TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Trends in Compliance Activities Through Fiscal Year 2008

June 10, 2009

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

June 10, 2009

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2008 (Audit # 200930007)

This report presents the results of our review to provide statistical information and trend analyses of the data for Collection and Examination functions activities. We conduct this review each year and it is included as part of our Fiscal Year (FY) 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

This report is a compilation of statistical information reported by the Internal Revenue Service (IRS). We did not verify or validate the authenticity or reliability of the data and, therefore, did not identify any specific impact on the taxpayer. However, continued effort to improve compliance is important to reducing the tax gap[1] and maintaining the integrity of the voluntary tax compliance system.

Synopsis

Overall, during FY 2008, many compliance activities summarized in this report showed only slight increases, or decreased. However, the levels of compliance activities are still higher than what occurred during the years immediately following implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98).[2] The increases occurred even though the combined

[1] See Appendix IV for a glossary of terms.
[2] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

enforcement staff level in the Collection and Examination functions is not significantly higher than the 10-year low experienced in FY 2003. Both the Collection and Examination functions plan to hire enforcement personnel during FY 2009, but part of the hiring is to account for anticipated attrition.

While the IRS has reversed many of the enforcement declines in both the Collection and Examination functions that occurred in the years immediately following passage of the RRA 98, many of the results for FY 2008 slipped from the FY 2007 levels. The IRS noted that there were some anomalies that made FY 2007 a record-breaking year which did not recur during FY 2008, and some resources were redirected from enforcement during FY 2008 to support execution of the economic stimulus program.

The Government Accountability Office continues to include enforcement of tax laws as 1 of the 30 high-risk areas in the Federal Government in its most recent update.[3] The Government Accountability Office states that improvements in compliance with tax laws will require efforts by the IRS and Congress.

After several years of improved results, many Collection function activities and results declined during FY 2008. However, the results are still significantly higher than those during the years immediately following the implementation of the RRA 98. The use of liens (a collection enforcement tool) continued to increase and reached the 10-year high. However, the use of levies and seizures (additional collection enforcement tools) both decreased during FY 2008. Enforcement revenue collected also decreased by 5 percent (to $56.4 billion), and the total dollar amount of uncollected liabilities increased to the 10-year high of $294 billion. The gap between new delinquent account receipts and closures had narrowed by more than 1 percent by the end of FY 2008.

The Collection function collected almost 12 percent less than in FY 2007, and the number of taxpayers (981,317) and the amount owed ($43.2 billion) on accounts in the Queue were each at a 10-year high. During FY 2008, the amount owed increased by 24 percent. While the Queue is a source of work for Collection function employees, a significant number of accounts in the Queue might never receive additional contact to resolve the delinquency.[4] In addition, in FYs 2005 through 2008, the IRS removed almost 3.1 million accounts with balance-due amounts totaling approximately $11.9 billion from Collection function inventory. These accounts might never receive additional contact to resolve the delinquency.

In September 2006, the IRS started assigning balance-due cases to private collection agencies. Otherwise, these cases would not have been worked. Through FY 2008, the IRS had received a

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[3] *HIGH-RISK SERIES – An Update* (GAO-09-271, dated January 2009).

[4] Before accounts get assigned to the Queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice process, some cases go directly to the Queue while others are worked in the Automated Collection System and may have received enforcement action such as a lien or levy.

total of $57.8 million after expected commissions on cases assigned to the collection agencies. More than 98 percent of the total revenue collected by the agencies was received during FYs 2007 and 2008. However, the IRS recently announced that the contracts with the private collection agencies would not be renewed. While the IRS plans to hire additional Collection function personnel during FY 2009, the full benefit from the new hires will not be immediately realized because they will need to be trained. Even after being trained, it is unlikely the new hires will be assigned the types of cases that were worked by the private collection agencies because of higher priority cases in the inventory.

During FY 2008, the overall percentage of tax returns examined decreased by almost 3 percent, while the number of field Examination function personnel at the end of the fiscal year did not change when compared to FY 2007. However, the overall percentage of tax returns examined was almost 12 percent higher than in FY 1999.

Overall, the number of individual tax returns examined increased during FY 2008.[5] Correspondence examinations accounted for almost 82 percent of the examinations of individuals.[6] Because correspondence examinations are usually not as comprehensive as face-to-face examinations, the impact on compliance might be limited. In addition, the dollar yield per hour increased for individual income tax return examinations conducted by tax compliance officers, but decreased for revenue agents.

In FY 2008, the number of corporate tax returns examined increased by approximately 1 percent, after increasing 4 percent in FY 2007. However, the number of corporate returns examined has decreased almost 23 percent since FY 1999. The total number examined decreased from 1 of 64 returns filed in FY 1999 to 1 of 74 returns filed in FY 2008. The number of tax returns examined for small corporations (those with assets of less than $10 million) increased by almost 3 percent, while the number of returns examined for large corporations (those with assets of $10 million and greater) decreased by approximately 2 percent. The dollar yield per hour increased by almost 5 percent in FY 2008.

The IRS is implementing new procedures and processes to allow greater flexibility for dealing with taxpayers who become delinquent due to current economic conditions. This could further impact the results of compliance and enforcement activity.

Continued effort to improve compliance is important to reducing the tax gap and maintaining the integrity of the voluntary tax compliance system. According to a tax gap strategy document, the tax gap for Tax Year 2001 was $345 billion.[7] The strategy document provides a broad base on

[5] This includes examinations conducted by employees located in field offices and campuses.
[6] We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.
[7] *A Comprehensive Strategy for Reducing the Tax Gap* (Department of the Treasury, Office of Tax Policy, dated September 26, 2006).

which to build future efforts to address the tax gap, but depends on future budgets to provide detailed strategy elements. In August 2007, the IRS released a report that builds on the strategy by providing details about actions planned to reduce the tax gap.[8] However, many of the actions will require the assistance of Congress.

Recommendation

We made no recommendations in this report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

[8] *Reducing the Federal Tax Gap – A Report on Improving Voluntary Compliance* (IRS, dated August 2, 2007).

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Abbreviations

ACS	Automated Collection System
CFf	Collection Field function
FY	Fiscal Year
IRS	Internal Revenue Service
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
SCCB	Service Center Collection Branch
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration

Background

We conduct this review of nationwide compliance statistics for Collection and Examination functions activities each year and it is included in our Fiscal Year (FY) 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives. Our data analyses were performed in the Treasury Inspector General for Tax Administration (TIGTA) Chicago, Illinois, office during the period January through March 2009. Nationwide data from Internal Revenue Service (IRS) management information system reports were used during our review. Due to time and resource constraints, we did not audit IRS systems to validate the accuracy and reliability of their information. Also, we did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.

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

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

Results of Review

Overall, during FY 2008, many compliance activities summarized in this report showed only slight increases, or decreased. However, the levels of compliance activities are still higher than what occurred during the years immediately following implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98).[1]

The post-RRA 98 increases occurred even though the combined enforcement staff level in the Collection and Examination functions is not significantly higher than the 10-year low experienced in FY 2003. The combined number of Collection and Examination function enforcement personnel[2] declined by 20 percent, from approximately 18,700 at the beginning of FY 1999 to 14,900 at the end of FY 2008. After increasing by 8 percent during FY 2006, staffing decreased by 4 percent during FY 2007 and decreased by less than 1 percent during FY 2008. The Small Business/Self-Employed Division FY 2009 Hiring Plan includes hiring of about 1,800 examiners (revenue agents and tax compliance officers), and 1,000 revenue officers. Part of this hiring is to account for anticipated attrition.

For some time, the total number of tax returns filed and the total dollars the IRS received and collected (gross collections) have increased. In the past 10 years, the total number of tax returns filed grew by approximately 12 percent, from 163 million in Calendar Year 1998 to 183 million in Calendar Year 2007. IRS gross collections grew from $1.90 trillion in FY 1999 to $2.13 trillion in FY 2001, then fell a total of slightly more than 8 percent during FYs 2002 and 2003 to $1.95 trillion. These were the first decreases in total revenue since FY 1983. However, since FY 2003, gross collections have increased by almost 41 percent and reached a new record high of $2.75 trillion in FY 2008.[3]

After remaining relatively constant for FYs 1999 through 2002, the amount of enforcement revenue collected increased by almost 74 percent from FY 2002 to FY 2007. Then, during FY 2008, enforcement revenue collected decreased by 5 percent to $56.4 billion.[4] This amount (not adjusted for inflation) is still 71 percent higher than the FY 1999 amount.[5]

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[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] Collection function and Examination function staff located in field offices, excluding management and overhead staff.
[3] See Appendix V, Figure 1.
[4] See Appendix V, Figure 3.
[5] See Appendix V, Figure 2.

In the most recent update, the Government Accountability Office continues to include enforcement of tax laws as 1 of the 30 high-risk areas in the Federal Government.[6] The Government Accountability Office states that improvements in compliance with tax laws will require efforts by the IRS and Congress.

Continued effort to improve compliance is important to reducing the tax gap and maintaining the integrity of the voluntary tax compliance system. In their report, the Government Accountability Office noted that "many experts believe that the tax gap was underestimated in 2001 and has grown larger since then." According to a tax gap strategy document, the tax gap for Tax Year 2001 was $345 billion, representing a compliance rate of about 84 percent.[7] The purpose of the strategy document was to provide a broad base on which to build future efforts to address the tax gap. In August 2007, the IRS released a report that builds on the strategy by providing details about actions planned to reduce the tax gap.[8] The IRS is conducting annual compliance research studies on individual taxpayers and plans to include studies on other segments of the taxpaying population that should help update tax gap measurements and might lead to improved selection criteria to identify tax returns for examination.

The IRS' strategy for reducing the tax gap is largely dependent on funding for additional compliance resources and legislative changes. Therefore, long-term success will in large part be dependent on reducing risk factors, some of which are beyond the control of the IRS. One proposal, to add information reporting requirements, is a proven method for increasing compliance. While outside stakeholder groups have expressed concern about the increased burden of additional information reporting requirements, 63 percent of taxpayers surveyed cited information reporting as a factor for reporting and paying taxes honestly.[9]

The IRS is implementing new procedures and processes to allow greater flexibility for dealing with taxpayers that become delinquent with their tax obligations due to current economic conditions. This could further impact the results of compliance and enforcement activity. The provisions apply to taxpayers that have demonstrated good faith efforts in the past to comply with tax laws, but who recently encountered unusual financial hardships.

While the IRS has reversed many of the enforcement declines in both the Collection and Examination functions that occurred in the years immediately following passage of the RRA 98, many of the results for FY 2008 slipped from the FY 2007 levels. The IRS noted that there were some anomalies that made FY 2007 a record-breaking year which did not recur during FY 2008, and some resources were redirected from enforcement during FY 2008 to support execution of

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[6] *HIGH-RISK SERIES – An Update* (GAO-09-271, dated January 2009).
[7] *A Comprehensive Strategy for Reducing the Tax Gap* (Department of the Treasury, Office of Tax Policy, dated September 26, 2006).
[8] *Reducing the Federal Tax Gap – A Report on Improving Voluntary Compliance* (IRS, dated August 2, 2007).
[9] *IRS Oversight Board 2008 Taxpayer Attitude Survey* (dated February 2009).

the economic stimulus program. The following sections detail the compliance activities and results for the Collection and Examination functions.

Many Collection Function Compliance Activities and Results Declined

After several years of improved results, many Collection function activities and results declined during FY 2008. However, the results are still significantly higher than those during the years immediately following the implementation of the RRA 98. The declines during FY 2008 might be attributed, at least in part, to the declining economy and resources, and administering the economic stimulus rebates. The IRS acknowledged that revenue collection reached record highs during FY 2007, in part because a pair of large corporations had settled audits and paid significant amounts, and that those anomalies did not repeat in FY 2008.

The number of Collection Field function (CFf) revenue officer personnel working delinquent cases decreased 3 percent (to 3,613) during FY 2008.[10] However, since the start of FY 1999, revenue officer staffing has decreased by almost 28 percent. There are plans to hire about 1,000 revenue officers during FY 2009, of which almost 500 will be for anticipated attrition.

Some Collection function operations showed little change or mixed results for the year

The following activities showed mixed results for the Collection function during FY 2008:

- The number of Taxpayer Delinquent Accounts (TDA) closed (excluding shelved accounts) showed a minimal increase, but the number closed by full payment increased by about 21 percent from FY 2007.[11] The FY 2008 total represents a 10-year high.
- As shown in Figure 1, the use of liens (a collection enforcement tool) has increased by 358 percent during the 10-year period. During FY 2008 alone, the number of liens issued by the CFf and Automated Collection System (ACS) increased by 6 percent and 22 percent, respectively, to a 10-year high.[12]

Figure 1: Use of Collection Enforcement Tools

	Liens	Levies	Seizures
FY 1999	167,867	504,403	161
FY 2000	287,517	219,778	74
FY 2001	426,166	674,080	234
FY 2002	482,509	1,283,742	296
FY 2003	544,316	1,680,844	399
FY 2004	534,392	2,029,613	440
FY 2005	522,887	2,743,577	512
FY 2006	629,813	3,742,276	590
FY 2007	683,659	3,757,190	676
FY 2008	768,168	2,631,038	610

Source: Small Business/Self-Employed Division Collection Planning and Analysis, Collection National Reports, and IRS Data Book.

[10] See Appendix V, Figure 5.
[11] See Appendix V, Figures 17 and 18.
[12] See Appendix V, Figure 19.

However, as also shown in Figure 1, the use of levies and seizures (additional collection enforcement tools) both decreased during FY 2008, but increased 422 percent and 279 percent, respectively, since FY 1999. The total number of levies decreased by 30 percent from FY 2007 due to a substantial decrease (35 percent) in the number of levies issued by the ACS during FY 2008. The IRS advised they made a decision to reduce the number of levies issued by the ACS so employees would be available to answer taxpayer calls about the economic stimulus. The number of levies issued by the CFf during the year increased by 21 percent. Finally, the number of seizures decreased by 10 percent during FY 2008.[13]

Many Collection function operations showed declines for the year

The following indicators declined for Collection function compliance activity during FY 2008.

- Dollars collected on TDAs by ACS and CFf employees totaled approximately $5.6 billion, a decrease of almost 12 percent from FY 2007.[14] However, this year's amount is almost 55 percent greater than the 10-year low that occurred in FY 2000.
- The average amount collected per CFf staff year on TDAs decreased by approximately 8 percent from FY 2007. The amount increased by 92 percent (to $520,446) from a low of $271,110 in FY 1999.[15] However, the average amount collected is about 10 percent less than that in FY 2005, the 10-year high.
- More TDAs were received than closed, but the gap between TDA receipts and TDA closures had narrowed by approximately 1 percent (to 1,886,789 accounts) as of the end of the fiscal year.[16] This is the second largest year-end gap in the 10-year period. FY 2007 had the largest gap.
- The number of taxpayers with Taxpayer Delinquency Investigations (TDI) closed by the ACS and the CFf because delinquent tax returns were received by the IRS decreased by almost 3 percent from FY 2007. The ACS had a slight decrease in closures, but the CFf closures decreased by almost 7 percent during the year. Overall, there has been a 69 percent increase since the 10-year low that occurred in FY 2002.
- The amount of gross accounts receivable increased by almost 2 percent (to $294 billion) after increasing almost 7 percent during FY 2007.[17] The FY 2008 amount represents the 10-year high. The increase in gross accounts receivable occurred even though there was an increase in gross collections.

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[13] See Appendix V, Figures 20 and 21.
[14] See Appendix V, Figure 9.
[15] See Appendix V, Figure 8.
[16] See Appendix V, Figure 15.
[17] See Appendix V, Figure 3.

An inventory of unassigned collection cases is maintained in the Queue. The number of taxpayers with TDAs in the Queue and the amount owed on these accounts increased to 10-year highs during FY 2008. The number of taxpayer accounts increased by approximately 13 percent to 981,317. At the same time, the amount owed increased by 24 percent to $43.2 billion. The number of taxpayers with TDIs decreased by 15 percent to 850,850.[18] Although many of the cases in the Queue might be assigned to be worked, a significant number might never receive additional contact to resolve the delinquency.[19]

As noted previously, the Queue inventory includes a substantial number of taxpayer accounts. However, those Queue inventory figures do not include the millions of TDA and TDI tax periods shelved or surveyed (removed) from Collection function inventory during the last few years. In FYs 2005 through 2008, the IRS removed almost 3.1 million TDAs[20] (with balance-due amounts totaling $11.9 billion) and 6.7 million TDI tax periods from Collection function inventory. These cases were removed because they were potentially less productive than other available inventory and might never receive additional contact to resolve the delinquency.

The Collection function is unable to work all of the existing accounts in the Queue with current staffing, and the number of TDA receipts is outpacing closures. If changes do not occur, a significant number of cases will continue to not receive additional contact to resolve the delinquency. This reinforces the need for additional resources to work the cases. As previously noted, the number of revenue officers decreased during FY 2008, but there are plans to hire revenue officers during FY 2009.

In September 2006, the IRS started assigning balance-due cases to private collection agencies. Otherwise, these cases might not have been worked. Through FY 2008, the IRS had received a total of $57.8 million after expected commissions on cases assigned to the collection agencies. More than 98 percent of the total revenue collected by the agencies was received in FYs 2007 and 2008. However, the IRS recently announced that the contracts with the private collection agencies would not be renewed. There had been substantial opposition to the use of private collection agencies from some members of Congress, the Taxpayer Advocate Service, and the National Treasury Employees Union. While the IRS plans to hire additional collection personnel during FY 2009, it will take some time for those employees to be fully trained and, even after they are trained, it is unlikely that they will be assigned the types of cases that were worked by the private collection agencies because of higher priority cases in the inventory.

[18] See Appendix V, Figures 10 and 16.
[19] Before accounts get assigned to the Queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice process, some cases go directly to the Queue while others are worked in the ACS and may have received enforcement action such as a lien or levy.
[20] See Appendix V, Figure 11.

Examination Function Compliance Activities Showed Mixed Results

Overall, the total number of field Examination function personnel, as of the end of the fiscal year, who conduct examinations of tax returns did not change in FY 2008 compared to FY 2007. The number of revenue agents decreased to 10,080, while the number of tax compliance officers increased to 1,114.[21] However, the number of examiners in field offices[22] has decreased by 17 percent since the start of FY 1999.

