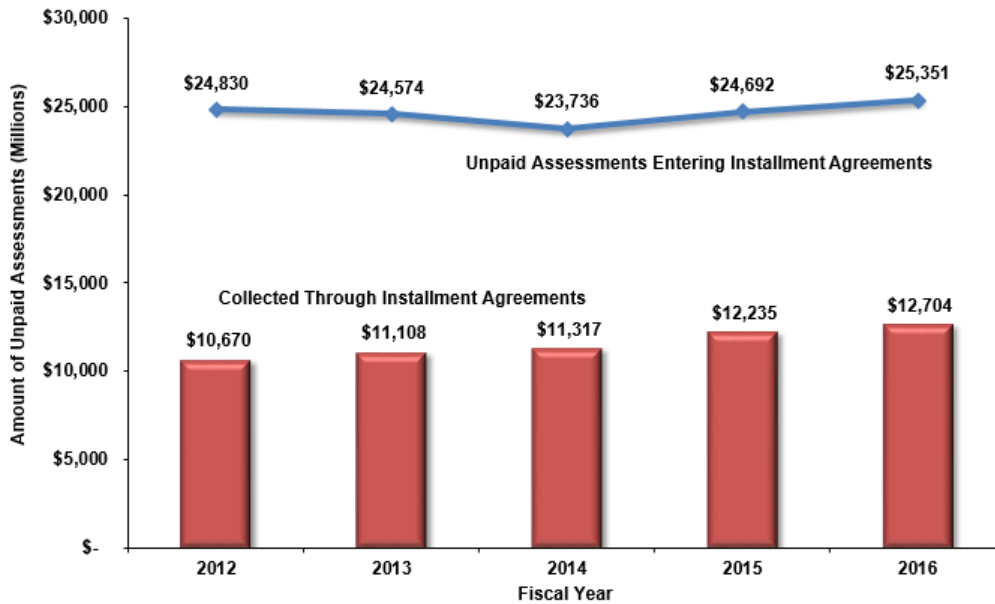


Source: TIGTA analysis of Collection Activity Reports 5000-23 and 5000-24.



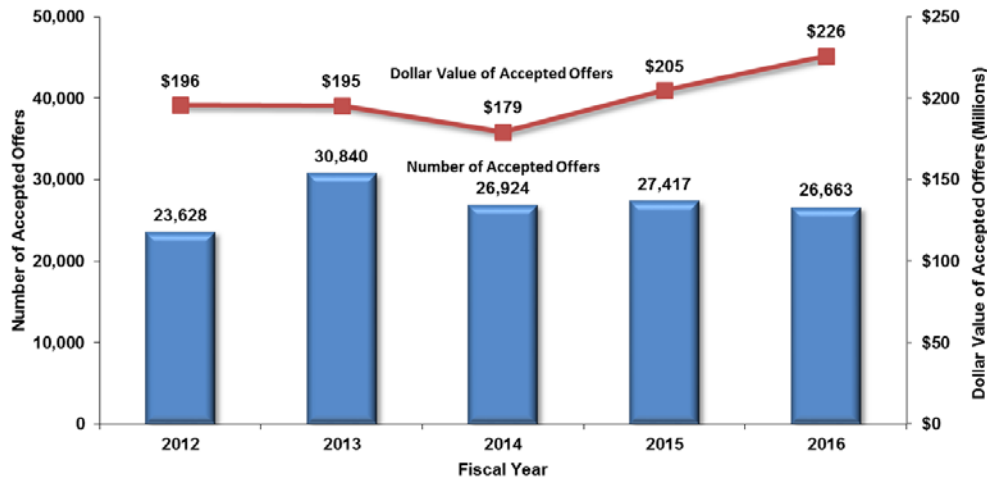
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Figure 23: Amounts of Unpaid Assessments Entering Installment Agreements and Collected Through Installment Agreements



Source: Collection Activity Report 5000-6.

Figure 24: Number and Value of Accepted Offers in Compromise

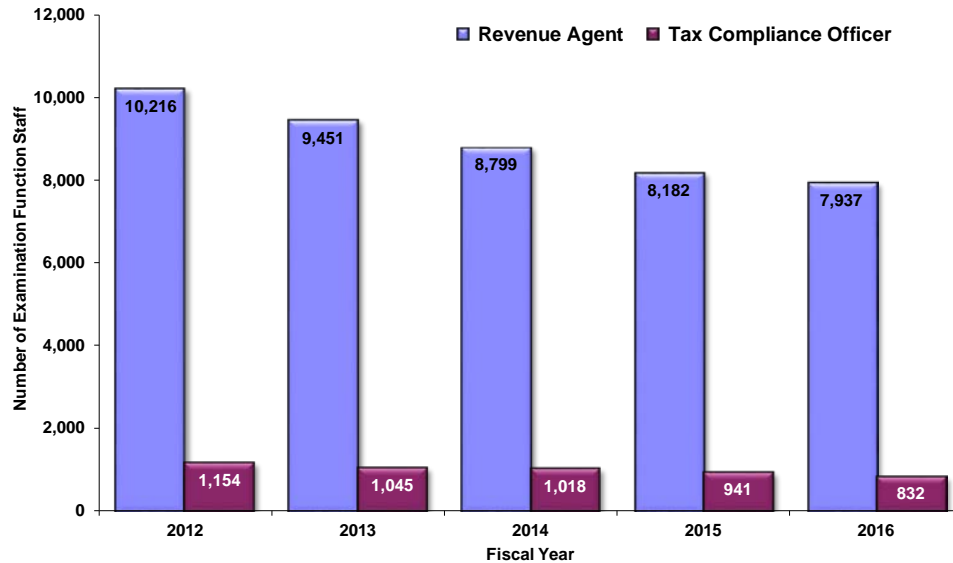


Source: Collection Activity Report 5000-108.



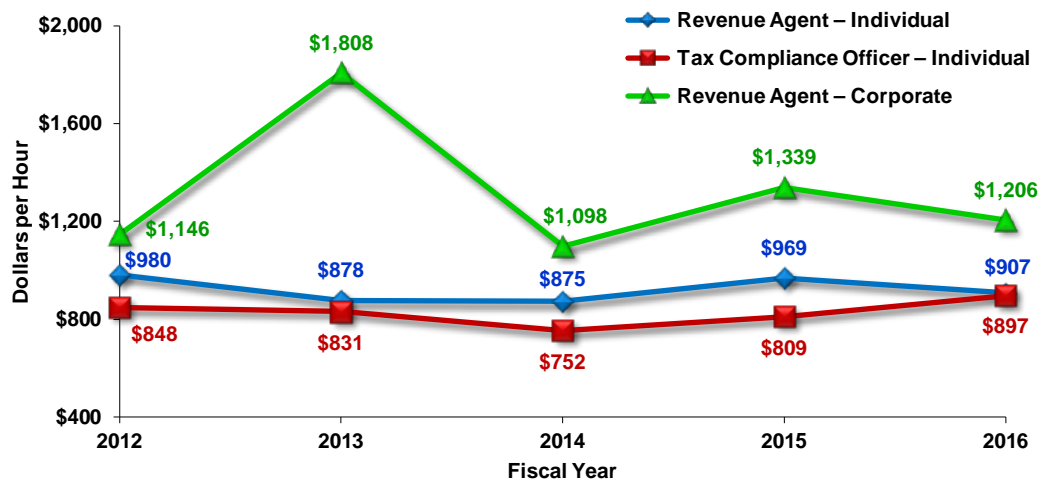
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**Figure 25: Number of Examination Function Staff Conducting
Examinations of Tax Returns at the End of Each Fiscal Year**



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

Figure 26: Examination Function Dollar Yield per Hour

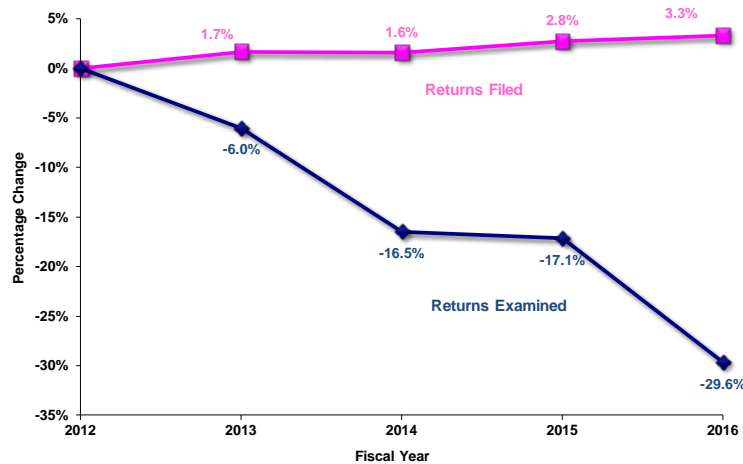


Source: TIGTA analysis of Table 37 Examination Program Monitoring.



