TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers

August 31, 2026

Report Number: 2026-308-047

TIGTACommunications@tigta.treas.gov | www.tigta.gov

HIGHLIGHTS: Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers

Final Audit Report issued on August 31, 2026 **Report Number 2026-308-047**

Why TIGTA Did This Audit

Nonfilers are taxpayers who do not timely file a required tax return. We assessed the Small Business/Self-Employed Division's current approach to address nonfilers. Once a nonfiler case has been selected, the IRS generally sends up to two notices asking them to file their return. The IRS developed a Nonfiler Strategy in Fiscal Year (FY) 2018 incorporating recommendations from our prior reports and other oversight organizations such as the Government Accountability Office and the National Taxpayer Advocate. From Tax Years (TY) 2015 through 2022, the number of potential nonfilers significantly increased by 5.9 million because the IRS prioritized other inventories over nonfilers.

The Inflation Reduction Act of 2022 gave the IRS the funding to start issuing notices to individual nonfilers again. As of December 31, 2025, the IRS has exhausted this supplemental enforcement funding. In February 2024, the IRS announced a high-income nonfiler notice initiative to increase filing compliance.

Impact on Tax Administration

The gross Tax Gap is the estimated difference between the amount of tax owed, and the amount paid voluntarily on time. For TY 2022, the projected gross Tax Gap is $696 billion. Approximately $63 billion (9 percent) is due to nonfilers. If the IRS does not adequately prioritize nonfilers, it could impact how many taxpayers voluntarily file a return and result in an increase to the Tax Gap.

What TIGTA Found

As of June 30, 2025, over a year after the IRS's high-income nonfiler notice initiative started, 38,824 high-priority cases involving 33,653 taxpayers were still in first notice status. The IRS paused these high-priority cases, which stopped further collection notices and actions from being taken. We estimate that the IRS could secure a tax return or make a tax assessment on 10,482 cases impacting 9,119 taxpayers if they released them from first notice status. The potential additional tax due would be approximately $321.3 million. After discussing this issue with the IRS, they explained that they moved the cases out of first notice status in March 2026. Further, we note that the number of high-priority nonfiler cases in first notice status has decreased as some of those taxpayers filed their returns. As of December 31, 2025, the IRS has 33,757 high-income nonfiler cases in first notice status.

We also found that 10,969 cases involving 8,853 taxpayers were assigned to the queue and remain unworked as of June 30, 2025. The queue is a list of collection inventory awaiting further assignment. If the IRS prioritizes these cases, we estimate that the IRS could secure a tax return or make a tax assessment on 2,962 cases impacting 2,399 taxpayers. The potential additional tax due would be approximately $90.8 million. Further, we note that the IRS reduced the backlog of these high-priority nonfiler cases in the queue. Cases can leave the queue when the taxpayers file their tax returns or when the case is assigned to another function for additional action(s). As of December 31, 2025, the IRS has 9,463 nonfiler cases in the queue.

Additionally, we found that the IRS issued first notices for 4,918 cases impacting 4,748 taxpayers who had already filed a tax return as of June 30, 2025, and should not have been included in the initiative. The IRS compromised the right to quality service by including these taxpayers in the initiative and delaying the processing of their tax returns and potentially subjected taxpayers to other burdens.

Finally, we found that an agencywide approach, executive oversight, and dedicated resources could enhance the IRS's Nonfiler Program. During our review, we found that IRS could improve its reporting on nonfiler enforcement results. This would enable Collection function management to fully assess their effectiveness.

What TIGTA Recommended

We made six recommendations including: removing the first notice status hold; developing and implementing a comprehensive agencywide strategy supported by executive oversight and dedicating resources to ensure effective coordination across the IRS's nonfiler programs; and updating the Monthly Assessment of Performance report to include metrics such as returns secured and dollars collected for each nonfiler program.

The IRS agreed to all our recommendations and plans to take corrective actions.

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

August 31, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Diana M. Tengesdal

FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers (Audit No.: 2024308016)

This report presents the results of our review to assess the Small Business/Self-Employed Division's current approach to address nonfilers. This review was part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Ensuring Tax Compliance*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Background

The Internal Revenue Service (IRS) periodically publishes a detailed analysis of the nation's projected gross Tax Gap. The report reflects the difference between the projected true tax liability taxpayers should pay, and the amount of tax paid voluntarily on time. The projected annual gross Tax Gap for Tax Year (TY) 2022 is $696 billion.

Approximately $63 billion (9 percent) of the gross Tax Gap for TY 2022 is due to nonfilers (*i.e.*, those not filing their returns and not paying their taxes on time). Another $94 billion (14 percent) of the Tax Gap is due to nonpayment. The remaining $539 billion (77 percent) of the Tax Gap is due to taxpayers who understate their taxes.

It is a crime for any taxpayer to willfully fail to file a tax return that is due. Willful failure to file an individual tax return is punishable with a fine of no more than $25,000, imprisonment of no more than one year, or both.[1]

The IRS's Small Business/Self-Employed (SB/SE) Division's Collection function identifies an unfiled return using the Individual Master File Case Creation Nonfiler Identification Program (CCNIP). This program conducts a delinquency check to identify taxpayers who filed an individual income tax return the previous year but failed to file a current year tax return.[2] It also identifies taxpayers for whom the IRS believes there is likely a filing requirement based on third-party information returns, such as Form W-2, *Wage and Tax Statement.*

The number of nonfilers has been generally increasing over the years. Figure 1 illustrates the general upward trend of nonfilers identified through the Individual Master File CCNIP for TYs 2015 through 2022. The IRS generally considers high-income nonfilers to be any nonfiler with total income of [redacted] or more. In August 2022, the Secretary of the Treasury issued a memorandum to the IRS Commissioner directing the IRS not to use any additional resources from the Inflation Reduction Act of 2022 to increase audits on small business or households earning below $400,000 per year (2022 Treasury Directive).[3] The figure below breaks down the number of nonfilers by both of these income categories.

---

[1] Internal Revenue Code Section 7203. In this context, "willfully" means intentionally violating a known legal duty. See *United States v. Burton*, 737 F.2d 439, 441 (5th Cir. 1984).

[2] See Appendix IV for a glossary of terms.

[3] Pub. L. No. 117-169, 136 Stat. 1818.

Figure 1: The Number of Nonfilers Has Been Increasing

Tax Year	Under $200K	$200K to Less Than $400K	$400K or More	Total
2015	8.6M	133K	60K	**8.8M**
2016	10.3M	181K	93K	**10.6M**
2017	10.4M	165K	75K	**10.6M**
2018	10.9M	196K	87K	**11.2M**
2019	9.3M	200K	84K	**9.5M**
2020	10.7M	197K	79K	**11.0M**
2021	14.1M	277K	111K	**14.5M**
2022	14.2M	328K	123K	**14.7M**

Source: Data provided by the IRS from the Compliance Data Warehouse Individual Master File CCNIP. K = thousands, and M = millions. Totals may not add due to rounding.

For TYs 2015 through TY 2022, the Individual Master File CCNIP identified an average of more than 11 million nonfilers annually. In TY 2021, the number of nonfilers identified increased to more than 14 million. According to Collection function management, economic stimulus payments and the Advance Child Tax Credit became available to taxpayers following the pandemic. To take advantage of these incentives, many taxpayers had to either file or provide information when they did not have a filing requirement. This contributed to the decrease of nonfilers in TYs 2019 and 2020. The incentive to file did not exist after TY 2020, which is one reason why there was a significant increase in the number of nonfilers in TYs 2021 and 2022. Figure 1 also shows that nonfilers within the income categories also generally increased for the same period. Most of the increase occurred in the "Under $200,000" income category, which increased by about 5.6 million.

