

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Assessment of Efforts to Provide Tax Relief to Eligible Taxpayers Impacted by the Ongoing Conflict in the State of Israel, Gaza, and the West Bank**

November 18, 2024

Report Number: 2025-IE-R002

# HIGHLIGHTS: Assessment of Efforts to Provide Tax Relief to Eligible Taxpayers Impacted by the Ongoing Conflict in the State of Israel, Gaza, and the West Bank

Final Evaluation Report issued on November 18, 2024

Report Number 2025-IE-R002

## Why TIGTA Did This Evaluation

On October 7, 2023, terrorists launched an attack on the State of Israel which included the kidnapping and killing of Americans. Following the attack, the Treasury Department and the IRS issued Internal Revenue Bulletin Notice 2023-71, *Relief for Taxpayers Affected by the Terroristic Action in the State of Israel*, which grants tax relief to individuals and businesses affected by the terrorist attack. Following the issuance, the IRS posted a news release detailing taxpayer eligibility requirements that qualify for the postponement of various tax return filing and payment deadlines. This relief is in effect from October 7, 2023, through October 7, 2024.

This evaluation was initiated to assess the efforts taken by the IRS to provide tax relief for victims of the Israel terrorist attack.

## Impact on Tax Administration

The IRS is authorized to provide tax relief that grants additional time to file returns, pay taxes, and perform certain other time-sensitive tax-related acts to taxpayers affected by the terroristic event. The primary focus is to relieve the federal tax burden for these taxpayers.

When the IRS does not accurately identify all affected taxpayers, these taxpayers may receive tax deficiency notices, which may place unnecessary stress and obligation on taxpayers already impacted by the trauma of experiencing the Israel terrorist attack.

## What TIGTA Found

Our evaluation found that the IRS took steps to proactively identify and mark tax accounts of likely affected taxpayers. Specifically, IRS management noted that they identified and proactively added freeze codes to 185,707 individual and 22,110 business tax accounts. In addition, the IRS made available well-established disaster relief processes for use by individuals and businesses who are affected by the terrorist attack to self-identify for tax relief.

However, unlike the IRS's process of sending notifications directly to individuals and businesses that qualify for tax relief due to a Federally declared disaster, the IRS did not send similar notices to taxpayers who the IRS identified as qualifying for relief resulting from the terrorist attack. As a result, individuals and businesses likely qualifying for the specific tax relief made available by the Secretary of the Treasury in response to the terrorist attack were not directly notified. Alternatively, IRS officials noted that they elected to communicate the availability of the tax relief the day it was announced via the posting of the information on the IRS newsroom website, where media and other audiences go to for information. However, the IRS failed to include information regarding this relief on the website it uses to disseminate international press releases.

Our evaluation also identified that the IRS missed initially adding freeze codes to 2,176 individual and 1,306 business tax accounts that met the IRS's criteria for relief. In addition, TIGTA identified 10,550 individual tax accounts where the IRS incorrectly added a freeze code based on the foreign country code on accounts for taxpayers who resided in the State of Israel, Gaza, or the West Bank when in fact the taxpayers had an U.S. address as their address of record. Finally, TIGTA identified another 413 individual taxpayers who the IRS also incorrectly added a freeze code on their tax accounts when their international address was outside the covered area of the State of Israel, Gaza, or the West Bank.

## What TIGTA Recommended

TIGTA made three recommendations to the IRS. The IRS should: input the freeze code on all eligible individual tax accounts, remove the freeze code from all ineligible tax accounts, and ensure that IRS systems properly update the foreign country codes used by taxpayers to change their address. The IRS agreed with the recommendation to input the freeze code on all eligible individual tax accounts, but disagreed with the recommendation to remove the freeze code from ineligible tax accounts and the recommendation to ensure that IRS systems properly update the foreign country codes used by taxpayers to change their address.



# TREASURY INSPECTOR GENERAL

## for Tax Administration

**DATE:** November 18, 2024

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

**FROM:** Russell P. Martin   
Deputy Inspector General for Inspections and Evaluations

**SUBJECT:** Final Evaluation Report – Assessment of Efforts to Provide Tax Relief to Eligible Taxpayers Impacted by the Ongoing Conflict in the State of Israel, Gaza, and the West Bank (Evaluation No.: IE-24-028)

This report presents the results of our review to assess the efforts taken by the Internal Revenue Service to provide tax relief for victims of the Israel terrorist attack. This review addresses the major management and performance challenges of *Taxpayer Service* and *Taxpayer Rights*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Kent Sagara, Director, Inspections and Evaluations.