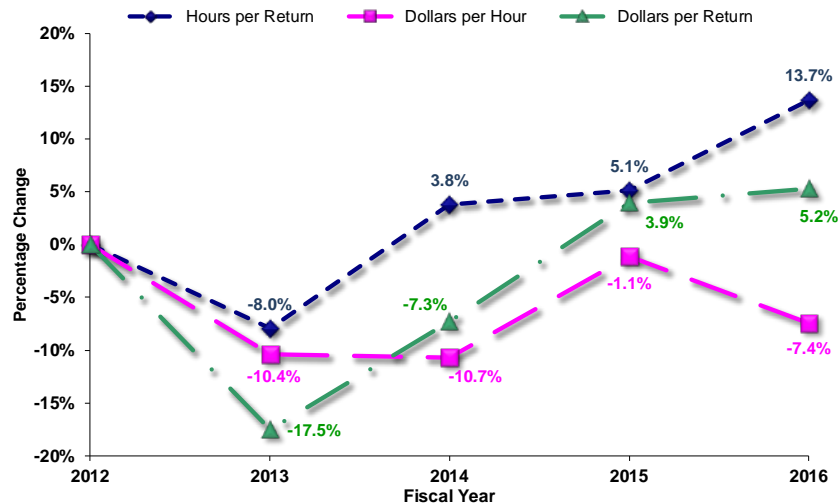
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**Figure 27: Percentage Change From FY 2012
of All Tax Returns Filed and Examined**



Source: TIGTA analysis of the IRS Data Book.

**Figure 28: Revenue Agent Results on Forms 1040, U.S. Individual
Income Tax Return, Percentage Change From FY 2012⁸**



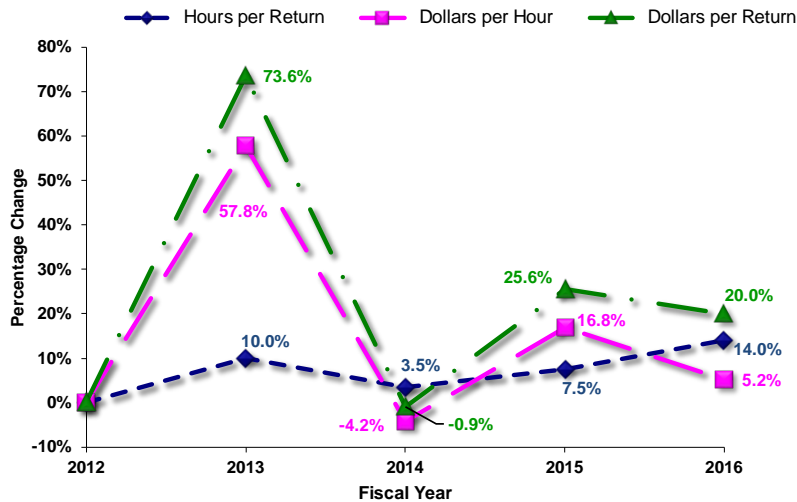
Source: TIGTA analysis of Table 37 Examination Program Monitoring.

⁸ Figures 28 through 32 do not include results from Coordinated Industry Cases or training returns.



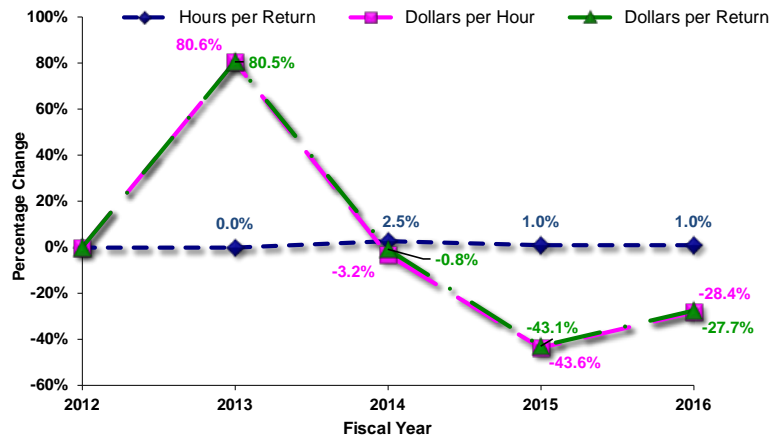
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**Figure 29: Revenue Agent Results on Corporate Income
Tax Returns, Percentage Change From FY 2012**



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

**Figure 30: Revenue Agent Results on Other Types
of Tax Returns, Percentage Change From FY 2012⁹**



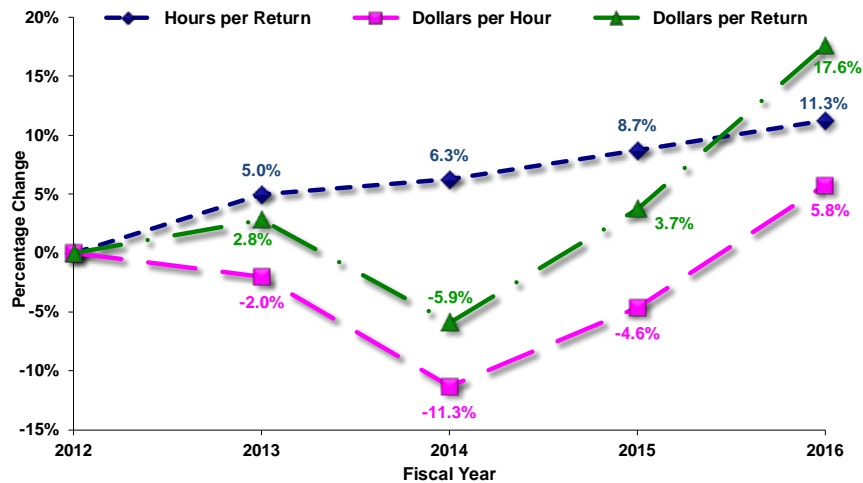
Source: TIGTA analysis of Table 37 Examination Program Monitoring.

⁹ 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.



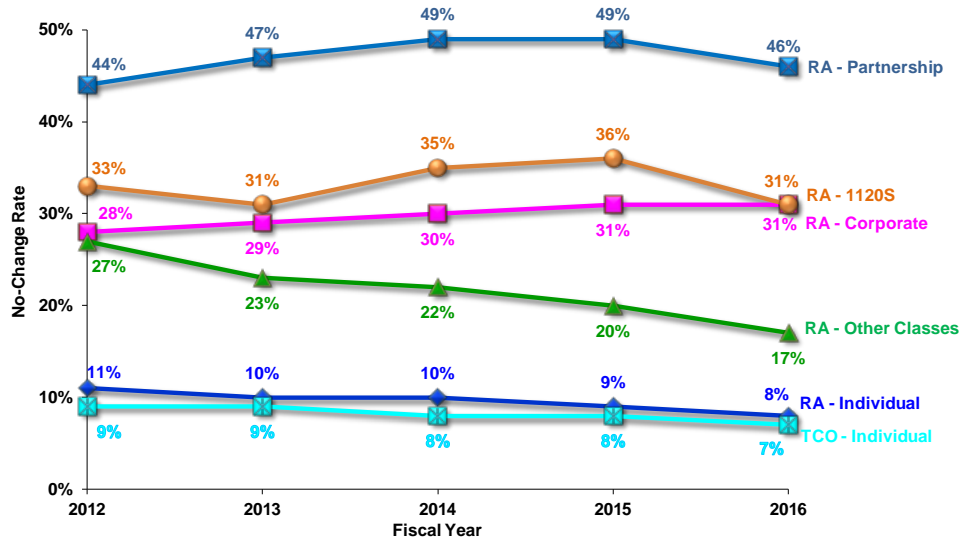
Trends in Compliance Activities Through Fiscal Year 2016

**Figure 31: Tax Compliance Officer Results on
Forms 1040, Percentage Change From FY 2012**



Source: TIGTA analysis of Table 37 Examination Program Monitoring.