When the IRS selects individual taxpayer nonfiler cases from the CCNIP, the cases enter the return delinquency notice process (*i.e.*, the Return Delinquency Program). During this process, individual taxpayers receive up to two notices asking them to file their return. The first notice is Computer Paragraph (CP) 59, *First Notice-Return Delinquency, Unfiled Tax Returns(s)*. The taxpayer has eight weeks to file their return before the IRS sends the second notice and final notice, CP 518, *Final Notice – Return Delinquency*. The SB/SE Division's Compliance Services Collection Operations (CSCO), which is part of Campus Collection, oversees this program.

If taxpayers do not file their return in response to these notices, their cases may be placed in Taxpayer Delinquency Investigation (TDI) status. Placement in TDI status may lead to a case being assigned to another function for additional action(s). For example, the case may be assigned to the Automated Collection System (ACS) or the Automated Substitute for Return (ASFR) Program, which is described later.

Figure 2 shows approximately 8.1 million cases that entered TDI status from Fiscal Years (FY) 2017 through 2025. This figure also shows the number of cases that entered first and final notice status, the number of returns secured, and the number of cases that entered TDI status for FYs 2017 through 2025. The returns secured in the figure below are limited to those from the first and final notices issued. More returns were secured after the first notice was issued than after the second notice was issued. As discussed further below, the IRS prioritized balance due cases over nonfiler cases, which limits the number of nonfiler cases they work.

Figure 2: Individual Return Delinquency Program Notice Fluctuations From FY 2017 Through FY 2025

Fiscal Year	First Notice	Final Notice	Returns Secured After First Notice	Returns Secured After Final Notice	Modules to TDI Status
2017	385K	64K	111K	6K	372K
2018	748K	440K	108K	21K	403K
2019	2.1M	1.5M	179K	73K	1.6M
2020	1.7M	1.2M	135K	60K	2.0M
2021	384K	154K	158K	7K	455K
2022	107K	139K	23K	5K	262K
2023	71	516	5K	<1K	47K
2024	847K	533K	98K	29K	779K
2025	2.4M	1.7M	304K	101K	2.3M
Total	**8.7M**	**5.7M**	**1.1M**	**302K**	**8.1M**

Source: The Return Delinquency Cumulative Notice Report for FYs 2017 through 2025.
K = thousands, and M = millions. Totals may not add due to rounding.

In May 2018 the IRS finalized its Nonfiler Strategic Plan but has not updated the strategy since.

In May 2018, the IRS finalized its 2018 Nonfiler Strategic Plan; however, it has not updated the strategy since.[4] As part of this plan, the IRS established a Nonfiler Executive Steering Committee, which was formed to help the IRS coordinate nonfiler efforts across multiple IRS programs. This plan incorporated various recommendations from prior TIGTA reports as well as oversight organizations such as the Government Accountability Office and the National Taxpayer Advocate. As a result, the Return Delinquency Program significantly increased the number of notices issued for FY 2019. However, the number of notices issued significantly declined from FYs 2020 through 2022 and the program stopped issuing notices in FY 2023. The decrease in notices issued and the pausing of the program was primarily a result of the IRS closing their facilities in response to the pandemic. When the IRS closed their facilities, it led to a backlog of paper tax returns that were received but not yet processed.

The Nonfiler Program had only run sporadically since 2016 due to budget and staffing limitations that did not allow these cases to be worked. The Inflation Reduction Act provided the IRS with the funding to do this core tax administration work, and the IRS started to issue individual nonfiler notices increasing year after year beginning in FY 2024.[5] However, as of March 2025, Congress reduced this funding to $37.6 billion.[6] Further, as of December 31, 2025, the IRS has exhausted the remaining supplemental enforcement funding.

In February 2024, the IRS announced a new nonfiler compliance effort focused on high-priority taxpayers including high-income individuals (hereafter referred to as the high-income nonfiler

[4] IRS Small Business/Self-Employed Nonfiler Strategic Plan (May 31, 2018).

[5] This legislation provided the IRS with $79.4 billion in supplemental funding.

[6] The Fiscal Responsibility Act of 2023 (Pub. L. No. 118-5, 137 Stat. 10) rescinded $1.4 billion; the Further Consolidated Appropriations Act, 2024 (Pub. L. No. 118-47, 138 Stat. 460) rescinded $20.2 billion; and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4) rescinded another $20.2 billion.

notice initiative). For this initiative, high-income individuals are those with income of $400,000 or more, which is in line with the 2022 Treasury Directive. For FY 2025, the IRS significantly increased the number of notices issued, as well as the number of returns secured under the program. However, these efforts occurred before the IRS lost more than 31,000 employees (28 percent of its workforce) due to governmentwide efforts to reduce the federal workforce.

The Government Performance and Results Act – Modernization Act of 2010, requires every federal agency to produce a new strategic plan one year after a president's term begins.[7] The IRS developed a strategic plan for FY 2026 to FY 2030. Several goals describe using advanced technology (which may help address the reduction in staff) to improve tax compliance. For example, one of the goals is to strengthen compliance by leveraging technology and advanced analytics to improve case selection.

Prior TIGTA reports pertaining to the IRS's nonfiler programs

From FYs 2017 through 2024, we issued five reports expressing concerns about the different IRS nonfiler programs, as well as the overall strategic approach on the Nonfiler Program. These reports raised similar concerns about the limited resources assigned to the nonfiler programs. Below is a summary of our findings and recommendations from these prior reports:

- In May 2020, we expressed concerns about the lack of priority the IRS places on high-income nonfilers in its overall nonfiler strategy. We found that from TY 2014 through TY 2016 over 800,000 high-income taxpayers owing approximately $46 billion had not satisfied their filing requirement. Additionally, we noted that the IRS had a Nonfiler Executive Steering Committee, but it was only made up of SB/SE Division Executives and lacked any involvement by other division in the IRS that work nonfiler cases. We recommended that the IRS dedicate resources and management officials to oversee nonfiler efforts. The IRS disagreed with this recommendation because they stated that they already have an Executive Steering Committee that provides oversight of the Nonfiler Program. SB/SE Division management said that they would strengthen the steering committee by adding the Director, Fraud Enforcement, and they would consider the appointment of a single committee chair when they revise the charter for the steering committee.[8]
- In December 2020, we found almost 104,000 individual nonfilers with approximately $3 billion in income reported on Form 1099-K, *Payment Card and Third Party Network Transactions*, that the IRS did not pursue. We recommended that the IRS work a percentage of the individual nonfilers who had significant income. The IRS agreed and stated that they will refer the cases with a significant tax liability to the appropriate treatment stream.[9]
- In March 2023, when evaluating the filing compliance of federal employees, we found that when a federal employee has both a balance due and an unfiled return, the IRS tends to address balance due cases before addressing nonfiler cases. In addition, its dedicated Federal Employee Retiree Delinquency Initiative (FERDI) employees only

[7] Pub. L. No. 111-352, 124 Stat. 3873.

[8] TIGTA, Report No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service*, pp. 4, 6, 17, and 18 (May 2020).