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## **Background**

On October 7, 2023, terrorists launched an attack on the State of Israel which included the kidnapping and killing of Americans. Section 7508A(a) of the Internal Revenue Code provides the Secretary of the Treasury with the authority to grant tax relief by postponing up to one year of tax return filing and payment requirements.<sup>1</sup> On October 13, 2023, the Treasury Department and the Internal Revenue Service (IRS) issued Internal Revenue Bulletin Notice 2023-71, *Relief for Taxpayers Affected by the Terroristic Action in the State of Israel*, which grants tax relief to individuals and businesses affected by the terrorist attack. Following the issuance, the IRS posted a news release, Information Release IR-2023-188, detailing taxpayer eligibility requirements to qualify for the postponement of various tax return filing and payment deadlines. This relief is in effect from October 7, 2023, through October 7, 2024. Figure 1 presents which taxpayers are eligible for relief and what kind of relief is granted.

**Figure 1: Summary of Eligibility and Tax Relief Provided to Individuals and Businesses Affected by the Terrorist Attack**

Taxpayer Eligibility	Type of Tax Relief Granted
<ul style="list-style-type: none"> <li>• Individuals whose principal residence and any business entity or sole proprietorship whose principal place of business is located within the covered area.<sup>2</sup></li> <li>• Individuals affiliated with government or philanthropic organizations assisting in the covered area.</li> <li>• Tax preparers with tax records that are located within the covered area.</li> <li>• Spouses filing jointly with effected taxpayers.</li> <li>• Individuals killed, injured, or taken hostage in the October 7, 2023, terrorist attack.</li> </ul>	<ul style="list-style-type: none"> <li>• Abated penalties for failure to file federal tax returns or pay federal tax liabilities.</li> <li>• Waived fees and expedited service on requests for photocopies of tax returns.</li> <li>• Postponed tax return filing and payment due dates.</li> <li>• Did not apply penalties for failure to pay estimated tax installments.</li> </ul>

*Source: Treasury Notice 2023-71, Relief for Taxpayers Affected by the Terrorist Action in the State of Israel, and Memorandum for Distribution, Disaster Assistance for Israel.*

<sup>1</sup> 26 U.S. Code § 7508A – Authority to postpone certain deadlines by reason of Federally declared disaster, significant fire, or terroristic or military actions.

<sup>2</sup> Covered area is defined as the location of a Federally declared disaster and typically applies to where a taxpayer resides or does business.

## **Assessment of Efforts to Provide Tax Relief to Eligible Taxpayers Impacted by the Ongoing Conflict in the State of Israel, Gaza, and the West Bank**

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### **The IRS proactively identified and marked tax accounts of individuals and businesses that qualify for the previously mentioned tax relief**

The IRS is authorized to provide tax relief that grants additional time to file tax returns, pay taxes, and perform certain other time-sensitive tax-related acts to taxpayers affected by the terroristic event. To assist individuals and businesses impacted by the terrorist attack, the IRS identified and proactively added a marker (hereafter referred to as a freeze code) to applicable taxpayer tax accounts. Specifically, the IRS's Office of Information Technology identified tax accounts of individuals and businesses with an address of record in the State of Israel, Gaza, or the West Bank and systemically added a freeze code on their tax accounts (*e.g.*, -O freeze disaster code).<sup>3</sup> They also applied the -O freeze disaster code to tax accounts with a foreign country code (FCC) of IS (for the State of Israel), GZ (for Gaza), or WE (for the West Bank).<sup>4</sup> The tax accounts with an -O freeze disaster code were also marked with an indicator number 0001 – Israel Terror Attack to properly identify the reason the tax relief was being granted (*e.g.*, taxpayer was affected by the terrorist attack).<sup>5</sup>

Once the freeze code is placed on a taxpayer's tax account, the taxpayer receives the following tax relief:

- Suspends the mailing of IRS notices, except for assessment notices and letters and notices pertaining to Form 668-D, *Release of Levy/Release of Property from Levy*.
- Establishes a tax return filing and payment postponement period for those taxpayers with a tax return filing or payment due date within the disaster period.
- Adjusts penalty and interest calculations to exclude the relief period.
- Suspends collection and examination activities, including the processing of Taxpayer Delinquent Accounts and Taxpayer Delinquent Investigations.<sup>6</sup>

### **Processes are in place for individuals and businesses to self-identify for tax relief**

The IRS also made available well-established disaster relief processes for individuals and businesses that claim they are affected by the terrorist attack to self-identify for tax relief. Specifically, affected individuals and businesses can self-identify for relief by calling the IRS's disaster hotline (866-562-5227). International taxpayers may call (267-941-1000) to request relief. The IRS's Accounts Management function handles these calls. When taxpayers contact the IRS to self-identify, they must provide the reason why they meet the criteria to qualify for the requested tax relief. The reason provided must meet one of the established definitions of an affected taxpayer as previously shown in Figure 1.

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<sup>3</sup> The address of record is the primary address listed in the IRS Masterfile records.

<sup>4</sup> The FCC is a field on a taxpayer's tax account that identifies the country of residence for non-resident aliens.