**Figure 32: Revenue Agent and Tax Compliance Officer
No-Change Rates for Various Types of Tax Returns**

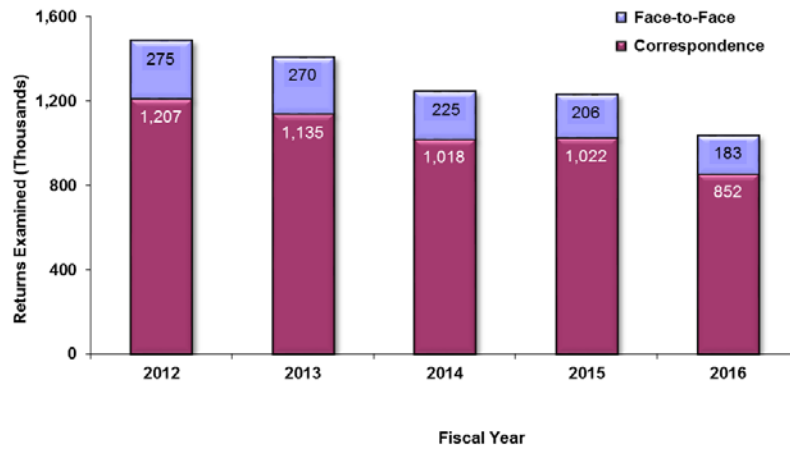


Source: TIGTA analysis of Table 37 Examination Program Monitoring.
RA = Revenue Agent. TCO = Tax Compliance Officer.



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**Figure 33: Number of Forms 1040 Examined
Face-to-Face or Through Correspondence**



Source: Analysis of Examination Closed Case Database.



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**Figure 34: Numbers and Percentages of
Individual and Business Tax Returns Examined**

	Fiscal Year				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Individual Returns					
Individuals (Forms 1040)	1,481,966	1,404,931	1,242,479	1,228,117	1,034,955
Coverage Rate	1.03%	0.96%	0.86%	0.84%	0.70%
Business Returns					
Corporations < \$10 Million	21,164	17,604	17,257	16,460	14,136
Coverage Rate	1.12%	0.95%	0.95%	0.92%	0.80%
Corporations \$10 Million and Greater	10,752	9,876	7,858	7,410	6,453
Coverage Rate	17.78%	15.84%	12.23%	11.15%	9.53%
S Corporations (Forms 1120S)	21,658	18,670	16,317	18,595	15,869
Coverage Rate	0.48%	0.42%	0.36%	0.40%	0.34%
Partnerships	16,691	14,870	15,779	19,212	14,645
Coverage Rate	0.47%	0.42%	0.43%	0.51%	0.38%
Fiduciaries	5,070	4,501	3,694	5,288	3,284
Coverage Rate	0.17%	0.15%	0.12%	0.16%	0.10%
Employment	66,997	60,801	57,123	54,214	54,652
Coverage Rate	0.23%	0.20%	0.19%	0.18%	0.18%
Excise	22,014	16,509	13,779	13,153	13,440
Coverage Rate	3.26%	1.61%	1.50%	1.34%	1.35%
Estates	3,762	3,250	2,853	2,770	3,187
Coverage Rate ¹⁰	29.90%	11.58%	8.46%	7.78%	8.82%
Gift	3,164	2,775	3,098	2,539	1,843
Coverage Rate	1.42%	1.07%	0.83%	0.95%	0.77%

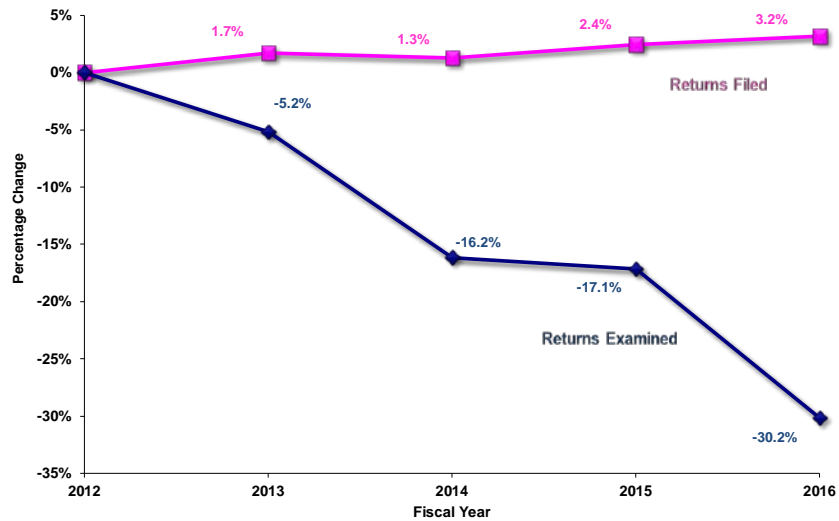
Source: TIGTA analysis of the IRS Data Book.

¹⁰ The coverage rate for estate tax returns was higher in FY 2012 as a result of fewer estate tax return filings as compared to subsequent years. The IRS attributed the increase in filings in FY 2013 and later to a law made permanent by the enactment of the American Taxpayer Relief Act (Pub. L. No. 112-240, 126 Stat. 2313 (2013)). Under the “portability” concept, a deceased spouse’s estate exemption may transfer to the surviving spouse so that he or she can use the deceased spouse’s unused exemption *plus* his or her own exemption when the surviving spouse later dies. In order to take advantage of the deceased spouse’s unused estate tax exemption, the surviving spouse must file a Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, otherwise the deceased spouse’s exemption will be lost.



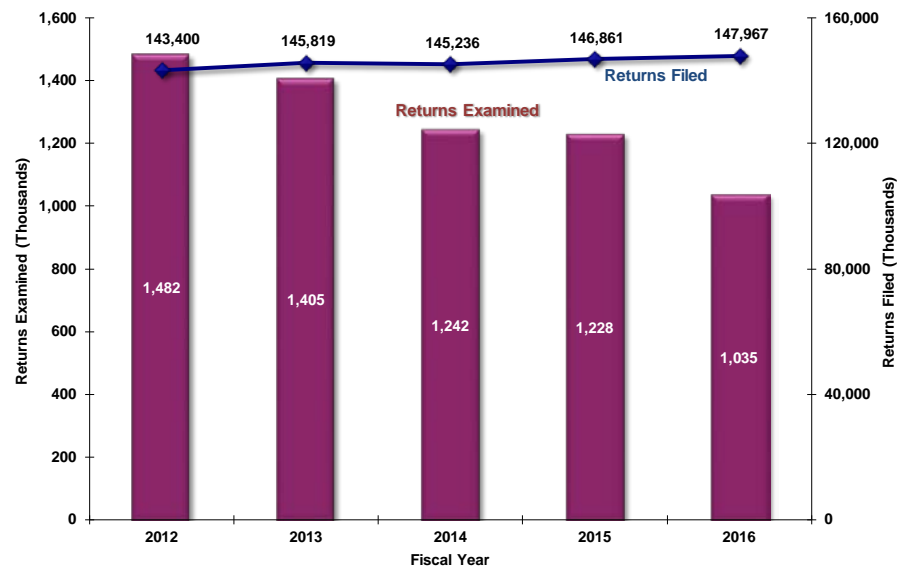
Trends in Compliance Activities Through Fiscal Year 2016

**Figure 35: Percentage Change From FY 2012
of Forms 1040 Filed and Examined**



Source: TIGTA analysis of the IRS Data Book.

