TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

High-Income Taxpayers Who Owe Delinquent Taxes Could Be More Effectively Prioritized

March 10, 2021

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HIGHLIGHTS: High-Income Taxpayers Who Owe Delinquent Taxes Could Be More Effectively Prioritized

Final Audit Report issued on March 10, 2021 **Report Number 2021-30-015**

Why TIGTA Did This Audit

TIGTA has previously reported that the IRS does not consider the taxpayer's income or wealth when prioritizing Taxpayer Delinquent Accounts, focusing instead on the dollar amount of the balance due. This creates a higher risk that taxpayers with high incomes are not paying their tax debts even though they have the ability to pay.

With the IRS Collection function's limited staffing of experienced revenue officers, it is important to determine if the IRS is effectively addressing nonpayment by high-income taxpayers.

Impact on Taxpayers

Intentional nonpayment of income tax by those with significant financial resources and sophistication is a blatant form of noncompliance. High-income taxpayer noncompliance can have a significant corrosive effect on overall tax administration as well as add to the belief that the Nation's tax system favors the wealthy.

What TIGTA Found

TIGTA identified 685,555 taxpayers who had a balance due as of May 14, 2019. These taxpayers reported adjusted gross income (AGI) of $200,000 or more and owed a combined total of $38.5 billion. Because the IRS prioritizes high balance due [redacted] cases for collection, many of these high-income taxpayers would be included in high-priority work. However, balance dues are not prioritized by incomes earned and some improvements could be made to prioritize high-income taxpayers more effectively.

A separate IRS analysis of 64,317 delinquent tax cases showed that the IRS collected less than 50 percent of tax debt owed by these high-income taxpayers within 52 weeks of assignment to Field Collection. The following chart shows that taxpayers having an average AGI of over $1.5 million paid the IRS an average of 39 percent of what they owe. While 39 percent is more than what the IRS predicted it would collect, these high-income taxpayers still owed over $2 billion.

Excerpt from Figure 8 on Page 14

Average AGI of Taxpayers in This Group	Balance Due	Actual Recovery Rate	Remaining Balance Due
$1,563,390	$4,009,955,107	39%	$2,442,387,519
$98,289	$1,089,010,998	17%	$906,586,760
$24,985	$1,157,135,371	12%	$1,014,227,292

When selecting cases to assign to a private collection agency, the IRS randomly selects cases that meet the Private Debt Collection criteria without regard to taxpayers' ability to pay. TIGTA identified 3,185 high-income taxpayers whose accounts were not sent to a private collection agency at any point since the program started in Fiscal Year 2017 and who owed $110 million on modules that were shelved in an inactive inventory as of May 14, 2019.

TIGTA also found that revenue officer staffing does not always align with locations where the greatest number of high-income cases are located. While TIGTA recognizes that resources are limited, hiring or reallocating resources to work high-income cases in these areas could lead to higher collection potential and increased revenue.

What TIGTA Recommended

TIGTA made seven recommendations to help the IRS improve the collection of taxpayer delinquent accounts of high-income taxpayers. IRS management agreed with two of the seven recommendations. The IRS plans to evaluate the recovery predictive models to consider additional income factors to improve the ability to predict recovery and plans to consider conducting ROCS that focus on high-income taxpayer TDA cases in locations where high-income taxpayer cases far outweigh the number of revenue officers assigned to those areas.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 10, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – High-Income Taxpayers Who Owe Delinquent Taxes Could Be More Effectively Prioritized (Audit # 201830037)

This report presents the results of our review to determine if the Internal Revenue Service is effectively addressing non-payment by high-income taxpayers, and the impact on overall payment compliance. This review was part of our Fiscal Year 2019 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance.*

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

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

Table of Contents

Appendices

Background

The intentional failure to pay Federal income tax is a crime.[1] Taxpayers can be subject to penalties, fines, and imprisonment for nonpayment of income tax. In the past, the Internal Revenue Service (IRS) had focused on the tax compliance of high-income individuals because their noncompliance can have a significant corrosive effect on tax administration as well as add to the belief that the Nation's tax system favors the wealthy.[2] Intentional nonpayment of income tax by those with significant financial resources and sophistication is a blatant form of noncompliance. The underpayment of income tax is also a substantial component of the Tax Gap.

The gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount paid voluntarily and on time. The three-year average annual gross Tax Gap is estimated to be $441 billion for Tax Years (TY) 2011 through 2013, of which $50 billion (11 percent) is due to underpayment.[3] Individual income tax accounts for $38 billion (76 percent) of the underpayment. Approximately $39 billion (9 percent) of the gross Tax Gap is due to nonfilers—taxpayers who do not timely file a required tax return and timely pay the tax due for such delinquent returns. The IRS's principal compliance and enforcement efforts to close the Tax Gap consists of examinations (audits) and collection of delinquent taxes.

The Treasury Inspector General for Tax Administration (TIGTA) recently completed an audit of the IRS's new nonfiler strategy and its related plans to determine whether the IRS is effectively addressing high-income nonfilers.[4] Because of this review, the IRS agreed to make changes to its nonfiler strategy and will issue delinquency notices to all high-income nonfilers identified by the Case Creation Nonfiler Identification Process to ensure that the cases enter into the inventory stream and that the cases are worked as resources allow.

This audit focuses on high-income taxpayers with delinquent taxes. Cases with a balance due are processed in a variety of ways and have the potential to be worked in a variety of IRS Collection functions in order to collect unpaid tax liabilities or determine whether liabilities are uncollectible.[5] The IRS first sends a series of balance due notices (commonly called the notice stream) to the taxpayer to prompt a payment by the taxpayer or a reply if the taxpayer disagrees

[1] Internal Revenue Code § 7203.

[2] Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, *Civilian Contractors Who Cheat On Their Taxes and What Should Be Done About It*, Homeland Security and Governmental Affairs Permanent Investigations, *Contractors Who Cheat on Taxes*, Statement of Mark W. Everson, Commissioner, Internal Revenue Service (June 16, 2005). Until recently, the IRS also had a Service-Wide High Income High Wealth Strategy involving coordination between the Large Business and International Division and the Small Business/Self-Employed Division; however, the coordination between those functions with respect to high-income taxpayers has ceased.

[3] See Appendix III for a glossary of terms.

[4] TIGTA, Ref. No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* (May 2020).

[5] Throughout this report, we use the terms "module(s)" or "case(s)" when referring to the units of work for the IRS's collection process. A module is a record of tax data for a specific taxpayer covering one tax period (such as a year or quarter) and one tax class (such as Form 1040, *U.S. Individual Income Tax Return*). A "case" will generally include all the taxpayer's delinquent modules, which may be only one module or may include several modules.

with the balance due or is unable to pay the delinquency. Generally, balance due tax modules which are not resolved during the notice phase become taxpayer delinquent accounts (TDA) and are routed to one of several inventories or functions within the IRS's Collection program.

The IRS uses the Inventory Delivery System (IDS) to route TDA cases to the IRS's Collection functions. The IDS is designed to:

- Analyze, model, and route cases to the most appropriate Collection function.
- Close cases and remove them from the active inventory when criteria for shelving cases are met.

The IDS will generally route active cases that meet certain criteria to one of the following Collection inventories for immediate or potential assignment:

- Automated Collection System (ACS): The ACS uses a variety of systemic actions in an attempt to prompt payment and bring delinquent taxpayers back into compliance. These include but are not limited to systemic notice issuances and systemic enforcement actions such as levies and Notice of Federal Tax Lien filings. This Collection function is also characterized by telephone contact, primarily inbound calls from taxpayers that are initiated through the use of the systemic notice issuances and enforcement actions.
- Field Collection (Field): Field Collection contains an inventory of delinquent cases assigned to revenue officers. They are characterized by taxpayer contact through revenue officers who work one-on-one with taxpayers to bring them into compliance by filing delinquent returns, paying past due tax delinquencies, or establishing payment plans. When necessary, revenue officers take enforcement actions such as levies, Notice of Federal Tax Lien filings, or seizures of property. The IRS assigns its highest priority and most complex collection cases to the Field because those employees have unique skills that enable them to work such cases; however, because they are labor intensive, the cost associated with working these cases is higher than in other Collection functions.
- Collection Queue (Queue): The Queue is an inventory of unassigned delinquent cases waiting for assignment to a revenue officer or the ACS. IRS management considers the Queue as potential inventory for any Collection function. Queue cases are systemically reviewed after 52 weeks without being assigned to any Collection function. If after the systemic review the cases are not assigned to a different Collection inventory or function, the only action taken is an annual reminder notice sent to the taxpayer. In addition, cases in the Queue do not undergo systemic actions (such as systemic searches for levy sources), such as cases might within the ACS.

In many instances, TDA cases will not be assigned to the Field or the ACS due to resource constraints such as a lack of available employees to work cases or changing characteristics of a case, which may lower its prioritization within available active inventory. Because collection cases can remain unassigned within an active or inactive inventory for up to 10 years, cases can pass through the IDS on multiple occasions as a result of the annual Queue review or when a new module becomes available. If the case is in the Queue, then each time a TDA is routed through the IDS, it is evaluated by the same rulesets used during initial processing and may be routed to different inventories.

In addition to systemic processes in which the IRS has established multiple criteria that determine to which active Collection inventory a case will be issued, the IDS also incorporates criteria that may indicate a lower likelihood of collection and thus may close a case to inactive inventory. These inactive unassigned cases are referred to as "shelved" and are considered temporary closures. The systemic shelving of cases may be performed due to a variety of criteria or factors, including but not limited to risk level, IDS modeling results, or the age of the delinquency.

TIGTA previously reported that while cases may be shelved from any of the Collection functions, the majority are moved to inactive inventory (referred to as being shelved) from the Queue.[6] Generally, cases shelved from the Queue have been classified as low-priority cases (medium and low risk) by the IRS and have not been assigned after one year in the Queue. Due to their low prioritization within the Queue and the continual creation of new inventory, there is little chance of these cases being assigned. These cases are not necessarily closed permanently because they may be reactivated if circumstances warrant it.