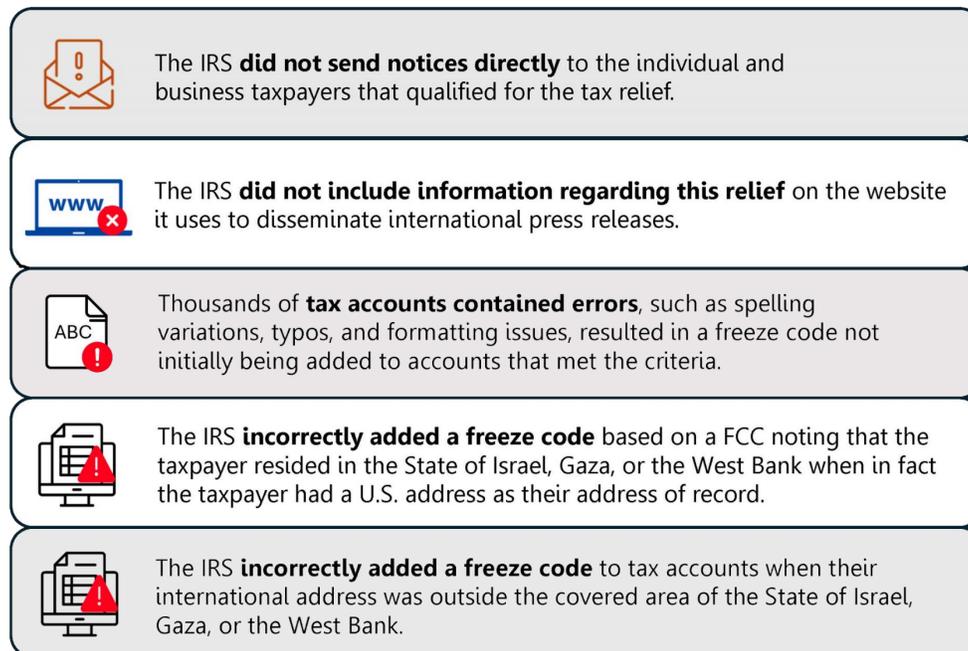
<sup>5</sup> The IRS created number 0001 for tracking purposes and placed that number in the field that is typically available for Federal Emergency Management Agency declared disasters.

<sup>6</sup> Taxpayer Delinquent Account is a tax module where a return was filed, but the tax was not fully paid, and the account is in collection status. Taxpayer Delinquent Investigation is a tax account that has a filing requirement for which a return has not been received and the account is in collection status.

## Results of Review

Our evaluation found that the IRS, in response to the Secretary of the Treasury granting tax relief to individuals and businesses affected by the terrorist attack, took steps to proactively identify and mark tax accounts of likely affected taxpayers. IRS management noted that they identified and proactively added freeze codes to 185,707 individual and 22,110 business tax accounts. In addition, as previously noted, the IRS made available well-established disaster relief processes for use by individuals and businesses who are affected by the terrorist attack to self-identify for tax relief. However, Figure 2 presents the concerns the Treasury Inspector General for Tax Administration (TIGTA) identified regarding the IRS's efforts to provide tax relief to affected taxpayers.

**Figure 2: Concerns Identified by TIGTA on Tax Relief**



*Source: TIGTA's conclusions based on evaluation work performed.*

However, unlike the IRS's process of sending notifications directly to individuals and businesses that qualify for tax relief due to a Federally declared disaster, the IRS did not send similar notices to taxpayers who the IRS identified as qualifying for relief resulting from the terrorist attack. As a result, individuals and businesses likely qualifying for the specific tax relief made available by the Secretary of the Treasury in response to the terrorist attack were not directly notified.

Alternatively, IRS officials noted that they elected to communicate the availability of the tax relief the day it was announced via the posting of the information on the IRS newsroom website, where media and other audiences go to for information. However, the IRS failed to include information regarding this relief on the website it uses to disseminate international press releases.

We also identified that the IRS missed initially adding freeze codes to 2,176 individual and 1,306 business tax accounts that met the IRS's criteria for relief. In addition, we identified 10,550 individual tax accounts where the IRS incorrectly added a freeze code based on an FCC noting that the taxpayer resided in the State of Israel, Gaza, or the West Bank when in fact the taxpayer

had an U.S. address as their address of record. Finally, we identified another 413 individual taxpayers who the IRS also incorrectly added a freeze code on their tax account when their international address was outside the covered area of the State of Israel, Gaza, or the West Bank.

## **The IRS Did Not Initially Use All Available Methods to Notify Eligible Taxpayers of Tax Relief**

Our evaluation found that the IRS did not send notices directly to the individual and business taxpayers that qualified for the tax relief. When taxpayers are impacted by a disaster, the IRS sends a notice informing these taxpayers that they have more time to file a tax return and pay their taxes if they were to receive IRS correspondence related to another matter. This notice informs taxpayers that there has been a Federally declared disaster where they reside, and that the IRS has automatically granted the taxpayer disaster relief which includes the postponement of the deadline for filing a tax return and/or making a payment.