Figure 36: Number of Forms 1040 Filed and Examined

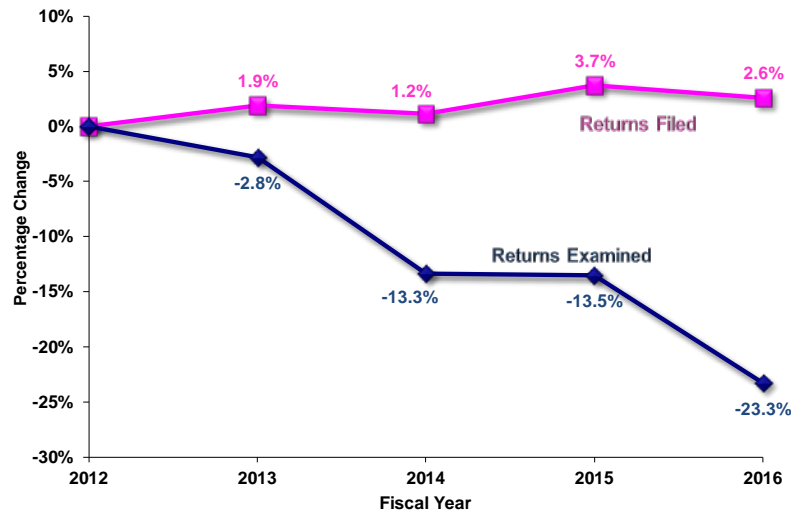


Source: TIGTA analysis of the IRS Data Book.



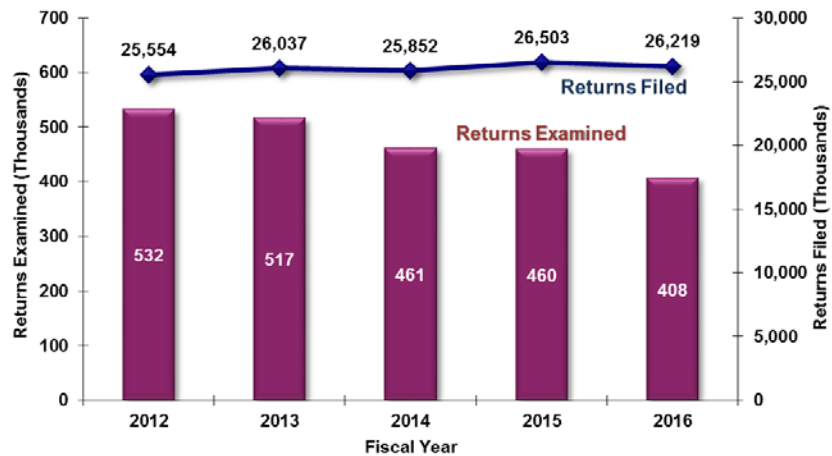
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**Figure 37: Percentage Change From FY 2012 of Individual Income
Tax Returns Filed and Examined With Income of
Less Than \$25,000 Claiming the Earned Income Tax Credit**



Source: TIGTA analysis of the IRS Data Book.

**Figure 38: Number of Individual Income Tax Returns
Filed and Examined With Income of
Less Than \$25,000 Claiming the Earned Income Tax Credit**

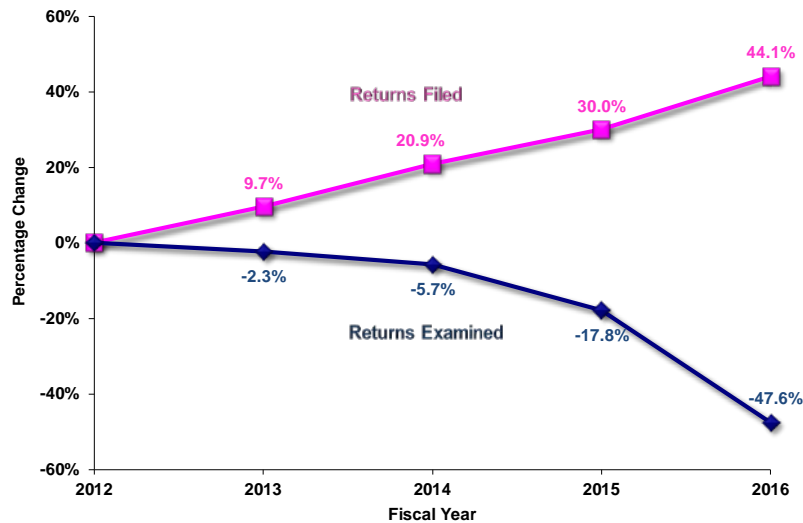


Source: TIGTA analysis of the IRS Data Book.



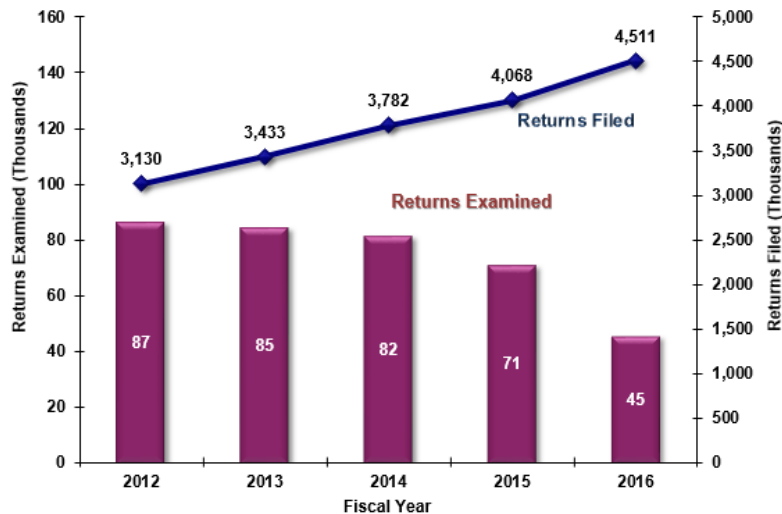
Trends in Compliance Activities Through Fiscal Year 2016

**Figure 39: Percentage Change From FY 2012 of
Individual Income Tax Returns Filed and Examined
With Income of \$200,000 to less than \$1 Million (Nonbusiness)**



Source: TIGTA analysis of the IRS Data Book.

**Figure 40: Number of Individual Income Tax Returns Filed and
Examined With Income of \$200,000 to less than \$1 Million (Nonbusiness)**

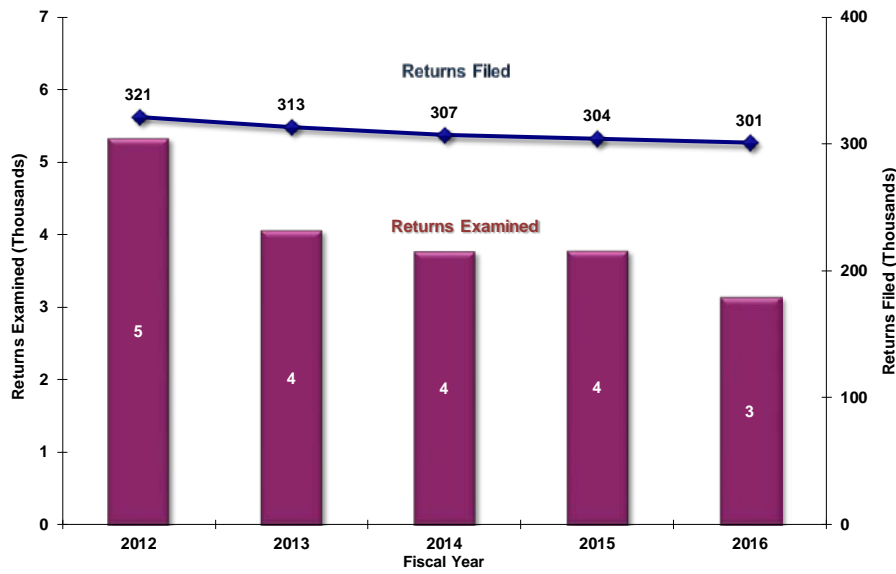


Source: TIGTA analysis of the IRS Data Book.