To help address the decrease in the number of available examiners, the Examination function plans to hire about 1,800 revenue agents and tax compliance officers during FY 2009, approximately 800 of which will be for anticipated attrition. However, the IRS will not immediately realize an increase in productivity from the new hires because of the time required to train them and because experienced examiners will need to be used as training coaches and classroom instructors, which reduces their availability to conduct examinations. The Examination function also continues to study methods that will result in identifying for examination those tax returns that contain greater potential for noncompliance.

With staffing levels basically unchanged compared to FY 2007, Examination function compliance activities showed some slight increases in a few areas but decreases in other areas during FY 2008. Compared to FY 2007, the percentage of tax returns examined decreased or showed little change for most types of returns during FY 2008. At the same time, the dollar yield per hour increased for individual tax return examinations performed by tax compliance officers and for corporate and other types of tax return examinations performed by revenue agents, but decreased for examinations of individual tax returns performed by revenue agents.[23]

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

When analyzing examination coverage rates, one should recognize differences in the types of contacts that are counted in Examination function statistics. Examinations range from issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer's records. Face-to-face examinations are generally more comprehensive and time consuming for the IRS and the taxpayers, and they typically result in higher dollar adjustments to the tax amounts. Thus, caution should be used when combining statistics from the various Examination function programs into overall examination rates. During FY 2008, slightly more than 72 percent of all examinations were conducted via correspondence.

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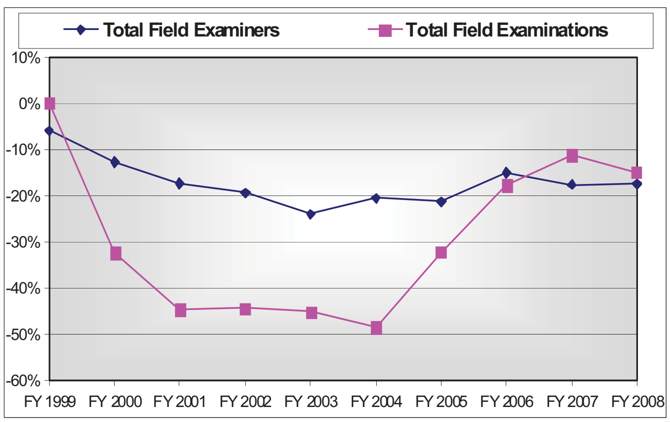
[21] See Appendix V, Figure 4.
[22] Examiners in field offices include revenue agents, tax compliance officers, tax examiners, and revenue officer examiners.
[23] See Appendix V, Figures 23 through 26.

In addition, the IRS uses several computer-matching and automated error-checking routines to check the accuracy of tax returns.[24] These routines often identify adjustments to tax liabilities. However, these adjustments are not included in the traditional "audit rates" and are not generally reported separately as enforcement efforts.

The overall percentage of tax returns examined (including face-to-face and correspondence examinations) decreased by almost 3 percent[25] from FY 2007, but still has nearly doubled since FY 2000. In addition, the overall percentage of tax returns examined was almost 12 percent higher than in FY 1999.

Figure 2: Percentage Change in the Number of Field Examiners and Examinations



Source: IRS Data Book and Examination Table 37.

Figure 2 compares the change in field Examination function staffing to the change in the number of examinations by field employees, for all types of tax returns, from the beginning of FY 1999 through FY 2008. The chart line for the number of field examiners does not start at zero because the number of examiners conducting examinations during FY 1999 decreased by almost 6 percent during the year. Examination function staffing was unchanged at the end of FY 2008 compared to FY 2007. The IRS has plans to hire additional examiners in FY 2009.

A continued effort to increase examination coverage is important to maintaining the effectiveness of the voluntary tax compliance system. The IRS Oversight Board's study of taxpayer attitudes showed that a smaller percentage (9 percent) of taxpayers believed that it was acceptable to cheat on their income taxes in 2008 than did in 2007 (13 percent). In addition, fear of examination is a major factor influencing taxpayers to report taxes honestly. In 2007, 54 percent of taxpayers surveyed cited fear of examination as a factor that influenced their voluntary compliance, and that increased to 59 percent in 2008. However, this is down from 62 percent in 2005.

[24] See Appendix V, Figures 44 and 45.
[25] The IRS has traditionally calculated the percentage of examination coverage by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

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

- *Individual Income Tax Examinations* – FY 2000 represented the 10-year low, with only 617,765 (1 of every 202) individual income tax returns examined. Since then, the number of tax returns examined has continuously increased and 1,391,581 (1 of every 99) were examined in FY 2008.[26] While the number examined increased in FY 2008, the examination rate decreased almost 2 percent from FY 2007 because of the increase in the number of returns filed.

  During FY 2008, almost 82 percent of the examinations of individuals were done by correspondence.[27] Only 1 of every 545 individual income tax returns filed received a face-to-face examination (1 percent less coverage than in FY 2007), while 1 of every 121 received a correspondence examination (2 percent less coverage than in FY 2007).

- *Corporate Income Tax Examinations* – The number of corporate income tax returns examined (excluding returns for foreign corporations and S Corporations) increased by approximately 1 percent in FY 2008, after increasing by approximately 4 percent in FY 2007. However, the number of examinations has decreased by almost 23 percent since FY 1999. From FY 1999 through FY 2008, the total number of corporate tax returns examined decreased from 38,805 (1 of every 64 returns filed) to 29,986 (1 of every 74 returns filed).[28] The number of corporate income tax returns filed decreased by 11 percent during the 10-year period. Because the number of returns filed also decreased, the impact on the examination coverage rate was not as large.

  The number of corporate tax returns examined with assets of less than $10 million increased by almost 3 percent in FY 2008. During the same period, the number of corporate tax returns examined with assets of $10 million and greater decreased by approximately 2 percent, but examinations of those with assets of $250 million and greater increased by almost 7 percent. However, a much higher percentage of the large corporations than those with assets of less than $10 million is examined.

- *S Corporation Return Examinations* – After declining by 70 percent from FYs 1999 to 2004, the number of S Corporation tax returns examined increased by almost 176 percent from FYs 2004 to 2007, then decreased by almost 6 percent in FY 2008. Since FY 2004, the number of S Corporation returns filed has increased by approximately 23 percent. During that period, the number of tax returns examined increased from 1 of every 526 returns filed to 1 of every 250 returns filed.[29] The increase in examination

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[26] This includes examinations conducted by employees located in field offices and campuses. See Appendix V, Figure 29.
[27] We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.
[28] See Appendix V, Figures 34, 35, and 46 for coverage by size of corporation.
[29] See Appendix V, Figures 37 and 46.

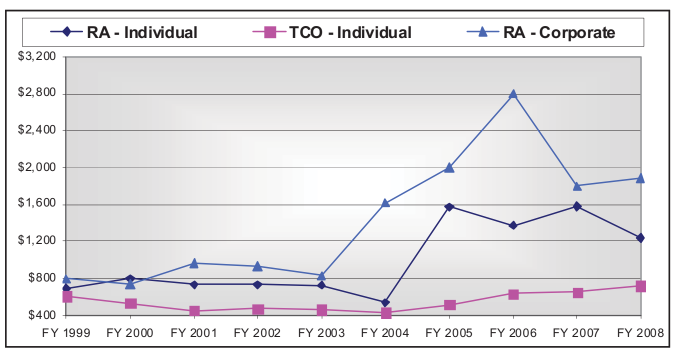
coverage through FY 2007 can be partly attributed to the IRS research project studying the compliance of S Corporation entities. However, as we noted in last year's report, almost all of these examinations are completed and the predicted decrease in the number of examinations occurred. The IRS is analyzing the results of this project and might identify potential changes in the examination selection criteria for this type of tax return.

- *Partnership Return Examinations* – The number of partnership returns examined increased by approximately 8 percent in FY 2008 and has increased by approximately 160 percent since the 10-year low experienced in FY 2001. The number of returns filed increased by approximately 52 percent between FYs 2001 and 2008.[30] About 1 of every 408 returns filed was examined in FY 2001. This increased to about 1 of every 238 for this year.
- *Other Tax Type Examinations (Fiduciary, Employment, Excise, Estate, and Gift Taxes)* – The overall number of examinations in these 5 classes decreased by almost 17 percent during FY 2008, but was up 113 percent from the 10-year low experienced in FY 2003. The major portion of this year's decrease was due to a decrease in the number of examinations of excise tax returns, which had spiked in FY 2007. The number of fiduciary and employment returns examined increased, but the number of estate and gift tax returns examined continued to decrease.[31]

Examination function dollar yield per hour has mixed results

Figure 3 shows the dollar yield per hour for FYs 1999 through 2008 for revenue agents and tax compliance officers. The dollar yield per hour for examinations of individual tax returns decreased by almost 22 percent for revenue agents during FY 2008, but increased by almost 11 percent for tax compliance officers. The yield increased by almost 5 percent for revenue agent examinations of corporate tax returns during FY 2008. Since FY 2005, the yield for revenue agent examinations of individual and corporate tax returns has fluctuated in opposite directions from each other.

Figure 3: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Examination Table 37. RA = revenue agent. TCO = tax compliance officer.

[30] See Appendix V, Figures 38 and 46.
[31] See Appendix V, Figures 39 through 43 and 46.

The Examination function dollar yield per hour for individual income tax return examinations was lower in FY 2004 than in FY 1999 or FY 2008.[32] Since FY 2004, the yield increased for both revenue agents and tax compliance officers. The low yield in FY 2004 correlates with the number of hours used to examine each tax return, which reached the 10-year high that year. Since FY 2004, the number of hours decreased for both revenue agents and tax compliance officers.

The dollar yield per hour for corporate tax return examinations increased by 239 percent from FYs 2003 to 2006 and then decreased to below the FY 2005 level for FYs 2007 and 2008. During FYs 2003 to 2006, the average dollar amounts assessed per return fluctuated significantly and the hours spent examining each tax return also fluctuated.[33] The net effect was an increase in the dollar yield per hour for FYs 2003 through 2006, a decrease in FY 2007, and almost a 5 percent increase in FY 2008.

Conclusion

The IRS has reversed numerous downward trends in compliance activities that occurred in both the Collection and Examination functions in the years immediately following passage of the RRA 98. However, the IRS should continue its efforts to improve the business processes and workload selection methods because they appear to be having a positive impact on compliance efforts. In addition, the hiring and training of new enforcement personnel should continue to be a top priority because many experienced employees in those positions are already eligible for retirement or will become eligible in the next few years.

[32] See Appendix V, Figures 23 and 26.
[33] See Appendix V, Figure 24.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide statistical information and trend analyses of the data for the Collection and Examination functions activities. We conduct this review each year and it is included as part of our FY 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

To accomplish our objective, we analyzed information obtained from IRS management information system reports to determine trends and changes in the major areas of compliance. Due to time and resource constraints, we did not audit IRS systems to validate the accuracy and reliability of their information. Also, we did not assess internal controls because doing so was not applicable within the context of our objective. The major issues we focused on included:

- Enforcement revenue[1] and gross accounts receivable.
- Collection and Examination function staffing.
- Collection and Examination function direct time.
- Collection function delinquent account inventories and unfiled return investigations.
- Collection function enforcement actions (liens, levies, and seizures).
- Examination function coverage of individual and business tax returns compared to the number of returns filed in each category.
- Examination function productivity results for individual and business tax returns.
- Other activities resulting in improvements in the accuracy of filed tax returns and the filing of delinquent returns.

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

Appendix II

Major Contributors to This Report

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Appendix III

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Appendix IV

Glossary of Terms

Automated Collection System – A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Automated Substitute for Return System – A system designed to assess taxes on wage earners who fail to file tax returns. It analyzes information submitted to the IRS and historical tax return information.

Balance Sheet – A statement of the financial assets and liabilities of a business at a given date filed with a corporate income tax return. It is used by the IRS to group businesses by asset size.

Campus – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Collection Field function – The unit in the field offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Computing Centers – IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.

Corporate Income Tax Return – U.S. Corporation Income Tax Return (Form 1120). It is used by corporations to report the corporate income tax.

Dollar Yield per Hour – The amount of tax adjustments on tax returns divided by the number of hours spent examining those returns.

Employment Tax Returns – Various Form 940 return series (primarily Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940) and Employer's QUARTERLY Federal Tax Return (Form 941)) filed by businesses to report things such as employer's Federal unemployment taxes and Federal taxes withheld.

Enforcement Revenue – Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

Estate Tax Return – United States Estate (and Generation-Skipping Transfer) Tax Return (Form 706). It is filed for estates of certain deceased persons.

Examination (Face-to-Face) – A field examination of an individual, a partnership, or a corporation that occurs either at the taxpayer's place of business or through an interview(s) at an IRS office.

Excise Tax Return – Quarterly Federal Excise Tax Return (Form 720). It is used to report and pay certain taxes, such as those on transportation and fuel.

Fiduciary Income Tax Returns – Income tax returns filed for estates and trusts.

Gift Tax Return – United States Gift (and Generation-Skipping Transfer) Tax Return (Form 709). It is used to report transfers subject to the Federal gift taxes and to calculate the taxes due on those transfers.

Gross Accounts Receivable – Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.

Individual Income Tax Returns – U.S. Individual Income Tax Returns (Form 1040 series). They are annual income tax returns filed by citizens or residents of the United States.

IRS Data Book – An IRS annual report providing information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities for the fiscal year.

IRS Oversight Board – An independent body charged with overseeing the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws.

Levy – A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.

Lien – An encumbrance on property or rights to property as security for outstanding taxes.

Math Error Program – A process by which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in tax changes.

National Research Project – Research conducted by the IRS to determine filing, payment, and reporting compliance by taxpayers for different types of taxes.

Overhead Staff – Support staff performing indirect duties within the function such as automation support, technical support, and quality review.

Partnership Return – U.S. Return of Partnership Income (Form 1065). It is used to report the income and expenses of domestic partnerships and the share distributed to each partner.

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

Revenue Agent – An employee in the Examination function who conducts face-to-face examinations of more complex tax returns such as businesses, partnerships, corporations, and specialty taxes (e.g., excise tax returns).

Revenue Officer – An employee in the CFf who attempts to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.

Revenue Officer Examiner – A revenue officer who has been trained to conduct examinations of employment tax returns.

S Corporation Tax Return – U.S. Income Tax Return for an S Corporation (Form 1120S). It is filed by qualifying small business corporations and includes amounts distributed to shareholders.

Seizure – The taking of a taxpayer's property to satisfy his or her outstanding tax liability.

Service Center Collection Branch – An IRS function that mails the balance-due and return-delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence.

Shelved or Surveyed Cases – Delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of the Collection function inventory because they are of lower priority than other available inventory.

Substitute for Return/6020(b) Return – Tax returns prepared by the IRS, based on Internal Revenue Code provisions, when taxpayers appear to be liable, but have not voluntarily filed the returns.

Tax Compliance Officer/Tax Auditor – An employee in the Examination function that primarily conducts examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 from tax auditor to tax compliance officer.

Tax Examiner – In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.

Taxpayer Delinquent Account – A balance-due account of a taxpayer. A separate TDA exists for each delinquent tax period.

Taxpayer Delinquency Investigation – An unfiled tax return(s) for a taxpayer. One TDI exists for all delinquent tax periods for a taxpayer.

Tax Gap – The difference between what taxpayers should have paid and what they timely paid.

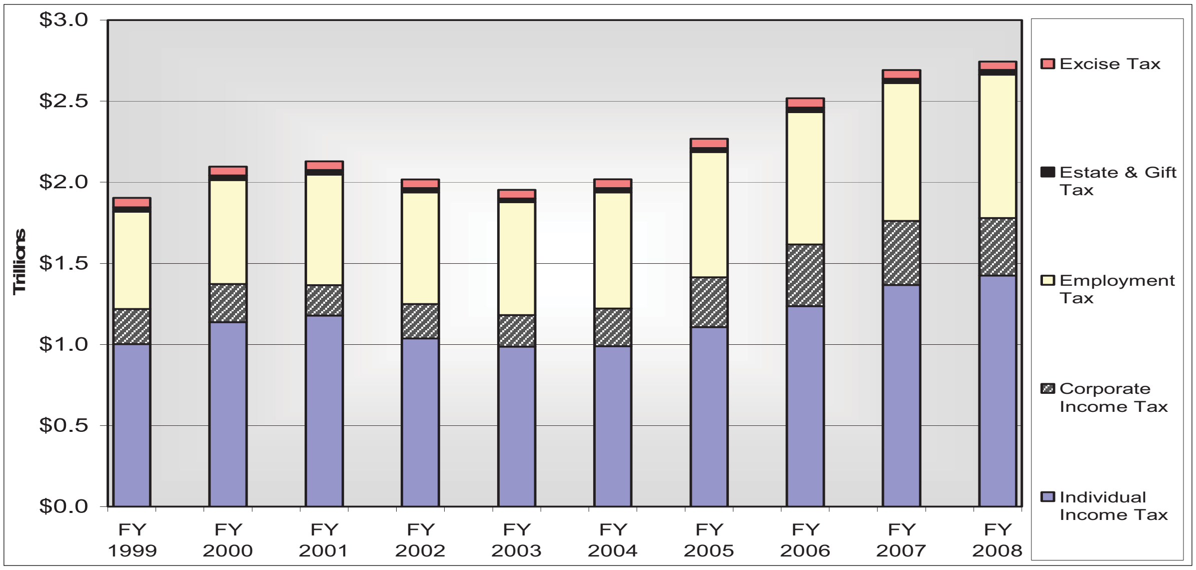
Tax Period – Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.

Underreporter Program – A process that matches items reported on an individual's income tax return to information supplied to the IRS from outside sources (such as employers, banks, and credit unions) to determine if the taxpayer's tax return reflected the correct amounts and if the tax amount is correct.

