June 2008

TAX DEBT COLLECTION

IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts
TAX DEBT COLLECTION

IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts

What GAO Found

IRS has a complex process to collect unpaid tax debts by contacting taxpayers through notices, telephone calls, and in person. Because IRS has a very large debt workload and limited resources spread across multiple units, it must make numerous decisions about how best to handle debt cases. The complexity also arises because debt cases can take various routes based on about 70 IRS decision rules used for handling cases. The rules respond to a wide variety of debt characteristics, information known about the taxpayer, and the results of attempts to contact the taxpayer or take enforcement action.

From fiscal years 2002 through 2007, increases occurred in the unpaid tax debt inventory, the percentages of debt classified as potentially collectible and in active collection status, and the dollars IRS collected. It is unclear whether dollars collected will continue to grow at rates similar to the growth in debt classified as collectible or active because, for example, those categories do not mean that the debt has a high potential for collection and will be actively pursued or that debt resolution will necessarily result in dollars collected.

IRS-wide collection performance measures cover three outcomes of the three-phase process with an emphasis on closing more debt cases in less staff time. IRS did not indicate why more measures for the whole collection process were lacking. For each of the phases, IRS had more performance measures such as on debt resolutions, time spent, satisfaction, and quality, which phase managers said were sufficient for them.

GAO has identified material weaknesses in IRS’s controls over unpaid tax assessments and collections partly due to the lack of agencywide cost-benefit data and related performance measures. Although IRS has made some progress on these weaknesses, progress has not been sufficient to resolve them. For example, over the past 3 years, IRS has employed various approaches, including sophisticated computer modeling and risk assessment techniques, to assist it in more effectively identifying the tax debt cases with the greatest collection potential, and to facilitate prioritizing of these cases for collection. IRS has also employed these techniques to identify the most effective collection approach to take for the various types of outstanding tax debt. Although IRS has ongoing projects to expand the use of these models and techniques, it does not yet have an agencywide, systematic approach to managing the collection of tax debts across IRS. In response, IRS has created a council of IRS collection officials to coordinate various collection activities across IRS and potential changes across the parts of the collection process. Further, IRS has a number of ongoing projects to improve aspects of the collection process. However, some of these projects will take a few years to be implemented.
Contents

Letter

Results in Brief 3
Background 5
IRS Collects or Otherwise Resolves Unpaid Tax Debt through a Complex, Three-Phase Process 7
Tax Debt Collections Have Recently Increased, but Increases in Potentially Collectible Inventory and Active Cases May Not Portend Continuing Collection Increases 12
IRS-Wide Collection Performance Measures Cover the Collection Process and Some Outcomes 16
Agency Comments and Our Evaluation 19

Appendix I  Scope and Methodology 21

Appendix II  Challenges in Tracking the Inventory and Collection of Tax Debts across Fiscal Years 23

Appendix III  IRS Efforts to Improve the Collection Process as of May 2008 25

Appendix IV  Data on the Inventory of Unpaid Assessments and Collection Results from Fiscal Years 2002 through 2007 28

Appendix V  Comments from the Internal Revenue Service 30

Appendix VI  GAO Contact and Staff Acknowledgments 32

Tables

Table 1: Percentage of Unpaid Tax Debt Inventory Resolved by Types of Removal, Fiscal Years 2002 through 2007 15
Table 2: IRS-Wide Collection Process Performance Measure Definitions and Collection Phases Covered 17
Table 3: IRS-Wide Goals and Actuals for Collection Performance Measures, Fiscal Years 2005-2007 17
Table 4: IRS Collection Improvement Projects (as of May 2008) 25
Table 5: Unpaid Tax Debt Inventory (as of the end of Fiscal Years 2002-2007) 28
Table 6: Potentially Collectible Inventory versus Non-Potentially Collectible Inventory of the Unpaid Assessments 28
Table 7: Potentially Collectible Inventory in Active Collection and Non-Active Collection Status 29

Figures

Figure 1: IRS’s Three-Phase Process for Attempting Collection of Unpaid Tax Debt 3
Figure 2: IRS’s Three-Phase Process for Attempting Collection of Unpaid Tax Debt 8
Figure 3: Unpaid Tax Debt Inventory: Percentages Categorized as Potentially Collectible and Not Potentially Collectible at the Ends of Fiscal Years 2002-2007 13
Figure 4: Potentially Collectible Inventory: Percentages in Active and Not Active Collection Status at the Ends of Fiscal Years 2002-2007 14