We also found that the IRS did not prepare for posting and distributing an international press release to announce that tax relief was granted to potential victims of the Israel terrorist attack that occurred on October 7, 2023. In our discussions with officials from the IRS's Communications and Liaison (C&L) Division, they informed us that they distributed the news broadly on the day the relief was announced and posted the information on the IRS newsroom website, where media and other audiences go to for information. Specifically, the C&L Division immediately promoted the relief using the widest channels available for distribution with media, tax professionals, partners, and social media channels.

**Email Alert:** On March 7, 2024, we recommended that the IRS take immediate action to (1) issue and post on irs.gov an international press release announcing the tax relief granted to the victims of the Israel terror attack, and (2) send notifications to individual and business taxpayers, whose accounts received an -O freeze disaster code related to the terror attack in Israel, informing them of the tax relief.

**Management's Response to Email Alert:** On March 22, 2024, the IRS responded that the C&L Division posted a news release on the IRS's international news webpage on March 12, 2024, detailing the authorized tax relief.

However, the IRS disagreed with sending notices to individual and business taxpayers whose tax accounts were proactively marked. The IRS believes the robust communications and outreach that the C&L Division undertook and plans to continue (*e.g.*, web announcements, regional and local media, tax professionals, and social media) were the most effective ways to inform impacted taxpayers of the available relief.

## **Thousands of Individual and Business Taxpayers Who Qualified for Relief Did Not Initially Receive a Freeze Code on Their Tax Accounts**

Our evaluation identified 2,176 individual and 1,306 business taxpayers who met the IRS's criteria (*i.e.*, had an address of record located in the covered area) but the IRS did not initially add a freeze code to their tax accounts. Though the IRS used multiple variations and common misspellings of the terms Israel, Gaza, and West Bank when marking accounts, thousands of

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taxpayers had addresses of record with additional variations and misspellings. As a result, the IRS's identification of these taxpayers' records was limited. For example, we identified taxpayer accounts with variations of the covered area such as "West Bank Palestine" and "Palestinian Terror" and incorrect spellings of the covered area such as "Israels".

**Email Alert:** On April 8, 2024, we recommended that the IRS take immediate action to (1) review the individual tax accounts we identified and input the -O freeze disaster code under indicator number 0001 – Israel Terror Attack, and (2) evaluate the reason these individuals were not identified and apply relief to any additional accounts identified that should receive the -O freeze disaster code.

**Management's Response to Email Alert:** On April 26, 2024, the IRS agreed with our recommendation. The IRS stated that the tax accounts we identified included addresses with additional spelling variations, typos, formatting issues, such as leading spaces and combinations of criteria that it did not anticipate when systemically marking accounts with the -O freeze disaster code in October 2023. The tax accounts we identified also included individuals whose principal address was updated since October 2023 to an address in the State of Israel, Gaza, and the West Bank. Given the length of the disaster relief period, the IRS agreed to mark all the identified accounts with the -O freeze disaster code for the entire period of relief, beginning October 7, 2023, through October 7, 2024. The IRS estimated a completion date of May 10, 2024, for this corrective action.

In addition, the IRS noted that they would consider updates to the disaster program guidelines to further support taxpayers whose address of record with the IRS is updated to a disaster area after the incident start date. Some taxpayers may have already resided in the disaster area but waited to update their address with the IRS until their next tax filing or interaction with the agency. The IRS further noted that affected taxpayers who are not systemically identified for disaster tax relief may still self-identify for the relief by calling the disaster hotline or the international line.

The Commissioner, Small Business/Self-Employed Division, should:

**Recommendation 1:** Review the individual tax accounts we identified and ensure the -O freeze disaster code under indicator number 0001 – Israel Terror Attack has been input on all identified taxpayer accounts.

**Management's Response:** The IRS agreed with this recommendation and fully implemented it on May 10, 2024. In October 2023, the IRS completed a search for taxpayers with an address of record in Israel, Gaza, and the West Bank and systemically coded the accounts with a disaster code (the -O freeze) for the period of relief defined in Internal Revenue Bulletin Notice 2023-71, beginning October 7, 2023, and ending October 7, 2024. Affected accounts were identified using criteria that anticipated common references to and misspellings of Israel, Gaza, and the West Bank. The accounts TIGTA identified in April 2024 included addresses with additional spelling variations, typos, formatting issues such as leading spaces, and combinations of criteria that the IRS did not anticipate when systemically marking accounts with the -O freeze in October 2023. The accounts also included individuals whose principal address was updated since October 2023 to an address in Israel, Gaza, and the West Bank. Given the length of the

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disaster relief period, the IRS marked all the identified accounts with the -O freeze. The accounts were marked with the -O freeze for the entire period of relief, beginning October 7, 2023, through October 7, 2024.

**Email Alert:** On April 12, 2024, we recommended that the IRS take immediate action to (1) review the business tax accounts we identified and input the -O freeze disaster code under indicator number 0001 – Israel Terror Attack and (2) evaluate the reason these businesses were not identified and apply relief to any additional accounts identified.