Appendix V

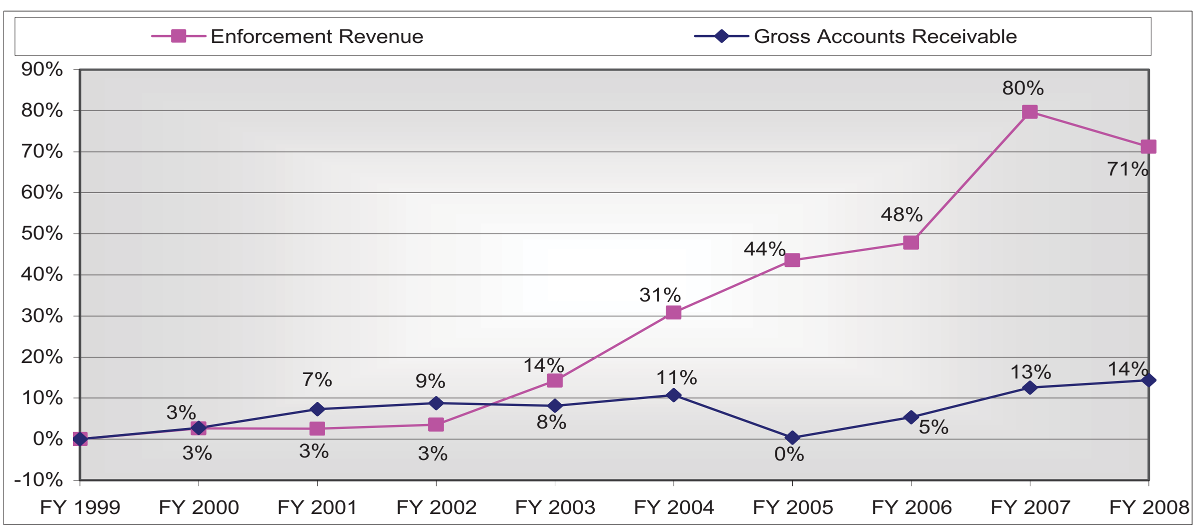
Detailed Charts of Statistical Information

Figure 1. Gross Collections by Type of Tax Since FY 1999. Overall, gross tax collections rose 2 percent during FY 2008, the highest level of the 10-year analysis. However, during FY 2008, corporate and excise tax collection decreased by 10 percent and 3 percent, respectively.



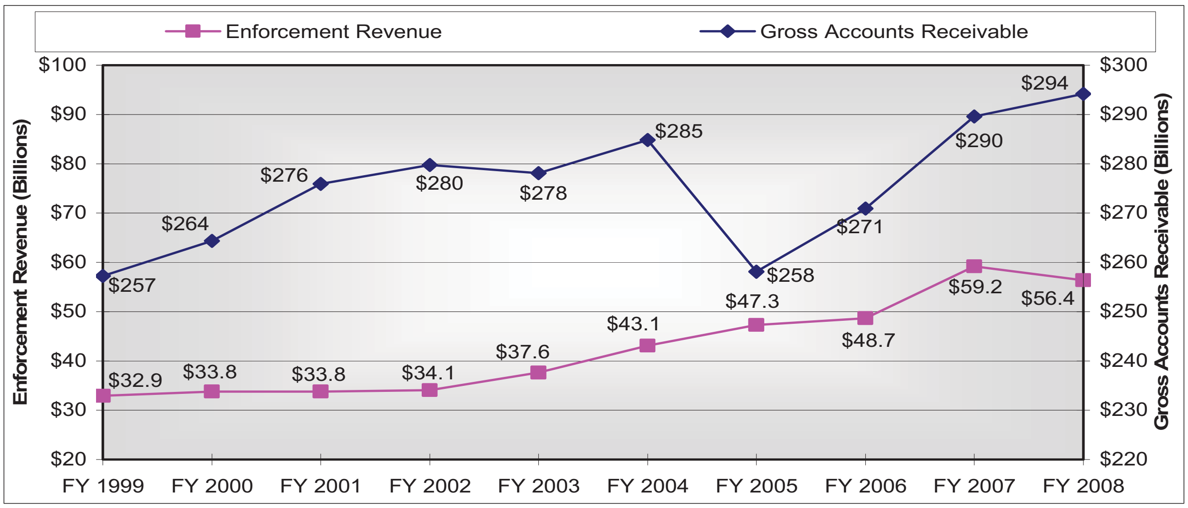
Source: TIGTA analysis of IRS Data Book.

Figure 2. Changes in Enforcement Revenue and Gross Accounts Receivable – Percentage Change From FY 1999. Enforcement revenue had been increasing sharply since FY 2002, until decreasing in FY 2008. However, in FY 2008 it was 71 percent more than in FY 1999. After decreasing sharply during FY 2005, gross accounts receivable was 14 percent higher in FY 2008 than in FY 1999.



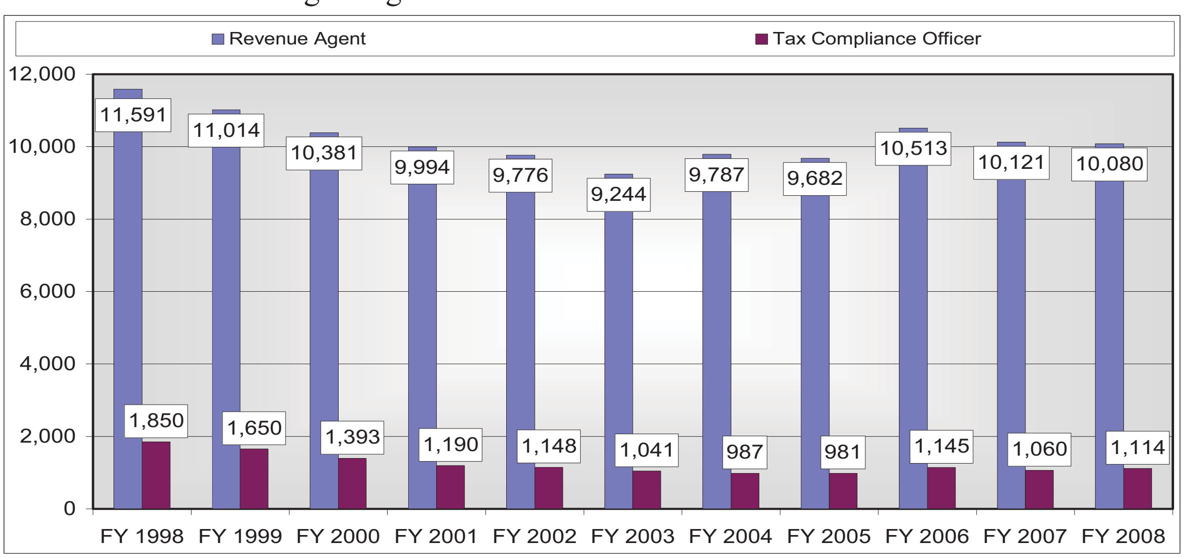
Source: Office of Research, Analysis, and Statistics and Chief Financial Officer information.

Figure 3. Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable. After dropping off significantly during FY 2005, gross accounts receivable has increased by almost $36.1 billion since then. During the same time period, enforcement revenue increased by $9.1 billion even though it decreased $2.8 billion (5 percent) in FY 2008.



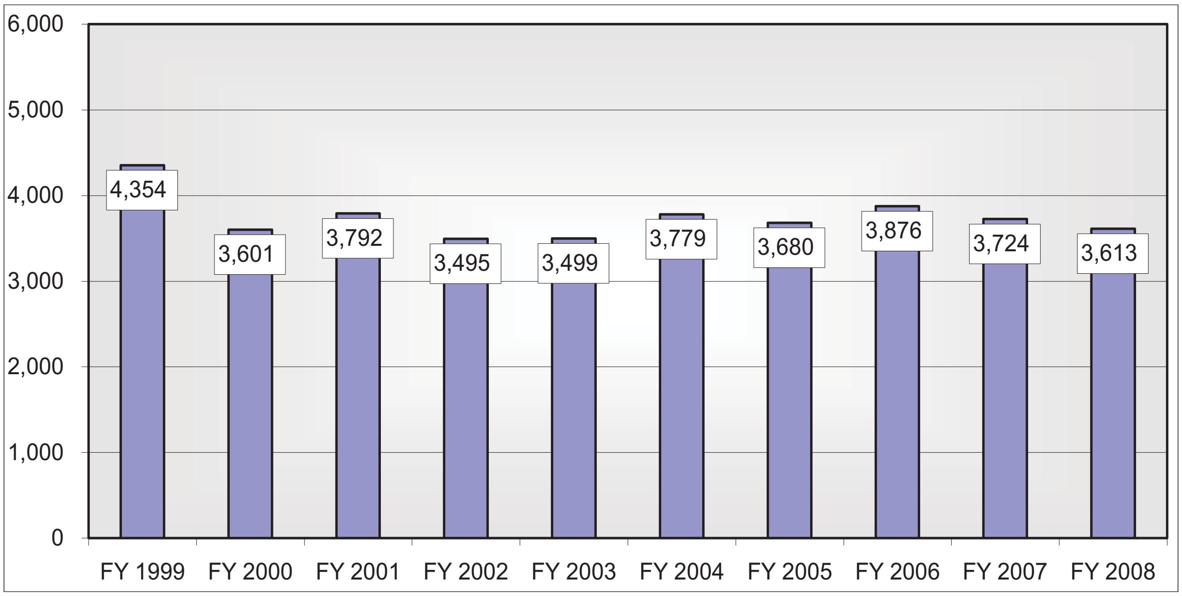
Source: Office of Research, Analysis, and Statistics and Chief Financial Officer information.

Figure 4. Examination Function Staffing at the End of Each Fiscal Year. These numbers represent the Examination function staff conducting examinations of tax returns (excludes management and overhead staff). During FY 2008, revenue agent staffing decreased slightly while tax compliance officer staffing increased slightly. The combined total is almost 17 percent lower than it was at the beginning of FY 1999.



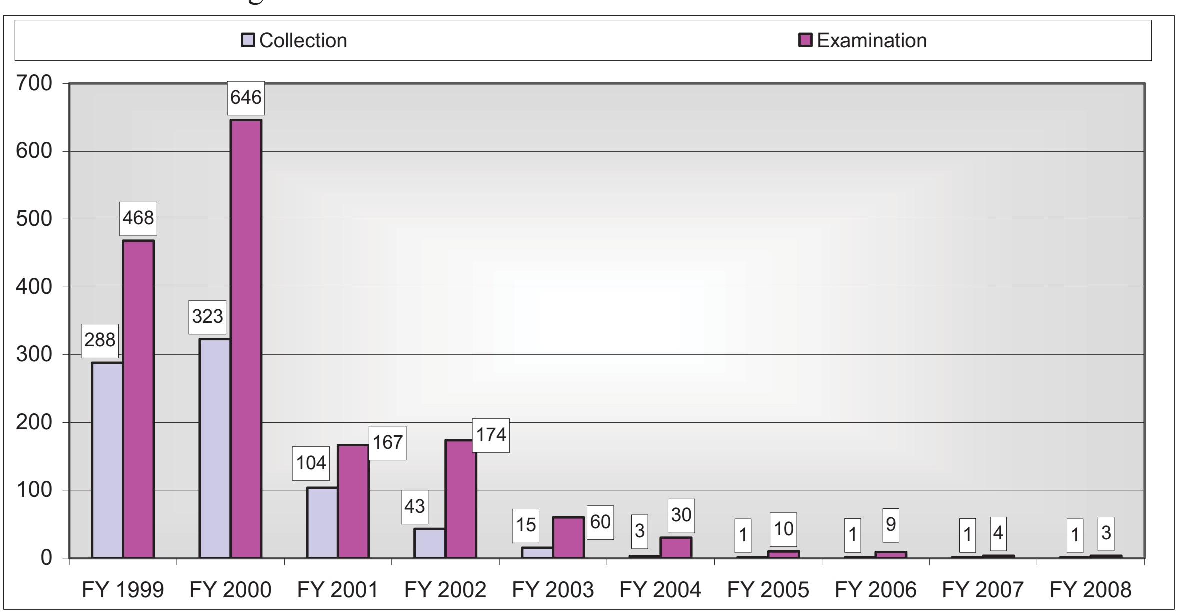
Source: TIGTA analysis of Examination Table 37.

Figure 5. CFf Staffing at the End of Each Fiscal Year. The number of revenue officers working assigned delinquent cases (excludes management and overhead staff) decreased slightly during the year and was almost 28 percent lower than at the start of FY 1999.



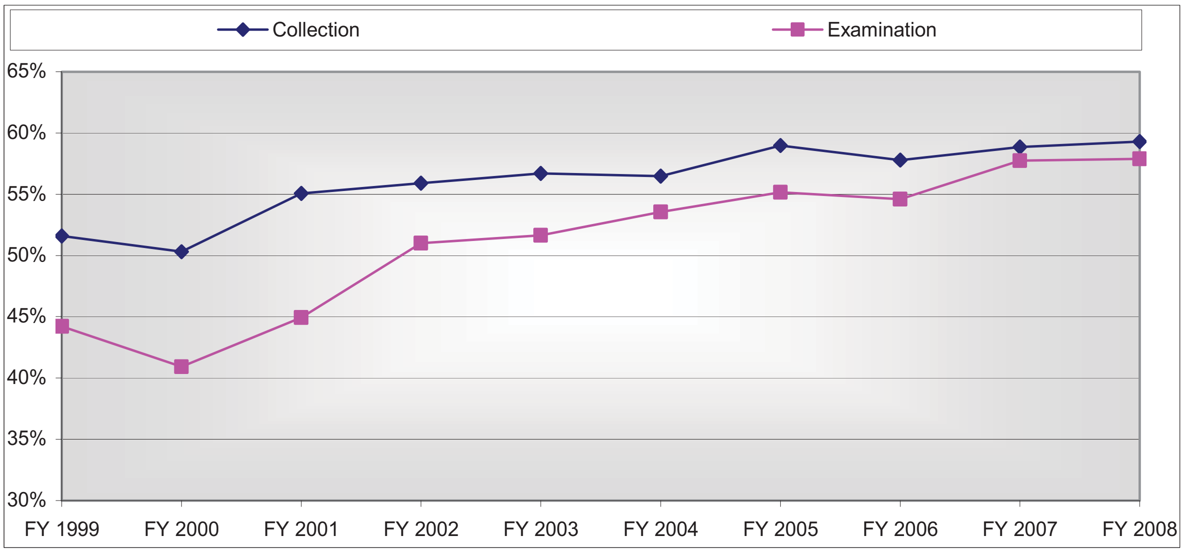
Source: Collection Report 5000-23.

Figure 6. Staff Years Detailed to Assist Walk-In Taxpayers. The number of staff years detailed to assist walk-in taxpayers decreased again in FY 2008 and remained lower than the number detailed during FY 1999.



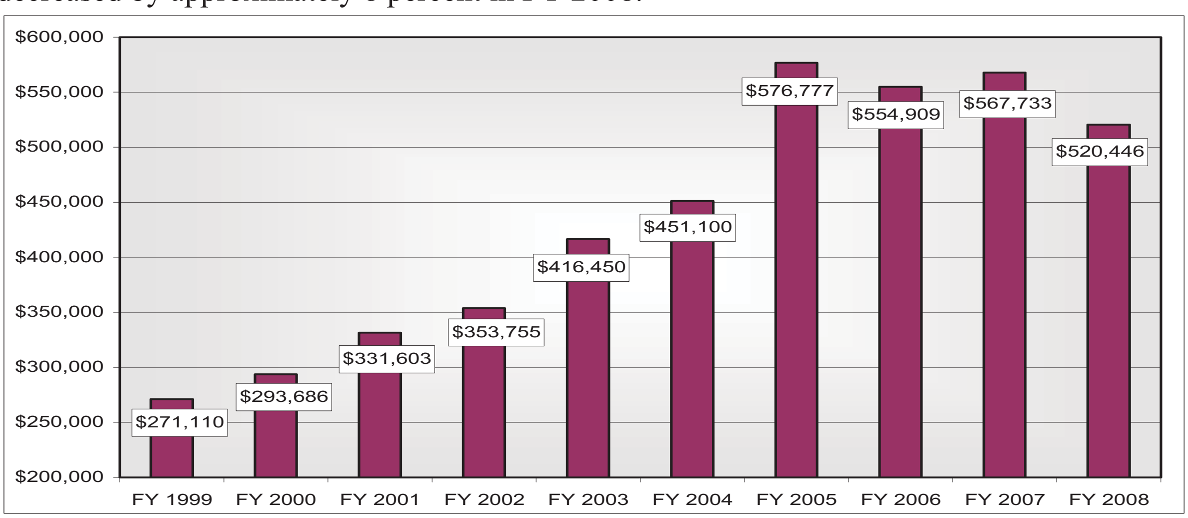
Source: TIGTA analysis of Collection Report 5000-23 and Examination Table 37.

Figure 7. Changes in Direct Time Percentages. The Collection and Examination functions both increased slightly the percentage of overall time charged to their direct tax-related responsibilities (collecting taxes, securing tax returns not timely filed, and examining tax returns) during FY 2008. The Collection and Examination functions changed the types of time they capture as direct and indirect in recent years, including capturing some of the previous indirect time as direct time. Figure 7 depicts our recalculation of direct time based on direct time categories from prior years, to present consistent data for the 10 years included in the graph.



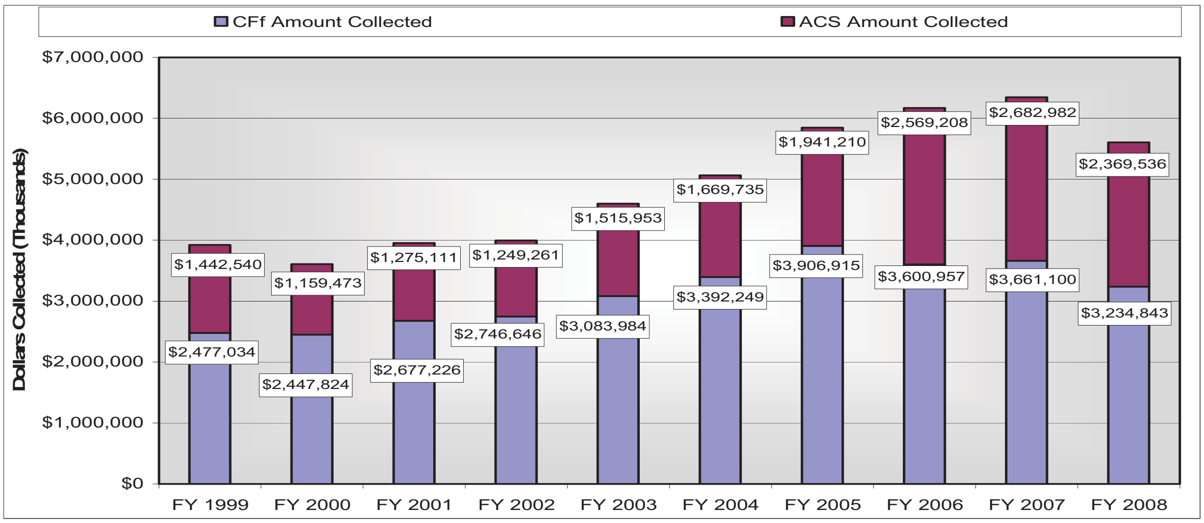
Source: TIGTA analysis of Collection Report 5000-23 and Examination Table 37.