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.
June 13, 2008

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Internal Revenue Service (IRS) must pursue collection of unpaid tax debt to help ensure compliance and confidence in the tax system and address the tax gap, which is the estimated difference between tax amounts that taxpayers voluntarily and timely pay and those they owe. IRS estimated that $33 billion of the annual gross tax gap (which totaled $345 billion after including the underreporting and nonfiling portions) for tax year 2001 was for nonpayment of known tax assessments. If not collected, these annual unpaid tax assessments accumulate over time, along with the related penalty and interest charges, to create an inventory of “tax debts.”

As of the end of fiscal year 2007, this inventory was approaching $300 billion, of which IRS considered about $100 billion to be potentially collectible. Due to resource limitations, IRS has shelved or delayed collection of billions of dollars of this tax debt. Given the many challenges that IRS faces, the enforcement of the tax laws, including collection of unpaid tax debt has been on our list of high-risk areas since 1990.

Although collecting unpaid tax debt is part of any strategy to help ensure compliance and confidence in the tax system and reduce both the annual tax gap and the cumulative unpaid tax debt inventory, Congress and other stakeholders have raised questions about the effectiveness of IRS’s collection process in helping ensure compliance. Because of your concerns about unpaid tax debt and to enhance Congress’s understanding of the current collection process, you asked that we describe IRS’s

---

1This inventory of unpaid tax debts is not the same concept as the tax gap because the inventory is cumulative rather than annual and includes penalty and interest in addition to the unpaid tax. A further conceptual difference is that the unpaid tax debt inventory starts with actual tax assessments while most of the tax gap, except for the $33 billion in nonpayment of known tax assessments, represents estimates of tax losses because of reporting and filing noncompliance.
collection process and results for fiscal years 2002 through 2007. This report addresses the following questions.

- What process does IRS use to attempt to collect or resolve unpaid tax debts?
- What are the trends in unpaid tax debt, including the size and composition of the inventory, collections, and other resolutions of unpaid debt in fiscal years 2002 through 2007?
- What performance measures and related goals are available to assess how well the collection process works overall?

To answer these questions, we interviewed IRS officials and reviewed IRS's unpaid assessments database, documentation on the collection process and factors used in managing it, and IRS's highest-level collection measures. Appendix I provides more details on our scope and methodology. In addition, we also attempted to track IRS's tax assessment and collection results across fiscal years 2002 through 2007, and asked IRS about its efforts to improve its management of the inventory and collection of debts. Appendix II describes our attempts to do this tracking from fiscal years 2002 through 2007, focusing on what happened to fiscal year 2002 assessments, and appendix III describes IRS's improvement efforts. We conducted our work from July 2007 to May 2008 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.
IRS has a three-phase process for collecting unpaid tax debts by contacting affected taxpayers through (1) a notice in the mail, (2) a telephone call, and (3) in-person interactions. IRS's very large debt workload in concert with its limited resources spread across multiple programs and multiple parts of IRS require many decisions to be made about how to handle the debt. Beyond the sheer volume of debt cases and dollars and the multiple IRS units that administer these phases, the process is complex because debt cases can take various routes through it, as shown in figure 1.

The various routes arise in part from about 70 IRS decision rules for handling a case in response to the variety of debt characteristics, information known about the taxpayer, and the results of attempts to contact the taxpayer or take enforcement action. In general, the process and decision rules for routing cases are designed to resolve debt cases as quickly as possible using the least costly resources.

Regarding trends in the unpaid tax debt inventory that went from $280 billion to $290 billion from fiscal years 2002 through 2007, IRS’s tax debt
collections increased (about 30 percent) as did its potentially collectible inventory (which exceeded $100 billion by 2007) and active cases. However, potentially collectible and active case increases may not portend continuing collection increases at similar rates annually. First, potentially collectible means that the debt has not been defined as uncollectible for a variety of reasons rather than identifying the debt as having a high potential for collection. Second, active collection status means that IRS has made the debt available to be pursued contingent on available resources and other priorities rather than that IRS is continuously contacting the taxpayer or using its enforcement tools until the debt is resolved. Third, resolving debt (i.e., removing it from the debt inventory) does not mean that money has been collected; for debt amounts resolved during fiscal years 2002 through 2007, IRS removed from 20 percent to 28 percent by abating the debt, which may have been appropriate, rather than by collecting money. Furthermore, despite IRS’s collection efforts, a sizeable portion of the unpaid debt inventory—from 31 percent to 46 percent during fiscal years 2002 through 2007—was written off due to statutory limits on how long IRS could pursue the debt. Many reasons contribute to writing off tax debts such as IRS having insufficient resources to pursue the debt or because businesses go bankrupt or taxpayers die.