**Management’s Response to Email Alert:** On April 26, 2024, the IRS agreed with our recommendation. The IRS stated the tax accounts we identified included addresses with additional spelling variations, typos, formatting issues such as leading spaces, and combinations of criteria that it did not anticipate when systemically marking accounts with the -O freeze disaster code in October 2023. The IRS agreed to mark these accounts with the -O freeze disaster code for the entire period of relief, beginning October 7, 2023, through October 7, 2024. This corrective action was scheduled to be completed by May 10, 2024. The IRS also noted that it provides disaster tax relief retroactively to the incident start date. If, prior to their account being marked with the -O freeze disaster code, a taxpayer is subject to late-filing or late payment penalties for a return or payment due during the relief period, they will receive a notice correcting their account and a refund or credit will be issued.

The accounts identified also included businesses with a secondary address linked to Israel, but whose IRS address of record is not within the covered disaster area. As described in the IRS news release announcing the available relief in Israel – and consistent with all other disasters – the IRS automatically identifies business taxpayers whose principal place of business is in the covered area and applies relief. The IRS’s process did not consider secondary addresses. Accordingly, the IRS did not agree to systemically mark the taxpayer accounts with only a secondary address in Israel with the -O freeze disaster code. Any business eligible for the relief which is not systemically marked with the -O freeze disaster code may still self-identify for the relief by calling the disaster hotline or international line.

**Office of Inspections and Evaluations Comment:** The IRS agreed and added the -O freeze disaster code on May 10, 2024, to the taxpayer accounts with a principal place of business located within the covered area.

### **Tax Relief Provided to Some Ineligible Taxpayers Based on Inaccurate Foreign Country Codes**

Our evaluation identified that the IRS incorrectly marked an -O freeze disaster code on:

- 10,550 individual accounts for taxpayers who had an address of record in the United States and not within the required covered area.
- 413 individual accounts for taxpayers with an international address outside the covered area.

Most of these taxpayers were identified as eligible based on their FCC. The FCC was one of the primary criteria used by the IRS to determine eligibility based on the principal residence of the

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taxpayers. The FCC is a unique field that is derived from the Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, which is a form used by non-residents to file taxes and identifies the taxpayer's country of residence for tax purposes. When the IRS receives the Form 1040-NR, employees in the IRS's Taxpayer Service Division Return Processing Branch inputs the FCC on the taxpayer's account based on the country on the form. Subsequent filings of Form 1040-NR, Form 8822, *Change of Address*, or Form 1040 ES, *Estimated Tax for Individuals*, will change the taxpayer's address.

IRS management informed us that an address change on a tax return or estimated tax payment would result in an update to the FCC. However, if a taxpayer submits a change of address form followed by a tax return with the same address, the FCC would not be updated. The IRS also stated that the FCC determines if tax treaty benefits may apply to the taxpayer for the tax period covered by the tax return, which is why a change of address does not update the FCC absent of a filed tax return. The United States has tax treaties with several foreign countries, and these foreign residents are taxed at a reduced rate or exempt from taxes on certain income.

**Email Alert:** On April 10, 2024, we recommended that the IRS, take immediate action to (1) review the identified tax accounts and remove the -O freeze disaster code on any accounts not eligible for tax relief under indicator number 0001 – Israel Terror Attack and (2) evaluate the reason these individuals were identified and ensure that no additional accounts have incorrectly had the relief applied and reverse the -O freeze disaster code if not warranted.

**Management's Response to Email Alert:** On May 14, 2024, the IRS disagreed with our recommendation and stated that the -O freeze disaster code on the tax accounts we identified is consistent with the criteria used in October 2023, to mark taxpayer accounts in Israel for the relief. With disasters in the United States, the IRS relies on zip codes to mark taxpayer accounts with the -O freeze disaster code. This method was unavailable to the IRS because the taxpayers affected by the terrorist attack in Israel are located outside of the United States. International taxpayers include resident aliens, nonresident aliens, and U.S. citizens with varying filing requirements and are generally less likely to keep their addresses up to date with the IRS. To proactively identify as many affected taxpayers as it could, the IRS searched its Integrated Data Retrieval System for either an FCC indicating Israeli residency or an address of record indicating Israeli residency.

The IRS maintains that the criteria used to identify these accounts reasonably identified taxpayers impacted and qualifying for relief under Internal Revenue Code 7508A. These taxpayers may have relied on the filing and payment relief and/or called the disaster hotline to self-identify for the relief. The IRS is concerned that removing the -O freeze disaster code from these identified accounts could negatively impact taxpayers affected by the events of October 7, 2023.

**Office of Inspections and Evaluations Comment:** We disagree with management's position. If the taxpayers do not have up to date addresses with a FCC that corresponds with the address, they should need to self-report and have their address updated before receiving the -O freeze disaster code.