[9] TIGTA, Report No. 2021-30-002, *Billions in Potential Taxes Went Unaddressed From Unfiled Returns and Underreported Income by Taxpayers That Received Form 1099-K Income*, pp. 1, 13 (December 2020).

worked standalone nonfiler cases one day per quarter. We recommended, and the IRS agreed to, ensure that all FERDI balance due and nonfiler work be prioritized as resources permit.[10]

- In September 2024, we found that the IRS was not pursuing nonfilers who have significant gambling income. We recommended that the IRS begin appropriate enforcement actions on the populations of nonfilers with gambling winnings for TYs 2018 through 2020 and prioritize the high-income nonfilers. The IRS agreed and will begin enforcement actions where appropriate.[11]
- In May 2026, we performed a review to analyze the noncompliance of FERDI taxpayers. We noted that current federal civilian delinquency rate steadily increased from FY 2021 to FY 2024. Approximately 50,000 federal civilian employees failed to file a tax return for multiple years. In May 2025, the IRS collaborated with the Department of the Treasury to create a notice informing current and retired federal employees of noncompliance with their tax obligations. The IRS mailed 427,000 of these one-time notices. Finally, between January 2025 and July 2025 the number of employees working FERDI inventory decreased from 242 to 121, a 50 percent reduction. We did not make any recommendations with this report.[12]

Results of Review

We found 38,824 cases in first notice status and 10,969 cases in the queue as of June 30, 2025.

As of June 30, 2025, we found that 38,824 high-priority cases (*e.g.* high-income taxpayers, IRS employees) were still in first notice status (this review specifically focused on the nonfiling of individual income tax returns). The first notice for the majority of these taxpayers was issued in February or March 2024. These cases involved 33,653 taxpayers and potential tax assessments of approximately $15.7 billion. These cases had not received any follow-up or moved to other compliance treatment streams. After making the IRS aware of the number of cases still in first notice status, we note that the number of these high-priority nonfiler cases in first notice status have decreased, as some of those taxpayers filed their returns. As of December 31, 2025, the IRS has 33,757 high-income nonfiler cases in first notice status.

We also found that 10,969 cases impacting 8,853 taxpayers were in the queue (a list of collection inventory awaiting further assignment) with potential tax assessments of approximately $2.5 billion. The IRS has reduced the backlog of these high-priority nonfiler cases in the queue and as of December 31, 2025, the number of cases is 9,463.

[10] TIGTA, Report No. 2023-30-011, *The IRS Has Not Adequately Prioritized Federal Civilian Employee Nonfilers*, pp. 18, 19 (March 2023).

[11] TIGTA, Report No. 2024-300-064, *The IRS Could Collect Over a Billion Dollars in Taxes From Unreported Wagering Income*, p. 9 (September 2024).

[12] TIGTA, Report No. 2026-3S0-023, *Federal Employee and Retiree Trends Show Increased Tax Noncompliance*, pp. 3, 6, 7, 9, and 10 (May 2026).

Additionally, we found that the IRS issued the first notice for 4,918 cases impacting 4,748 taxpayers who had already filed a tax return. The IRS included these taxpayers in the initiative because the processing of their tax returns was delayed for the majority of these cases.

We also found the IRS should use an agencywide approach with executive oversight and dedicated resources could enhance the IRS's Nonfiler Program. In addition, we found that the IRS has prioritized other inventories such as balance due inventory over nonfiler inventory. Finally, we found that the Monthly Assessment of Performance report does include returns secured and dollars collected but does not break out the results for each nonfiler program.

The IRS Failed to Move High-Priority Nonfilers Who Did Not Respond to the First Notice Through the Notice Cycle

In February 2024, the IRS started its high-income nonfiler notice initiative by monitoring 135,270 cases of certain high-priority nonfilers. According to Collection function management, 10,507 of these cases had identity theft indicators as of June 30, 2025, so they monitored the remaining 124,763 cases. These 124,763 cases involved 104,227 taxpayers. The taxpayers selected may have more than one case in this population if they did not file one or more tax returns during TYs 2015 through 2021. The cases fell into the following nonfiler populations.

- 120,062 involved individual high-income taxpayers not included in the other three populations. These taxpayers had incomes of $400,000 or more (based on the total income reported to the IRS on third-party information return documents). This population included cases for TYs 2017 through 2021.
- 1,685 cases involved FERDI taxpayers receiving a salary or pension from the federal government. This population included cases for TYs 2017 through 2021.
- 1,663 cases involved IRS employees. This population included cases for TYs 2017 through 2021.
- 1,353 cases meeting the criteria provided by the Senate Finance Committee. In June 2023 the Senate Finance Committee requested information from the IRS related to individual taxpayers who had a balance due of at least $100,000, had multiple unfiled returns, and filed a Form 1040, *Individual Income Tax Return*, in the last 5 years with adjusted gross income of at least $1 million. This population included cases for TYs 2015 through 2020.

The IRS created an ad-hoc report to track and monitor results for the 135,270 cases selected for this initiative, including the 10,507 cases with identity theft indicators. For the purposes of our review, we removed additional cases. We removed:

- 18,225 cases where a first notice was not issued. For example, the IRS did not issue a first notice if a return was posted before it began issuing first notices for this initiative.
- 4,918 cases from the population where a first notice was issued after a return was already received by the IRS, but the IRS had not posted that return to that taxpayers account (discussed later in the report).
- 561 cases from the population where both taxpayers on a jointly filed return were in the population and where only a single return was due.

As of June 30, 2025, the revised population for our review of this initiative was 111,566 cases. Of the revised population of 111,566 cases, returns were not filed and assessments were not made on 81,417 (73 percent) of the cases. For the remaining 30,149 (27 percent) cases, a return was filed or an assessment was made.

Nearly 40,000 cases remain in first notice status, which resulted in some high-priority inventory not being worked

Our analysis of the results of the high-income nonfiler notice initiative as of June 30, 2025, shows that 38,824 (35 percent) high-priority cases out of 111,566 did not receive a final notice or move to an alternative compliance treatment stream. These cases involved 33,653 taxpayers with potential tax assessments of approximately $15.7 billion. The IRS provided two fields that calculate the potential tax that would be assessed if the IRS filed a return on the taxpayer's behalf. To be conservative, we used the field that resulted in the lower total potential tax. These potential tax fields do not consider any deductions or credits that the taxpayer may claim if they file their return and only consider income that is reported to the IRS. Therefore, the amount of tax assessed may be higher or lower if the taxpayer files a return. The first notice for the majority of these taxpayers was issued in February or March 2024. As previously stated, the IRS should issue a final notice within eight weeks if the taxpayer did not respond by filing their return. Had this delay not occurred, we calculated that the IRS could have secured a tax return or made a tax assessment on 10,482 cases (impacting 9,119 taxpayers) with potential additional tax due totaling approximately $321.3 million if they released them from first notice status.[13]

According to SB/SE Collection function management, they identified the same issue when reviewing the ad-hoc report they created. In July 2024, Collection function management noticed that some cases were not progressing through the notice process as expected, but they did not know what was causing the delay. During this audit, Collection function officials learned that the Office of Information Technology pauses that were initially put in place to delay the issuance of the final notice remained in place for these cases. Collection function management stated that in March 2024, they made a request to delay the issuing of final notices due to concerns regarding available resources to work cases. This delay stopped these cases from progressing through the return delinquency process, which also stopped further collection notices and actions from being taken. Further actions may include assigning the case to another function for additional treatments such as the ASFR Program. In the ASFR Program, the IRS files tax returns for taxpayers in an automated environment based on third-party income information. After discussing this issue with the IRS, Collection function management explained that they took actions in March 2026 (2 years later) to move the cases out of first notice status.