The IRS-wide collection performance measures and their related goals cover three outcomes of which two outcomes—coverage in closing debt and efficiency in using staff resources to close debt—deal with all three phases of the collection process. IRS officials who manage the different phases of the collection process said that measures and goals are not set for one outcome of the collection process—dollars collected—in part because the law prohibits IRS from using records of tax enforcement results to evaluate employees or to impose or suggest production quotas or goals for employees. Although a limited number of performance measures cover the collection process across IRS, the officials who manage collection phases within various IRS offices said that they have measures and data on such things as debt resolutions, time spent, satisfaction, and quality, which they viewed as sufficient to manage their operations.

Nevertheless, our previous work has identified material weaknesses in IRS’s controls over unpaid tax assessments and over the collection of tax

---

revenues due the federal government. The material weaknesses were partly due to the lack of agencywide cost-benefit data and related performance measures. Although IRS has made some progress on these weaknesses, progress has not been sufficient to resolve them. For example, over the past 3 years, IRS has employed various approaches, including sophisticated computer modeling and risk assessment techniques, to assist it in more effectively identifying the tax debt cases with the greatest collection potential and to facilitate prioritizing of these cases for collection. IRS has also employed these techniques to identify the most effective collection approach to take for the various types of outstanding tax debt. Although IRS has ongoing projects to expand the use of these models and techniques, it does not yet have an agencywide, systematic approach to managing the collection of unpaid taxes across the scope of IRS's responsibilities. In response, IRS has created a council of IRS collection officials to coordinate various collection activities across IRS and the impacts of potential changes across parts of the collection process. Further, IRS has a number of ongoing projects to improve aspects of the collection process but some will take a few years to be implemented, as indicated in appendix III.

In providing written comments on a draft of this report (see app. V), the Commissioner of Internal Revenue said that he appreciated the interest of Congress and other stakeholders in tax debt collection, highlighted certain collection process accomplishments since 2005, and referred to IRS's ongoing collection improvement efforts. IRS also separately provided technical comments on a draft of this report which we incorporated as appropriate.

Background IRS has many programs or activities that identify potentially unpaid taxes and may ultimately result in unpaid taxes being assessed and collection attempted. Unpaid assessments are generally identified by either (1) the taxpayer, such as by submitting a tax return with a balance due but without full payment, or (2) IRS compliance programs such as IRS's audit program that identifies reporting noncompliance on filed returns or the Automated Substitute for Return (ASFR) program that—for taxpayers who failed to file returns—creates a tax due return on the basis of available data provided to IRS by third parties on income such as wages
and interest. Since IRS’s filing and reporting compliance programs identify new tax debt when pursuing apparent noncompliance, IRS is contributing continually to the unpaid assessments inventory.

After identifying potential tax assessments, IRS sends a series of notices to taxpayers about these potential assessments as well as about any taxes due. For example, IRS is required to send taxpayers certain statutory notices. IRS first is to send a “30-day letter” that includes a proposed assessment of tax, penalty, and interest. The letter is to instruct the taxpayer on possible ways to respond, such as by accepting the proposed assessment; filing an original return; providing evidence that there is no filing requirement; or appealing the proposed assessment to IRS’s Office of Appeals. If no response is received to the 30-day letter within the allotted time, IRS is to send a 90-day statutory notice. The statutory notice is to contain information similar to the 30-day letter and information on the taxpayer’s right to petition the Tax Court. If IRS does not receive a response within the allotted time, the tax, penalty, and interest on the return are to be assessed. IRS’s practice is to send up to four balance-due notices at 5-week intervals for the amount owed. Six weeks after the fourth balance-due notice, IRS is to forward any unpaid accounts to IRS staff who are to try to collect the unpaid amounts through other phases of the collection process—the telephone or in-person contact phases.