Results of Review

The IRS does not make the taxpayer's income a high priority when prioritizing which cases to work; instead, it places more significance on other factors, such as the dollar amount of the balance due, as TIGTA has previously reported.[7] The IRS prioritizes delinquencies based on the size of the balance due, with high balances being identified and prioritized in Collection inventory.[8] It is the IRS's belief that it is effectively addressing noncompliance by high-income individuals by focusing on the size of the amounts owed. As subsequently shown, this assumption is faulty. With its limited resources, it is important to determine if the IRS is effectively addressing nonpayment by high-income taxpayers.

For some limited purposes, the IRS has criteria that it uses to identify high-income taxpayers. The IRS uses different income thresholds to identify high-income nonfilers versus high-income taxpayers who underreport their income. For purposes of identifying nonfilers, the IRS has defined high-income taxpayers who have delinquent tax returns (nonfilers) as having total income of $100,000 or greater.[9] For purposes of identifying high-income taxpayers for potential examination, the IRS has traditionally focused on taxpayers with total positive income (TPI) of $200,000 or greater.[10] In general, TPI is the sum of all positive amounts shown for the various sources of income reported on an individual's income tax return and thus excludes adjustments to income (such as student loan interest or contributions to a retirement account) and losses

[6] TIGTA, Ref. No. 2017-30-069, *Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases* p. 4 (Sept. 2017).

[7] TIGTA, Ref. No. 2014-30-068, *Field Collection Could Work Cases With Better Collection Potential* p. 12 (Sept. 2014).

[8] [redacted]

[9] Internal Revenue Manual (IRM) 5.19.2.8 (Nov. 6, 2015).

[10] In addition, the Tax Reform Act of 1976 (Pub. L. No. 94-455, 90 Stat. 1520) requires the IRS to publish data on individual income tax returns reporting adjusted gross income of $200,000 or more, referring to these as high-income returns.

(such as a business loss). For example, if a taxpayer reports wages of $320,000, interest and dividend income of $23,000, and a business loss of $27,000, TPI is $343,000.[11]

Since TPI excludes losses and adjustments, it tends to overstate a taxpayer's available income and ability to pay. Therefore, we used adjusted gross income (AGI) when analyzing taxpayer income in this review. The IRS defines AGI as gross income minus adjustments to income and losses. We used an AGI threshold of $200,000 or greater to identify high-income taxpayers. Taxpayers at this income level may be more likely to have the ability to pay their delinquent taxes and are the most egregious if nonpayment of taxes is willful.

We identified 685,555 taxpayers who reported an AGI of $200,000 or more, on at least one Form 1040, *U.S. Individual Income Tax Return*, filed for TYs 2013 through 2017, who owe a combined total of $38.5 billion in delinquent tax payments. The amount owed represents 22 percent of the total amount owed by all taxpayers with at least one Form 1040 balance due on May 14, 2019. These high-income taxpayers account for 6 percent of the total taxpayers identified with delinquent tax liabilities.

Figure 1 breaks down these high-income taxpayers by total balance due within different ranges and shows, in part, that the IRS's assumption that it is addressing high-income taxpayer noncompliance by focusing on the size of the liabilities owed is faulty, because high-income taxpayers cannot be identified simply by the amount of money that they owe.

Figure 1: High-Income Taxpayers by Balance Due Range[12]

Balance Due Range	Number of High-Income Taxpayers	Percentage of High-Income Taxpayers	Total Balance Due	Percentage of Balance Due
Less Than $1,000	138,025	20%	$41,949,516	< 1%
$1,000 to $9,999	197,845	29%	$919,636,991	2%
$10,000 to $24,999	134,257	20%	$2,215,196,958	6%
$25,000 to $49,999	98,263	14%	$3,527,089,264	9%
$50,000 to $74,999	32,732	5%	$2,001,807,246	5%
$75,000 to $89,999	13,209	2%	$1,084,870,886	3%
$90,000 to $99,999	7,219	1%	$685,249,316	2%
$100,000 and Up	64,005	9%	$28,046,330,061	73%
Totals	**685,555**	**100%**	**$38,522,130,239**	**100%**

Source: TIGTA analysis of IRS Taxpayer Information File (TIF) data as of May 14, 2019.

The majority (73 percent) of the tax dollars owed by these high-income taxpayers are from balances due of $100,000 or more, but this accounts for only for 9 percent of the taxpayers.

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[11] TPI in this example is calculated as: $320,000 wages + $23,000 interest and dividend income = $343,000 TPI. The business loss is excluded from the TPI calculation.

[12] There is a $1 discrepancy in the Total Balance Due column because the figures have been rounded to the nearest whole number. The actual total of the Percentage of Balance Due column does not equal 100 percent due to rounding.

The largest number of high-income taxpayers (69 percent) owe less than $25,000.[13] The data shown in Figure 1 include balance due cases from all phases of the collection process, including cases in the collection notice stream. Figure 2 shows where these taxpayers' modules are in the collection process at a moment in time, specifically on May 14, 2019.

Figure 2: High-Income Taxpayer Modules by Collection Status[14]

Collection Status of Modules	Number of Modules	Percentage of Modules	Total Balance Due	Percentage of Balance Due
Pre–Notice Stream	10,250	1%	$133,409,047	< 1%
Notice Stream	197,296	17%	$2,664,852,054	7%
ACS	215,238	18%	$5,157,642,834	13%
Queue	127,065	11%	$7,284,779,098	19%
Field Collection	45,912	4%	$6,460,461,794	17%
Currently Not Collectible	66,974	6%	$4,214,740,328	11%
Installment Agreement	416,051	35%	$6,590,646,622	17%
Other Statuses	116,715	10%	$6,015,598,463	16%
Totals	**1,195,501**	**100%**	**$38,522,130,240**	**100%**

Source: TIGTA analysis of IRS TIF data as of May 14, 2019.

As cases move through the various phases of the collection process, the IRS will frequently collect a portion of the total amount owed. TIGTA recently reported that more than half of the total enforcement revenue collected in Fiscal Year 2018 ($59.4 billion) was collected within the collection notice stream ($30.2 billion), while ACS and Field Collection accounted for 16 percent and 21 percent of the collected enforcement revenue, respectively.[15] Overall, our review of these high-income taxpayers who owe delinquent taxes determined that:

- High-income taxpayers are generally not a Collection priority, nor is there a strategy in place to address nonpayment by high-income taxpayers.
- High income is not a primary factor for determining collectibility.
- Opportunities exist to work more cases with higher collection potential.

High-Income Taxpayers Are Generally Not a Collection Priority, Nor Is There a Strategy in Place to Address Nonpayment by High-Income Taxpayers

During a prior TIGTA review, it was reported that IRS Collection function management sets goals for closing cases in certain priority areas on an annual basis and communicates these priority

[13] One taxpayer can have multiple tax modules with a balance due.

[14] Other Statuses include modules that are below tolerance, suspended installment agreements, defaulted installment agreements, modules with balance due notices suspended due to a pending offer in compromise, and modules with balance due notices suspended due to litigation. The actual total of the Percentage of Modules and Percentage of Balance Due columns do not equal 100% because the figures have been rounded to the nearest whole number.

[15] TIGTA, Ref. No. 2019-30-063, *Trends in Compliance Activities Through Fiscal Year 2018* p. 7 (Sept. 2019).

areas in the Collection function's program letters each fiscal year.[16] The report went on to state that the ability to assess risk and prioritize workload is especially important because the IRS's Collection inventory has grown well beyond the number of cases that can be worked. The report continues, as such, routing decisions and the selection of the most productive and highest priority cases can help mitigate the risks associated with not working a significant percentage of the inventory.

Current IRS procedures provide for Field Collection managers to "ensure priority cases are worked" as part of effective workload management.[17] Additional procedures mandate "regular reviews of high priority cases" to be considered when managers are developing their quality control program.[18] Those same procedures list the following as high-priority cases:

- Pyramiding accounts.[19]
- Collection Statute Expiration Date accounts.[20]
- Assessment Statute Expiration Date accounts.[21]
- Large dollar accounts.[22]
- In-business accounts.[23]
- Federal Tax Deposit Alerts.[24]

The same prior TIGTA report also found that, from year-to-year, the priorities change for reasons that are not always articulated or based on objective data. TIGTA found that Fiscal Year 2015 was the last time the Collection Program Letter communicated that "Enterprise Global High Wealth Balance Due Notice and TDA Module" was a priority area. We did not identify any other references to delinquent high-income taxpayers as being a collection priority. Further, IRS management informed us that there are currently no studies or research projects ongoing or planned for assessing the high-income taxpayer population in terms of collectibility or for having a greater ability to pay any income tax due.

However, higher incomes can provide an indication of whether taxpayers have the ability to pay any income tax due, especially when the amount owed is a small percentage of the taxpayer's

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[16] TIGTA, Ref. No. 2017-30-069, *Prioritization of Collection Cases Is Inconsistent, and Systemic Enforcement Actions Are Limited for Inactive Cases* p. 6 (Sept. 2017).

[17] IRM 1.4.50.8 (Jan. 25, 2013).

[18] IRM 1.4.50.12(5)i (Jan. 25, 2013).

[19] Pyramiding accounts are in-business taxpayers who are not current with Federal Tax Deposits and have two or more balance due trust fund (payroll) modules assigned to Field Collection [IRM 1.4.50.1.5(1)g (Aug. 21, 2018)].

[20] Imminent Collection Statute Expiration Date accounts are defined as cases containing at least one module with 12 months or less remaining on the collection statute [IRM 1.4.50.4.1.1 (Aug. 21, 2018)]. The collection statute is 10 years after assessment of a tax liability. The collection statute expiration ends the Government's right to pursue collection of a liability [IRM 5.1.19.1.1(1) (Feb. 7, 2020)].

[21] Assessment Statute Expiration Date accounts are generally trust fund recovery penalty liabilities that will expire within the next 12 months [IRM 1.4.50.11.3(1) (Jan. 25, 2013)].

[22] [redacted]

[23] In-business accounts are Business Master File taxpayers that are currently in business.

[24] Federal Tax Deposit Alerts are used to determine an employer's compliance with payroll tax deposit requirements for the current and subsequent quarters until the taxpayer is brought into full compliance [IRM 5.7.1.1(7) (Feb. 21, 2020)].