IRS policy states that the goal of the Return Delinquency Program is to achieve full compliance, which includes both filing and payment compliance. We acknowledge that the number of these high-priority nonfiler cases in first notice status decreased as some of those taxpayers filed their returns. As of December 31, 2025, the IRS has 33,757 high-income nonfiler cases in first notice status. However, if the IRS does not take further action on the other cases that remain in first notice status, it may miss an opportunity to secure returns and obtain full payment for these cases. Additionally, as more taxpayers experience little to no consequences for nonfiling, there may be a long-term impact on voluntary compliance and a widening of the Tax Gap.

[13] See Appendix II for a description of how we calculated this outcome.

Nearly 11,000 high-priority cases remain in the queue

Our analysis also identified that as of June 30, 2025, 10,969 cases (10 percent) of the 111,566 high-income nonfiler cases (involving 8,853 taxpayers) were in the queue. These high-priority cases went through the notice process and were awaiting assignment to the Field Collection function. The potential tax liability from these cases was approximately $2.5 billion. As previously mentioned, the IRS provided two fields that calculate the potential tax that would be due if the IRS filed a return on the taxpayer's behalf. To be conservative, we used the field that resulted in the lower total potential tax. These potential tax fields do not consider any deductions or credits that the taxpayer may claim if they were to file their return. They only consider income that is reported to the IRS; therefore, the amount of tax assessed may be higher or lower if the taxpayer files a return. We calculated that if the IRS prioritizes these cases, the agency could secure a tax return or make a tax assessment on 2,962 cases (impacting 2,399 taxpayers) with potential additional tax due of approximately $90.8 million.[14]

As previously stated, the goal of the Return Delinquency Program is to achieve full compliance, including both filing and payment compliance. However, when cases are placed in the queue, there is no guarantee that they will be assigned to a revenue officer for review and resolution. For instance, if there are not enough resources available, the case may not be assigned to a revenue officer. These high-priority cases should be assigned to a revenue officer or moved to another function for further action(s).

When the IRS does not consistently enforce filing compliance, there may be a long-term impact on voluntary compliance and an increase in the Tax Gap. We acknowledge that the IRS has reduced some of these cases. Cases can leave the queue when the taxpayers file their tax returns or when the case is assigned to another function for additional action(s). As of December 31, 2025, the IRS reduced the backlog of cases in the queue by nearly 14 percent (10,969 down to 9,463). Thus, the IRS should continue evaluating solutions to address the cases that are in the queue, including automatically forwarding these cases to the ASFR Program for consideration, when appropriate, for issuance of a substitute return where information returns show a potential balance due.

The Director, Collection Inventory Delivery and Selection, should:

Recommendation 1: Ensure that the Office of Information Technology removes the first notice status hold so nonfiler cases can continue through the notice process and potentially be referred to other treatment streams.

> **Management's Response:** IRS management agreed with this recommendation and resolved the processing delay. All affected cases have been identified and advanced to the next appropriate status, allowing them to continue through the notice process and to the appropriate treatment stream.

Recommendation 2: Evaluate solutions to address the Taxpayer Delinquency Investigation accounts that are in the queue to promote compliance with filing requirements.

> **Management's Response:** IRS management agreed with this recommendation and will evaluate solutions to improve filing compliance for standalone Taxpayer Delinquent

[14] See Appendix II.

Investigations assigned to the queue by reviewing the inventory to identify eligible cases that have not previously received automated treatment through the ACS or the ASFR workstreams.

Nearly 5,000 Taxpayers Were Potentially Burdened When They Received a First Notice After Filing Their Return

Our analysis also identified that as of June 30, 2025, returns were filed for 4,918 cases involving 4,748 taxpayers on or before the date the first notice was issued. The IRS issued first notices to these taxpayers because they were not aware that the taxpayers had already filed tax returns. In some cases, the returns were not posted to the taxpayers' accounts for several months or several years. As of June 30, 2025, these 4,918 tax returns had been processed and had total additional tax due of $178.3 million, plus interest and penalties.[15]

Taxpayers filed paper tax returns for 3,315 (67 percent) of these 4,918 cases. For the remaining 1,603 cases (33 percent), a return was filed electronically. The electronically filed returns could not be posted when they were received for various reasons, such as possible identity theft issues that needed to be addressed. Additionally, if information was missing from the tax return, that could also cause a delay in the posting of the tax return. We also found that the IRS took over one year to post the tax returns to the taxpayers' accounts for 1,433 cases (29 percent) of the 4,918 cases. Paper tax returns were filed for 1,268 (88 percent) of these 1,433 cases.

According to management in the Submission Processing function of the Taxpayer Services Division, the IRS will prioritize processing of tax returns with refunds, but they do not prioritize processing tax returns where tax is due. Additionally, the processing of paper tax returns still involves some manual processes, which accounts for part of the processing delays.

IRS policy states that generally, all paper tax returns should be processed and posted within 13 days or less of receipt and all electronically filed returns should be processed and posted within three weeks. Furthermore, Internal Revenue Code section 7803(a)(3) states that taxpayers have the right to quality service. The IRS compromised the right to quality service by including these taxpayers in the initiative and delaying the processing of their tax returns and potentially subjected taxpayers to other burdens. For example, taxpayers who are determined to have unfiled returns can be denied certain collection alternatives, such as installment agreements and offers in compromise.

An Agencywide Approach With Dedicated Executive Oversight and Dedicated Resources Could Enhance the IRS's Nonfiler Program

The IRS does not have coordinated oversight with dedicated resources for its different nonfiler programs. The IRS established the Nonfiler Executive Steering Committee in 2018 under the Deputy Commissioner for Services and Enforcement (a position eliminated in the IRS's 2024 leadership reorganization). The committee was created to serve as the primary body coordinating IRS matters related to the nonfiling of tax returns across the SB/SE Division. The committee has not met since September 2020 because it was paused and not prioritized due to

[15] Pursuant to I.R.C. § 6651, late filed tax returns are assessed a failure to file and failure to pay penalty when additional tax is due with the return.

the pandemic. In addition, the committee's membership did not represent the entirety of functions engaged in nonfiler compliance work. As mentioned previously, in response to recommendations we made in our May 2020 report, management said that they would strengthen the steering committee by adding the Director, Fraud Enforcement, and they would consider the appointment of a single committee chair when they revised the charter for the steering committee.[16] When the charter was revised in November 2020, the IRS included the SB/SE Director, Fraud Enforcement, and the Deputy Chief, Criminal Investigation, but the committee still lacked representation from other divisions that perform nonfiler (*e.g.*, the Large Business and International (LB&I) Division). Additionally, the steering committee decided during their last meeting in September 2020 that they would not appoint a single committee chair.

According to the Office of Management and Budget, an oversight body is necessary to provide reasonable assurance that objectives will be achieved through the internal control process. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.[17]

The majority of the nonfiler identification and enforcement for nonfiler programs officially resides under the SB/SE Division's Collection function. However, one of the Collection function's missions involves collecting on Taxpayer Delinquent Accounts (TDA). These are accounts where a return has been filed but there is an unpaid balance due. Figure 3 shows the number and percentage of TDA versus TDI module dispositions for FYs 2023 through 2025. The information in Figure 3 captures TDA and TDI modules disposed of in the SB/SE Collection functions, including CSCO, ACS, and Field Collection (including the queue).

Figure 3: The IRS Generally Focuses on Taxpayers with Balances Due Instead of Nonfilers

	FY 2023		FY 2024		FY 2025	
	Number of Module Dispositions	Percentage of Module Dispositions	Number of Module Dispositions	Percentage of Module Dispositions	Number of Module Dispositions	Percentage of Module Dispositions
TDAs	2.9M	86%	4.7M	86%	4.8M	76%
TDIs	460K	14%	767K	14%	1.5M	24%
Total	**3.3M**	**100%**	**5.5M**	**100%**	**6.3M**	**100%**

Source: IRS Monthly Assessment of Performance Reports for SB/SE Collection Operations for FYs 2024 through 2025. K = thousands, and M = millions. Totals may not add due to rounding.