Congress enacted the IRS Restructuring and Reform Act of 1998 to balance IRS’s responsibility to collect taxes with its responsibility to protect taxpayers’ rights. One of the concerns addressed by the act was the use of collection or enforcement data to assess performance. The act

---

\(^{3}\) ASFR attempts to enforce filing compliance on taxpayers who have not filed individual income tax returns by automatically generating a return that assesses related tax, penalties, and interest. IRS’s goal is to motivate the taxpayer to file an accurate tax return, which usually reports a lower tax liability than IRS assesses because IRS does not know all of the taxpayer’s circumstances.

restricted the use of records of tax enforcement results for assessing employee performance.\footnote{Prior to 1998, a provision of the Technical and Miscellaneous Revenue Act of 1988 prohibited IRS from using records of tax enforcement results to evaluate employees directly involved in collection activities and their immediate supervisors, or to impose or suggest production quotas or goals with respect to such individuals. Pub. L. No. 100-647, § 6231, 102 Stat. 3734 (Nov. 10, 1988). Before 1988, IRS Policy Statement P-1-20 prohibited using records of tax enforcement results to evaluate enforcement officers or to impose or suggest production goals or quotas.}

We have previously looked at various aspects of IRS collection programs. For example, in 2002 we reported on the lack of data on the effects of collection programs on compliance.\footnote{GAO, Tax Administration: Impact of Compliance and Collection Program Declines on Taxpayers, GAO-02-674 (Washington, D.C.: May 22, 2002).} Also, although we have not assessed the implementation of the private debt collection program, during our reviews of IRS’s planning for the program in 2006, we reported that IRS had not completed work on a suite of balanced measures for use in evaluating the results of the program.\footnote{GAO, Tax Debt Collection: IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources, GAO-06-1065 (Washington, D.C.: Sept. 29, 2006).}

IRS's process for collecting unpaid debt has three phases. Debt goes through these phases until it is determined to be not collectible, is collected, or is otherwise resolved:

- Notice: IRS sends a series of notices of balances due to the taxpayer to, in part, prompt a reply by the taxpayer and payment.
- Telephone: IRS uses telephone contacts with the taxpayer to secure payment or to take enforcement action, including a levy of financial assets and a lien against property.\footnote{Although both are tools to enforce collection of tax debts, a levy differs from a lien. A levy is a seizure of the taxpayer’s property to satisfy a tax debt. A lien is a legal claim to the property of the taxpayer as security for a tax debt.}
- In-person: IRS attempts in-person contact with the taxpayer to secure payment or take enforcement action, including levies, liens, and seizures of property.

During the process, a debt case can also be placed in a “not active” status. According to an IRS official, this status indicates that although potentially IRS Collects or Otherwise Resolves Unpaid Tax Debt through a Complex, Three-Phase Process
collectible, the debt case is either in the queue awaiting assignment to the final collection stage or is “shelved” due to inadequate IRS resources to pursue it.

As shown in figure 2, the collection process for debt treated as potentially collectible is a complex set of programs administered by several IRS units handling a large workload that can take multiple routes based on about 70 decision rules that IRS has created in response to a variety of factors, including the characteristics of a given debt or taxpayer and the results of the process itself.

### Figure 2: IRS’s Three-Phase Process for Attempting Collection of Unpaid Tax Debt

<table>
<thead>
<tr>
<th>Notice phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice phase:</td>
</tr>
<tr>
<td>• over 16 million first notices sent in FY2007</td>
</tr>
<tr>
<td>• two divisions in 12 locations handle paper replies; single division in 25 locations handles telephone call replies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telephone contact phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone contact phase:</td>
</tr>
<tr>
<td>• 5.4 million incoming and 1.9 million outgoing phone calls in FY2007; 3.4 million levies issued in FY2007</td>
</tr>
<tr>
<td>• two divisions operating in 12 locations nationwide</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In-person contact phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-person contact phase:</td>
</tr>
<tr>
<td>• estimated 400,000 taxpayers contacted in FY2007</td>
</tr>
<tr>
<td>• administered by single division with about 3,800 collection officers in 435 offices nationwide and in U.S. territories</td>
</tr>
</tbody>
</table>

Examples of factors that influence how debt is routed through the process:

**Debt characteristics**
- individual vs. business
- amount due

**Known taxpayer information**
- levy sources?
- good mailing address?
- good phone number?
- financial assets or property?