Figure 8. Average Dollars Collected per Staff Year on TDAs by the CFf. The average amount collected by the CFf for each staff year is 92 percent higher than in FY 1999. However, it decreased by approximately 8 percent in FY 2008.



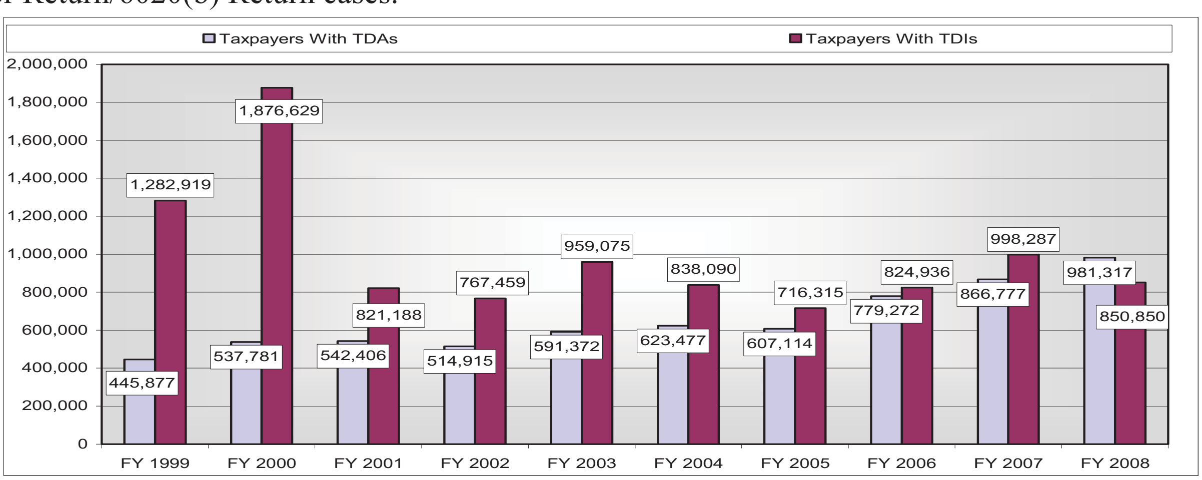
Source: TIGTA analysis of Collection Reports 5000-2 and 5000-23.

Figure 9. Total Dollars Collected on TDAs by the CFf and ACS. The combined amount collected by the CFf and ACS increased each year from FY 2000 through FY 2007, but then decreased almost 12 percent in FY 2008. The percentage decrease was similar for both the CFf and ACS during FY 2008.



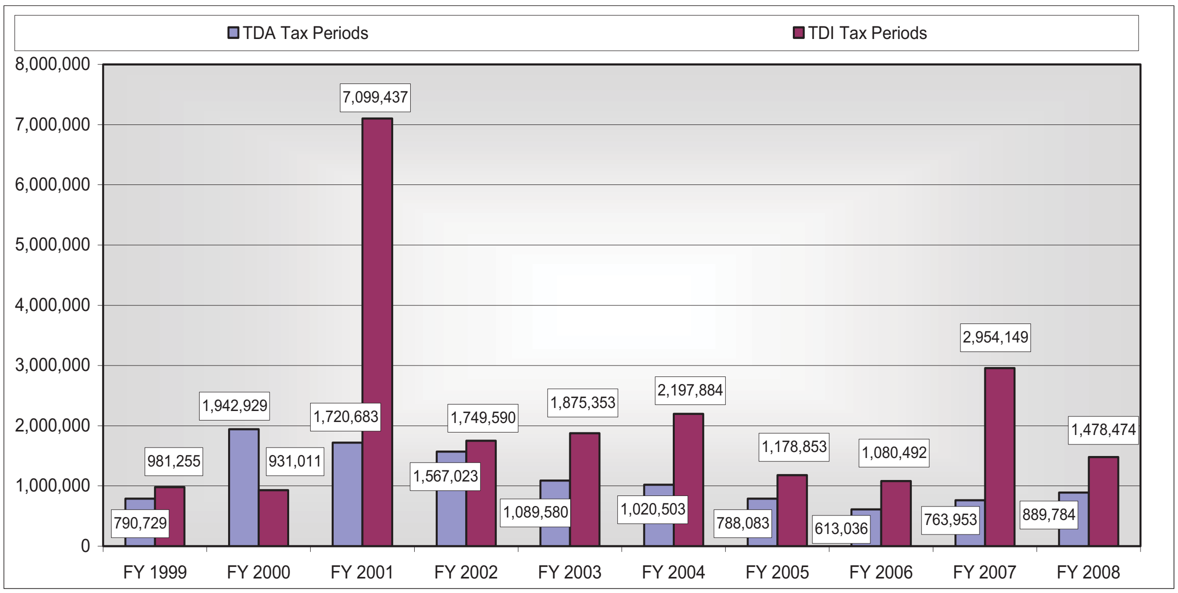
Source: Collection Report 5000-2.

Figure 10. TDAs and TDIs in the Queue. The number of taxpayers with TDIs in the Queue had significant spikes during FYs 1999 and 2000, and then decreased to remain at lower levels. However, the overall trend showed an increase in the number of taxpayers with TDAs in the Queue during FYs 1999 through 2008. This occurred even though, in recent years, the IRS removed from the Queue a large number of cases that were considered to be potentially less productive than other Queue inventory (see Figure 11). The increase in TDAs could be at least partially attributed to the additional compliance assessments from working additional Substitute for Return/6020(b) Return cases.



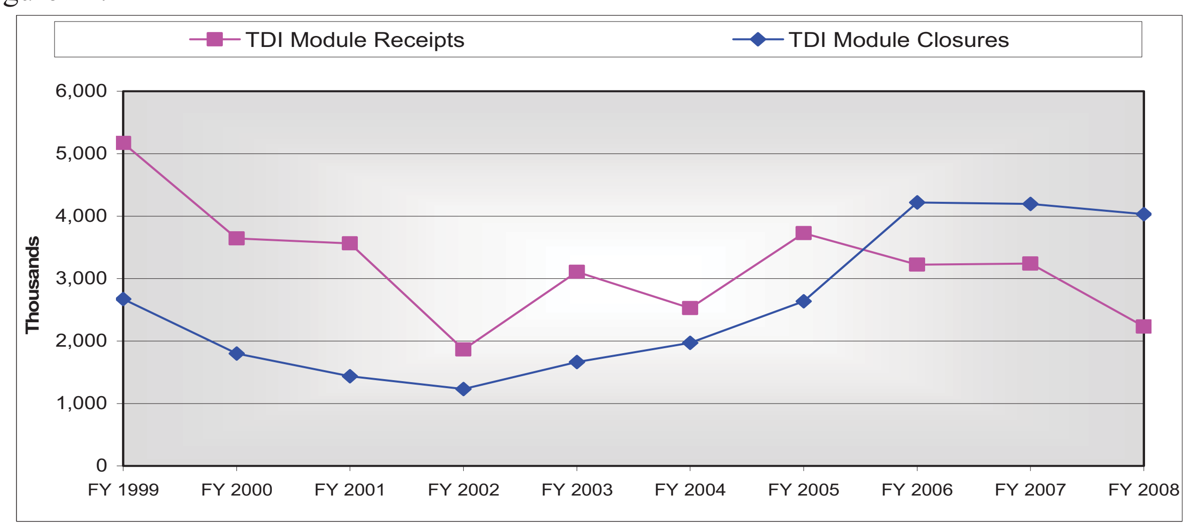
Source: Collection Reports 5000-2 and 5000-4.

Figure 11. TDA and TDI Tax Periods Shelved or Surveyed Each Year. After increasing by almost 120 percent during FY 2007, the total volume of TDA and TDI tax periods shelved or surveyed decreased by 36 percent during FY 2008. However, the IRS has removed millions of TDA and TDI tax periods from the Queue inventory in recent years.



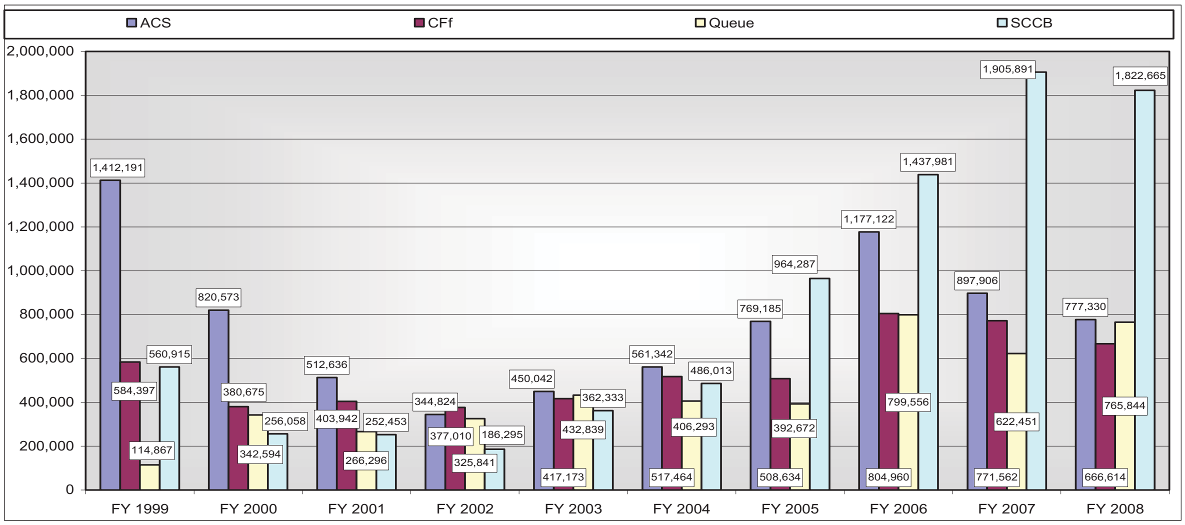
Source: TIGTA analysis of Collection Reports 5000-2 and 5000-4.

Figure 12. Gap Between TDI Tax Period Receipts and Closures. The volume of TDI receipts decreased by 31 percent, while closures only decreased by 4 percent during FY 2008. The closures shown in this figure do not include the TDIs shelved, which are shown in Figure 11.



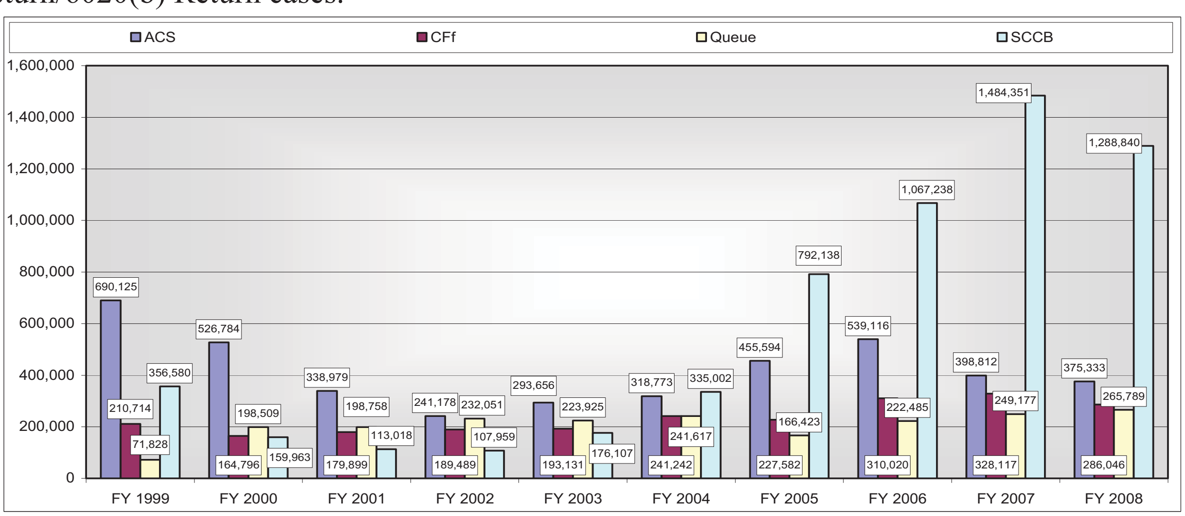
Source: TIGTA analysis of Collection Report 5000-4.

Figure 13. Number of TDI Tax Periods Closed, Excluding Shelved Accounts. After showing an overall pattern of increasing since FY 2002, the number of TDI tax periods closed by both the ACS and the CFf decreased during FYs 2007 and 2008. However, during FY 2008, the number closed from the Queue increased, while the number closed by the Service Center Collection Branch (SCCB) decreased. The SCCB increase in recent years is due in part to a decision to work additional Substitute for Return/6020(b) Return cases.



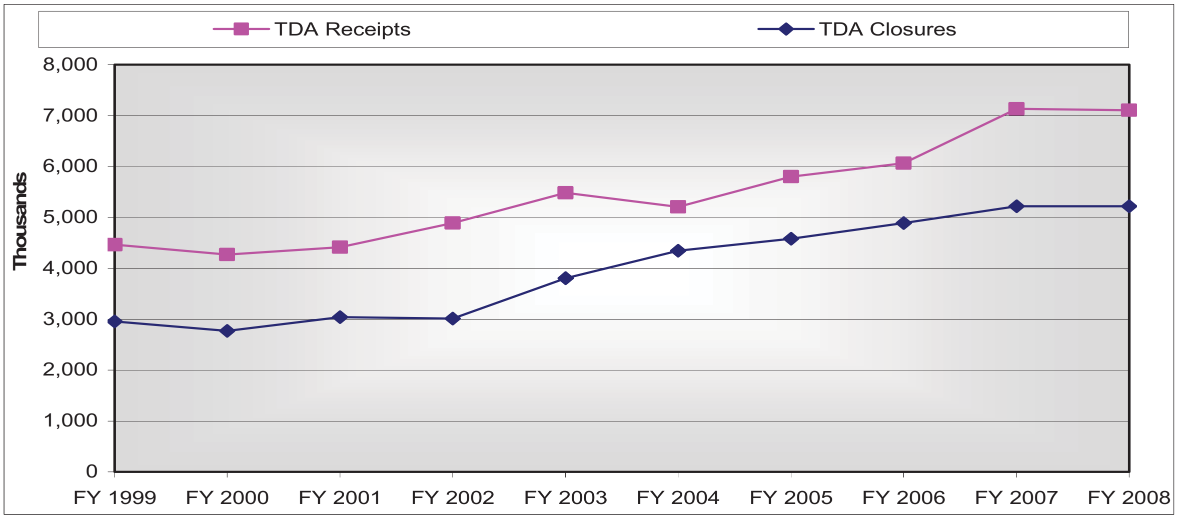
Source: TIGTA analysis of Collection Report 5000-4.

Figure 14. Number of TDI Tax Periods Closed With Receipt of a Delinquent Tax Return. The number of delinquent tax returns received decreased for the CFf, the ACS, and the SCCB during FY 2008. However, the number closed from the Queue increased during FY 2008. The SCCB increase in recent years is due in part to a decision to work additional Substitute for Return/6020(b) Return cases.



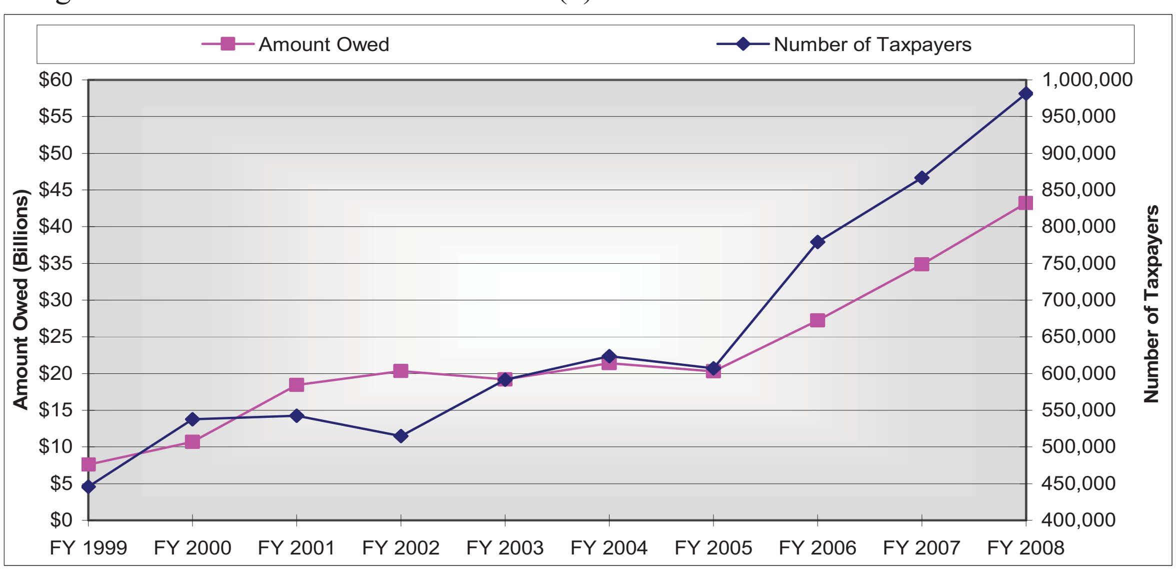
Source: TIGTA analysis of Collection Report 5000-4.

Figure 15. Gap Between TDA Receipts and Closures. The gap between TDA receipts and closures narrowed slightly in FY 2008 after widening substantially in FY 2007. However, the number of receipts has been greater than the number of closures each year since FY 1999. The closures shown in Figure 15 do not include the TDAs shelved (shown in Figure 11).