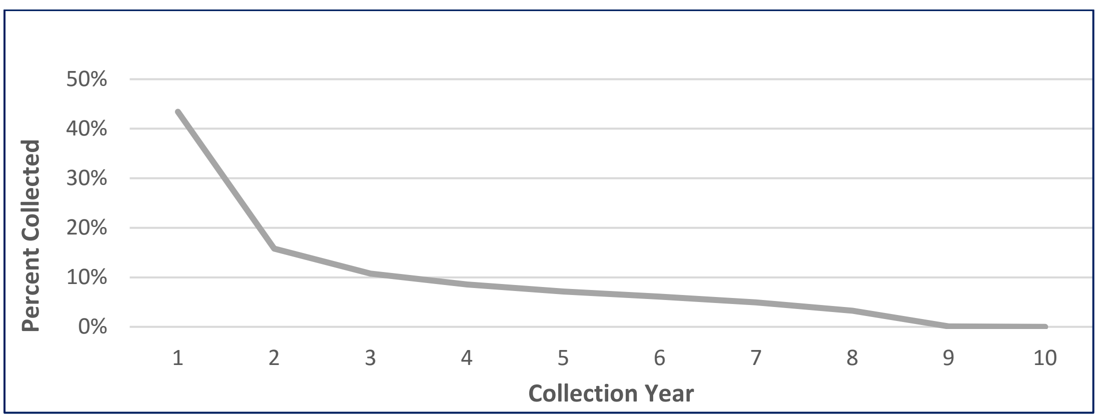
income. This can be particularly true when the timing of collection activity corresponds to when delinquent taxpayers actually earn higher incomes. Timely collection enforcement action is also important. Research conducted by the Taxpayer Advocate Service has demonstrated that tax debt is generally uncollectible after three years.[25]

Taxpayers' ability to pay

It is important to take collection action early in the process, but it may be equally important to take collection action when taxpayers have a greater ability to pay (such as when they are earning higher incomes relative to their tax owed). Once a case is assigned to a revenue officer, the collection activity for resolving a taxpayer's delinquent account may include determining how much a taxpayer can pay. If a taxpayer is unable to pay the balance in full (and does not qualify for an installment agreement), revenue officers are required to secure the taxpayer's financial information in order to make a determination of ability to pay.[26] Factors considered in determining collectibility include verifying the financial information (income, expenses, and assets) provided by the taxpayer.[27] Revenue officers also obtain substantiation of the taxpayer's claimed expenses that may exceed standard Allowable Living Expense amounts.[28] Finally, an analysis is performed to determine the amount of disposable income (gross income less all allowable expenses) available to apply to the tax liability, as well as any available assets that could be used to resolve the liability.

However, another significant factor of collectibility is the age of a delinquent tax account when it is assigned to the Collection employee. For example, there is a widely accepted principle in the collection industry referred to as the "collectibility curve," which measures the probability of collecting funds over time. Figure 3 is the IRS Collectibility Curve for newly assigned TDAs in Calendar Year 2007 that was the result of a Taxpayer Advocate Service study and shows that the probability of collecting funds diminishes over time.

Figure 3: IRS Collectibility Curve – Calendar Year 2007



Source: National Taxpayer Advocate: Annual Report to Congress (Volume 2, 2015), Taxpayer Advocate Service Research and Related Studies, IRS Collectibility Curve.

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[25] Taxpayer Advocate Service, *National Taxpayer Advocate: Annual Report to Congress, 2015*.

[26] IRM 5.15.1.2(1) (July 24, 2019).

[27] IRM 5.15.1.2(5)–(7) (July 24, 2019).

[28] IRM 5.15.1.2(12) (July 24, 2019). The standard amounts set forth in the national and local guidelines are designed to account for basic living expenses. In some cases, based on a taxpayer's individual facts and circumstances, it will be appropriate to deviate from the standard amount when failure to do so will cause the taxpayer economic hardship.

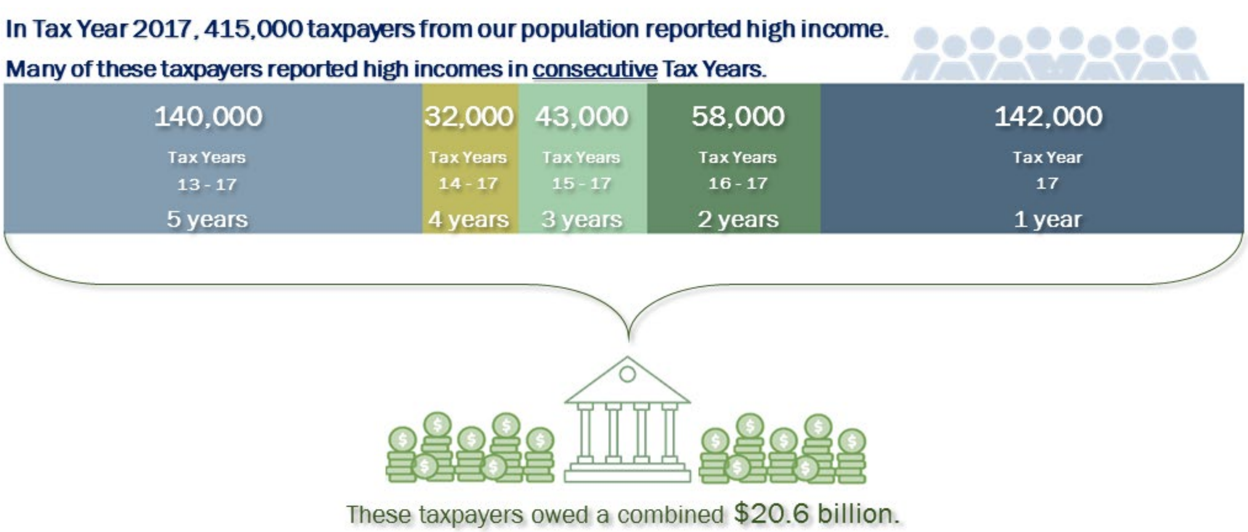
The probability of collecting unpaid tax debt falls dramatically in the first three years. The data show that in:

- Year 1, collection amounts were 43 percent of the ten-year total amount collected.
- Year 2, collection amounts were 16 percent of the ten-year total amount collected.
- Year 3, collection amounts were 11 percent of the ten-year total amount collected.

The IRS has also recognized that its collections diminish as accounts age. As more time elapses before an individual makes at least one payment, it becomes less likely that he or she will do so at any subsequent time.[29] The two concepts of ability to pay and early collection activity are both highly important for successful revenue collection. Considering the two concepts together, it is possible to identify delinquent taxpayers who have the ability to pay for which collection activity can start as early as possible.

We analyzed the overall population of 685,555 high-income taxpayers with tax delinquencies we identified (Figure 1) and determined that 414,547 taxpayers reported high income in TY 2017. These taxpayers account for 671,121 delinquent tax modules and owe a combined total of $20.6 billion. We further analyzed this population to determine how many of the 414,547 taxpayers reported high incomes from TYs 2013 through 2017, as shown in Figure 4.

Figure 4: Pattern of Consecutive Years of High Income – Taxpayers With Unpaid Taxes[30]



Source: TIGTA analysis of IRS TIF data Return Transaction File data.

The data show that, while 142,000 (34.2 percent) of these taxpayers reported high income only in TY 2017, there were 140,000 (33.7 percent) taxpayers who reported high income in all five consecutive tax years (TYs 2013 to 2017). These 140,000 taxpayers account for $8.3 billion (40 percent) of the $20.6 billion in taxes owed by this population. When taxpayers earn high incomes consistently over time, it is reasonable to believe these taxpayers are more likely to have the ability to pay their tax debts, especially for any taxpayers who have lower balance dues relative to their income levels. For those taxpayers who have higher incomes for only part of the

[29] IRS, Publication 1500, *The IRS Research Bulletin* (Rev. 11-99).

[30] Figures shown are rounded.

five-year period, given the trends illustrated by the collectibility curve, it is important for collection activities to occur at a time when those taxpayers are earning the higher incomes.

As Figure 4 shows, income can vary significantly from year to year. Reporting high income in one year does not guarantee that there will be future years in which taxpayers earn $200,000 or more in AGI. We conducted Field Collection interviews in the areas with some of the highest concentrations of high-income taxpayers from our population. These include both Miami and West Palm Beach, Florida; northern New Jersey; and both New York City and Long Island, New York. During these interviews, half of the revenue officers informed us that, in their experience, the level of income reported on the taxpayer's two most recent returns are an important factor for determining collectibility. The majority of the revenue officers agreed that they are more likely to collect the amount owed from high-income taxpayers, emphasizing the importance of collection activities at the time taxpayers are earning a high income.

Figure 5 shows the same 414,547 high-income taxpayers stratified by their outstanding balances due. It is important to remember these cases are in all phases of the collection process.

Figure 5: High-Income Taxpayers by Balance Due Range[31]

Balance Due Range	Number of High-Income Taxpayers	Percentage of High-Income Taxpayers	Total Balance Due	Percentage of Balance Due
Less Than $1,000	101,210	24%	$30,592,102	0.1%
$1,000 to $9,999	115,710	28%	$528,930,652	2.6%
$10,000 to $24,999	76,200	18%	$1,258,194,754	6.1%
$25,000 to $49,999	58,345	14%	$2,111,608,765	10.3%
$50.000 to $74,999	17,867	4%	$1,090,319,528	5.3%
$75,000 to $89,999	7,233	2%	$594,110,017	2.9%
$90,000 to $99,999	4,003	1%	$380,154,801	1.8%
$100,000 and Up	33,979	8%	$14,599,993,247	70.9%
Totals	**414,547**	**100%**	**$20,593,903,866**	**100%**

Source: TIGTA analysis of IRS TIF data as of May 14, 2019.

The data show that, as of May 14, 2019, 24 percent of taxpayers who reported an AGI greater than $200,000 owed a tax debt of less than $1,000, for a total of over $30 million. Analyzed further, almost 18,000 of these taxpayers who owed less than $1,000 in tax reported an AGI over $500,000, and nearly 300 of these taxpayers reported an AGI of more than $5 million. Our analysis also revealed that:

- 30 taxpayers reporting an AGI of more than $50 million each owed a total of $356,459, or an average of $11,882 per taxpayer.
- 1,014 taxpayers reporting an AGI of more than $5 million each owed less than $100,000, and 632 of these taxpayers owed less than $10,000 each.