**Results of contact attempts or enforcement action**
- no taxpayer response
- full payment
- partial payment
- obtain more taxpayer information

*Source: GAO analysis of IRS information.*

*Note: Figure 2 shows key routes a case can take but not all possible routes.*

According to IRS officials, the phases and routing of cases result from IRS’s designing the process to effectively and efficiently use resources to resolve taxpayer debt at the earliest possible time and using the least costly resources. For example, officials said that low-and medium-risk
cases are routed to the telephone contact phase\(^9\) where they are treated according to case conditions in a bulk processing environment using lower-cost resources. The telephone phase handled over 7 million telephone contacts during fiscal year 2007—of which 5.4 million calls were made by taxpayers responding to IRS contacts and 1.9 million were made by IRS staff. However, IRS is to route high-risk cases that require the skills and tools of a revenue officer\(^10\)—including face-to-face interaction with the taxpayer and use of more complex enforcement tools—to the in-person contact phase to resolve the debt though at greater cost in terms of time and money. As a result, the number of contacts about tax debts in this phase is lower—estimated at about 400,000 in fiscal year 2007.

The Process Is High-Volume and Spread among IRS Subunits

A part of the complexity of the process stems from having a very large debt workload and limited resources spread across multiple units, which contribute to the numerous decisions that IRS makes on how to handle these debt cases. According to IRS data for fiscal years 2002 through 2007, IRS sent over 83 million first notices to taxpayers involving about $444 billion in unpaid taxes; the notice phase is the highest “upstream” part of the collection process. At the end of fiscal year 2007, IRS had $79.3 billion worth of debt in the three phases of the process.

The IRS units that manage the computer and payment processing systems send collection notices and process related payments. Written responses to notices are handled by a Compliance Services unit which is operated, depending on the type of taxpayer, by the Wage and Investment Division (W&I) or the Small Business/Self-Employed Division (SB/SE). Taxpayer telephone calls to IRS in response to collection notices are handled by IRS’s Accounts Management organization. IRS’s outgoing calls to taxpayers to prompt payment or other resolutions as well as taxpayer calls in response to IRS’s telephone contacts are handled by the Automated Collection System (ACS) operations of W&I and SB/SE. All in-person contacts are handled by the Collection Field Function in SB/SE.

---

\(^9\)According to an IRS official, the telephone contact phase may also receive a few high-risk cases for a short period of time before they are routed to the in-person contact phase.

\(^10\)Revenue officers are the most highly graded and trained IRS collection staff and have authority to use the full range of IRS enforcement tools including asset seizure.
<table>
<thead>
<tr>
<th>Cases Take Various Routes through the Process Based on Several Factors</th>
<th></th>
</tr>
</thead>
</table>
| Debt Characteristics | In routing cases between and within the phases of the process, IRS considers factors such as the types of debt and taxpayers as well as the results of contacts with taxpayers.  
The characteristics that IRS considers include individual versus business tax, the dollar amounts due, and the age of the debt, among others, to evaluate whether the debt is potentially collectible. For example:  
- Individual taxpayers receive up to four notices while business taxpayers receive up to two before their cases are routed to the next phase if IRS receives no taxpayer response or a response inadequate to resolve the debt.  
- Cases not resolved through the notice phase are placed in a system for modeling to determine the appropriate routing through the telephone phase or the in-person contact phase.  
- Due to the risk of businesses continuing to accumulate tax debt and the resulting need for faster IRS intervention, trust fund tax cases are more likely to be routed around the telephone contact phase to the waiting “queue” for in-person contact or routed around the queue to be assigned for in-person contact if the amount due exceeds a certain threshold.  
- Cases meeting certain criteria in the telephone contact phase—such as amount due—may be routed to the ACS unit that does outbound calls to taxpayers. Otherwise, any telephone contact with the taxpayer would depend on whether the taxpayer calls in response to IRS notices or letters on enforcement actions proposed or taken in this phase. |
| Known Taxpayer Information | The known information about the taxpayer includes whether IRS has information on potential levy sources (such as bank accounts), a valid mailing address or telephone number for the taxpayer, the taxpayer’s financial assets or ability to pay, or other tax debts owed by the taxpayer. Several examples follow.  
- After notices are sent, if IRS records (such as those from a financial statement due to a previous tax debt) indicate that the taxpayer cannot pay all or part of the debt, the debt may be categorized as not collectible due to financial hardship. |