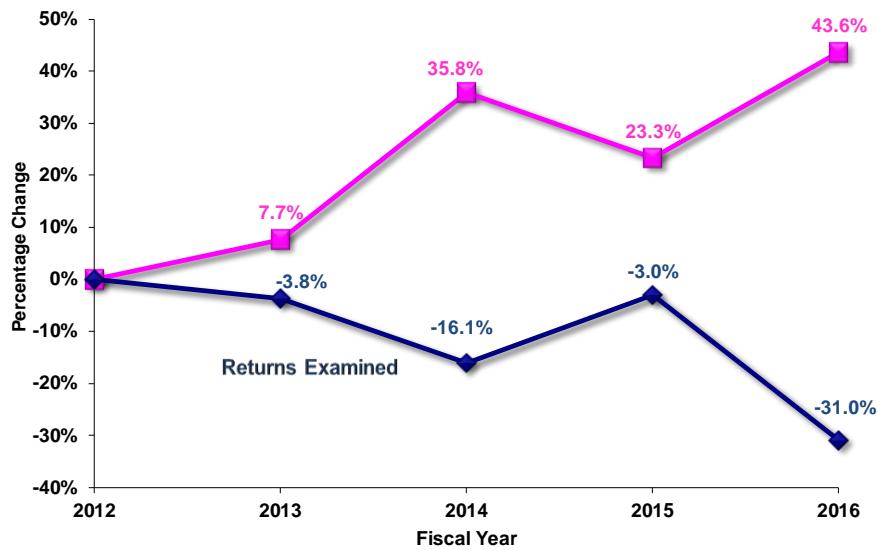
Trends in Compliance Activities Through Fiscal Year 2016

**Figure 41: Number of Corporate Tax Returns Filed and
Examined With Assets of \$250,000 to less than \$1 Million**



Source: TIGTA analysis of the IRS Data Book.

**Figure 42: Percentage Change From FY 2012 of Individual Income
Tax Returns Filed and Examined With Income of \$1 Million or More**

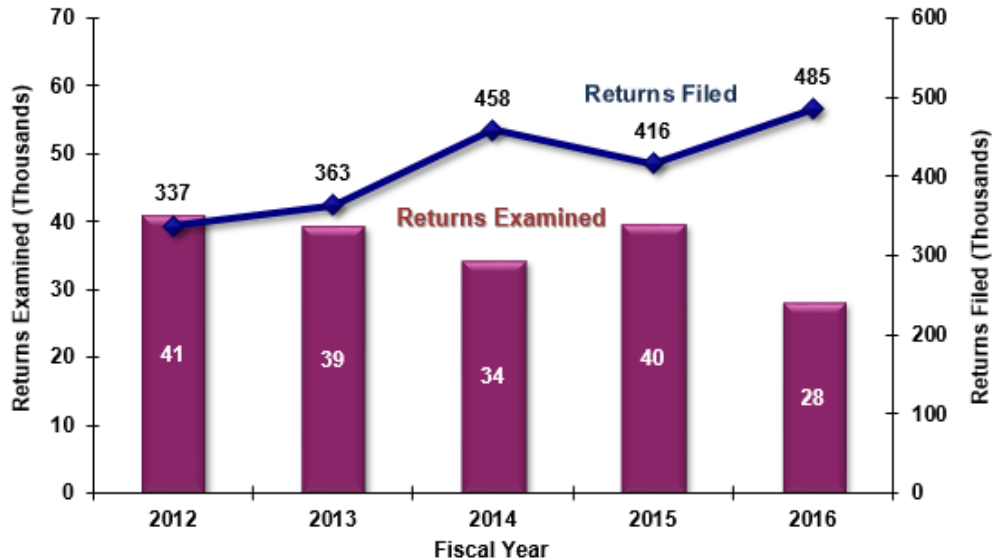


Source: TIGTA analysis of the IRS Data Book.



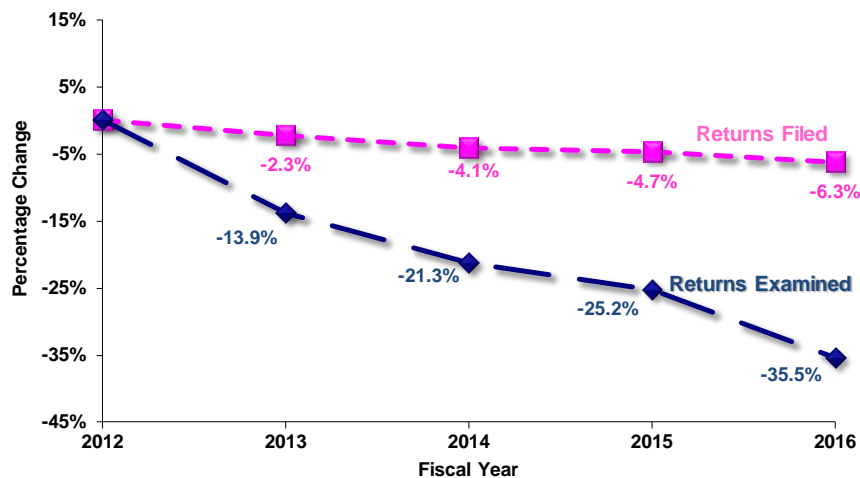
Trends in Compliance Activities Through Fiscal Year 2016

**Figure 43: Number of Individual Income Tax Returns
Filed and Examined With Income of \$1 Million or More**



Source: TIGTA analysis of the IRS Data Book.

**Figure 44: Percentage Change From FY 2012 of
Corporate Income Tax Returns Filed and Examined¹¹**



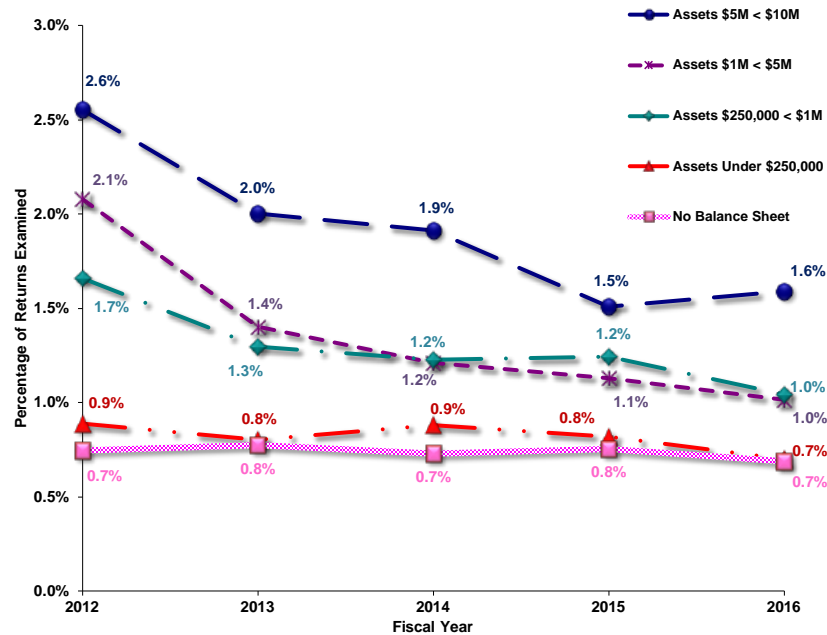
Source: TIGTA analysis of the IRS Data Book.

¹¹ Excludes Form 1120S; Form 1120-F; and Form 1120-C, U.S. Income Tax Return for Cooperative Associations.