According to the information in Figure 3, most of the case dispositions in FYs 2023 and 2024 were TDAs or balance due accounts. However, there was a slight increase in FY 2025 in TDI cases as a percentage of dispositions.

Collection function officials have consistently stated that the IRS generally prioritizes balance due accounts over unfiled tax returns due to the statutory obligation to provide notice when a person is liable for an unpaid assessment. The IRS also takes this approach because there is a 10-year statute of limitations to collect a balance due but no statute of limitations for an unfiled tax return. However, as previously noted, each year brings thousands of new nonfiler cases

[16] TIGTA, Report No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service*, pp. 4, 6, 17, and 18 (May 2020).

[17] Office of Management and Budget, Circular A-123 *Management's Responsibility for Internal Controls*, pp. 5 and 10 (March 2026).

making it less likely that older unfiled returns will ever be pursued. Furthermore, since nonfiler work is deemed discretionary and not considered high-priority work compared to balance due cases, Collection function management stated that they must first identify available resources before they can determine how many nonfiler cases they can start. As previously discussed, our reports have addressed deficiencies in the Nonfiler Program and the need to work more high-priority cases such as high-income nonfilers and taxpayers with significant gambling income. The number of nonfiler cases the IRS selects to work varies each year based on available resources, nonfiler case inventory, and what it considers to be high-priority work.

Collection function management also stated that within the SB/SE Division, reports are not readily available to determine if their nonfiler enforcement efforts are productive. This is because the IRS does not have one single report that captures the productivity of the different nonfiler enforcement efforts. Officials in the SB/SE Division Collection and Examination functions both stated that they do not own the nonfiler agencywide program. Collection function management confirmed that each function is responsible for their own programs and initiatives. While SB/SE is the main division performing nonfiler work, other divisions such as LB&I and Taxpayer Services also address nonfilers. To determine how the IRS is progressing on its nonfiler strategy and the Nonfiler Program as a whole, the agency needs to evaluate nonfiler business reports from their different nonfiler programs, within each of the three business divisions. The IRS should also consider a more coordinated agencywide approach to manage all of the nonfiler programs. However, establishing agencywide accountability for the nonfiler strategy is challenging without effective executive oversight and dedicated resources.

Recommendation 3: The Director, Collection Inventory Delivery and Selection, should develop and implement a comprehensive agencywide strategy supported by executive oversight and dedicated resources to ensure effective coordination across the IRS's nonfiler programs.

> **Management's Response:** IRS management agreed with this recommendation and will develop and introduce an agencywide Nonfiler Strategy.

Potential Nonfiler Inventories Have Significantly Increased As the IRS Prioritized Other Inventories

As previously shown in Figure 1, the number of potential nonfilers has grown from nearly 8.8 million for TY 2015 to nearly 14.7 million in TY 2022, increasing by approximately 5.9 million. Most of the increase in nonfilers from TY 2015 to TY 2022 occurred in the "Under $200,000" income category. Despite the increase, the IRS has not prioritized enforcement of nonfilers. For example:

- **The Return Delinquency Program does not report resources spent on its program.** Figure 4 shows the number of full-time equivalents (FTEs) used in Campus Collection and some of the programs within Campus Collection for FYs 2019 through 2025. As reflected in Figure 4, the resources used for the Return Delinquency and Balance Due programs are combined while other collection program resources are reported separately. The resources used in the Return Delinquency and Balance Due programs are reported together because there is only one code used by employees to report the time they spend on those programs.

Figure 4: Actual FTEs for Select Programs Within Campus Collection

Campus Collection Programs	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Campus Collection	1,378	1,351	1,574	1,483	1,227	1,713	2,106
Return Delinquency and Balance Due Programs	796	849	1,066	891	863	1,277	1,581
ASFR	101	110	100	74	60	58	105
Withholding Compliance	32	32	35	19	7	9	28
Liens	68	93	97	80	76	84	93

Source: IRS Monthly Assessment of Performance Reports for CSCO for FY 2019 through FY 2025.

- **The Balance Due Program generally takes priority over the Return Delinquency Program.** Figure 5 shows the planned and actual first notices for the Return Delinquency and Balance Due programs for FYs 2019 through 2025. In FY 2019, both programs met their planned performance goals for first notices, which occurred after the IRS finalized its 2018 Nonfiler Strategy. In FY 2020, unusual circumstances, such as the pandemic, contributed to the plan not being met. Additionally, Internal Revenue Code Section 6303 requires the IRS to send the balance due first notice to taxpayers. This is why the IRS typically meets its performance goals for issuing first notices for the Balance Due Program.

Figure 5: Planned and Actual First Notices for the Return Delinquency and Balance Due Programs

Fiscal Year	Return Delinquency First Notice Planned	Return Delinquency First Notice Actual	Met the Plan?	Balance Due First Notice Planned	Balance Due First Notice Actual	Met the Plan?
2019	1.4M	2.1M	Yes	13.0M	13.1M	Yes
2020	2.3M	1.7M	No	12.9M	10.7M	No
2021	2.7M	384K	No	11.1M	14.1M	Yes
2022	648K	107K	No	11.0M	16.0M	Yes
2023	1.1M	71	No	15.4M	16.1M	Yes
2024	5.0M	847K	No	16.2M	16.0M	No
2025	3.0M	2.4M	No	17.0M	16.7M	No

Source: IRS Monthly Assessment of Performance Reports for CSCO for FYs 2019 through 2025.
K = thousands, and M = millions.

For FYs 2021 through 2023, the IRS exceeded the planned first notices for the Balance Due Program but not for the Return Delinquency program, which the IRS paused. Collection function management stated that when the program was paused, nonfilers were still being identified systemically, but nonfiler notices were not sent to taxpayers.

As previously discussed, the IRS must identify available resources before they can determine how many nonfiler cases they can start. Case selection is also based on what the IRS considers to be high-priority work at a given time and what resources have been allocated to the Balance Due Program. Collection function management stated that the collection of a balance due may take priority over nonfiler work due to the statutory obligation to provide notice when a person is liable for an unpaid assessment. Other factors that may have contributed to the increase in nonfiler inventories include:

- **Pauses in the first notice impacts priority nonfiler inventory.** The IRS assigns a select code that prioritizes inventory for each tax year. Select codes help the IRS identify taxpayers with certain characteristics or types of returns such as IRS employees or high-income taxpayers. This allows the IRS to select high-priority inventory (*e.g.*, IRS employees, federal employees, or high-income taxpayers). However, when the IRS pauses the delinquency program, there is a risk that the inventory will not go through the return delinquency process. For instance, we previously noted that 40,703 cases in FY 2025 included IRS employees, federal employees and high-income taxpayers that did not continue through the delinquency return program.
- **The IRS generally works one single tax year for an unfiled return in the ASFR Program.** In a prior report, we found that the IRS generally works single tax year cases in the ASFR Program for a taxpayer with multiple unfiled returns.[18] By doing this, the IRS may miss an opportunity to bring repeat nonfilers back into compliance.
- **Nonfilers do not receive an annual delinquency notice.** While taxpayers with a balance due receive an annual notice, nonfilers do not.