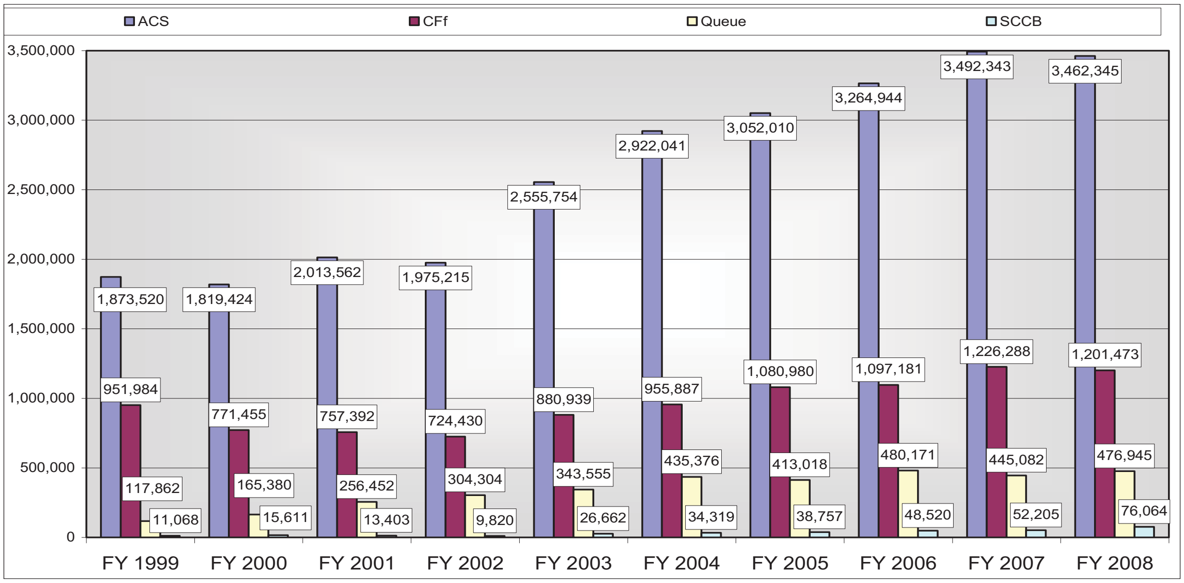
Source: TIGTA analysis of Collection Report 5000-2.

Figure 16. Number of Taxpayers and Amount Owed in the Queue. Between FYs 2005 and 2008, the number of taxpayers with TDAs in the Queue inventory increased by almost 62 percent, and the amount owed on those accounts increased by almost 113 percent. This increase could be at least partially attributed to the additional compliance assessments from working additional Substitute for Return/6020(b) Return cases.



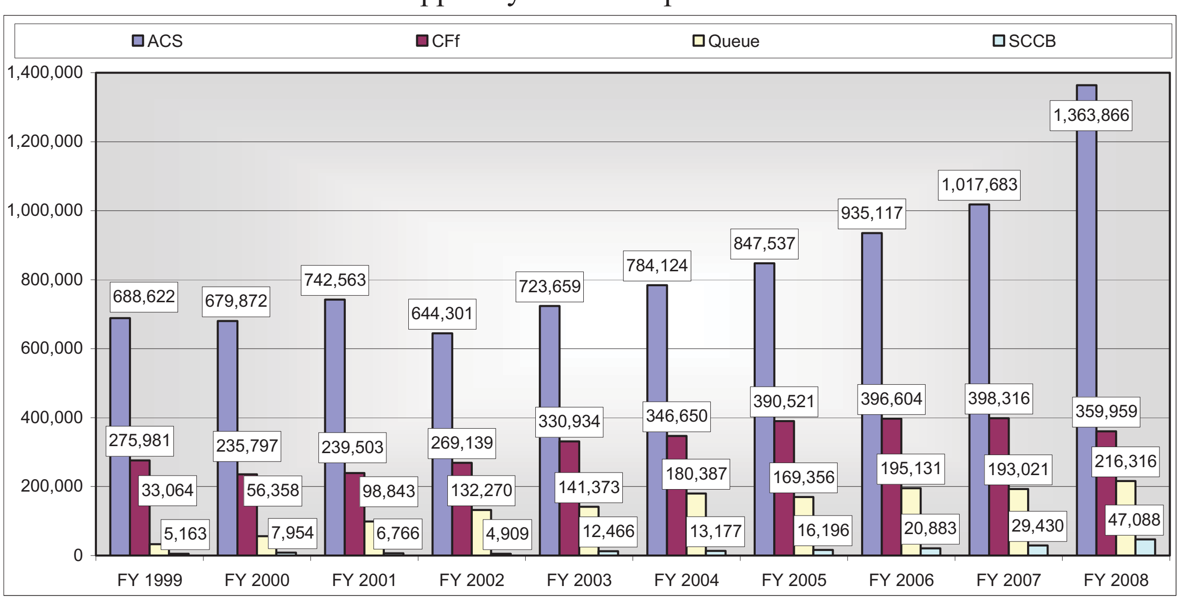
Source: Collection Report 5000-2.

Figure 17. Number of TDAs Closed, Excluding Shelved Accounts. The number of TDAs closed by the ACS and CFf decreased slightly in FY 2008. The number closed by the SCCB and while in the Queue both increased in FY 2008.



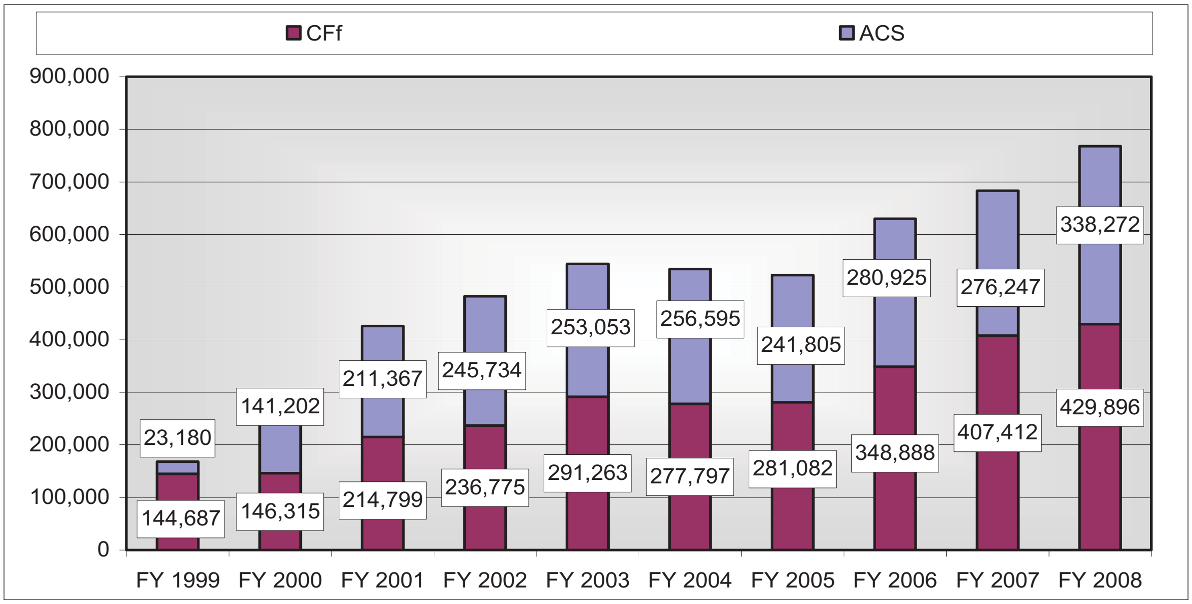
Source: TIGTA analysis of Collection Report 5000-2.

Figure 18. Number of TDAs Closed by Full Payment. The total number of TDAs closed by full payment increased by approximately 21 percent in FY 2008. Since FY 2002, there had been a steady increase in the number of accounts closed by full payment by the ACS and CFf, but in FY 2008 the number in the CFf dropped by almost 10 percent.



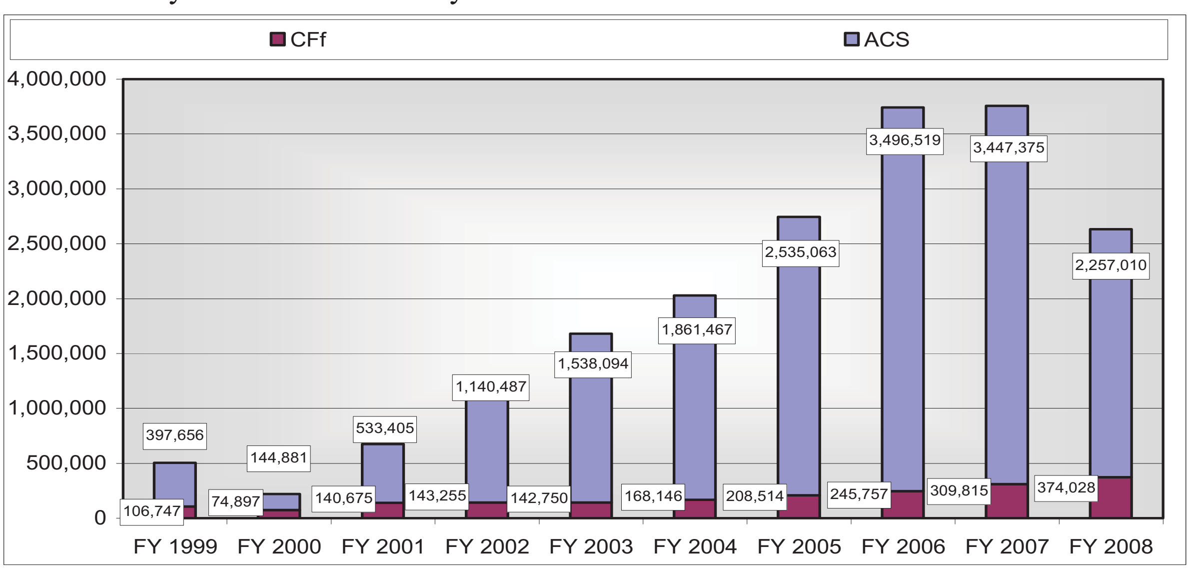
Source: TIGTA analysis of Collection Report 5000-2.

Figure 19. Liens Filed by the CFf and ACS. During the year, the total number of liens filed increased by more than 12 percent. The number of liens filed by the ACS increased by more than 22 percent, and those filed by the CFf increased by almost 6 percent.



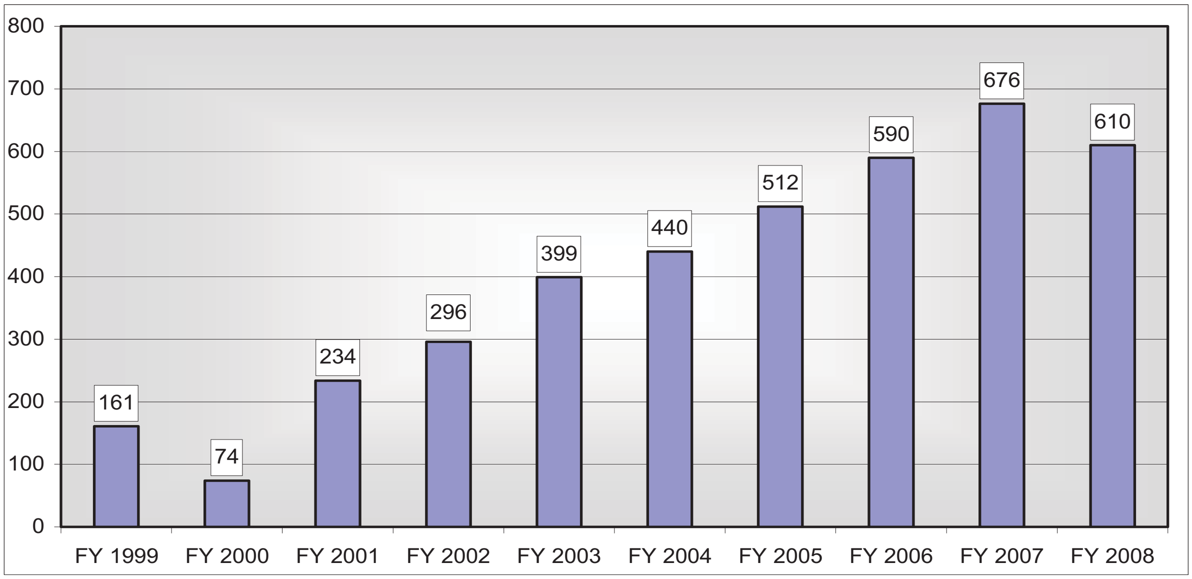
Source: Small Business/Self-Employed Division Collection Planning and Analysis, Collection National Reports.

Figure 20. Levies Issued by the CFf and ACS. The total number of levies issued by the CFf and ACS increased dramatically from FYs 2000 through 2006, then remained at a similar level for FY 2007 before dropping substantially in FY 2008. The substantial decrease was in the ACS. Levies issued by the CFf have steadily increased since FY 2003.



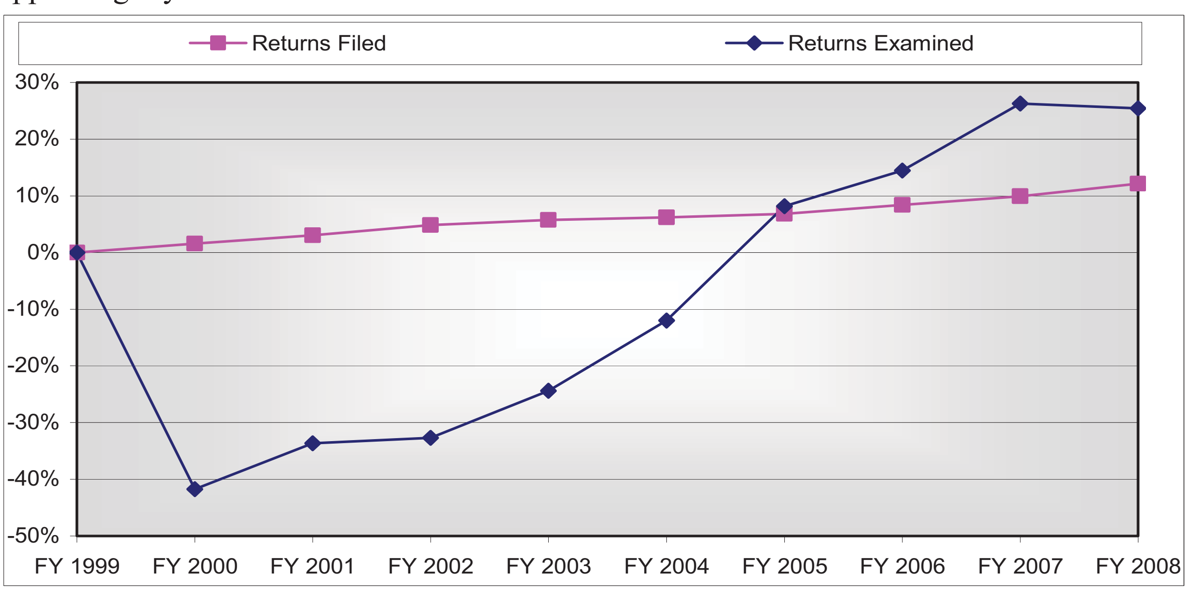
Source: Small Business/Self-Employed Division Collection Planning and Analysis, Collection National Reports.

Figure 21. Number of Seizures Made Each Fiscal Year. The number of seizures made showed an upward trend that had occurred since FY 2000, but then dropped almost 10 percent in FY 2008.



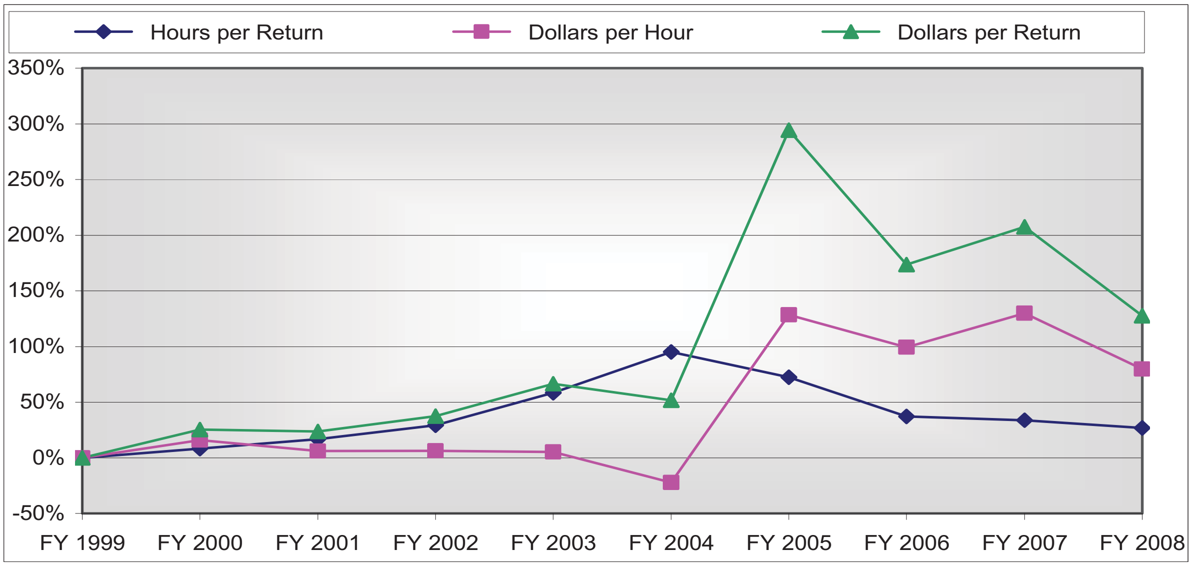
Source: IRS Data Book.

Figure 22. Examination Coverage of All Tax Returns – Percentage Change From FY 1999. Examination coverage of tax returns reached a 10-year low in FY 2000. Since then, the growth in coverage outpaced the growth in returns filed until FY 2008, when the percentage examined dropped slightly.



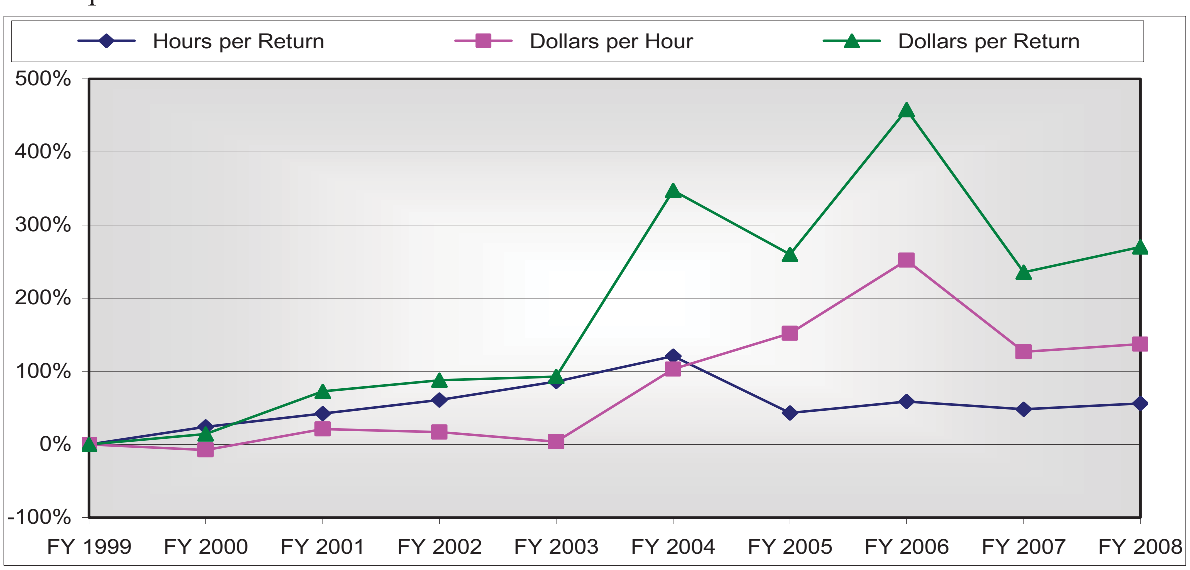
Source: TIGTA analysis of IRS Data Book.