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The Commissioner, Small Business/Self-Employed Division, should:

**Recommendation 2:** Review the identified tax accounts and remove the -O freeze disaster code on any account not eligible for tax relief under indicator number 0001 – Israel Terror Attack, evaluate the reason these individuals were identified and ensure that no additional accounts have incorrectly had the relief applied, and reverse the -O freeze disaster code if not warranted.

**Management's Response:** The IRS disagreed with this recommendation. The IRS identified qualifying taxpayers by searching the Integrated Data Retrieval System for either a FCC or an address of record indicating residency within Israel, Gaza, and the West Bank. These criteria were a reasonable means to identify taxpayers residing in, or with a principal place of business in, the affected area, consistent with Internal Revenue Code section 7508A. Even more significantly, the IRS stated that these taxpayers may have relied on the filing and payment relief and/or called the disaster hotline to self-identify for the relief. The IRS believes that removing the -O freeze from these identified accounts could negatively impact taxpayers affected by the October 7, 2023, terrorist attacks.

**Office of Inspections and Evaluations Comment:** The IRS's use of the FCC resulted in potentially 10,963 individuals incorrectly being assigned an -O freeze disaster code on their tax account. As such, these individuals may be given tax relief they are not entitled to receive. The IRS could have used the FCC as an initial identification criterion and filtered out taxpayers who had an FCC that was outdated or incorrect, had addresses in the United States or an international address outside of the covered area.

The Chief, Taxpayer Services, should:

**Recommendation 3:** Ensure that IRS systems properly update the FCC regardless of the method used by the taxpayer to change their address.

**Management's Response:** The IRS disagreed with this recommendation. The IRS stated that the FCC is necessary to accurately process and post tax returns filed by non-resident aliens. When the United States has a tax treaty with the government of the respective foreign country of residence, the FCC is used to validate the accuracy of the tax return with respect to certain income, expenses, credits, and the computation of tax that may have a different treatment under the terms of the treaty. The purpose of retaining the FCC indicator on the tax account after return processing is to route subsequent account maintenance and/or compliance work to the appropriate Service Center. The international aspects of these accounts require specialized training for the employees who perform post-processing work and for that reason, these accounts are directed to only one of two Service Centers.

After the IRS received the list of accounts that were identified as having a FCC designating Israel as the country of residence and addresses outside of Israel, the IRS worked with Information Technology to clear the FCC to align with the mailing address. When the update was performed in the test environment, it was determined that removing the FCC had adverse unintended consequences on downstream systems that route case work. Going forward, any account maintenance or compliance activity would

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be assigned to Service Centers that did not have the skilled staff to address and resolve international issues. This would be detrimental to both the inventory management processes and to the level of service provided to international taxpayers. Based on this outcome, the IRS determined that they could not implement the recommended programming change to update the FCC solely by address changes.

**Office of Inspections and Evaluations Comment:** The IRS reviewed the tax accounts identified by TIGTA and noted that the FCC on some accounts did not accurately reflect where the individual resided. The IRS concluded that the FCC could not be updated as it would impact other IRS operations. However, the IRS could have used the FCC as an initial identification criterion and filtered out tax accounts with an address in the United States or an international address outside of the covered area.

## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of this evaluation was to assess the efforts taken by the IRS to provide tax relief for victims of the Israel terrorist attack. To accomplish our objective, we:

- Evaluated the taxpayer accounts that were systematically identified as eligible.
- Reperformed the process to ensure the accuracy of the eligibility determination by comparing the taxpayer accounts we identified using the IRS criteria with the taxpayer accounts that the IRS placed the freeze code on.
- Inquired with IRS management about the policies and procedures related to the FCC.
- Reviewed the accuracy of the FCCs by comparing the taxpayer's address (city, state, and zip code) with the FCC on selected taxpayer accounts.
- Determined if there were additional victims by performing an independent analysis.
- Evaluated the process used by victims that were not systematically identified to self-identify and report.

#### **Performance of This Review**

This review was performed with information obtained from the Small Business/Self-Employed Division along with additional information from the Office of Information Technology and Accounts Management function during the period December 2023 through May 2024. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation.

Major contributors to the report were Kent Sagara, Director; Brandon Crowder, Supervisory Evaluator; Andrew Landers, Lead Evaluator; and Schiller Joseph, Evaluator.

#### **Data Validation Methodology**

We performed tests to assess the reliability of the data from the Individual Masterfile and Business Masterfile. We evaluated the data by scanning for blank, incomplete, or improper data. In addition, we compared a judgmental selection of records from each of the systems to IRS source data on the Integrated Data Retrieval System to ensure the accuracy of the data. We determined that the data was sufficiently reliable for purposes of this report.

## **Appendix II**

### **Outcome Measure**

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

#### **Type and Value of Outcome Measure:**

- Taxpayer rights and entitlements - Actual; 2,176 Individual Taxpayer Accounts (see Recommendation 1).