If the IRS does not dedicate adequate resources and prioritize its nonfiler programs, it will miss an opportunity to secure returns and obtain full payment for these cases. Additionally, if filing compliance is not addressed, it could impact how many taxpayers voluntarily file a return and ultimately result in an increase to the Tax Gap.

The Director, Collection Inventory Delivery and Selection, should:

Recommendation 4: Separately track the time spent on the Nonfiler Program for reporting purposes and allocate full-time equivalents to the nonfiler programs.

> **Management's Response:** IRS management agreed with this recommendation and will track and report the time and full-time equivalent resources devoted to nonfiler work. This information will be incorporated into the annual resource-planning process to support appropriate resource allocation.

Recommendation 5: Explore efforts to better prioritize the highest risk nonfiler populations for appropriate treatment, such as ASFR and Field Collection.

> **Management's Response:** IRS management agreed with this recommendation and will explore efforts using analytics to better prioritize the highest risk nonfiler populations for appropriate treatment.

[18] TIGTA, Report No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service*, p. 14 (May 2020).

The IRS Lacks Performance Metrics for Each of the Individual Nonfiler Enforcement Programs

We found that there is no single report containing the results of all of the IRS's nonfiler enforcement programs. Nonfiler enforcement can take place within a variety of functions or business units, such as SB/SE Collection, SB/SE Examination, and the LB&I Division. Each function has their own reports containing the results of their nonfiler programs. Each month, the SB/SE Division's Collection function prepares the *Monthly Assessment of Performance* monitoring report. This report contains information on only the SB/SE Division's nonfiler programs; however, the information is not broken down for each nonfiler program. Thus, making it difficult for IRS leadership to evaluate the performance and effectiveness of each compliance effort.

The IRS's 2018 Nonfiler Strategic Plan states that the IRS will develop, introduce and use additional performance measures to understand and manage nonfiler performance over time across the SB/SE Division. The strategic plan recognized that the SB/SE Division did not have one report with the performance measures for both the Exam and Collection functions. Collection function management stated that they plan to continue using metrics such as returns secured and dollars collected that are currently in the *Monthly Assessment of Performance* monitoring report.

Collection function management further explained that these metrics are not broken down by nonfiler program because nonfiler cases can go through several different nonfiler programs before returns are secured and dollars are collected so tracking the information by nonfiler program can be challenging. Additionally, they explained that an assessment may be made under one nonfiler program and the return could be secured and the dollars could be collected under another nonfiler program.

Figure 6 illustrates the number of individual returns secured and the dollars collected for FYs 2023 through 2025 by CSCO operations.

Figure 6: Number of Individual Tax Returns Secured and Dollars Collected As Shown on the Monthly Assessment of Performance Report

	FY 2023	FY 2024	FY 2025
Number of Returns Secured	108K	198K	657K
Dollars Collected	$136M	$465M	$1.2B

Source: IRS Monthly Assessment of Performance Reports for CSCO for FY 2023 through FY 2025. K = thousands, M = millions, and B = billions.

According to Circular A-123, management should clearly define objectives in alignment with the organization's mission, strategic plan, and performance goals to enable the identification of risks. As of September 30, 2025, CSCO reported that over 657,000 individual returns were secured with a total of approximately $1.2 billion collected. However, the IRS could not tell us the amount that each nonfiler enforcement strategy (*e.g.*, the ASFR Program) contributed to the total. The IRS also could not tell us how much money each nonfiler program collected, or the number of returns each secured. Both are data points that we believe are important in determining program effectiveness. Collection function management also stated that there is no report that provides these details.

In addition, there is no single SB/SE Division report that contains the results from all of its different nonfiler efforts (*i.e.*, Return Delinquency, ASFR, Field Collection, Correspondence Examination and Field Examination). Further, there is no report that describes the results from the other IRS functions, like Criminal Investigation, that work on filing noncompliance matters. Thus, the IRS cannot say which program was most effective at addressing noncompliance. Without program-level performance data, it is more challenging for the IRS to assess the relative efficiency and effectiveness of its nonfiler programs.

Recommendation 6: The Director, Collection, should update the Monthly Assessment of Performance report to include metrics such as returns secured and dollars collected, for each nonfiler program.

> **Management's Response:** IRS management agreed with this recommendation and will coordinate with Information Technology on the feasibility of reprogramming the Collection Activity Reports to include the required metrics. These metrics must first be programmed into the Collection Activity Reports before they can be updated to the Monthly Assessment of Performance report. Once feasibility is determined, we will coordinate with Information Technology, if needed.

Collection Function Workforce Reductions

Collection function management is still assessing the impact of the recent workforce reductions on the IRS's nonfiler efforts. They stated that they do not anticipate pausing any of the nonfiler programs but may adjust the number of cases they can work based on resources.

Since January 2025, the IRS has taken steps to reduce the size of its workforce to comply with the President's executive orders and Office of Personnel Management guidance. Between January 2025 and January 2026, the number of IRS employees decreased from approximately 103,000 to 74,000 (30 percent).[19] These employees either voluntarily separated, accepted a Deferred Resignation Program offer, or took some other incentive to leave.

The workforce was reduced in each Collection function due to multiple Deferred Resignation Program offers, and the loss of probationary employees through June 2025. While the employees lost in each Collection function were responsible for working nonfiler cases, they were also responsible for working other types of cases. These cases involve balance dues, liens, *etc.*, associated with taxpayer accounts.

The various Collection function operation areas lost many of their employees. As of May 2026, the ACS program lost 1,842 (46 percent) of their tax examiners and collection representatives, while CSCO lost 873 (37 percent) of their tax examiners and Field Collection lost 1,429 (40 percent) of their employees. The IRS should consider leveraging more automated tools like the ASFR Program to address resource losses and constraints. We are currently conducting a review to assess how the IRS is improving tax compliance with a reduced Collection function workforce.

[19] TIGTA, Report No. 2026-IE-R009, *Snapshot Report: IRS Workforce Reductions as of January 2026*, p.2 (June 2026).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the SB/SE Division's current approach to address nonfilers. To accomplish our objective, we:

- Reviewed the IRS's 2018 Nonfiler Strategy and conducted interviews with IRS subject-matter experts.
- Reviewed the IRS's February 2024 high-income nonfiler notice initiative to understand and assess the IRS's efforts to manage the high-priority nonfiler selections. We also:
    - Interviewed subject-matter experts to get an understanding of the initiative.
    - Reviewed module data included in the initiative.
    - Determined how many returns were secured, how much tax was assessed, and how much tax was collected.
    - Determined module status when returns were not secured from taxpayers and when the IRS did not assess substitute returns as of September 30, 2024, in comparison with June 30, 2025, and December 31, 2025.
    - Worked with the Office of Data Analytics and consulted with TIGTA's Statistician on how to calculate the Outcome Measures from the initiative.
- Interviewed subject-matter experts and reviewed documentation to determine how the IRS monitors progress and measures results across all current nonfiler initiatives and projects.
- Determined how FY 2025 staff reductions impacted nonfiler programs and projects.
- Analyzed the nonfiler population for TYs 2015 through 2022 identified through the Individual Master File CCNIP for trends.
- Assessed the available performance measures for the Return Delinquency Program.

Performance of This Review

This review was performed with information obtained from the Collection headquarters offices located within the SB/SE Division in Lanham, Maryland, during the period October 2024 through December 2025. 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.

Data Validation Methodology

We performed tests to assess the reliability of data from the following IRS databases: Individual Master File, Account Receivable Dollar Inventory, Notice Delivery System, Enforcement Revenue Information System, Collection Information, and the Return Transaction File (Individual Master File). We evaluated the data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data, and (4) reconciling selected data to the Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this report.