[31] Percentage of High-Income Taxpayers column does not equal 100% because the amounts are rounded to the nearest whole number.

- 9,850 taxpayers reporting an AGI from $1 million to $3 million dollars owed $44,187,511, or an average of $4,486 per taxpayer, and none owed more than $25,000.

This information provides some evidence that many taxpayers, who have sustained high-income earnings year after year, with small balance dues relative to their income levels, should have a greater ability to pay their tax debts. It is reasonable to believe that taxpayers earning millions of dollars can pay tax debts that total a very small fraction of that amount.

Conducting studies on the high-income taxpayer population could provide valuable information to allow the Collection function to assess priority levels and to develop a strategy for dealing with noncompliant high-income taxpayers. When collection activity does not emphasize high-income taxpayers as high-priority cases, there is a risk of foregone tax collection and unaddressed intentional noncompliance.

Recommendation 1: The Small Business/Self-Employed Division's Director, Collection, should emphasize the use of income information to identify high-income taxpayers who have the ability to pay their delinquent taxes, establish high-income TDA cases as a higher collection priority, and develop a strategy for working high-income TDA cases.

> **Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated that high income is already considered as a high priority in the case routing and selection process. The IRS asserts that its predictive models used in case selection are built on robust historical datasets. It further asserts that its model building process determines which variables are most effective in accurately estimating the percent of delinquent taxes that will be collected, and how these variables should be weighted.
>
> > **Office of Audit Comment:** The Collection function asserts that taxpayers who owe a large balance due are high-income taxpayers. However, this definition of "high-income taxpayer" fails to include 69 percent of the high-income taxpayer population we identified based on their income. Without a formal and proper income-based definition of a high-income taxpayer, applicable to balance due accounts, it is not possible for the Collection function to accurately identify the high-income taxpayer population; and without accurately identifying the population, it is not possible for it to develop a strategy for working these types of cases.

High Income Is Not a Primary Factor for Determining Collectibility

As mentioned earlier, the IRS has established the IDS as its rules-based system to route cases to the Collection function inventory (ACS, Field, or Queue) deemed to be the optimal area to work cases. Once the IDS routes cases, the ACS and the Field each have their own systems to prioritize cases using unique prioritization rules. In the ACS, cases are separately risked and prioritized for assignment within the ACS after being routed by the IDS. For the Field, the ENTITY Case Management System (ENTITY) is used to prioritize cases in the Queue, which is the system Field Collection group managers use to assign cases.

ENTITY assigns priority values in order to display collection cases in a priority hierarchy from the highest priority to the lowest. High-priority cases are coded from 99 to 108; medium-priority cases are coded from 201 to 208, and low-priority cases are coded from 301 to 303. The criteria for the case priority levels include elements such as the amount of money owed, type of tax return, age of the case, model scores, and selection codes. However, criteria for prioritizing cases in ENTITY do not include any direct consideration of the taxpayers' income levels. This means that high-income taxpayer cases may receive a high priority code, but when they do, it is based on other factors and not the taxpayer's ability to pay.

Consideration for income levels carries only a limited weight for assignment purposes

Although the IDS does not directly consider income for case routing purposes, the IRS implemented some corrective actions in response to a prior TIGTA report.[32] In January 2017, the Strategic Analysis and Modeling (SAM) group implemented the Individual Master File (IMF) TDA Field Collections 52-Week Recovery Model, which attempts to predict the percentage of the assessed balance due that will be recovered within 52 weeks of assignment to Field Collection. As an example, if the IRS has a case with a score of 0.62 and an assessed balance of $10,000, it would expect to collect approximately $6,200 within 52 weeks.

The model considers numerous factors such as:

[redacted]

While this model includes some consideration for taxpayers' income levels, income is only one component and carries less weight than the amount of money owed in a broader score that predicts collectibility.

The ENTITY system uses the result of the predictive model for collectibility as a starting point to calculate and assign each case one of five alpha ranks, "a" through "e." The alpha ranks are designed to help the group managers identify the work that is predicted to be the most productive. The alpha ranks do not have any specific meaning in terms of priority level scores; rather, they are a stratification of available cases within a geographic region. The top 10 percent of cases receive *alpha rank "a,"* which represents the highest predicted productive cases. The next 10 percent receive *alpha rank "b,"* the following 10 percent are *alpha rank "c,"* the next 20 percent are *alpha ranked as "d,"* and the bottom 50 percent are *alpha rank "e." Alpha rank "e"* represents the cases that are predicted to be the least productive.

IRS procedures provide for group managers to assign high-priority cases before medium- and low-priority cases.[33] If two or more cases have the same priority level but different alpha ranks, the manager should assign the case with the highest alpha rank first. For example, if case X has a priority level of 101 and an *alpha rank "d"* and case Y has a priority level of 101 and an *alpha rank "b,"* then case Y should be assigned before case X.

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[32] TIGTA, Ref. No. 2014-30-068, *Field Collection Could Work Cases With Better Collection Potential* p. 14 (Sept. 2014).
[33] IRM 1.4.50.10(8) (May 4, 2017).

Our analysis of the predictive model in determining collectibility relative to taxpayers' income levels shows that factors such as [redacted] can be more significant than high income levels in the scoring of cases. Consider the following hypothetical examples when all other factors are equal:

- "Taxpayer A," having $1 per year in [redacted] in addition to other sources of income, scored higher than "Taxpayer B," who had 600 percent more total income than "Taxpayer A." It is unreasonable to believe that a total of $6 in [redacted] can make a taxpayer more collectible than a taxpayer who has 600 percent more total income.
- "Taxpayer C," having an income of $410,000 and owing $5,000 less than "Taxpayer D," scored higher than "Taxpayer D," who reported a higher income of $500,000. It is unreasonable to believe that a taxpayer who has $5,000 less of a balance due is more collectible than a taxpayer who has $90,000 more in income to pay towards that difference.[34]

IRS management stated that these scenarios are rare; however, they do provide some evidence of ways in which the predictive model may not be adequately considering income levels when identifying cases for inventory selection.

Alpha ranking may not weight income levels high enough for case selection

In order to gain an understanding of the alpha rank distribution among high-income taxpayers and the consistency or disparity of scores at different levels of AGI, we selected a random sample of 450 high-income taxpayers from our population with modules in the Queue as of December 8, 2019. The IRS provided data to show that 283 of those taxpayers were still in the Queue in April 2020.[35] Our analysis of these 283 high-income taxpayers shows an almost uniform distribution of alpha ranks "b" through "e."

Figure 6: Number of Taxpayers in Each Alpha Rank

Alpha Rank	Number of Taxpayers	Percentage
a	87	31%
b	55	19%
c	39	14%
d	54	19%
e	48	17%
Totals	**283**	**100%**

Source: TIGTA analysis of IRS ENTITY data.

Overall, 87 taxpayers (31 percent) received an *alpha rank "a,"* indicating that they are predicted to be the most collectible in their area, while 48 taxpayers (17 percent) are the least collectible, receiving an *alpha rank "e."* If income were a primary factor in determining collectibility, we would expect to see the majority of high-income taxpayers receive an *alpha rank "a,"* with a

[34] These examples are purely hypothetical and are not drawn from any actual taxpayer's cases.

[35] Of the 283 taxpayers, 134 taxpayers (47 percent) were in the Queue in May 2019, December 2019, and April 2020.

steadily declining number of taxpayers in each successive rank. Figure 7 shows the number of taxpayers in each AGI level that received each alpha rank.

Figure 7: Number of Taxpayers in Each Alpha Rank by AGI Range

AGI Range	a	b	c	d	e
$200,000 to $499,999	46	43	31	47	41
$500,000 to $999,999	25	8	5	4	3
$1 Million and Above	16	4	3	3	4
Totals	**87**	**55**	**39**	**54**	**48**

Source: TIGTA analysis of IRS ENTITY data.

The data show that the trend of uniform distribution in alpha ranks is also seen in the different income ranges that we analyzed, particularly for taxpayers who reported an AGI from $200,000 and $499,999.

Of the 283 taxpayers, the IRS provided ENTITY data for 86 taxpayers who were from Miami-Dade County, Florida, of which 16 taxpayers owed less than $20,000 as of December 2019. All of these 16 taxpayers received an *alpha rank "c"* or lower. Also, three of the 16 taxpayers reported an AGI between $500,000 and $10 million for TY 2017, and all three received *alpha rank "d"* or lower, which means that, despite earning at least 25 times the amount they owe, they are predicted to be among the least collectible cases in that area. In contrast, 33 taxpayers received an *alpha rank "a"* or *alpha rank "b"* and owed an average balance due of $300,000, with 52 percent of these taxpayers reporting a TY 2017 AGI from $200,000 to $499,999. Because there are so many factors used to predict collectibility, it is difficult to determine the magnitude of the impact of the taxpayer's income on the alpha rank score. However, if income were a higher factor, we would expect to see taxpayers who reported at least $500,000 of income but owe less than $20,000 with a higher collectibility alpha rank than taxpayers who reported less income and owe 10 times more money to the IRS.

The SAM group conducts annual evaluations on the performance of the IDS models. In response to our findings, the SAM group performed this type of evaluative analysis on a portion (64,317) of the cases processed by IDS in Fiscal Year 2017. The SAM group analyzed individual balance due taxpayers, scored by the IMF TDA Field Collection 52-Week Recovery Model, who had a recently filed Form 1040 with AGI present for either TY 2015 or TY 2016 and were subsequently assigned to Field Collection within 78 weeks after being processed by the IDS. The group then observed the payments made within 52 weeks of assignment to Field Collection. Based on these parameters, some cases were still open and actively being worked at the end of the analysis period.[36] Normally, the population is ranked by the model score from high to low and then actual outcomes are observed. However, for this analysis, the SAM group ranked the population by AGI instead to observe how the model score relates to ranking based solely on AGI. It split the population into ten deciles. The top 10 percent of the taxpayers in the population when ranked by AGI are in decile rank 1, the next 10 percent are in decile rank 2, and

[36] The IRS provided TIGTA with the results of the analysis. TIGTA did not validate the analysis. A balance due case may be disposed in other ways besides payments, such as an abatement or write-off. These are not included in the recovery rate calculation.

so on. Figure 8 details the actual recovery rate based on payments received from the taxpayers within 52 weeks of assignment to Field Collection, shown as a percentage of the balance due.