Figure 23. Revenue Agent Results on U.S. Individual Income Tax Returns (Form 1040), Excluding Training Returns – Percentage Change From FY 1999. The hours per return and dollars per return decreased in FY 2008. The combined effect resulted in a decrease in dollars per hour of 22 percent.



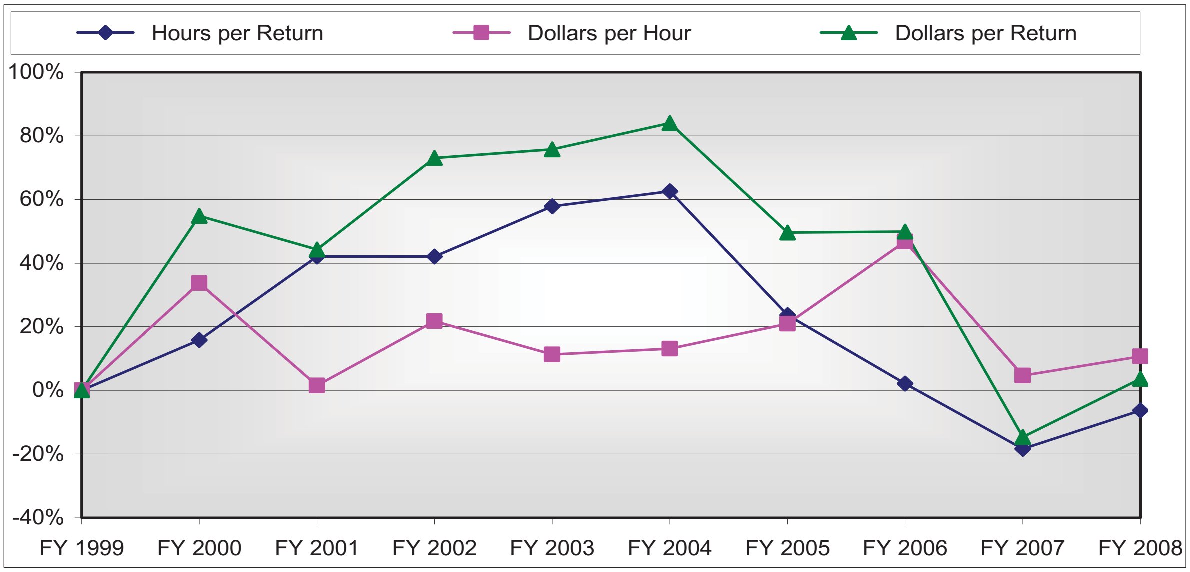
Source: TIGTA analysis of Examination Table 37.

Figure 24. Revenue Agent Results on Corporate Income Tax Returns, Excluding Training Returns – Percentage Change From FY 1999. The hours per return and dollars per return both increased during the year. The combined effect resulted in an increase in dollars per hour of almost 5 percent in FY 2008.



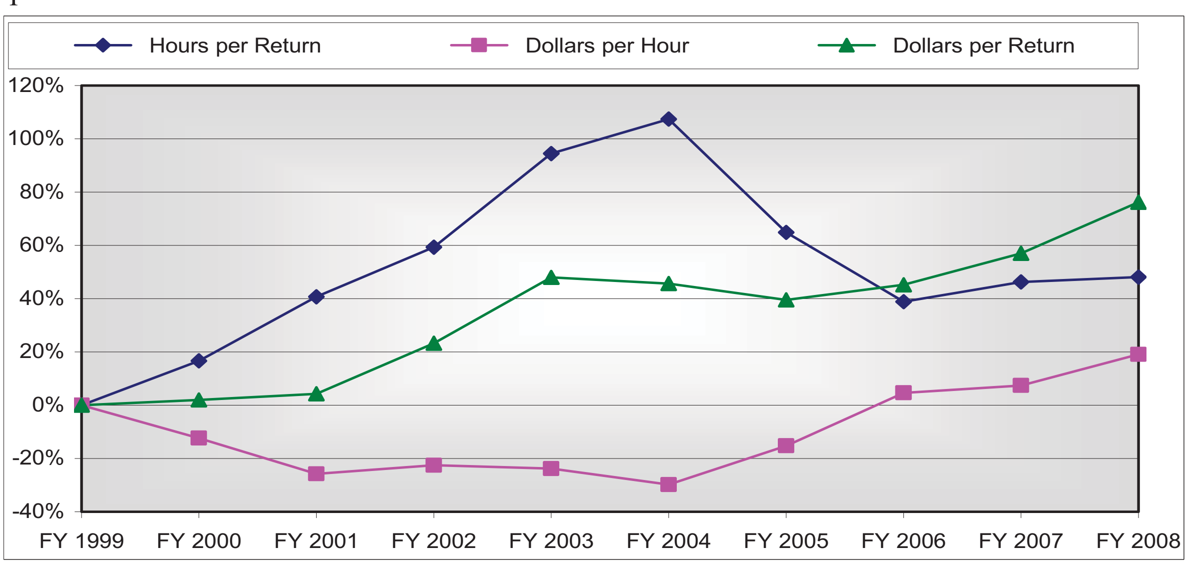
Source: TIGTA analysis of Examination Table 37.

Figure 25. Revenue Agent Results on Other Types of Tax Returns, Excluding Training Returns – Percentage Change From FY 1999. The hours per return and dollars per return both increased during the year. The combined effect resulted in an increase in dollars per hour of almost 6 percent in FY 2008.



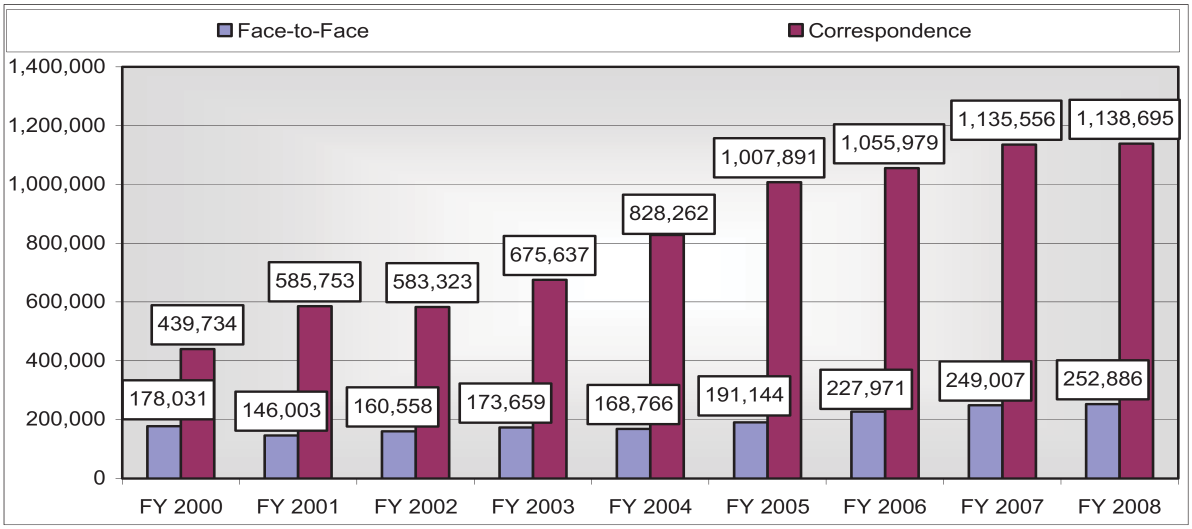
Source: TIGTA analysis of Examination Table 37.

Figure 26. Tax Compliance Officer Results on Forms 1040, Excluding Training Returns – Percentage Change From FY 1999. The hours per return and dollars per return both increased during the year. The combined effect resulted in an increase in dollars per hour of almost 11 percent in FY 2008.



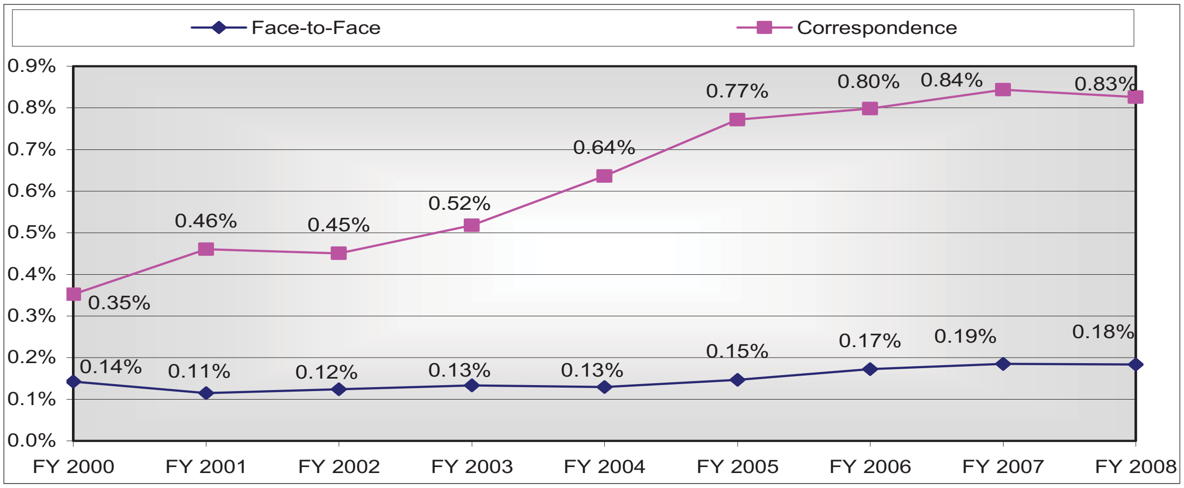
Source: TIGTA analysis of Examination Table 37.

Figure 27. Number of Forms 1040 Examined Face-to-Face or Through Correspondence. The total number of face-to-face examinations of individuals increased by about 2 percent, and those conducted through correspondence was unchanged in FY 2008. Almost 82 percent of Form 1040 examinations were conducted through correspondence. Due to a change in the source of the data, numbers for FY 1999 were not available.



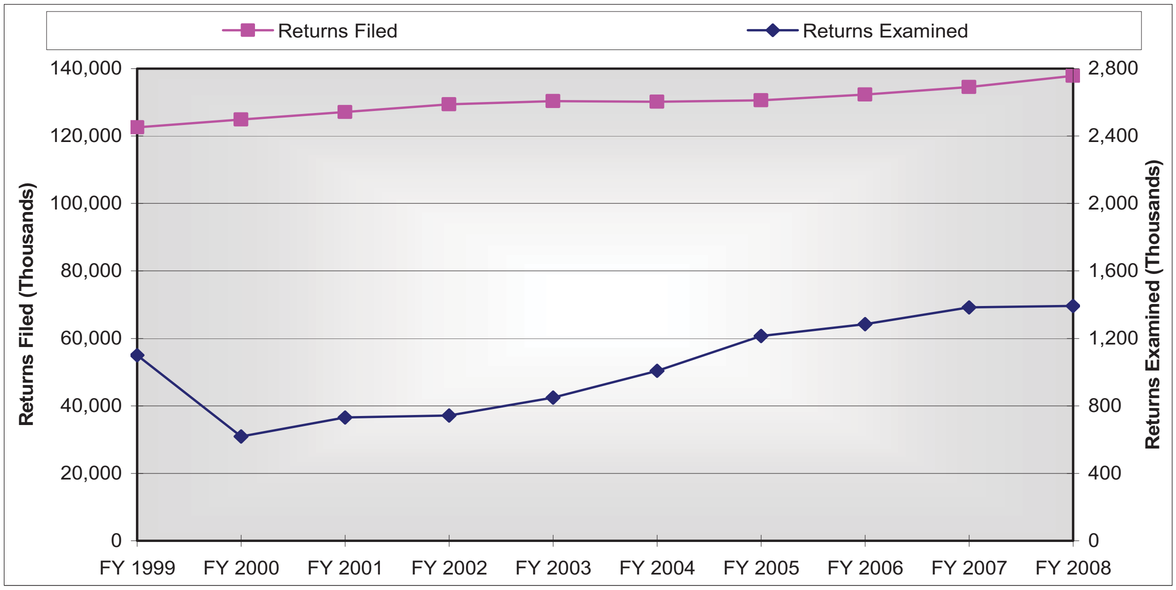
Source: Analysis of Examination Closed Case Database and IRS Data Book.

Figure 28. Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence. During FY 2008, the coverage rates for face-to-face and correspondence examinations of individual income tax returns decreased slightly. The coverage rate for examinations conducted by correspondence more than doubled during the 9-year period, while face-to-face examinations remained relatively constant. Due to a change in the source of the data, numbers for FY 1999 were not available.



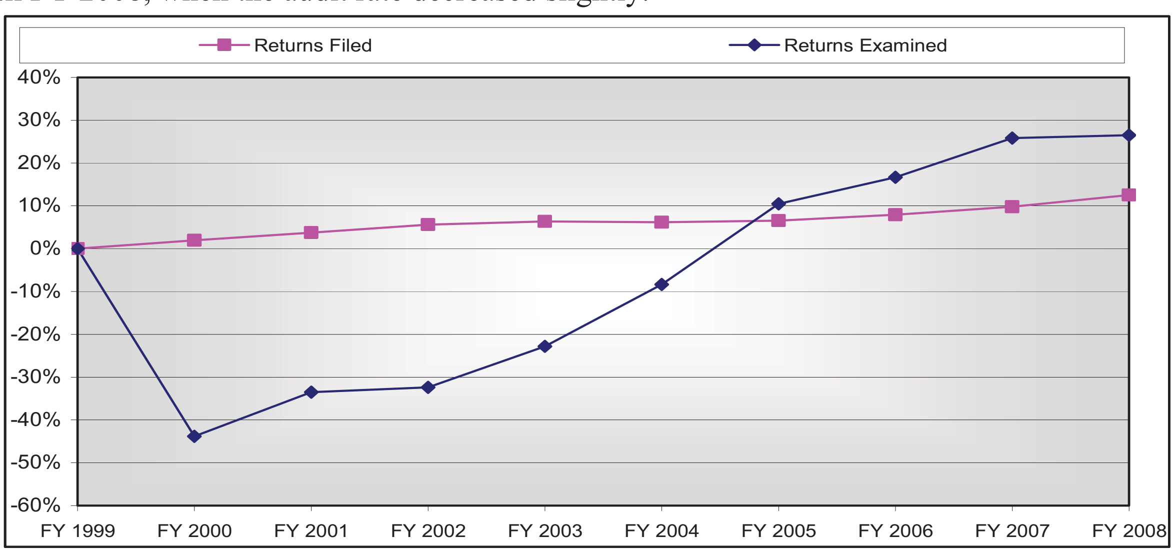
Source: Analysis of Examination Closed Case Database and IRS Data Book.

Figure 29. Examination Coverage of Forms 1040. After remaining relatively unchanged for 3 years, the number of Forms 1040 filed increased in each of the last 3 fiscal years. The growth in the number of Forms 1040 examined has slowed since FY 2005 and increased by less than 1 percent in FY 2008.



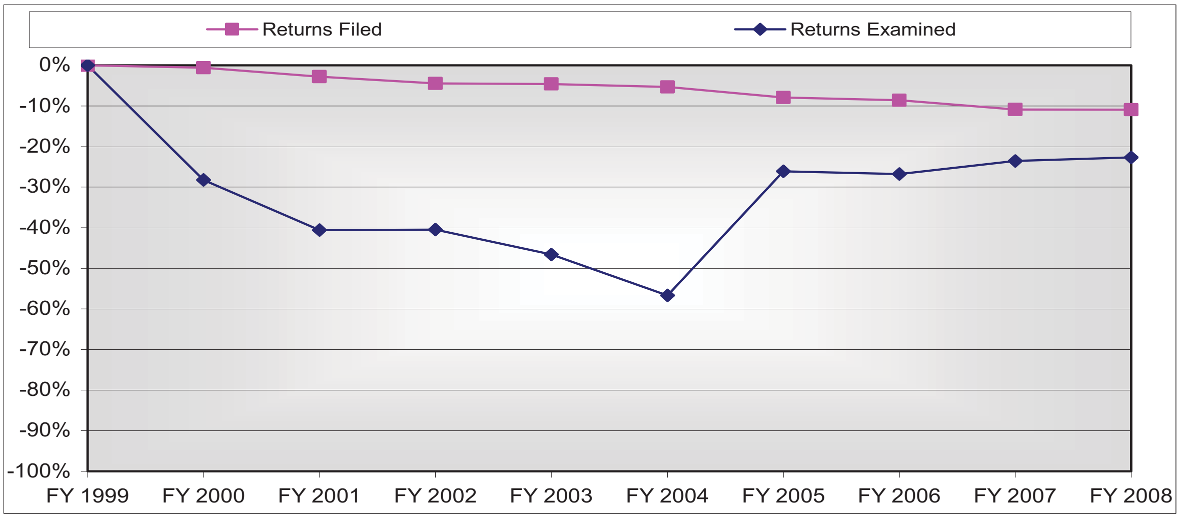
Source: TIGTA analysis of IRS Data Book.

Figure 30. Examination Coverage of Forms 1040 – Percentage Change From FY 1999. Examination coverage of Forms 1040 reached a 10-year low in FY 2000, but the growth in coverage has outpaced the growth in the number of Forms 1040 filed each year since FY 2002 until FY 2008, when the audit rate decreased slightly.