Additionally, we performed tests to assess the reliability of data in the Monthly Assessment of Performance reports for FYs 2019 through 2025 for Figures 3, 4, and 6 and the actual balance due and actual return delinquency modules to first notice status for Figure 5. We evaluated the data by reconciling selected data to the Delinquency Notice Collection Activity Report (NO-5000-139), the Balance Due Notice Report (NO-5000-1/241/NO-5000-2/242), the TDI Report (NO-5000-3/NO-5000-4) as well as the TDA Report (NO-5000-1/NO-5000-2). These reports are the source of the information found in the Monthly Assessment of Performance reports. However, we did not reconcile the FTE information from the Monthly Assessment of Performance reports to the source reports (Figure 4). We determined that the data we reconciled to source reports was sufficiently reliable for purposes of this report.

We also performed limited tests to determine the reliability of information provided by the IRS from the following three data sources: the IRS's Compliance Data Warehouse Individual Master File CCNIP for the number of nonfilers by tax year as listed in Figure 1, the Return Delinquency Cumulative Notice Report (NO-5000-4-NOT) for FYs 2017 through 2025 for the number of modules in first notice status, final notice status, the number of returns secured and the modules to TDI status in Figure 2, and the IRS Human Resources Reporting Center, the Internal Revenue Workflow Optimization, Request, and Knowledge System, the Service Now Portal and the Treasury Human Capital Tabular Model reports listing the number of employees lost. We reviewed the methodology that the IRS used to create the information provided. We determined that the data presented in Figure 1 was sufficiently reliable for purposes of this report as we were able to reconcile the total number of nonfilers by tax year to additional sources of information. However, we could not independently validate the source of the Return Delinquency Cumulative Notice Report (NO-5000-4-NOT) for FYs 2017 through 2025 and the IRS Human Resources Reporting Center, the Internal Revenue Workflow Optimization, Request, and Knowledge System, the Service Now Portal and the Treasury Human Capital Tabular Model reports and therefore cannot make a statement on their validity or reliability. The attrition information in the report is presented for informational purposes and does not impact our findings or conclusions.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies, procedures, and practices related to individual nonfilers. We evaluated these controls by reviewing and analyzing relevant data; interviewing IRS management; reviewing relevant guidance; and reviewing performance reports.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Funds Put to Better Use and Taxpayers Impacted – Potential; $321,315,228 in additional tax due by releasing the first notice status for the 9,119 taxpayers (see Recommendation 1).[1]

Methodology Used to Measure the Reported Benefit:

From the revised population of 111,566 cases selected for the high-income nonfiler notice initiative, returns were not filed, and assessments were not made on 81,417 cases. Out of 81,417 cases we noted that 38,824 cases impacting 33,653 taxpayers were in first notice status as of June 30, 2025. We totaled potential tax assessments associated with these cases based on two fields provided by the IRS. These fields are used to calculate potential tax that would be assessed if the IRS filed a return on the taxpayer's behalf. The potential tax fields do not consider any deductions or credits that the taxpayer may claim if they were to file their return. The fields only consider income reported to the IRS. Therefore, the amount of tax assessed may be higher or lower if the taxpayer files a return. We used the field that resulted in the lower amount and noted that the total potential tax assessment is approximately $15.7 billion.

However, we believe that it is unlikely the IRS will secure a return or make an assessment on all 38,824 cases in first notice status once they are released from this status. Our analysis of the data, as of June 30, 2025, showed that the IRS secured or made an assessment on 30,149 cases out of the revised population of 111,566 cases. This is a filing/assessment rate of approximately 27 percent (30,149/111,566 =.27023). The total additional tax due is approximately $924.2 million on these 30,149 cases for an average additional tax due of approximately $30,654. Instead of calculating a separate filing/assessment rates and a separate average additional tax due for each of the four populations of taxpayers discussed in the report (IRS employees, FERDI taxpayers, taxpayers meeting the criteria of the Senate Finance Committee, and high-income taxpayers), we calculated an overall filing/assessment rate and an overall average additional tax due for this population. We did this because we noted that approximately 98 percent of the cases in the starting population of 135,270 cases were high-income taxpayers and the other three populations combined represented a very small portion of the population. We discussed our methodology with the Statistician who agreed with our calculations.

We applied the 27 percent filing/assessment rate to the population of cases in first notice status (38,824 cases), which resulted in 10,482 (38,824 x.27 = 10,482) cases. We also took the average additional tax due of approximately $30,654 and multiplied it by the number of estimated secured returns or assessments (10,482), which resulted in a potential additional tax due of

[1] Taxpayers may be included in both outcome measures if the taxpayer had multiple unfiled returns selected for this initiative.

$321,315,228. Therefore, we estimate that once the cases are released from first notice status, the IRS could secure or make an assessment on 10,482 of the 38,824 cases in first notice status with a potential additional tax due of approximately $321,315,228 (10,482 x $30,654).

We similarly estimated the taxpayer impact by applying the percentage of the 33,653 taxpayers associated with the 38,824 (33,653/38,824 =.86681) cases in first notice (*i.e.*, 87 percent). We applied this percentage to the 10,482 cases to calculate the impact to 9,119 (10,482 x.87 = 9,119) taxpayers.

Type and Value of Outcome Measure:

- Funds Put to Better Use and Taxpayers Impacted – Potential; $90,797,148 in additional tax due tax by prioritizing the cases in the queue impacting 2,399 taxpayers (see Recommendation 2).[2]

Methodology Used to Measure the Reported Benefit:

From the revised population of 111,566 cases selected for the high-income nonfiler notice initiative, returns were not filed, and assessments were not made on 81,417 cases. Out of 81,417 cases where a return was not filed and an assessment was not made, we noted that 10,969 cases impacting 8,853 taxpayers were placed in the queue as of June 30, 2025. We totaled potential tax assessments associated with these cases based on two fields provided by the IRS. These fields are used to calculate potential tax that would be assessed if the IRS filed a return on the taxpayer's behalf. The potential tax fields do not consider any deduction or credits that the taxpayer may claim if they were to file their return. The fields only consider income reported to the IRS. Therefore, the amount of tax assessed may be higher or lower if the taxpayer files a return. We used the field that resulted in the lower amount and noted that the total potential tax assessment for the cases in the queue is approximately $2.5 billion.

However, we believe that it is unlikely the IRS will secure a return or make an assessment on all 10,969 cases placed in the queue, even if they are prioritized. Our analysis of the data, as of June 30, 2025, showed that the IRS secured or made an assessment on 30,149 cases out of the revised population of 111,566 cases. This is a filing/assessment rate of approximately 27 percent (30,149/111,566 =.27023). The total additional tax due is approximately $924.2 million on these 30,149 cases for an average additional tax due of approximately $30,654. Instead of calculating a separate filing/assessment rates and a separate average additional tax for each of the four populations of taxpayers discussed in the report (IRS employees, FERDI taxpayers, taxpayers meeting the criteria of the Senate Finance Committee, and high-income taxpayers), we calculated an overall filing/assessment rate and an overall average additional tax due for this population. We did this because we noted that the majority or approximately 98 percent of the cases in the starting population of 135,270 cases were high-income taxpayers and the other three populations combined represented a very small portion of the population. We discussed our methodology with the Statistician who agreed with our calculations.