Figure 8: Actual Recovery Rates of Taxpayers Sorted by AGI

Decile Rank	Average AGI of Taxpayers in This Group	Balance Due	Actual Recovery Rate	Remaining Balance Due
1	$1,563,390	$4,009,955,107	39%	$2,442,387,519
2	$283,768	$1,731,403,023	25%	$1,297,714,670
3	$178,102	$1,442,304,583	21%	$1,134,299,444
4	$129,397	$1,171,347,292	19%	$946,249,452
5	$98,289	$1,089,010,998	17%	$906,586,760
6	$75,639	$997,959,235	16%	$836,745,812
7	$57,338	$1,066,039,004	15%	$907,030,244
8	$41,139	$1,220,581,648	14%	$1,047,195,586
9	$24,985	$1,157,135,371	12%	$1,014,227,292
10	$5,844	$2,069,102,862	11%	$1,844,305,339

Source: IRS analysis of Accounts Receivable Dollar Inventory and Individual Return Transaction File data.

The data show that revenue officers collected a larger percentage of the balances due owed by high-income taxpayers (decile ranks 1 and 2) than by lower income taxpayers. For example, Figure 8 demonstrates that the IRS collected 39 percent of the delinquent taxes owed by taxpayers making significant incomes, *e.g.*, taxpayers earning an AGI of more than $1.5 million while they collected 11 percent of what the lowest income taxpayers owed. The actual recovery rate of 39 percent in the top decile was one percentage point higher than the 38 percent the IRS predicted they would collect via payments within 52 weeks of assignment to Field Collection. At the end of the 52-week period, these taxpayers still owed over $2 billion. The SAM group analysis confirms that a higher AGI does in fact correlate with a higher rate of recovery.

In addition, the analysis found that revenue officers collected an average of 22 percent more money than the model predicted from the taxpayers with the highest AGIs. In fact, the higher the average AGI, the larger the disparity between the predicted recovery rate and the actual recovery rate. Figure 9 shows the average AGI of the top 3 percent of taxpayers ranked by their AGI and reports how much more money Field Collection recovered than what the model predicted. Each percentile rank shown in the figure represents 1 percent of the population that the SAM group analyzed.

Figure 9: Differences Between Predicted and Actual Recovery Rates for the Highest Income Taxpayers

Percentile Rank	Average AGI of Taxpayers in This Group	Percentage Difference Between Predicted and Actual Recovery Rates
1	$8.5 Million	36% More Than Predicted
2	$1.8 Million	19% More Than Predicted
3	$1.2 Million	11% More Than Predicted

Source: IRS analysis of Accounts Receivable Dollar Inventory and Individual Return Transaction File data.

Because ENTITY uses the model score to calculate the case's alpha rank, there is a risk that these taxpayers with the highest incomes could receive a lower rank than taxpayers with less income, which would make them less likely to be selected for assignment by a group manager. The SAM group acknowledged that additional statistical analysis is needed to determine why the model does not more accurately predict the collectibility of taxpayers with the highest income.

Group managers assign delinquent accounts without regard for income levels

As previously discussed, the IDS does not directly consider income levels when routing cases, and ENTITY does not directly consider income levels for prioritization because income is just one of the numerous factors used by the predictive model. In addition, procedures also provide for group managers to use discretion when selecting cases for assignment.[37] Group managers can use discretion when managing the balance of a revenue officer's workload, addressing developmental needs, maintaining a certain mix of cases (*i.e.*, IMF or Business Master File), and when selecting cases from the Queue for which one or more of the modules has less than six months remaining on the Collection Statute Expiration Date. IRS management explained that not only do managers have discretion when assigning cases, but the ENTITY system also does not mandate which cases to select next. Management further stated that they do not measure how closely managers follow the guidance to select the cases with the highest alpha rank within each priority level.

In order to determine the significance of high income levels and how the use of the alpha rank affects case assignment, we interviewed 11 IRS Collection function managers and 20 revenue officers in two of the areas where we identified high numbers of delinquent high-income taxpayer cases from our population. Based on these interviews, we found that a significant percentage of group managers do not consider the alpha rank when assigning cases. Of the 11 group managers we interviewed, approximately 46 percent said that they do not use the alpha rank when assigning cases. No manager we interviewed said the alpha rank was a primary factor they used to assign collection cases to their employees. Alternatively, a case with a large balance due gets managerial attention, and more than half of managers we interviewed said that they made large dollar balance due cases a priority assignment.

[37] IRM 1.4.50.10(9) (May 4, 2017).

Case selection criteria do not consider high income as a factor for assignment to Private Collection Agencies (PCA)

On December 4, 2015, the Fixing America's Surface Transportation Act was enacted into law. Section 32102 includes a provision that requires the IRS to use PCAs to collect taxes on cases involving inactive tax receivables. In April 2017, the IRS started delivering inventory to four PCAs: the CBE Group of Waterloo, Iowa; ConServe of Fairport, New York; Performant of Pleasanton, California; and Pioneer of Horseheads, New York.

The act defines inactive tax receivables as:

- Removed from active inventory for lack of resources or inability to locate the taxpayer.
- Not assigned to an IRS employee for collection and more than one-third of the applicable statute of limitation has lapsed.
- Assigned for collection but more than 365 days have passed without interaction with the taxpayer or a third party for purposes of furthering the collection.

The Act also specifies certain IRS debts that are not eligible for assignment to a PCA, including debts:

- Subject to a pending or active offer in compromise or installment agreement.
- Classified as an innocent spouse case.
- Involving a taxpayer who is: a) deceased, b) under the age of 18, c) in a designated combat zone, or d) a victim of tax-related identity theft.
- Currently under examination, litigation, criminal investigation, or levy.
- Currently subject to a proper exercise of a right of appeal under this title.
- In presidentially declared disaster areas and requesting relief from collection.

After identifying the population of collection cases meeting the Act's criteria, the IRS selects cases each week for assignment to the PCAs. The types of cases the IRS assigns has evolved over time. Initially it limited assignment to specific types of individual cases (IMF), such as Form 1040. The IRS subsequently expanded the program to include all types of individual balance due accounts and finally to include all types of business cases (Business Master File) as well. To decide what type of cases to assign, the IRS allocates inventory case types based proportionately on what is available. For example, for 10,000 cases, if the IMF inventory is 60 percent of the available inventory, they allocate 6,000 IMF cases and 4,000 Business Master File cases. Finally, based on the available inventory, the IRS randomly selects cases to assign without regard to geography, priority level, model scores, alpha ranks, or the taxpayer's ability to pay.

IRS officials explained that they randomly select cases for PCAs to ensure fairness to all taxpayers. However, there have been no studies conducted to determine whether the current case selection process ensures fair and equitable treatment of taxpayers. If the random case selection process is fair to all taxpayers, it is reasonable to expect that the percentage of high-income taxpayers assigned to PCAs closely reflect their proportion of the population.

We identified a population of 10.8 million taxpayers with a balance due on at least one Form 1040 module as of May 14, 2019. Of the 10.8 million taxpayers, we identified 2.2 million who have had a case sent to a PCA since the program started in TY 2017. Our analysis of the 2.2 million cases identified which parts of the country had the most taxpayer cases sent to PCAs.[38] We ranked the States and territory by median household income and determined that the percentage of taxpayers sent to PCAs from 25 areas with the highest incomes (54 percent) is similar to the percentage of taxpayers sent to PCAs from the 25 areas with the lowest incomes (46 percent). We also found that, from the 2.2 million taxpayers whose accounts were sent to PCAs, only 0.5 percent (11,370) were high-income taxpayers. This is significantly lower than the percentage (4 percent, or 414,547) of high-income taxpayers found in the original population of 10.8 million taxpayers with balance dues. This shows that, while the random case selection process does not discriminate geographically, it is generally not the high-income taxpayers who have had their cases assigned to the PCAs.

By assigning cases randomly to the PCAs, the IRS may be missing an opportunity to identify cases for which taxpayers may have a greater ability to pay. For example, our analysis shows that the 403,177 high-income taxpayers who were not sent to a PCA owe a combined total of $20.4 billion. From this population, we identified 3,185 high-income taxpayers whose cases were not sent to a PCA at any point since the program started in Fiscal Year 2017 and who owed $110 million on Currently Not Collectible shelved modules as of May 14, 2019.[39] It is concerning that high-income taxpayer cases are being shelved rather than being worked or, at the very least, sent to a PCA. Having the ability to identify and assign cases for which taxpayers are earning higher incomes and when these incomes are sustained over time could increase the collection potential of outstanding tax debts.

The Small Business/Self-Employed Division Director, Collection, should:

Recommendation 2: Evaluate the predictive model to determine whether refinements could improve the correlation of the predicted recovery rate and actual recovery rate for the highest income individual taxpayers with a balance due.

> **Management's Response:** The IRS agreed with this recommendation. In their response, IRS management stated that they will evaluate the recovery predictive models for individuals in the IDS and consider additional income factors from both income tax returns and information returns to improve the ability to predict recovery. New recovery models will be presented to the Director, Collection Inventory Delivery and Selection, for approval to show improvement in recovery prediction overall and among individuals with the highest income.

Recommendation 3: Consider adding a field or indicator to ENTITY that informs group managers that the taxpayer reported high income on his or her most recent returns, enabling managers to consider the taxpayers' potential ability to pay as a factor when assigning cases.

> **Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated that Collection prioritizes available inventory within three priority levels – high, medium, and low – and then places the next best case at the top based on predictive model outcomes. An income indicator would be duplicative in nature and potentially circumvent the case prioritization and ranking process because

[38] Our analysis included all 50 States and Puerto Rico.

[39] Some cases may not be eligible to send to a PCA due to the legislative exclusions.

group managers may focus solely on a taxpayer's prior year income rather than predictive model outcomes.

Office of Audit Comment: This recommendation is meant to provide Collection managers with a way to distinguish high-income taxpayer cases when other factors (priority scores and alpha ranks) are similar between cases in the available inventory. The IRS's SAM analysis shows that there is a direct correlation between a higher AGI and a higher rate of recovery; therefore, it makes sense for group managers to assign high-income taxpayer cases before non-high-income cases.