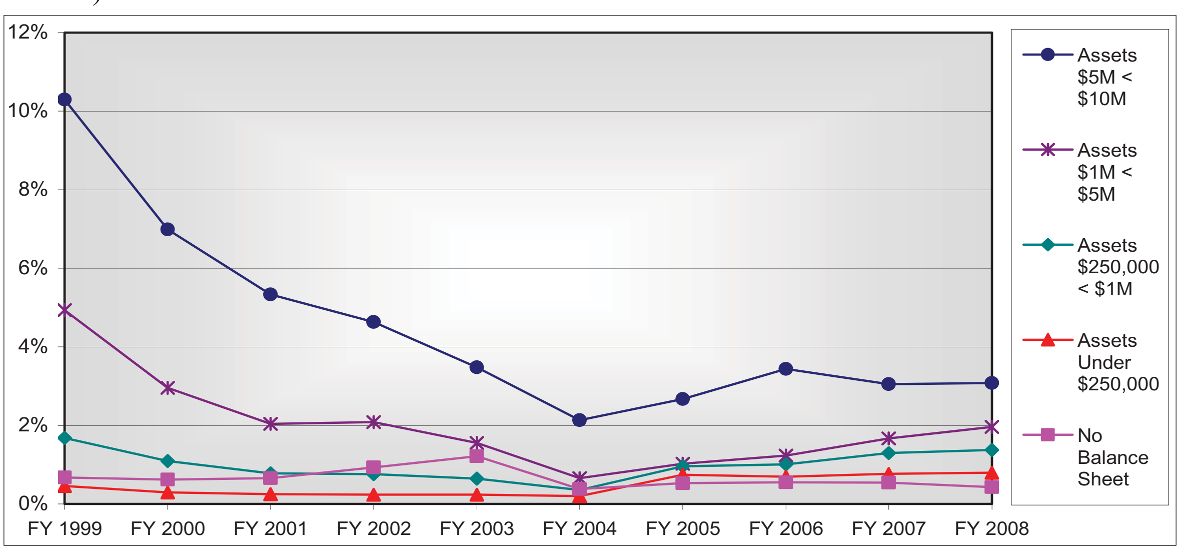
Source: TIGTA analysis of IRS Data Book.

Figure 31. Examination Coverage of Corporate Income Tax Returns – Percentage Change From FY 1999. Overall, the number of corporate tax returns filed [excluding U.S. Income Tax Return for an S Corporation (Form 1120S) and U.S. Income Tax Return for a Foreign Corporation (Form 1120-F)] continued to decrease during FY 2008, while the percentage of those tax returns examined increased. Overall, about 1 of every 74 corporate tax returns was examined.



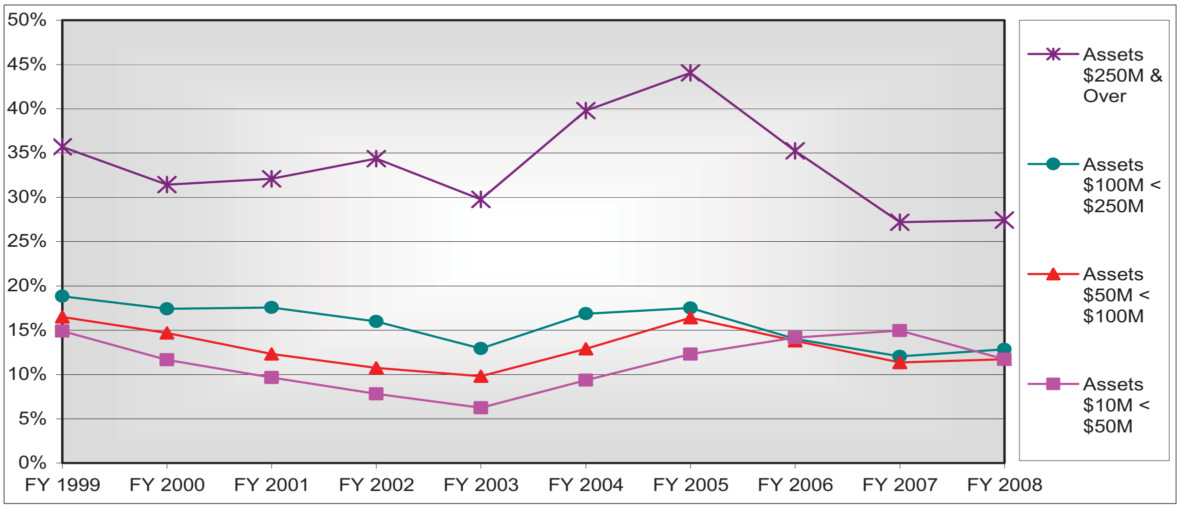
Source: TIGTA analysis of IRS Data Book.

Figure 32. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than $10 Million. During FY 2008, the overall examination coverage rate for all categories of corporate tax returns increased, except for those with no balance sheet (which decreased).



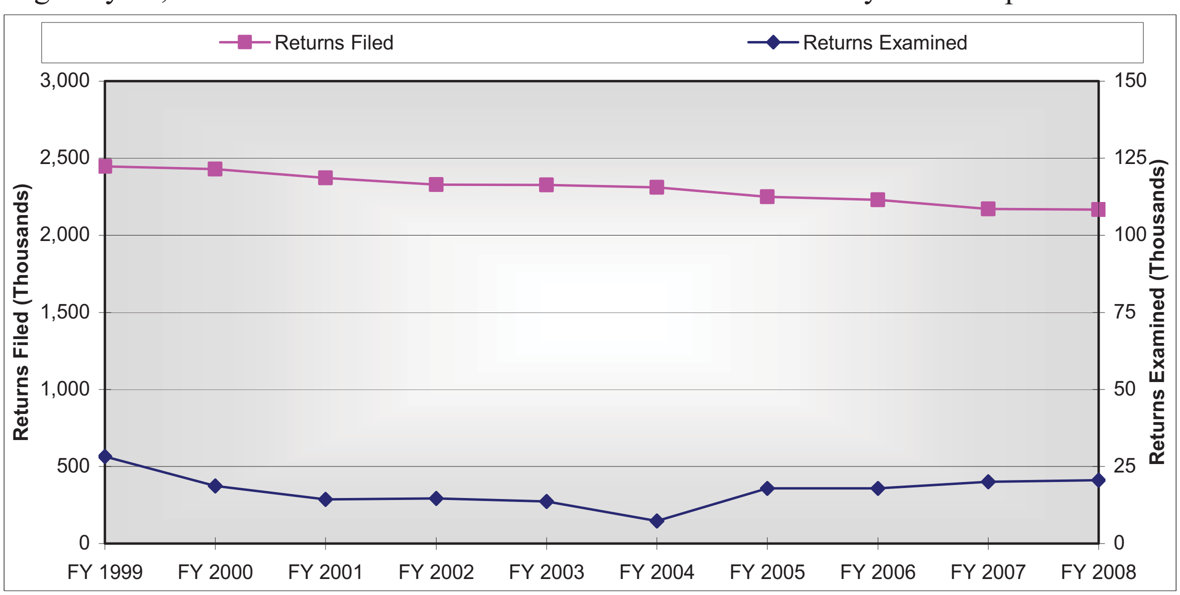
Source: TIGTA analysis of IRS Data Book.

Figure 33. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of $10 Million and Greater. During FY 2008, the overall examination coverage rate for corporate tax returns with assets of $10 million and greater decreased by approximately 9 percent. The rate for those returns in most categories increased, except for those with assets of at least $10 million but less than $50 million (which decreased by almost 22 percent).



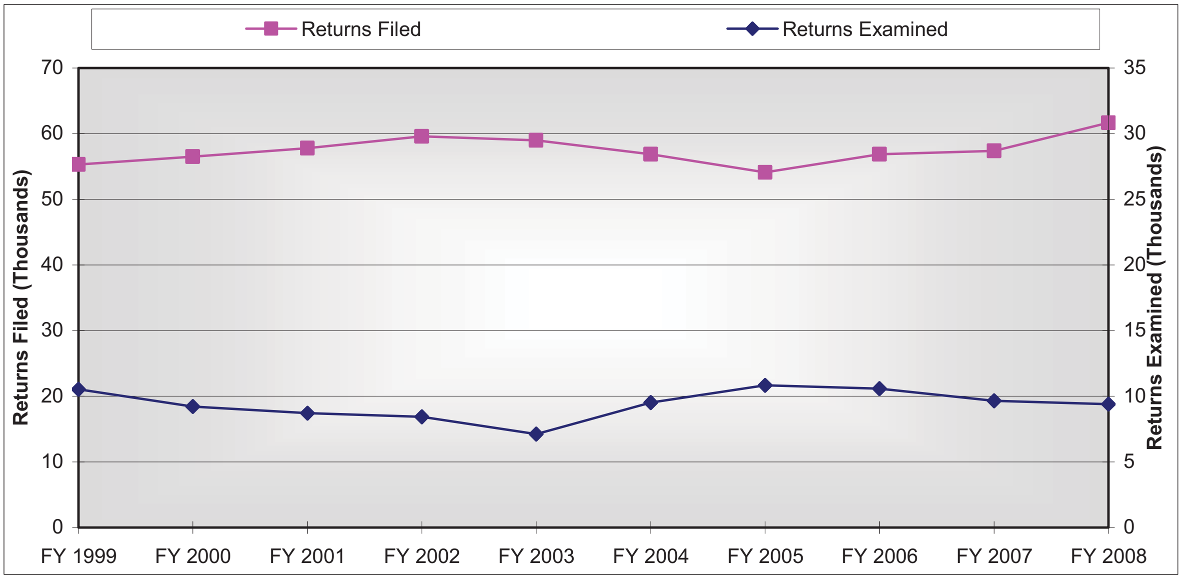
Source: TIGTA analysis of IRS Data Book.

Figure 34. Examination Coverage of Corporations With Assets of Less Than $10 Million. The number of corporate tax returns filed with assets of less than $10 million dropped slightly during the year, while the number of tax returns examined increased by almost 3 percent.



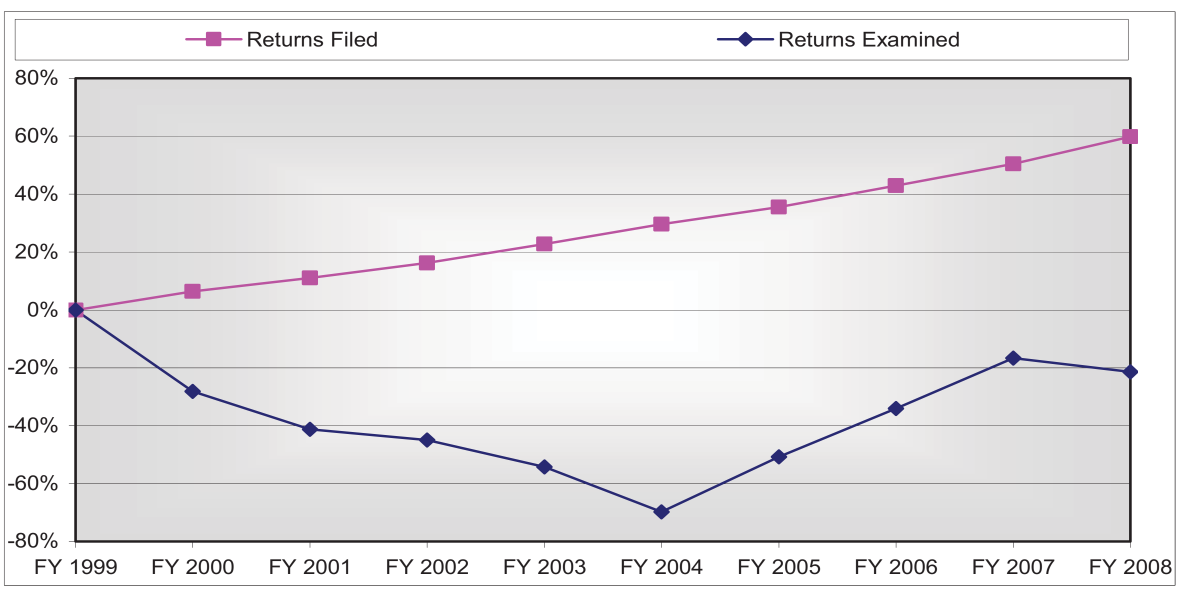
Source: TIGTA analysis of IRS Data Book.

Figure 35. Examination Coverage of Corporations With Assets of $10 Million and Greater. During FY 2008, the number of corporate tax returns filed with assets of $10 million and greater increased by 7 percent, while the number of returns examined decreased by 2 percent.



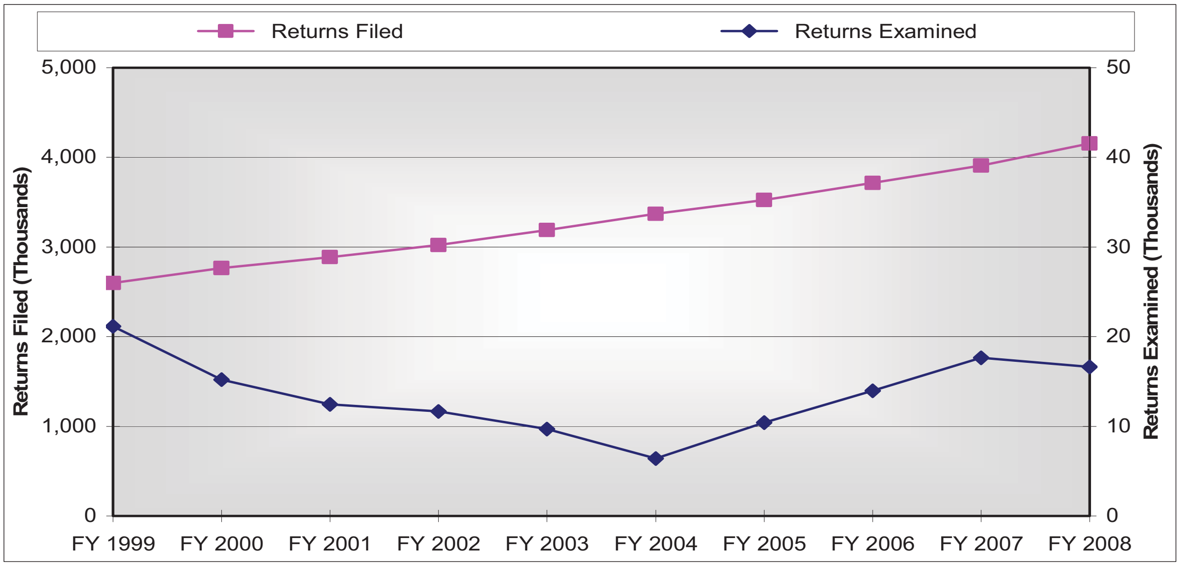
Source: TIGTA analysis of IRS Data Book.

Figure 36. Examination Coverage of Forms 1120S – Percentage Change From FY 1999. Although the coverage rate increased while examinations of Forms 1120S were being conducted as part of a National Research Project, the coverage rate decreased by approximately 11 percent in FY 2008.



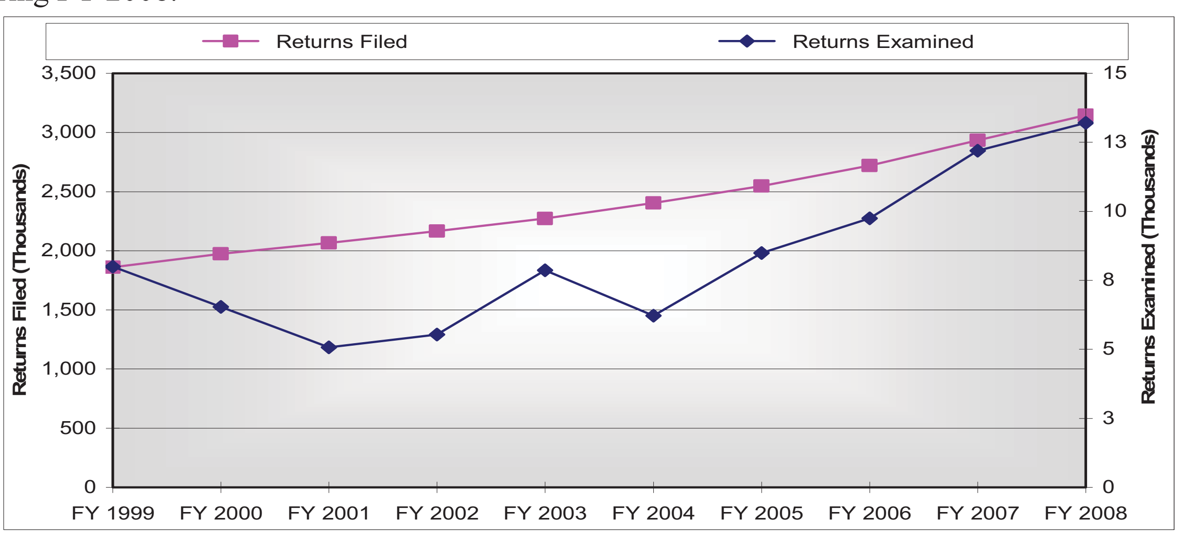
Source: TIGTA analysis of IRS Data Book.

Figure 37. Examination Coverage of Forms 1120S. The number of Forms 1120S filed has increased at an average rate of nearly 173,000 returns per year since FY 1999, to approximately 4.1 million in FY 2008. The number of returns examined decreased by almost 6 percent during the year and only about 1 of every 250 Forms 1120S was examined during FY 2008.



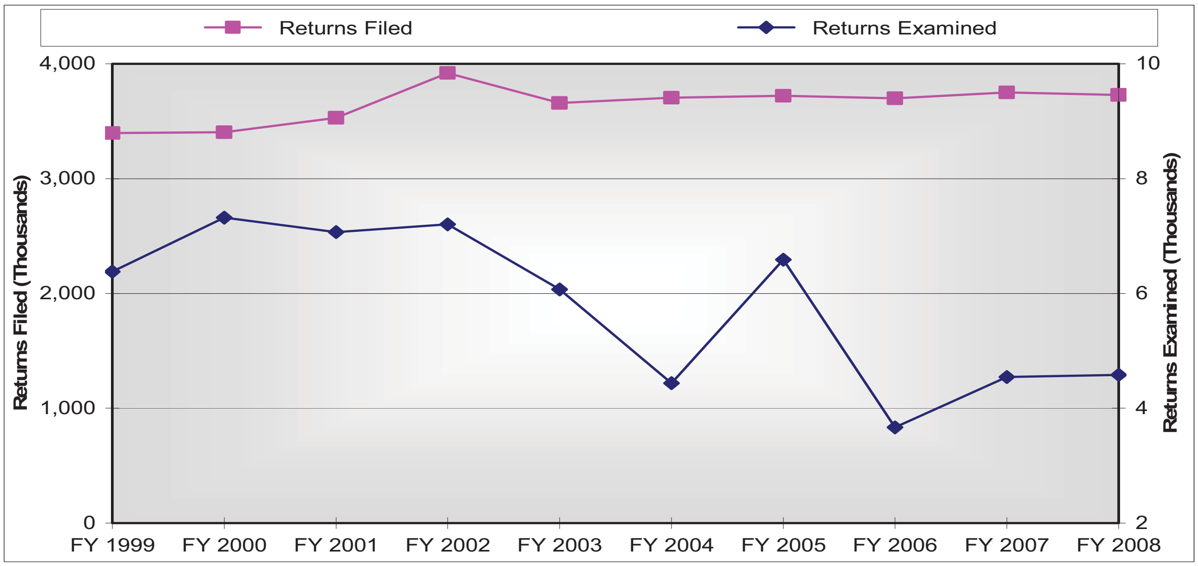
Source: IRS Data Book.