11These cases involve employers’ obligation to remit their share of employment taxes and each employee’s share of federal withholding taxes such as for individual income tax and Social Security.
Within the telephone contact phase, whether IRS attempts an outbound call to the taxpayer is determined, in part, by whether IRS has a telephone number for the taxpayer.

If IRS records indicate that the taxpayer already has outstanding unpaid tax debt in a phase of the collection process, IRS is to forward the new debt information to that phase to facilitate collection of all the debt. For example, if a taxpayer’s debt was already being handled in the in-person contact phase, the new debt would skip the telephone phase and the waiting queue to go directly to in-person contact.

The results of attempts to contact taxpayers to resolve tax debts or enforce collection can vary widely. Taxpayers may respond by providing more information about their debt or financial situation, making a partial or a full payment, or asking about alternative ways to resolve the debt such as by reducing amounts owed or paying through installments. Taxpayers also may not respond at all. The nature of taxpayers’ responses help determine subsequent IRS action and which IRS unit takes action. Examples follow.

- Within the notice phase, various IRS units can get involved and handle a case differently depending on whether the taxpayer has income from a small business or the taxpayer responds by telephone or through the mail.
- In the telephone contact phase, IRS may place a lien on a taxpayer’s property if previous attempts to resolve the debt have been unsuccessful. Unless the lien filing prompts the taxpayer to resolve the debt, the case can move to the waiting queue for in-person contact.
- If IRS notices to the taxpayer are returned as undeliverable or IRS records do not provide a levy source, IRS may send the case to be researched for a good address or a levy source such as bank accounts.
- If taxpayer responds by entering into an installment agreement, offering to satisfy the debt by paying less than the full amount due (offer in compromise), or questioning the amount due (such as in an appeal), IRS is to temporarily suspend routing the case through the collection process until IRS finishes dealing with these alternative ways to resolve the debt.
The revenue collected from pursuing the unpaid tax debt through the collection process increased about 30 percent—from $33 billion in fiscal year 2002 to $43 billion in fiscal year 2007. At the same time, the total IRS tax debt inventory went from $280 billion to $290 billion, as new tax debt was created and old tax debt was resolved each year. IRS officials attributed the increase in collections and in debt inventory in part to increased enforcement actions. Comparing fiscal years 2004 and 2007, IRS’s assessments made from enforcement efforts accounted for a growing portion of the new potentially collectible debt inventory, increasing from about 30 percent to about 50 percent, respectively. IRS officials said that assessments made through ASFR were a major factor in this growth.

IRS collection officials said that to some extent IRS cannot control trends in the total tax debt inventory, which they attribute to trends in the economy and taxpayer compliance behaviors. They also said that IRS may make enforcement-related tax assessments even when taxpayers likely will not be able to pay the debt because IRS needs to signal taxpayers that IRS will indeed pursue noncompliance.

Over the 2002 through 2007 period, IRS categorized more of the unpaid debt inventory as worth pursuing with a growing portion of its unpaid inventory being in potentially collectible and active collection status. These increases, however, may not result in the total dollars actually collected growing annually at rates similar to the growth in the inventory defined as collectible or active.

As shown in figure 3, IRS’s potentially collectible inventory increased from 27 percent of the unpaid tax debt inventory in fiscal year 2002 to 36 percent in fiscal year 2007. Data on the inventory of unpaid assessments in fiscal years 2002 through 2007, including more details on how IRS classified the debt, are in appendix IV.

---

12These totals, as reported in IRS’s annual data book, include the three phases of the collection process. IRS also reports on enforcement revenue collected, which is a higher number that includes dollars from the collection process and other enforcement actions, such as examinations.
According to IRS, the potentially collectible inventory is the focus of its collection efforts. However, not all potentially collectible debt has a high potential for collection. Rather, potentially collectible means that the debt has not been defined as uncollectible for a variety of reasons, such as the taxpayer being bankrupt or facing a financial hardship or IRS being unable to find the taxpayer or temporarily suspending the debt from collection actions.