Recommendation 4: Conduct a review to measure Field Collection group managers' compliance with guidelines to assign cases by alpha rank within each priority level.

Management's Response: The IRS disagreed with this recommendation. In their response, IRS management stated that such a review is not possible given that the ENTITY database is constantly changing with newly transmitted information, and it is not possible to view the inventory available for a manager's potential selection on a given day in the past, nor is there a methodology for reviewing same-day selections. Management further asserts that case attributes change weekly and a case can go up or down in prioritization based on those changes, making a review impossible.

Office of Audit Comment: The IRS needs a method to measure compliance with established case selection guidelines, and there are numerous ways for management to accomplish the task. For example, the IRS could assess the highest scored cases at a given point in time and then assess at a later date whether these highly scored cases were assigned into revenue officers' case inventories.

Recommendation 5: Revise procedures for shelving cases so that high-income taxpayer cases that meet the Fixing America's Surface Transportation Act criteria are selected for assignment to a PCA immediately after being shelved.

Management's Response: The IRS disagreed with this recommendation. In their response, IRS management stated that before an account can be assigned to Private Debt Collection, it must first be shelved either for business reasons or based on the legislative definition of inactive. The IRS assigns work to the PCAs as outlined and required by law, per Internal Revenue Code Section 6306(c).

Office of Audit Comment: This recommendation is designed to reduce the lag time between when a case that meets the statutory criteria for assignment to a PCA is shelved and when it is finally assigned to a PCA. This would ensure that high-income taxpayer balance due cases, which the Collection function is unable to address due to limited resources, do not remain in an inactive status until such time that they are randomly selected for assignment to a PCA under the current system.

Recommendation 6: Revise the criteria for identifying cases for assignment to the PCAs. The revised criteria, rather than being random, could include a factor for taxpayers who earn high income and who may show a greater potential of having the ability to pay. Perhaps identifying cases by income strata for assignment to the PCAs would result in increased revenue collection.

Management's Response: The IRS disagreed with this recommendation. In their response, IRS management stated that they assign work to the PCAs as outlined and required by law, per Internal Revenue Code Section 6306(c), and that the intent of their process is to deliver all available inventory. Because they cannot deliver all at once, the cases are randomly selected, which provides each of the PCAs with similar inventory of balance due types, amounts, and volumes.

Office of Audit Comment: As stated in our report, we identified 3,185 high-income taxpayers whose accounts were shelved and therefore eligible to be assigned (assuming other statutory exclusions under I.R.C. § 6306(d) would not have prevented assignment, *e.g.*, a deceased taxpayer, a taxpayer under 18 years of age, or a taxpayer who is the victim of tax-related identity theft), but were not assigned to a PCA. The law provides the framework to determine which cases are eligible for assignment to a PCA, but it does not dictate how the IRS should select which qualifying cases are selected and assigned when they are unable to assign all available inventory at once. This recommendation provides an alternative selection process in order to improve the likelihood of assigning the cases of taxpayers who are more likely to have an ability to pay.

Opportunities Exist to Work More Cases With Higher Collection Potential

TIGTA's analysis of high-income taxpayers with balances due who reported high income in Tax Year 2017 compared two datasets that were extracted seven months apart (May 2019 and December 2019) in order to track the statuses of the modules within the collection stream. Figure 10 shows the collection status of where modules were in May 2019 and the status of the same modules in December 2019. For example, looking at the Queue category, there were 54,309 high-income taxpayer modules in the Queue in May 2019. By December 2019, 9 percent were assigned to the ACS, 61 percent remained in the Queue, 7 percent were assigned to revenue officers, 2 percent were Currently Not Collectible, 4 percent were in an installment agreement, 4 percent were in some other status, and 13 percent were disposed and no longer had a balance due.

TIGTA identified three categories of case disposals. A case can be disposed when a taxpayer makes full payment in response to IRS collection actions. A case can also be disposed as the result of automated functions that are not a response to collection actions, such as a refund from a different tax year automatically offsetting the balance due. Finally, a case can be disposed if the taxpayer's balance is written off because the Collection Statute Expiration Date has expired.[40]

[40] The Collection Statute of Limitations is the time period established by law to allow the IRS to collect taxes. It is the last date the IRS has to collect an outstanding balance due on an account, usually 10 years from the assessment date, as provided by Internal Revenue Code § 6502. Once this 10-year period ends, the Government can no longer initiate collection action unless the Collection Statute Expiration Date has been extended by case action, event, or agreement.

Figure 10: Movement of High-Income Modules[41]

Most balance due modules were in the same status after 7 months

Status or location of a module in May 2019	Status or location of module in December 2019						
						Disposed Modules	Other Statuses
ACS (116,185 modules)	36%	15%	2%	4%	11%	27%	6%
Queue (54,309 modules)	9%	61%	7%	2%	4%	13%	4%
Revenue Officers (23,999 modules)	<1%	6%	50%	3%	13%	15%	13%
Currently Not Collectible (23,477 modules)	7%	3%	1%	54%	4%	29%	3%
Installment Agreement (241,703 modules)	4%	<1%	<1%	<1%	62%	24%	10%

Source: TIGTA analysis of IRS TIF data as of May 14, 2019, and December 8, 2019.

This analysis shows that a majority of the high-income modules that started in a particular status in May 2019 were in the same status in December 2019, seven months later (represented by the yellow circles). In addition:

- 51 percent of modules that were in ACS status in May 2019 were either in ACS status (36 percent) or moved to the Queue (15 percent) in December 2019.
- 61 percent of modules that were in Queue status in May 2019 were still in Queue status in December 2019.
- 15 percent of modules that were in installment agreement status in May 2019 and were not disposed were no longer in installment agreement status in December 2019.

Of the modules that were no longer in installment agreement status, $558 million (19 percent of the total dollars) were attributable to suspended or defaulted installment agreements. Instances for which modules appear to remain stagnant in the Queue, for which modules move from an active status to the Queue, or for which taxpayers are no longer in installment agreements could all be indications of the IRS not prioritizing high-income taxpayer balance due accounts or lacking sufficient resources to be able to start working cases timely when taxpayers may still have the means to satisfy outstanding tax debts. Identifying alternatives that would allow more cases to be worked and having the ability to work more cases timely could provide for increased revenue collections.

Revenue officer staffing does not always align with locations where the greatest number of high-income cases are present

According to the revenue officers we interviewed, high-income collection cases are different from general cases for a number of reasons. High-income cases can be more complex than general collection cases. They can involve multiple corporations, partnerships, and limited liability companies, which can provide taxpayers' intent on committing fraud the ability to hide

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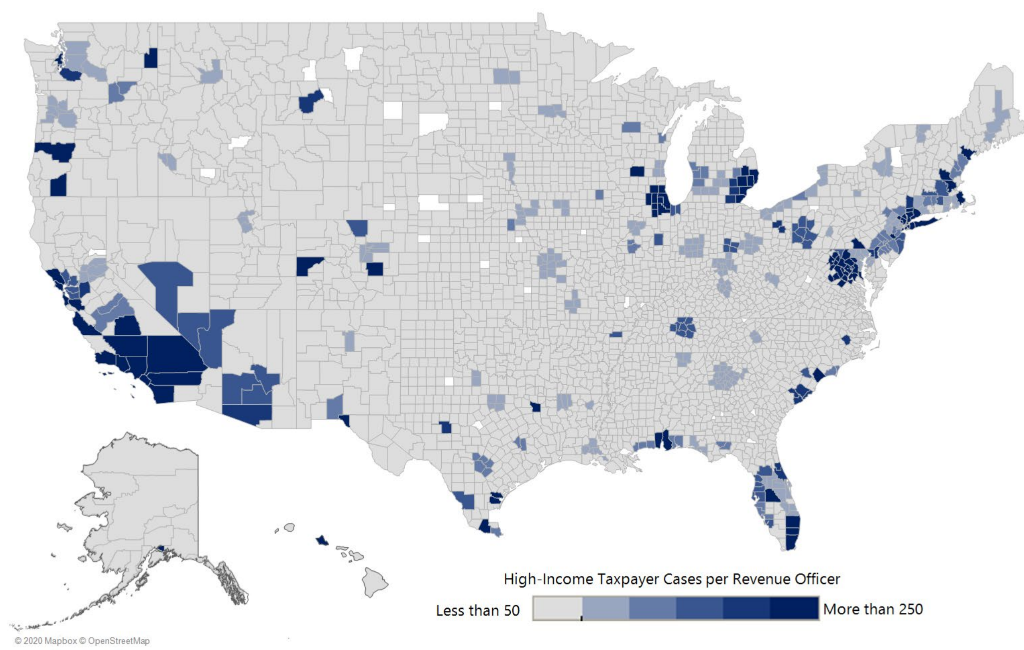
[41] ACS row is greater than 100 percent because of rounding.

income and assets. As a result, high-income cases can take longer to resolve. Limited resources of the experienced revenue officers needed to work these types of cases could inhibit the IRS's ability to work a large number of high-income cases that could lead to higher collection potential and increased revenues.

TIGTA identified geographic areas with a large number of high-income taxpayers and conducted site visits to these locations. Interviews with the group managers and revenue officers in Miami, Plantation, and West Palm Beach, Florida; Paramus, New Jersey; and Bethpage, the Bronx, and Manhattan in New York City, New York, and confirmed that revenue officers are assigned collection cases by ZIP code. This enables them to efficiently concentrate their Field Collection visits in distinct areas. Certain cities, municipalities, and ZIP codes around the Nation are generally known to be high-income residential areas. TIGTA analyzed geographic areas nationwide to determine the number of high-income cases relative to the number of experienced (grades 12 and 13) revenue officers available to work the cases. Figure 11 depicts a heat-map showing the disparity of high-income cases compared to the number of available experienced revenue officers, with the degree of disparity depicted by the darker shaded regions.[42]

Figure 11: Number of High-Income Cases Per Experienced Revenue Officer



Source: TIGTA analysis of Treasury Integrated Management Information System data.

Analysis of these data shows that several areas nationwide are substantially understaffed for the number of high-income cases that could be worked. The darkest areas show more than 250 cases available per experienced revenue officer. Specifically, the data show that these areas include the areas TIGTA visited as well as several others around the country.