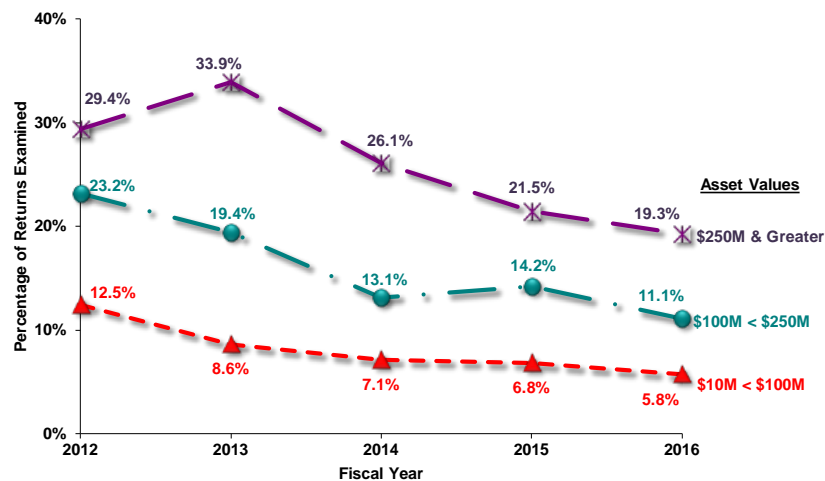
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Figure 45: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than \$10 Million



Source: TIGTA analysis of the IRS Data Book.

Figure 46: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of \$10 Million and Greater

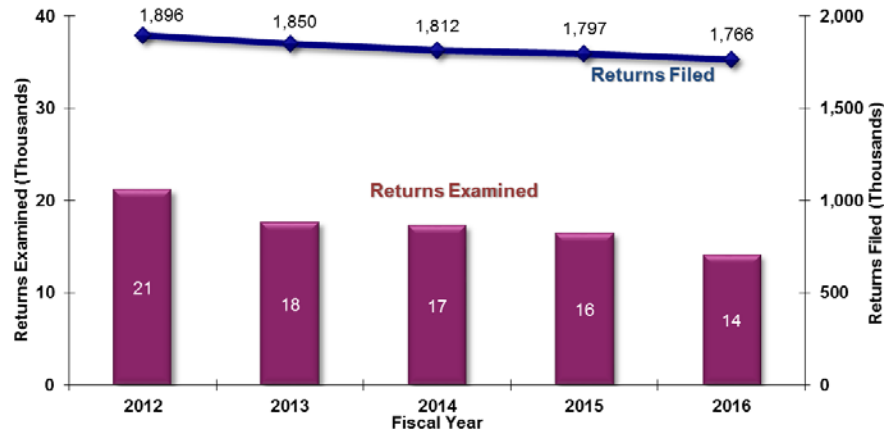


Source: TIGTA analysis of the IRS Data Book.



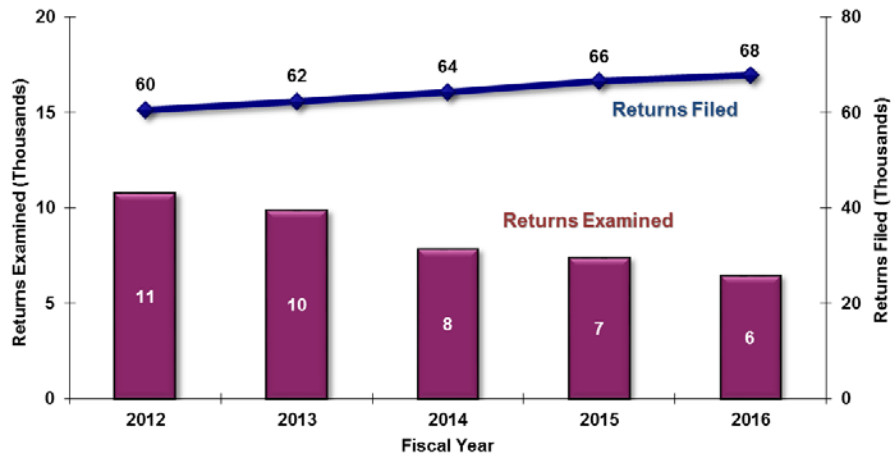
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**Figure 47: Number of Tax Returns Filed and Examined –
Corporations With Assets of Less Than \$10 Million**¹²



Source: TIGTA analysis of the IRS Data Book.

**Figure 48: Number of Tax Returns Filed and Examined –
Corporations With Assets of \$10 Million and Greater**



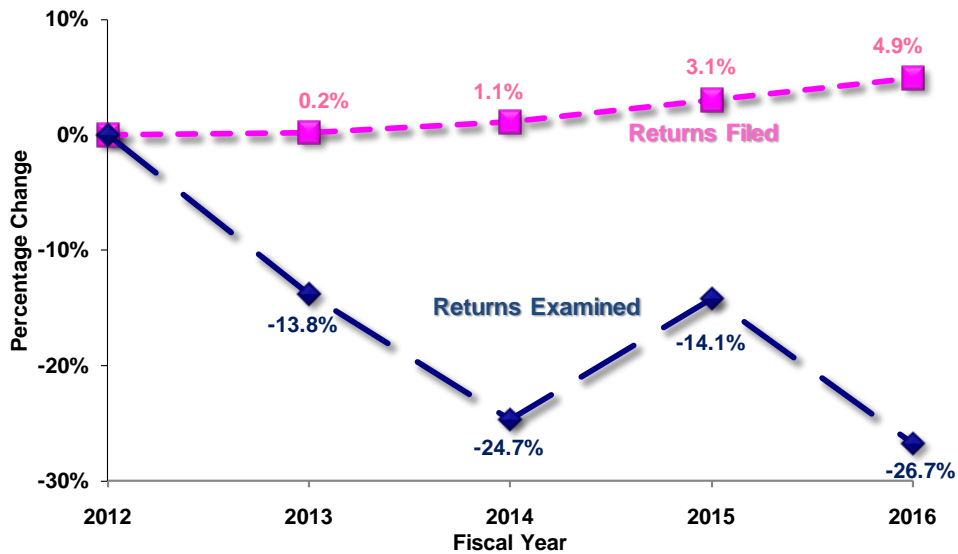
Source: TIGTA analysis of the IRS Data Book.

¹² Figures 47 and 48 exclude Forms 1120-C filed by cooperative associations and Forms 1120-F filed by foreign corporations with U.S. income, other than foreign life insurance companies (Form 1120-L, *U.S. Life Insurance Company Income Tax Return*); foreign property and casualty insurance companies (Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return*); or foreign sales corporations (Form 1120-FSC, *U.S. Income Tax Return of a Foreign Sales Corporation*).



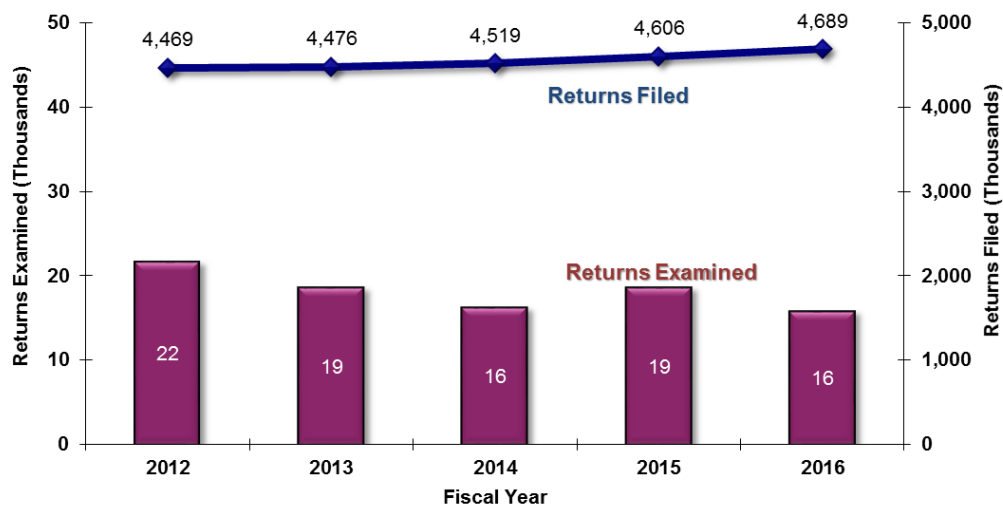
Trends in Compliance Activities Through Fiscal Year 2016

Figure 49: Percentage Change From FY 2012 of Forms 1120S, U.S. Income Tax Return for an S Corporation, Filed and Examined



Source: TIGTA analysis of the IRS Data Book.