#### **Methodology Used to Measure the Reported Benefit:**

We performed a query with the Entity Table under Individual Masterfile within the Data Center Warehouse. The following criteria was used: CITY=STRIP(CURCITY); IF FIND(CITY,' BANK ')>0 OR FIND(CITY,'GAZA')>0 OR FIND(CITY,'PALES')>0 OR FIND(CITY,'PALEN')>0 OR FIND(CITY,'JERUS')>0 OR FIND(CITY,'ISR')>0 OR FIND(CITY,'ISAE')>0 OR FIND(CITY,'ISAR')>0 OR FIND(CITY,'ISEA')>0 OR FIND(CITY,'ISTAE')>0 OR CITY IN ('IS','IRAEL','OSRAEL'); These results were compared to the list of Individual Masterfile TIN's the IRS placed the -O freeze disaster code on related to indicator number 0001 – Israel Terror Attack. We evaluated the additional accounts and determined 2,176 were eligible for the relief.

Management's Response to the Draft Report



COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

October 2, 2024

MEMORANDUM FOR RUSSELL P. MARTIN  
DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND  
EVALUATIONS

FROM: Lia Colbert  
Commissioner, Small Business/Self-Employed Division

Amalia C. Colbert  
Digitally signed by Amalia C. Colbert  
Date: 2024.10.02 15:42:29 -04'00'

SUBJECT: Draft Evaluation Report – Assessment of Efforts to Provide Tax Relief to Eligible Taxpayers Impacted by the Ongoing Conflict in the State of Israel, Gaza, and the West Bank (Evaluation No.: IE-24-028)

In the wake of the October 7, 2023, terrorist attacks, the IRS postponed most U.S. tax filing and payment deadlines for a full year for affected individuals and businesses in the State of Israel, Gaza, and the West Bank, or other affected taxpayers as defined in Notice 2023-71 – the maximum period of relief allowed under the IRS's statutory disaster authority. We announced the available relief in an IRS news release, which we broadly distributed through the news media and our partners in the tax preparation community to ensure the news reached those who need it most – the affected taxpayers and their tax professionals. In consultation with TIGTA, we also posted the news release to the section of IRS.GOV where international news releases are posted. We took quick actions to provide this needed relief.

More recently, on September 30, 2024, following the procedures specified in Rev. Proc. 2004-26, the Secretary determined that the terrorist activity throughout 2023 and 2024 against the State of Israel constitutes terroristic action pursuant to section 692(c)(2). On October 1, 2024, IRS Notice 2024-72 was issued providing further relief to September 30, 2025. We are also taking steps to inform affected taxpayers and tax professionals following a similar protocol to Notice 2023-71 with the addition of outreach to foreign partners to assist with spreading the information as broadly as possible. We appreciate TIGTA's review of this important effort, the utility of our discussions and the opportunity to comment on the subject draft report.

This relief effort represents two significant "firsts" for the IRS disaster program – the first time the IRS provided relief based on a terroristic action (and not based on a federally

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declared natural disaster), and the first time the IRS implemented disaster tax relief internationally.

We succeeded in extending the needed tax relief to an international population by quickly leveraging and adapting our existing processes. Due to the severity of the event and its continuing impact, the IRS used the -O freeze to mark affected taxpayer accounts. Reserved for the most devastating events, the -O freeze prevents the accumulation of interest and penalties on liabilities relating to the relief period and suspends compliance activity and all notices except those required by law. This protects affected taxpayers from receiving IRS correspondence at a sensitive time when they are potentially displaced from their homes. The -O freeze also establishes the tax return filing and payment postponement period, in this case, for a full year.

With domestic disasters, we rely on zip codes within the disaster area to mark taxpayer accounts with the freeze code. This method was unavailable here because the taxpayers affected by the terrorist attacks in Israel are located outside of the United States. In addition, international taxpayers include resident aliens, nonresident aliens, and U.S. citizens with varying filing requirements and are generally less likely to keep their addresses up to date with the IRS. To proactively identify as many affected taxpayers as we could, we searched our Integrated Data Retrieval System for either a foreign country code or an address of record indicating residency within the affected area, using search terms that anticipated common references to and misspellings of Israel, Gaza, and the West Bank. In addition, affected individuals and businesses with an address of record outside of the affected area may always self-identify for relief by calling the IRS disaster hotline; here, we also offered assistance on the IRS's international line to better serve the affected taxpayers living abroad.

We share the goal of ensuring that all taxpayers who qualify can benefit from the filing and payment relief. We appreciate the research TIGTA conducted in April 2024 as part of this review to identify additional affected taxpayers whose addresses included spelling errors we did not anticipate or who had moved into the affected area since the October 2023 attacks. We immediately marked the accounts of these 2,176 individuals and 1,306 businesses, together representing under 1% of all taxpayers identified for relief, providing the tax relief retroactively to the incident start date of October 7, 2023.

Our concentrated efforts to communicate the available tax relief to affected taxpayers never stopped. We issued seven news releases throughout the year-long relief period, working with partners in the tax practitioner community to ensure the news reached those with clients in the affected area, and made nearly 20 social media posts, reaching a broad taxpayer audience.