Figure 38. Examination Coverage of Partnership Income Tax Returns. The number of partnership tax returns filed has increased at an average rate of nearly 143,000 per year since FY 1999, to approximately 3.1 million in FY 2008. The number of returns examined increased by 112 percent since FY 2004, but only about 1 of every 238 partnership returns was examined during FY 2008.



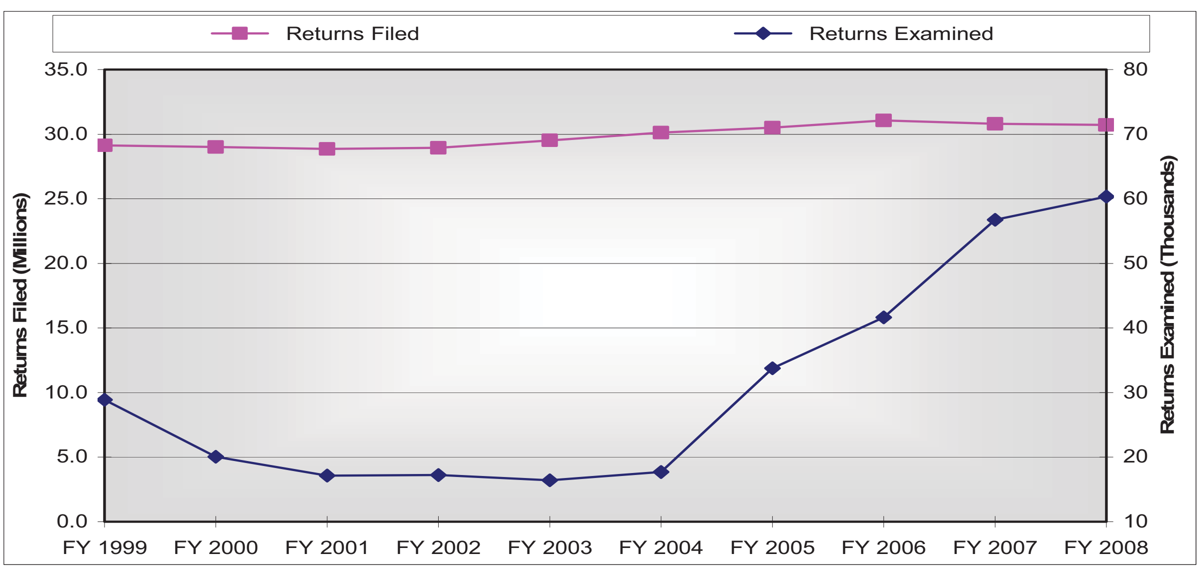
Source: IRS Data Book.

Figure 39. Examination Coverage of Fiduciary Income Tax Returns. During FY 2008, the number of income tax returns filed by estates and trusts decreased slightly, and the number of tax returns examined increased slightly. Only about 1 of every 814 fiduciary income tax returns was examined.



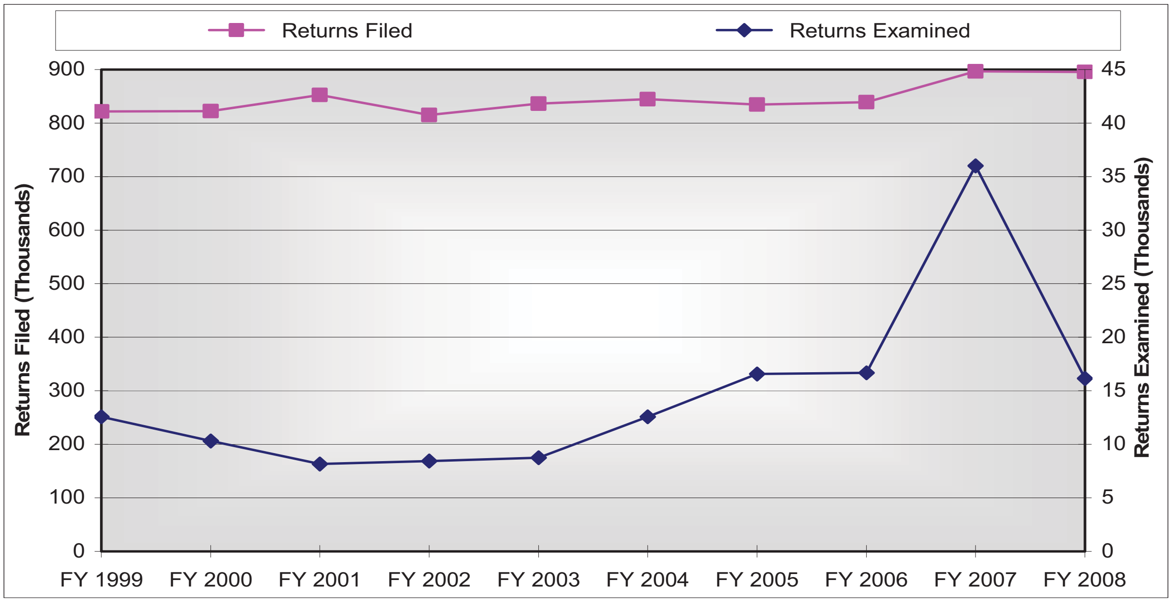
Source: IRS Data Book.

Figure 40. Examination Coverage of Employment Tax Returns. The number of employment tax returns filed decreased slightly this year, while the number of tax returns examined increased by approximately 6 percent. About 1 of every 509 employment tax returns was examined.



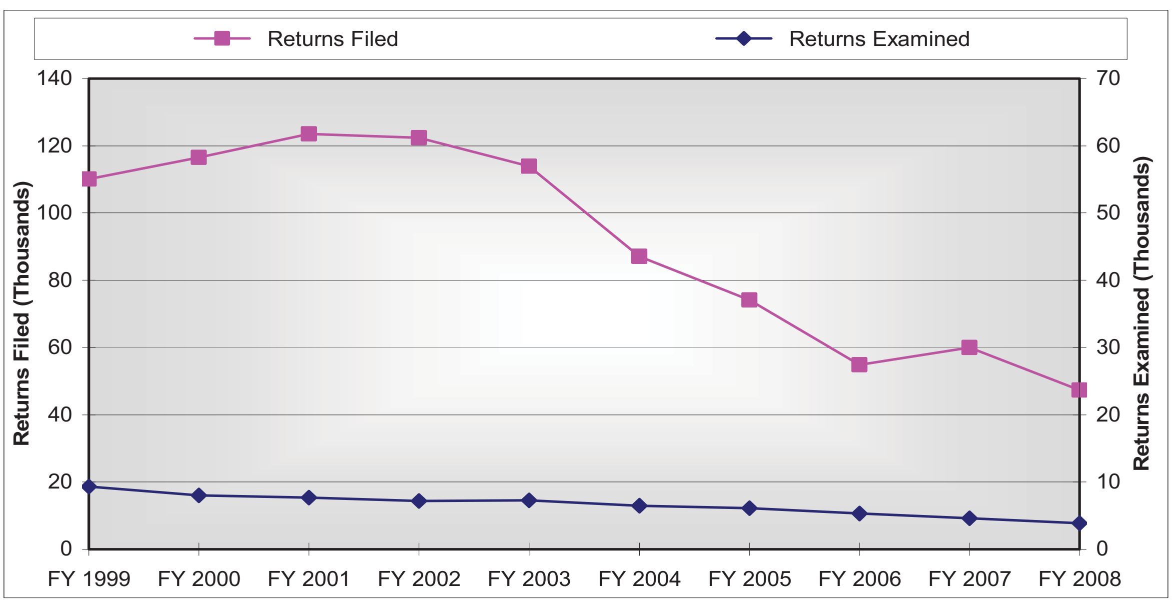
Source: IRS Data Book.

Figure 41. Examination Coverage of Excise Tax Returns. The number of excise tax returns filed decreased slightly, while the number examined decreased by approximately 55 percent during FY 2008.



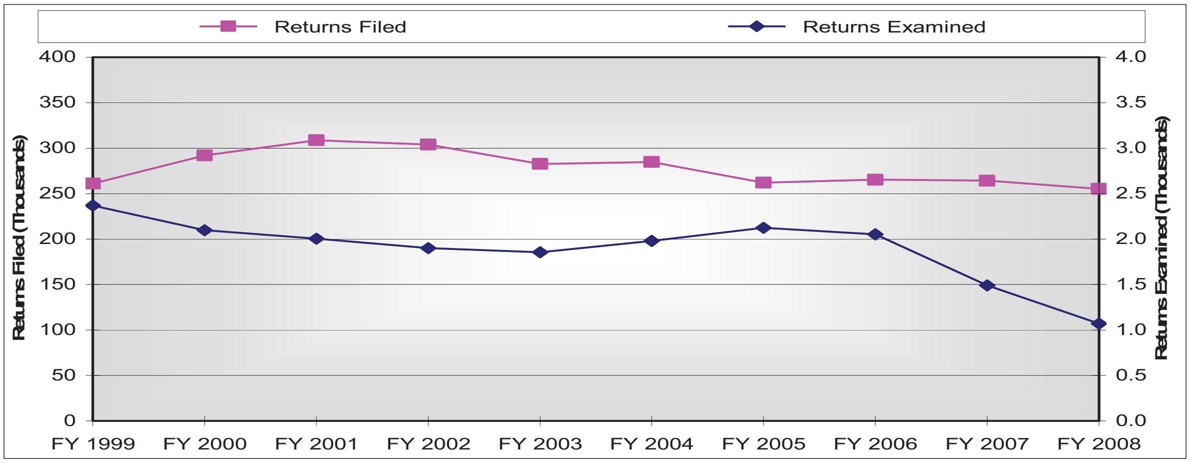
Source: IRS Data Book.

Figure 42. Examination Coverage of Estate Tax Returns. During FY 2008, the number of estate tax returns filed decreased by approximately 21 percent, and the number of returns examined decreased by almost 17 percent. About 1 of every 12 estate tax returns was examined.



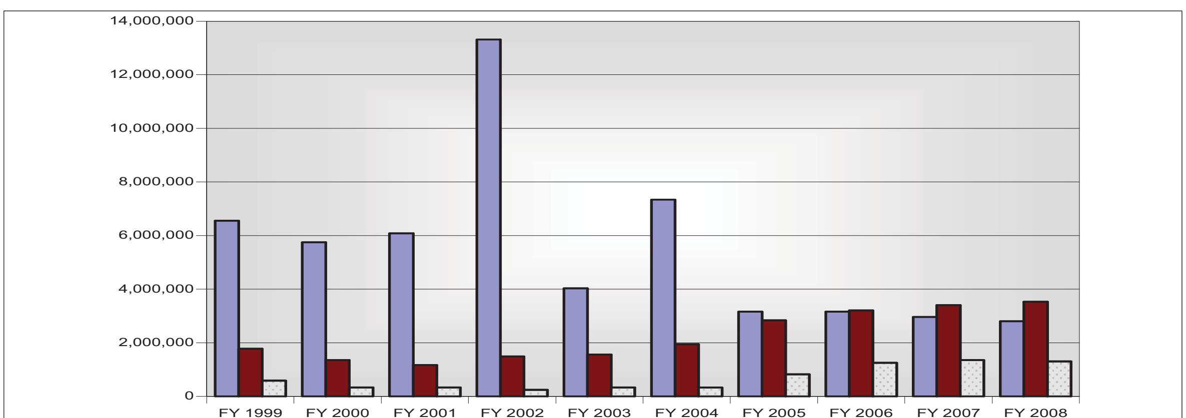
Source: IRS Data Book.

Figure 43. Examination Coverage of Gift Tax Returns. The number of gift tax returns filed decreased by 3 percent during FY 2008. However, the number of returns examined decreased by approximately 28 percent.



Source: IRS Data Book.

Figure 44. Other Compliance Contacts on Forms 1040. The number of contacts for Math Error Program and Automated Substitute for Return system[1] cases decreased slightly during FY 2008. The numbers of contacts for Underreporter Program cases increased. The spike in the number of contacts for Math Error Program cases in FY 2002 was the result of taxpayer confusion over the Rate Reduction Credit. Much of the spike in FY 2004 was due to Child Tax Credit issues.



	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Math Error	6,552,290	5,751,462	6,082,967	13,315,765	4,024,981	7,342,484	3,163,794	3,159,077	2,965,745	2,801,427
Underreporter	1,770,695	1,353,545	1,161,901	1,491,139	1,561,068	1,948,363	2,837,149	3,209,000	3,403,000	3,530,000
ASFR	584,142	332,427	333,770	242,637	335,032	326,407	820,845	1,253,000	1,356,000	1,300,000

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

[1] The IRS adjusted how these cases are captured. We used revised numbers for FYs 2003 through 2005 to be consistent with the other fiscal years.

Figure 45. Other Compliance Contacts – Percentage of Form 1040 Coverage. The level of coverage for Math Error Program and Automated Substitute for Return cases decreased slightly in FY 2008. However, the level of coverage for Underreporter Program cases was unchanged. The Math Error Program aberrations in FYs 2002 and 2004 are explained in Figure 44.

	FY 1999	FY 2000	FY 2001	FY 2002	FY2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Math Error	6,552,290	5,751,462	6,082,967	13,315,765	4,024,981	7,342,484	3,163,794	3,159,077	2,965,745	2,801,427
Coverage Rate	5.25%	4.53%	4.70%	10.22%	3.08%	5.59%	2.38%	2.36%	2.21%	2.02%
Underreporter	1,770,695	1,353,545	1,161,901	1,491,139	1,561,068	1,948,363	2,837,149	3,209,000	3,403,000	3,530,000
Coverage Rate	1.44%	1.08%	0.91%	1.15%	1.20%	1.49%	2.16%	2.42%	2.54%	2.54%
ASFR	584,142	332,427	333,770	242,637	335,032	326,407	820,845	1,253,000	1,356,000	1,300,000
Coverage Rate	0.48%	0.27%	0.26%	0.19%	0.26%	0.25%	0.63%	0.94%	1.01%	0.94%

Source: TIGTA analysis of IRS Data Book. ASFR = Automated Substitute for Return system.

Figure 46. Numbers and Percentages of Individual and Business Tax Returns Examined.
Numbers and percentages of examination coverage.

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Individual Returns										
Individuals (Forms 1040)	1,100,273	617,765	731,756	743,881	849,296	1,007,874	1,215,308	1,283,950	1,384,563	1,391,581
Coverage Rate	0.90%	0.49%	0.58%	0.57%	0.65%	0.77%	0.93%	0.97%	1.03%	1.01%
Business Returns										
Corporations Less Than $10 Million	28,268	18,623	14,332	14,655	13,608	7,294	17,858	17,849	20,020	20,580
Coverage Rate	1.16%	0.77%	0.60%	0.63%	0.58%	0.32%	0.79%	0.80%	0.92%	0.95%
Corporations $10 Million and Greater	10,537	9,212	8,718	8,443	7,125	9,523	10,829	10,578	9,644	9,406
Coverage Rate	19.05%	16.30%	15.08%	14.17%	12.08%	16.74%	20.02%	18.60%	16.81%	15.26%
S Corporations (Forms 1120S)	21,169	15,200	12,437	11,646	9,695	6,402	10,417	13,970	17,657	16,634
Coverage Rate	0.81%	0.55%	0.43%	0.39%	0.30%	0.19%	0.30%	0.38%	0.45%	0.40%
Partnerships	7,991	6,539	5,070	5,543	7,871	6,226	8,489	9,752	12,195	13,203
Coverage Rate	0.43%	0.33%	0.25%	0.26%	0.35%	0.26%	0.33%	0.36%	0.42%	0.42%
Fiduciaries	6,382	7,318	7,070	7,206	6,068	4,438	6,591	3,669	4,544	4,582
Coverage Rate	0.19%	0.22%	0.20%	0.18%	0.17%	0.12%	0.18%	0.10%	0.12%	0.12%
Employment	28,898	20,074	17,163	17,252	16,408	17,698	33,748	41,646	56,738	60,346
Coverage Rate	0.10%	0.07%	0.06%	0.06%	0.06%	0.06%	0.11%	0.13%	0.18%	0.20%
Excise	12,562	10,294	8,169	8,426	8,756	12,560	16,563	16,678	36,018	16,134
Coverage Rate	1.53%	1.25%	0.96%	1.03%	1.05%	1.49%	1.98%	1.99%	4.02%	1.80%
Estates	9,319	8,024	7,707	7,151	7,265	6,455	6,081	5,299	4,616	3,852
Coverage Rate	8.46%	6.89%	6.24%	5.84%	6.38%	7.41%	8.20%	9.66%	7.70%	8.14%
Gift	2,369	2,097	2,005	1,899	1,855	1,979	2,125	2,051	1,490	1,071
Coverage Rate	0.91%	0.72%	0.65%	0.63%	0.66%	0.69%	0.81%	0.77%	0.56%	0.42%

Source: TIGTA analysis of IRS Data Book

Appendix VI

Prior Treasury Inspector General for Tax Administration Compliance Trends Reports

Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities (Reference Number 2000-30-075, dated May 12, 2000).

Management Advisory Report: Tax Return Filing and Examination Statistics (Reference Number 2001-30-175, dated September 21, 2001).

Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001 (Reference Number 2002-30-184, dated September 30, 2002).

Trends in Compliance Activities Through Fiscal Year 2002 (Reference Number 2003-30-078, dated March 31, 2003).

Trends in Compliance Activities Through Fiscal Year 2003 (Reference Number 2004-30-083, dated April 23, 2004).

Trends in Compliance Activities Through Fiscal Year 2004 (Reference Number 2005-30-055, dated March 30, 2005).

Trends in Compliance Activities Through Fiscal Year 2005 (Reference Number 2006-30-055, dated March 27, 2006).

Trends in Compliance Activities Through Fiscal Year 2006 (Reference Number 2007-30-056, dated March 27, 2007).

Trends in Compliance Activities Through Fiscal Year 2007 (Reference Number 2008-30-095, dated April 18, 2008).