Figure 50: Number of Forms 1120S Filed and Examined

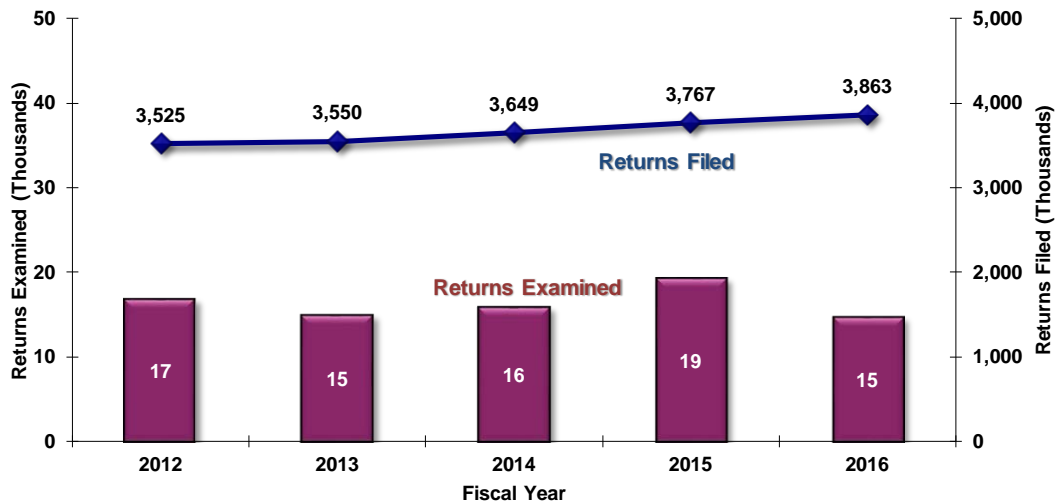


Source: IRS Data Book.



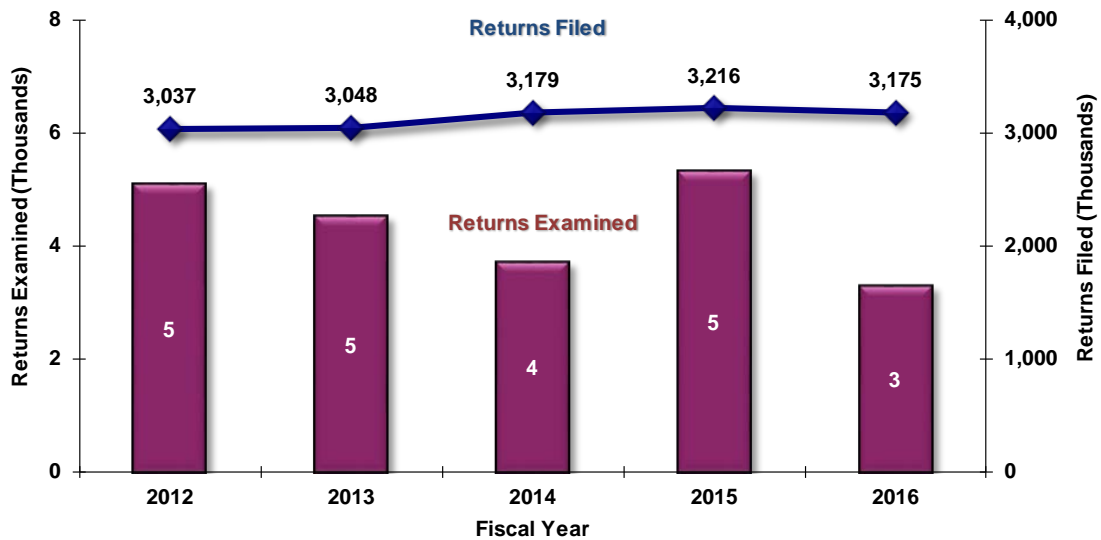
*Trends in Compliance Activities Through
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Figure 51: Number of Tax Returns Filed and Examined – Partnerships



Source: IRS Data Book.

Figure 52: Number of Tax Returns Filed and Examined – Fiduciaries

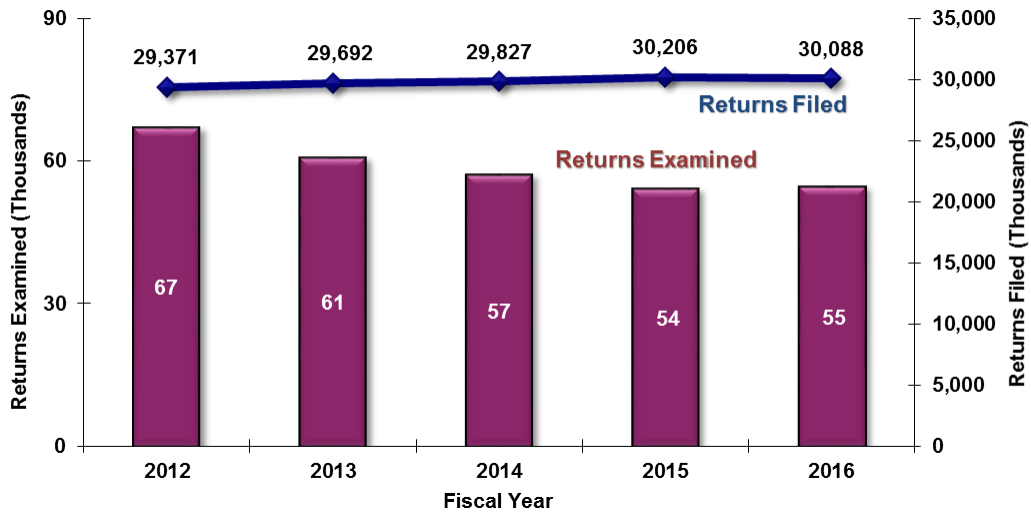


Source: IRS Data Book.



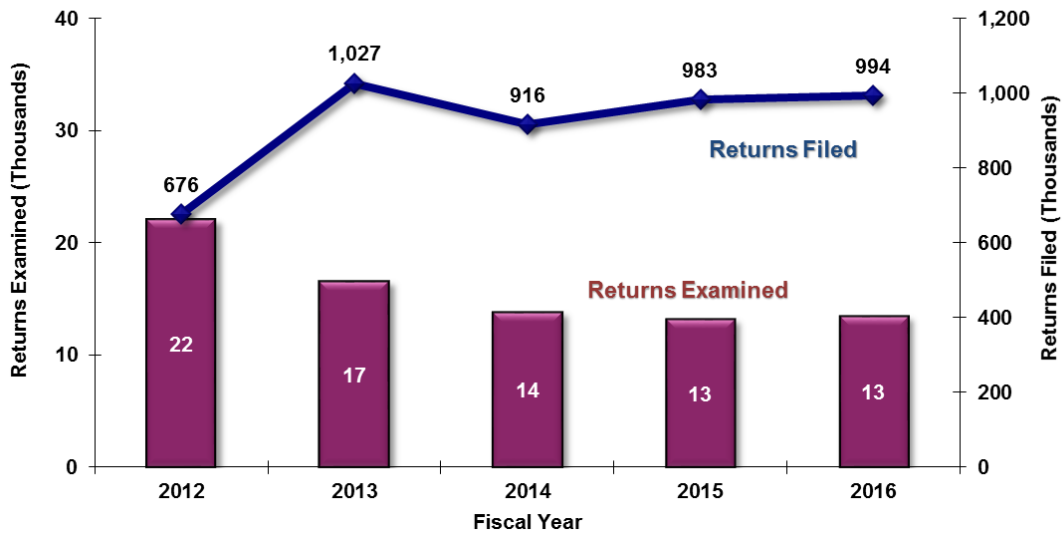
*Trends in Compliance Activities Through
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Figure 53: Number of Tax Returns Filed and Examined – Employment Tax



Source: IRS Data Book.