When funds are available to hire revenue officers, IRS management evaluates the high-risk case inventory to determine where the greatest needs are and places new hires on that basis. However, management's ability to hire over the past 10 years has not kept up with attrition, and

[42] A "heat map" is a map that uses colors to represent different values.

they have additional challenges with recruiting and retention in high cost of living areas. Revenue officer hiring in recent years has been concentrated in higher growth and higher income areas; however, it can take an average of three or more years for a new hire to gain the experience necessary to effectively work complex high-income cases.

When the number of complex high-income cases far exceeds the number of experienced revenue officers available to work them, the opportunity for collection of tax owed is diminished. Having the ability to increase the number of experienced revenue officers relative to the number of high-income cases that may have a higher collection potential could increase revenue collections.

Revenue Officer Compliance Sweeps (ROCS) could be used to work high-income cases in areas where staffing is insufficient

There are numerous geographic areas where Field Collection has little or no physical revenue officer presence, likely due to attrition. For many of these areas, the distance to the closest IRS office with revenue officers is more than several hours travel time away, inhibiting consistent revenue officer presence in those areas. In Fiscal Year 2019, the IRS started conducting ROCS, which involve physically sending groups of revenue officers to geographic areas where there are concentrations of high-priority cases and where there has been minimal revenue officer field presence for some time or insufficient presence to adequately serve a geographic area. The focus of these ROCS is face-to-face engagement with taxpayers and increasing Field Collection compliance presence across all communities. Revenue officers generally spend a week at a time in these areas working a combination of scheduled and unscheduled visits with taxpayers. IRS offices in the Pacific Northwest and southwestern United States have had prior experiences conducting sweeps in their remote/underserved communities.

IRS management stated that, over the past year, Field Collection has conducted ROCS in several areas. In Fiscal Year 2019, 10 sweeps were conducted in Alaska, Montana, North Dakota, and other western states. In November 2019, ROCS were conducted in Arkansas, Texas, and Wisconsin, where a team of more than 40 revenue officers concentrated on high-risk, large-balance, payroll and business tax cases, attempting contact on over 500 taxpayer cases with nearly 250 face-to-face meetings. In Fiscal Year 2020, ROCS were also conducted in Los Angeles, California, and in Illinois.

Using high income as a factor for identifying areas for conducting these sweeps was not planned until Fiscal Year 2020. During a recent TIGTA audit of high-income nonfilers, the IRS completed a ROCS for high-income delinquent nonfilers.[43] Collection from high-income taxpayers who owe delinquent taxes is another inventory priority that demands this type of attention.

Recommendation 7: The Small Business/Self-Employed Division, Director, Collection, should consider conducting ROCS that focus on high-income taxpayer TDA cases in locations where high-income taxpayer cases far outweigh the number of revenue officers assigned to those areas.

[43] TIGTA, Ref. No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* (May 2020).

Management's Response: The IRS agreed with this recommendation. In their response, IRS management stated that in Fiscal Year 2021 they will consider conducting ROCS that focus on high-income taxpayer TDA cases in locations where high-income taxpayer cases far outweigh the number of revenue officers assigned to those areas.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was determine if the IRS is effectively addressing non-payment by high-income taxpayers, and the impact on overall payment compliance. To accomplish our objective, we:

- Identified and evaluated IRS policies, procedures, guidelines, processes, reports, goals, and studies relating to high-income taxpayers and collections. We also reviewed the applicable Internal Revenue Manual sections and management directives and interviewed IRS Collection's executives, managers, and revenue officers.
- Completed data analysis on the population of balance due accounts.
    - Obtained an extract from the TIF database of all Forms 1040 with a tax balance due as of May 14, 2019.
    - Constructed a profile of balance due modules, identified high-income taxpayer balance due modules, queried by collection status codes, and analyzed the results.
    - Performed trend analyses on taxpayers' income consistency, the age of TDA's, taxpayers' location, and the number of delinquent modules per high-income taxpayer.
    - Obtained an additional TIF extract of all Forms 1040 with a tax balance due as of December 8, 2019, to compare the progress and inventory status on high-income cases.
- Evaluated additional tools that Collections could use to improve payment compliance by high-income taxpayers. We also identified cases from the full balance due population that were assigned to a PCA and compared these with the high-income taxpayer cases that were assigned to a PCA.
- Interviewed IRS Collection's managers and revenue officers at their offices in the high-income areas of South Florida and metropolitan New York.
- Reviewed the IRS's collection models, including algorithms, documentation on scores, and the training provided to managers.
    - Determined if high-income taxpayer cases are assigned the full spectrum of alpha ranks "a" through "e." We selected a random sample of high-income taxpayers from the full population who had at least one balance due module in the Queue as of December 8, 2019. We selected a random sample to ensure that each taxpayer had an equal chance of being selected.

Performance of This Review

This review was performed at the IRS offices located in Miami, Plantation, and West Palm Beach, Florida; Paramus, New Jersey; and Bethpage, the Bronx, and Manhattan in New York City, New York, during the period September 2018 through November 2020. In addition, this review was conducted with information obtained from the IRS Collection Inventory Delivery and Selection function in Saint Paul, Minnesota, during the May 2019 through August 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Phyllis Heald-London, Director; Richard Viscusi, Audit Manager; Joshua Perry, Lead Auditor; and James Flood, Senior Auditor.

Validity and Reliability of Data From Computer-Based Systems

For this review, we relied on data extracted by TIGTA's Strategic Data Services on Form 1040 filers from the IRS's TIF. The TIF extract data validation by the Strategic Data Services included input file completeness checks as well as criteria, random sample, and output validations. All fields requested were received and reviewed using the most current TIF Glossary. A random sample was taken from the extract and agreed to the IRS Integrated Data Retrieval System without major exception. For the purpose of evaluating nonpayment by delinquent high-income taxpayers, and based on the results of the data validations, checks, and tests performed, we assessed the data used for this report as sufficiently reliable.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: (1) IRS Collection's definition of a high-income taxpayer; (2) indicators of high-income taxpayers in ENTITY or IDS; and (3) the IRS Collection's case prioritization and alpha rank systems.

The IRM defines a high-income nonfiler as any nonfiler with total income of $100,000 or more. For its ROCS this year, IRS Collection used [redacted] as the case selection criteria. Currently, there is no indicator, or flag, that alerts managers or field personnel that a high-income case is in inventory or available for assignment. As a result, TIGTA found that not all high-income cases were assigned to a revenue officer to work or review. We interviewed IRS Collection managers and revenue officers, issued information document requests, reviewed field office inventory, and submitted written questions to management to evaluate these controls.

Appendix II

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

February 5, 2021

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton Eric C. Hylton Digitally signed by Eric C. Hylton Date: 2021.02.05 16:41:16 -05'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – High-Income Taxpayers Who Owe Delinquent Taxes Could Be More Effectively Prioritized (Audit #201830037)

Thank you for the opportunity to review the above subject draft report. High-income taxpayers remain a high priority for the IRS's Collection function. This is reflected in TIGTA's own analysis, which found that Collection was working or had worked the overwhelming majority of high-income taxpayer modules with a tax liability as of May 2019 (see Figure 2 in the report). TIGTA's report shows that 87% of modules involving high-income taxpayers were either assigned to a collection treatment stream or had been worked and closed, and the remaining 13% were assigned to the Collection Queue where they were prioritized for potential selection.[1]

The statement in the "What TIGTA Found" section that the IRS collects less than 50% of tax debt owed by high-income taxpayers is inaccurate, and the statement that these taxpayers paid the IRS an average of 39% of what they owe is not a complete presentation of the facts. The ad hoc model evaluation TIGTA bases these comments on was never meant to be an analysis of what was collected, but rather was an analysis of the performance of the Field recovery model over a specific period of time for specific cases. Some of these cases were still being actively worked at the end of the analysis period, and the analysis does not follow cases in their entirety. Therefore, it cannot be used to determine what the IRS ultimately collects. The 39% figure reflects only what was paid within the first year of the case being assigned to our Field Collection function.

Our workload identification, selection, and assignment processes are based on a sophisticated suite of analytics and predictive statistical models that are designed to send each case to the appropriate Collection function that is best suited to resolve that particular liability, based on the specific case attributes and predicted outcomes. Collection's predictive models are built upon a continuous improvement framework utilizing robust historical and current datasets reflecting the population of taxpayers

[1] Notice accounts are unavailable for collection assignment and are therefore excluded.

processed by the Inventory Delivery System, as well as the results from Field Collection's work on tens of thousands of cases and decisions by highly experienced Collection leadership personnel. Our model building process determines which variables are most effective in accurately estimating the percent of delinquent taxes that will be collected, and how these variables should be weighted. As TIGTA recommends, we do and will continue to evaluate our predictive model and determine whether refinements could improve our model predictions for the very highest income individual taxpayers with a balance due. We will also consider conducting Revenue Officer Compliance Sweeps in FY 2021 that include a focus on high-income taxpayer balance due cases.

Several of TIGTA's recommendations seek to promote taxpayers with high income in prior years for immediate selection based on supposition, rather than on data-based validation. [redacted] The IRS appropriately considers income levels during the prioritization process while simultaneously evaluating other data such as the size and type of liability and Collection's business priorities. Further, TIGTA's recommendations do not consider the IRS's custodial responsibility to address those compliance issues that pose the greatest risk to future non-compliance.

As we have stated previously in response to numerous TIGTA reports, we make enforcement decisions based on resource limitations as well as decisions of highly experienced Collection leadership personnel, special projects and possible overall compliance impact, potential return on investment, coverage of a broad spectrum of taxpayers, other high priority work, etc. A few figures illustrate this point:

- We have 2,038 experienced revenue officers and 108,000 cases in active inventory. We have classified roughly 85% of those cases as high priority, many of which involve delinquent business employment taxes. We have another 649,033 high priority cases awaiting assignment among these 2,038 revenue officers. Unpaid employment taxes are particularly harmful to the fisc in that employees have already been given credit for having paid those.
- There are over 70,000 cases available involving someone with an income of at least $200,000 on a recently filed return. Many of these are lower dollar liabilities which our experience and analysis demonstrate will be resolved using less resource intensive means, to which we have assigned a lower priority. Assigning these cases to field revenue officers would by necessity push aside higher priority cases (including some involving employment taxes).