We applied the 27 percent filing/assessment rate to the population of cases in the queue (10,969 cases), which resulted in 2,962 (10,969 x.27 = 2,962) cases. We also took the average additional tax due of approximately $30,654 and multiplied it by the number of estimated

[2] Taxpayers may be included in both Outcome Measures if the taxpayer had multiple unfiled returns selected for this initiative.

secured returns or assessments (2,962), which resulted in a potential additional tax due of approximately $90,797,148. Therefore, we estimate that if the IRS prioritized working the cases in the queue, the IRS could secure or make an assessment on 2,962 of the 10,969 cases in the queue with a potential additional tax due of $90,797,148 (2,962 x $30,654).

We similarly estimated the taxpayer impact by applying the percentage of the 8,853 taxpayers associated with the 10,969 cases (8,853/10,969 =.80709) in the queue (*i.e.*, approximately 81 percent). We applied this percentage to the 2,962 cases to calculate the impact to 2,399 (2,962 x.81 = 2,399) taxpayers.

Appendix III

Management's Response to the Draft Report

SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 17, 2026

MEMORANDUM FOR DIANA M. TENGESDAL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lia Colbert Amalia C. Colbert Digitally signed by Amalia C. Colbert Date: 2026.08.17 12:39:39 -04'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers (Audit No.: 2024308016)

Thank you for the opportunity to respond to your draft audit report regarding our approach to addressing nonfilers. A strong tax system depends on both voluntary compliance and effective enforcement. We encourage taxpayers to file required returns and take appropriate enforcement action when they do not. Together, these efforts promote fairness, strengthen confidence in the tax system, and help reduce the Tax Gap.

Your report recognizes that we have significantly expanded our nonfiler efforts in recent years. This includes launching the high-income nonfiler initiative and expanding notice and enforcement treatments across the broader nonfiler population. These efforts demonstrate our ongoing commitment to strengthening nonfiler compliance while balancing available resources across other critical enforcement priorities, such as collecting assessed taxes. As we look ahead, we are building on the progress we have made by enhancing how we identify and address nonfilers. Our goal is not simply to work more cases, but to identify the taxpayers who present the greatest compliance risk and take the right action at the right time.

We are using analytics, automation, and artificial intelligence to identify potential noncompliance earlier and expand the use of reminder notices and other early outreach. Providing taxpayers with timely reminders and early outreach encourages voluntary filing, helps taxpayers avoid penalties and interest, and often resolves issues before enforcement actions are needed. When enforcement is appropriate, these same tools help us select the most effective treatment for each case. Together, these efforts strengthen voluntary compliance, identify potential nonfiling earlier, and help us use our enforcement resources where they will have the greatest impact.

We appreciate your review and recommendations. Our detailed responses to each recommendation are provided in the attached management response.

If you have any questions, please contact me or a member of your staff may contact Frederick W. Schindler, Director, Collection, Small Business/Self-Employed Division.

Attachment

Attachment

Internal Revenue Service (IRS) Management Response to the Treasury Inspector General for Tax Administration's (TIGTA) Draft Report
Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers
Audit 2024308016

The Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division, should:

RECOMMENDATION 1:
Ensure that the Office of Information Technology removes the first notice status hold so nonfiler cases can continue through the notice process and potentially be referred to other treatment streams.

CORRECTIVE ACTION:
We agree. We resolved the processing delay. All affected cases have been identified and advanced to the next appropriate status, allowing them to continue through the notice process and to the appropriate treatment stream.

IMPLEMENTATION DATE:
Implemented - March 2, 2026.

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 2:
Evaluate solutions to address the Taxpayer Delinquency Investigation accounts that are in the queue to promote compliance with filing requirements.

CORRECTIVE ACTION:
We agree. We will evaluate solutions to improve filing compliance for standalone Taxpayer Delinquent Investigations assigned to the queue by reviewing the inventory to identify eligible cases that have not previously received automated treatment through the Automated Collection System (ACS) or the Automated Substitute for Return (ASFR) workstreams.

IMPLEMENTATION DATE:
November 15, 2026

2

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 3:
The Director, Collection Inventory Delivery and Selection, should develop and implement a comprehensive agencywide strategy supported by executive oversight and dedicated resources to ensure effective coordination across the IRS's nonfiler programs.

CORRECTIVE ACTION:
We agree. We will develop and introduce an agencywide Nonfiler Strategy.

IMPLEMENTATION DATE:
November 15, 2026

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 4:
Separately track the time spent on the Nonfiler Program for reporting purposes and allocate full-time equivalents to the nonfiler programs.

CORRECTIVE ACTION:
We agree. We will track and report the time and full-time equivalent resources devoted to nonfiler work. This information will be incorporated into the annual resource-planning process to support appropriate resource allocation.

IMPLEMENTATION DATE:
October 15, 2026

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 5:
Explore efforts to better prioritize the highest risk nonfiler populations for appropriate treatment, such as ASFR and Field Collection.

CORRECTIVE ACTION:
We agree. We will explore efforts using analytics to better prioritize the highest risk nonfiler populations for appropriate treatment.

IMPLEMENTATION DATE:
November 15, 2026

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 6:
The Director, Collection, should update the Monthly Assessment of Performance report to include metrics such as returns secured and dollars collected, for each nonfiler program.

CORRECTIVE ACTION:
We agree. We will coordinate with Information Technology on the feasibility of reprogramming the Collection Activity Reports (CAR) to include the required metrics. These metrics must first be programmed into the CAR before they can be updated to the Monthly Assessment of Performance report. Once feasibility is determined, we will coordinate with Information Technology, if needed.

IMPLEMENTATION DATE:
November 15, 2026

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery & Selection, Small Business/Self-Employed Division

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

Appendix IV

Glossary of Terms

Term	Definition
Automated Collection System	A legacy system that provides a computerized telephone tax collection system designed to assist Collection employees with automatic contact and follow-up on delinquent taxpayers.
Automated Substitute for Return Program	A nonfiler or Return Delinquency Program, which is a key compliance program enforcing compliance for taxpayers who have not filed individual income tax returns but owe a significant income tax liability.
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 several characteristics, such as the amount of third-party reported income, withholding data, and estimated tax due, and assigns each case a selection code.
Compliance Services Collection Operation	An operation within the SB/SE Division that conducts IRS enforcement programs to ensure taxpayer compliance.
Deferred Resignation Program	A voluntary retirement program that provided government employees with eight months of paid leave.
Field Collection Function	The unit in the Area Office consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secured unfiled returns.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on October 1 and ends on September 30.
Full-Time Equivalent	A measure of labor hours where one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
Monthly Assessment of Performance	A report that is generated to provide the results of the program effectiveness by capturing monthly and cumulative statistics.
Return Delinquency Program	An IRS program with an objective to work responses to notices that were generated through case creation and issued to taxpayers who have been identified as liable to file and have not filed a tax return by the return due date.

Term	Definition
Small Business/Self-Employed Division	The IRS organization that services self-employed taxpayers and small businesses by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable laws.
Substitute for Return Program	A nonfiler or Return Delinquency Program for individual and individual business nonfilers who are identified via matching programs.
Taxpayer Delinquency Investigation	An account where it appears a tax return has not been filed by a taxpayer.
Taxpayer Delinquent Account	A CSCO collection program that generates notices to taxpayers that have an outstanding tax liability.
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.

Appendix V

Abbreviations

ACS	Automated Collection System
ASFR	Automated Substitute for Return
CAR	Collection Activity Reports
CCNIP	Case Creation Nonfiler Identification Program
CP	Computer Paragraph
CSCO	Compliance Services Collection Operations
FERDI	Federal Employee Retiree Delinquency Initiative
FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
LB&I	Large Business & International Division
SB/SE	Small Business/Self-Employed Division
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year

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
TIGTACommunications@tigta.treas.gov.

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