Figure 54: Number of Tax Returns Filed and Examined – Excise Tax

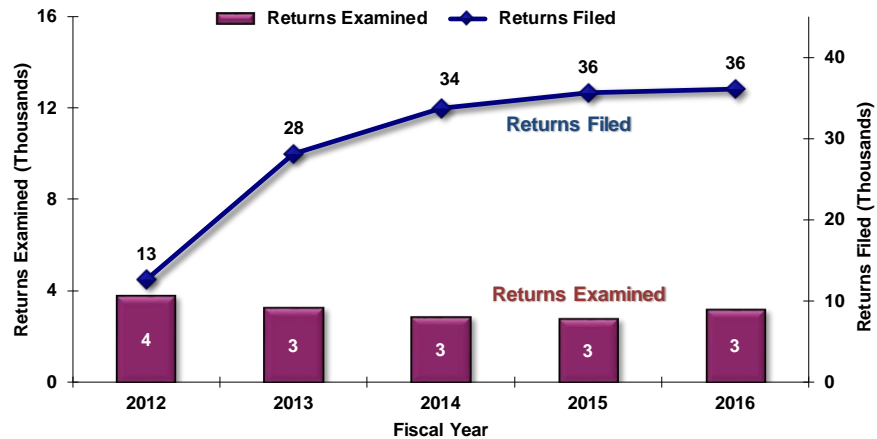


Source: IRS Data Book.



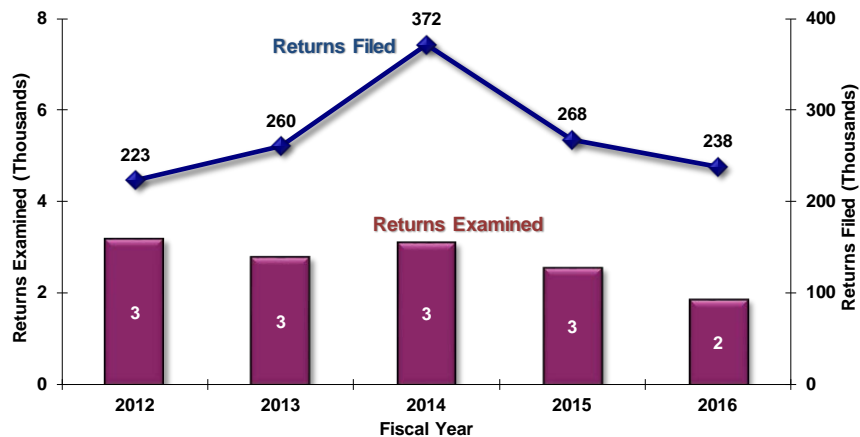
Trends in Compliance Activities Through Fiscal Year 2016

Figure 55: Number of Tax Returns Filed and Examined – Estates¹³



Source: IRS Data Book.

Figure 56: Number of Tax Returns Filed and Examined – Gift Tax



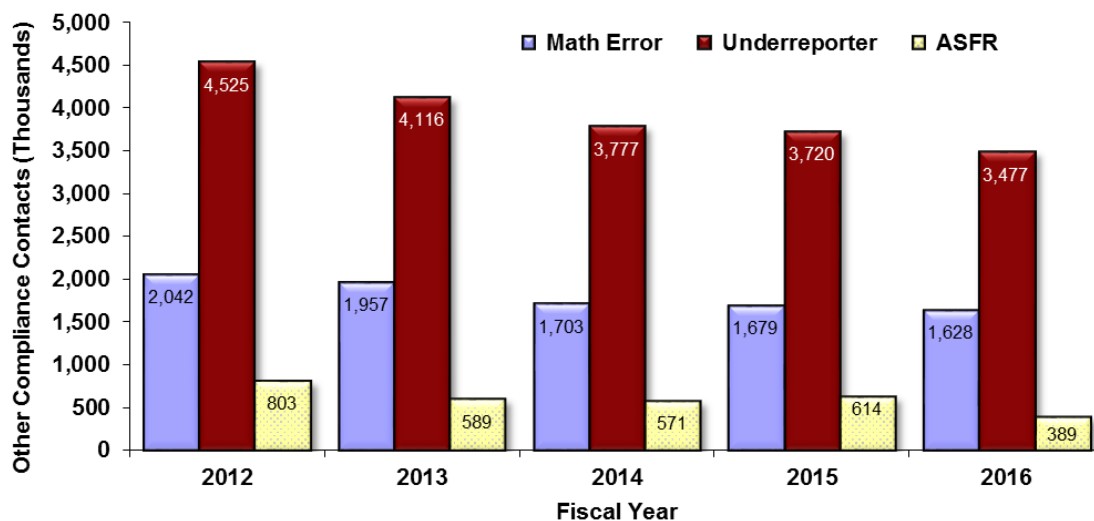
Source: IRS Data Book.

¹³ The IRS attributed the increase in filings in FY 2013 and later to a law made permanent by the enactment of the American Taxpayer Relief Act, signed into law in 2013. Under the “portability” concept, a deceased spouse’s estate exemption may transfer to the surviving spouse so that he or she can use the deceased spouse’s unused exemption *plus* his or her own exemption when the surviving spouse later dies. In order to take advantage of the deceased spouse’s unused estate tax exemption, the surviving spouse must file a Form 706, otherwise the deceased spouse’s exemption will be lost.



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Figure 57: Number of Other Compliance Contacts on Forms 1040



Source: TIGTA analysis of the IRS Data Book.

Figure 58: Other Compliance Contacts – Forms 1040 Coverage Rate

	Fiscal Year				
	2012	2013	2014	2015	2016
Math Error	2,042,458	1,957,031	1,703,432	1,679,367	1,627,646
Coverage Rate	1.42%	1.34%	1.17%	1.14%	1.08%
Automated Underreporter	4,525,000	4,116,000	3,777,000	3,720,000	3,477,000
Coverage Rate	3.15%	2.81%	2.59%	2.52%	2.34%
Automated Substitute for Return	803,000	589,000	571,000	614,000	389,000
Coverage Rate	0.56%	0.40%	0.39%	0.42%	0.26%

Source: TIGTA analysis of the IRS Data Book.



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Appendix V

*Recent Treasury Inspector General for Tax
Administration Compliance Trends Reports*

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

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

TIGTA, Ref. No. 2014-30-062, *Trends in Compliance Activities Through Fiscal Year 2013* (Sept. 2014).

TIGTA, Ref. No. 2016-30-004, *Trends in Compliance Activities Through Fiscal Year 2014* (Nov. 2015).

TIGTA, Ref. No. 2016-30-073, *Trends in Compliance Activities Through Fiscal Year 2015* (Sept. 2016).



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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.
Audit Information Management System	The computer system used by IRS examination functions to control returns, input assessments/adjustments to the Master File, and provide management reports.
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	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, thereby ensuring that 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.
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.



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Term	Definition
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.
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.



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Term	Definition
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 function Area Offices, consisting of revenue agents and tax compliance officers who primarily 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 Equivalent	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. It is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2016, one full-time equivalent was equal to 2,096 staff hours.
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.
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.
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.
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.



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Term	Definition
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.
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.
Queue	An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.
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 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.



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Term	Definition
Shelved and Surveyed Cases	Shelved and surveyed cases are delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of Collection function inventory because they are lower priority than other available cases.
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.
Tax Compliance Officer	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
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 Gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. The Net Tax Gap reflects the gross Tax Gap less other late payments or amounts collected through enforcement.
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.



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Term	Definition
Unpaid Assessments	Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.