TIGTA reports routinely identify what it perceives as IRS challenges without also identifying the source as being, in significant part, attributable to demands for the allocation of limited resources among numerous competing challenges. Once again in this report, TIGTA's recommendations fail to appropriately consider other competing priorities of the SB/SE Division and the IRS in general, business decisions based on overall compliance priorities, a desire to balance deployment of limited resources, resolutions that routinely occur outside the timeframe of the report, etc. In this regard, when viewed from a realistic approach to resolving numerous related and unrelated compliance challenges, the practical value of numerous TIGTA recommendations is highly suspect.

The robust procedures and controls we have developed over time for our case prioritization, routing, and selection processes use a data-driven approach implemented by highly experienced Collection leadership personnel, to ensure that we maximize the impact of our limited resources. As such, we send each case to the most appropriate treatment stream, based on individual case characteristics that have been statistically demonstrated to have the best predictive value, and adjust as appropriate. The data presented in this report do not support that subjectively increasing the use of income data in our prioritization would be beneficial or effective.

We appreciate and will consider your perspective while, as appropriate, we continue to review, revise, and further strengthen these processes. Attached is a detailed response outlining our actions to address your recommendations. If you have any questions, please contact me or Frederick W. Schindler, Acting Director, Collection, Small Business/Self-Employed Division.

Attachment

Attachment

RECOMMENDATION 1:
The Small Business/Self-Employed Division's Director, Collection, should emphasize the use of income information to identify high-income taxpayers who have the ability to pay their delinquent taxes, establish high-income TDA cases as a higher collection priority, and develop a strategy for working high-income TDA cases.

CORRECTIVE ACTION:
High-income (HI) is already considered as a high priority in the case routing and selection process. High-income taxpayers are more likely to resolve their liabilities while in the notice phase of the collection process, and for those who do not, our Automated Collection System is well suited to resolve lower balances owed by HI taxpayers. As shown in TIGTA's analysis, Collection was working or had worked 87% of the high-income taxpayers who had a tax liability as of May 2019 (see Figure 2 in the report).

The predictive models used in case selection are built on robust historical datasets reflecting the population of taxpayers processed by the Inventory Delivery System, as well as the results from Field Collection's work on tens of thousands of cases. The model building process determines which variables are most effective in accurately estimating the percent of delinquent taxes that will be collected, and how these variables should be weighted.

[redacted] However, the report provides no analysis to show that high income is more important than the models state it is in determining the ability to pay. TIGTA makes the assumption that high income should be the primary factor without regard to the amount of tax owed, collection priorities, or IRS' custodial responsibility for addressing major compliance issues including pyramiding of employment tax liabilities. TIGTA's recommendation suggests IRS should assign a higher priority to low dollar cases simply because the taxpayer has shown higher income in previous years. The IRS does not manually or subjectively select the final variables and their weighting in the models as TIGTA recommends in this report. Rather, the IRS uses a broadly accepted statistically sound process that removes subjectivity.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 2:
The SB/SE Division, Director, Collection, should evaluate the predictive model to determine whether refinements could improve the correlation of the predicted recovery rate and actual recovery rate for the highest income individual taxpayers with a balance due.

CORRECTIVE ACTION:
We will evaluate the recovery predictive models for individuals in the Inventory Delivery System and consider additional income factors from both income tax returns and information returns, to improve the ability to predict recovery. New recovery models will be presented for approval to the Director, Collection Inventory Delivery & Selection to show improvement in recovery prediction overall and amongst individuals with the highest income.

IMPLEMENTATION DATE:
January 15, 2022

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

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

RECOMMENDATION 3:
SB/SE Division, Director, Collection, should consider adding a field or indicator to ENTITY that informs group managers that the taxpayer reported high income on his or her most recent returns, enabling managers to consider the taxpayers' potential ability to pay as a factor when assigning cases.

CORRECTIVE ACTION:
Collection prioritizes available inventory within three priority levels, high, medium and low, and then places the next best case at the top based on predictive model outcomes. Several factors are considered when computing the model outcomes, including the taxpayer's prior income. This procedure simplifies the case selection process and reduces managerial burden by eliminating the requirement for managers to dig through their case queue for the next best case for revenue officer assignment. An income indicator would be duplicative in nature and potentially circumvent the case prioritization and ranking process since group managers may focus solely on a taxpayer's prior year's income rather than predictive model outcomes. This would result in assignment of work based solely on the income factor rather than effective tax administration

3

through consideration of business priorities, overall tax due, type of tax, and/or the potential compliance issues involved.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 4:
The SB/SE Division, Director, Collection, should conduct a review to measure Field Collection group managers' compliance with guidelines to assign cases by alpha rank within each priority level.

CORRECTIVE ACTION:
Such a review is not possible given the nature of the ENTITY application. Since ENTITY is a database and constantly changing with newly transmitted information it is not possible to view the inventory available for a manager's potential selection on a given day in the past, nor is there a methodology for reviewing same-day selections. Further, case attributes change weekly and a case can go up or down in prioritization based on those changes, making a review impossible. The alpha rank is discussed in the Group Manager case assignment guidance at Internal Revenue Manual (IRM) 1.4.50.10 *Assigning Work*, and territory managers are responsible for reviewing case assignment practices with group managers during operational reviews. Territory managers can secure various ENTITY reports to examine overall assignment or work. Currently, high-priority work makes up 85% of Field Collection inventory nationwide, demonstrating that Group Managers primarily assign high priority work. (Alpha ranks are referred to as predictive values in that IRM).

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 5:
The SB/SE Division, Director, Collection, should revise procedures for shelving cases so that high-income taxpayer cases that meet the Fixing America's Surface Transportation Act criteria are selected for assignment to a PCA immediately after being shelved.

CORRECTIVE ACTION:
Before an account can be assigned to Private Debt Collection (PDC), it must first be shelved either for business reasons or based on the legislative definition of inactive. The IRS assigns work to the PCAs as outlined and required by law, per Internal Revenue Code (IRC) Section 6306(c).

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 6:
The SB/SE Division, Director, Collection, should revise the criteria for identifying cases for assignment to the PCAs. The revised criteria, rather than being random, could include a factor for taxpayers who earn high income and who may show a greater potential of having the ability to pay. Perhaps identifying cases by income strata for assignment to the PCAs would result in increased revenue collection.

CORRECTIVE ACTION:
The IRS assigns work to the Private Collection Agencies (PCAs) as outlined and required by law, per IRC Section 6306(c). The intent of our process is to deliver all available inventory, but since we cannot do that all at once, the cases are randomly selected. This provides each of the private collection agencies with similar inventory of balance due types, amounts and volumes.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 7:
The SB/SE Division, Director, Collection, should consider conducting ROCS that focus on high-income taxpayer TDA cases in locations where high-income taxpayer cases far outweigh the number of revenue officers assigned to those areas.

CORRECTIVE ACTION:

In FY 2021 we will consider conducting ROCS that focus on high-income taxpayer TDA cases in locations where high-income taxpayer cases far outweigh the number of revenue officers assigned to those areas.

IMPLEMENTATION DATE:
November 15, 2021

RESPONSIBLE OFFICIAL:
Director, Field Collection Operations, SB/SE

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

Appendix III

Glossary of Terms

Term	Definition
Adjusted Gross Income	AGI is defined as gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, and retirement distributions as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Balance Due Account	A balance due account occurs when a taxpayer has an outstanding liability for taxes, penalties, and interest.
Business Master File	The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Case Creation Nonfiler Identification Process	The IRS's main process to identify individual nonfilers. The Nonfiler Inventory and Analysis group analyzes available data twice a year to identify an inventory of nonfilers. Once the nonfilers are identified, the IRS categorizes the cases based on a number of characteristics, such as the amount of third-party reported income, withholding data, and estimated tax due, and assigns each case a selection code.
Collection Field function	The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
ENTITY	The ENTITY case management system is IRS Collection's current database displaying Field Collection, Advisory, and Queue inventory. It is the primary system managers use to assign collection cases to revenue officers.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Inventory Delivery System	Routes collection cases that have not been resolved during the notice stream. The IDS makes case routing determinations using a business rules engine through a combination of data analytics and business rules.
Queue	An electronic file holding unassigned collection cases. Cases in the queue are prioritized for selection.

Term	Definition
Revenue Officer	Collects delinquent tax and secures delinquent returns from taxpayers who have not resolved their obligations in response to prior correspondence or other contact. Counsels taxpayers on their tax filing and payment obligations needed to bring them into compliance. Provides guidance and service on a wide range of financial problems to assist the taxpayer toward a positive course of action to resolve tax issues. Works with taxpayers to develop a plan of action to resolve all delinquencies. Takes enforced collection actions, when appropriate. Provides customer service by respecting and explaining the taxpayer's rights and IRS policies and procedures.
Shelved	Inactive, unassigned cases; they are considered temporary closures.
Status Code	A code that designates the collection status of the tax module. Some of the principal status codes are: 22, 24, and 26, which are ACS, Queue, or Field, respectively. Other important status codes are 12, 60, and 71, or Full Paid, Installment Agreement, and Offer in Compromise.
Tax Module	Part of a taxpayer's account which reflects tax data for one tax class (MFT) and one tax period.
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 Delinquent Account	A taxpayer balance due account in notice status, for which six weeks have elapsed since the issuance of the fourth notice, will systemically move the account to TDA status.
Taxpayer Information File	A database that provides tax account information for taxpayers, generally involving only active accounts, on the database. Balance due notices are issued from the TIF. Account information includes pending transactions, rejects, unpostables, and case controls. TIF data are updated by data from the IMF weekly.
Total Positive Income	The sum of all positive income amounts reported on Form 1040, without the benefit of any reported losses or subtractions.

Appendix IV

Abbreviations

ACS	Automated Collection System
AGI	Adjusted Gross Income
IDS	Inventory Delivery System
IMF	Individual Master File
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
PCA	Private Collection Agency
ROCS	Revenue Officer Compliance Sweeps
SAM	Strategic Analysis and Modelling
TDA	Taxpayer Delinquent Account
TIF	Taxpayer Information File
TIGTA	Treasury Inspector General for Tax Administration
TPI	Total Positive Income
TY	Tax Year

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