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Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or Victor Onorato, Director, Operations Support, Small Business/Self-Employed Division.

Attachment

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Attachment

**Recommendations**

The Commissioner, Small Business/Self-Employed Division, should:

**RECOMMENDATION 1:**

Review the individual tax accounts we identified and ensure the -O freeze disaster code under indicator number 0001 – Israel Terror Attack has been input on all identified taxpayer accounts.

**CORRECTIVE ACTION:**

We agree with this recommendation and fully implemented it on May 10, 2024. In October 2023, the IRS completed a search for taxpayers with an address of record in Israel, Gaza, and the West Bank and systemically coded the accounts with a disaster code (the -O freeze) for the period of relief defined in Internal Revenue Bulletin Notice 2023-71, beginning October 7, 2023, and ending October 7, 2024. Affected accounts were identified using criteria that anticipated common references to and misspellings of Israel, Gaza, and the West Bank. The accounts TIGTA identified in April 2024 included addresses with additional spelling variations, typos, formatting issues such as leading spaces, and combinations of criteria that we did not anticipate when systemically marking accounts with the -O freeze in October 2023. The accounts also included individuals whose principal address was updated since October 2023 to an address in Israel, Gaza, and the West Bank. Given the length of the disaster relief period, we marked all the identified accounts with the -O freeze. The accounts were marked with the -O freeze for the entire period of relief, beginning October 7, 2023, through October 7, 2024.

**IMPLEMENTATION DATE:**

May 10, 2024

**RESPONSIBLE OFFICIAL:**

Director, SB/SE Human Capital Office

**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 2:**

Review the identified tax accounts and remove the -O freeze disaster code on any account not eligible for tax relief under indicator number 0001 – Israel Terror Attack, evaluate the reason these individuals were identified and ensure that no additional accounts have incorrectly had the relief applied, and reverse the -O freeze disaster code if not warranted.

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**CORRECTIVE ACTION:**

We disagree. We identified qualifying taxpayers by searching the Integrated Data Retrieval System for either a foreign country code or an address of record indicating residency within Israel, Gaza, and the West Bank. These criteria were a reasonable means to identify taxpayers residing in, or with a principal place of business in, the affected area, consistent with Internal Revenue Code section 7508A. Even more significantly, these taxpayers may have relied on the filing and payment relief and/or called the disaster hotline to self-identify for the relief. Removing the -O freeze from these identified accounts could negatively impact taxpayers affected by the October 7, 2023, terrorist attacks.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

The Chief, Taxpayer Services, should:

**RECOMMENDATION 3:**

Ensure that IRS systems properly update the FCC regardless of the method used by the taxpayer to change their address.

**CORRECTIVE ACTION:**

We disagree. The Foreign Country Code (FCC) is necessary to accurately process and post tax returns filed by non-resident aliens. When the United States has a tax treaty with the government of the respective foreign country of residence, the FCC is used to validate the accuracy of the tax return with respect to certain income, expenses, credits, and the computation of tax that may have a different treatment under terms of the treaty. The purpose of retaining the FCC indicator on the tax account after return processing is to route subsequent account maintenance and/or compliance work to the appropriate Service Center. The international aspects of these accounts require specialized training for the employees who perform post-processing work and for that reason, these accounts are directed to only one of two Service Centers.

After receiving the list of accounts that were identified as having a FCC designating Israel as the country of residence and addresses outside of Israel, we worked with Information Technology to clear the FCC to align with the mailing address. When the update was performed in the test environment, it was determined that removing the

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FCC had adverse unintended consequences on downstream systems that route case work. Going forward, any account maintenance or compliance activity would be assigned to Service Centers that did not have the skilled staff to address and resolve international issues. This would be detrimental to both our inventory management processes and to the level of service provided to international taxpayers. Based on this outcome, we determined we could not implement the recommended programming change to update the FCC solely by address changes.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

**OUTCOME MEASURE:**

We disagree there was a measurable impact on the 2,176 individuals. When their taxpayer accounts were marked with the -O freeze in May 2024, the IRS provided the tax relief retroactively to the incident start date of October 7, 2023. If, prior to their account being marked with the -O freeze, a taxpayer was subject to late-filing or late-payment penalties for a return or payment due during the relief period, they would have received a notice correcting their account and a refund or credit. In addition, U.S. citizens and resident aliens living abroad have an automatic 60-day filing and payment extension from April 15, with those returns due Monday, June 17, 2024 (even absent any additional disaster tax relief). The identified accounts were marked with the -O freeze a full five weeks before this automatic extended due date.

## Appendix IV

### Abbreviations

C&L	Communications and Liaison
FCC	Foreign Country Code
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,  
contact our hotline on the web at  
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at [www.tigta.gov/form/suggestions](http://www.tigta.gov/form/suggestions).**

Information you provide is confidential, and you may remain anonymous.