From fiscal year 2002 to 2007, IRS placed more of the inventory with collection potential into “active collection status.” Comparing fiscal years 2002 and 2007, debt in active collection increased from 62 percent to 75 percent of the potentially collectible inventory, respectively, as shown in figure 4.
Active collection status means that IRS makes the debt available to be pursued in a phase of the collection process. This status does not mean that IRS is actively and continuously contacting the taxpayer or using its enforcement tools in the telephone or in-person contact phases until all debt is resolved. Depending on competing priorities and IRS resources, for example, some of this inventory could remain in this active status for some time before it is acted upon or resolved. IRS also could decide to move the debt to an inactive status during which no further collection action is taken.

For debt that is resolved by removing it from the debt inventory, IRS often does not collect any revenue. During each of fiscal years 2002 through 2007, over half of the annual resolutions in terms of dollar amounts were removed from the debt inventory through abatements and collection statute expirations, as shown in table 1.
Table 1: Percentage of Unpaid Tax Debt Inventory Resolved by Types of Removal, Fiscal Years 2002 through 2007

<table>
<thead>
<tr>
<th>Types of removal from inventory</th>
<th>Fiscal years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>Collection of dollars</td>
<td>41%</td>
</tr>
<tr>
<td>Abatement</td>
<td>23%</td>
</tr>
<tr>
<td>Collection statute expiration</td>
<td>36%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: IRS data.

Abatements occur for a number of reasons. For example, section 6404(a) of the Internal Revenue Code, in part, authorizes IRS to abate the unpaid taxes or any related liability which is:

- excessive in amount,
- assessed after the applicable period of limitation has expired, or
- assessed erroneously or illegally.

Among reasons for abatements are errors by taxpayers or IRS and changes to assessments resulting from additional information provided by taxpayers or obtained by IRS that adjusts the appropriate tax assessment and related penalty and interest amounts that have accrued over time. Abatements can occur years after an original tax assessment was made. In sum, the amount that IRS abates can exceed the amount collected during a given year.

An example in which additional information leads to abatements involves ASFR assessments. IRS uses the best information available when it prepares returns for taxpayers who failed to file returns. When responding to the IRS-prepared return, taxpayers may provide additional information, such as on deductions to which they are entitled, which would produce a lower tax assessment compared to the ASFR-generated assessment. Accordingly, IRS abates any assessed taxes and any applicable penalties associated with the ASFR return. Abatements also can be required when:

---

13We did not attempt to analyze the appropriateness of these abatement and expiration resolutions.
• a taxpayer uses a net operating loss carryover amount to offset a tax liability,
• a taxpayer files an amended tax return that changes the tax liability,
• a taxpayer provides information as part of a request to abate certain types of penalty assessments due to reasonable cause,
• a bankruptcy court has discharged a tax assessment,
• a taxpayer has met the terms of the agreement for an offer in compromise to reduce the amount the taxpayer must pay to satisfy a tax debt, or
• a corporate officer has fully paid a trust fund recovery penalty amount assessed for unpaid payroll taxes, which means that IRS then can abate any other assessments of this amount against other officers.

Likewise, the law allows IRS a period of time to collect outstanding tax debts through its collection process or court proceeding. This period, which IRS refers to as the Collection Statue Expiration Date, generally is 10 years and usually begins from the date a tax liability is assessed. In general, if IRS does not collect the full unpaid tax debt amount before the statute period ends, then any remaining balance on the debt is removed from the unpaid tax debt inventory because it is exempt from further IRS collection action. 14 Expired debt can happen, for example, when the taxpayer does not have sufficient resources to pay the debt before the statutory period elapses, such as when the taxpayer is a defunct business or dies, or when IRS’s limited resources do not enable it to actively pursue all debts. IRS officials noted that the increase in the portion of debt removed due to statute expirations in the 2003 through 2005 period, for instance, was attributable to the inability of failed financial institutions to pay large tax assessments associated with Resolution Trust Fund cases arising during the 1990s.

As shown in table 2, two of the IRS-wide collection performance measures cover all phases of the collection process and focus on the extent to which debt cases were closed and the efficiency in using staff resources for those closures. A third measure covers IRS’s accuracy in the phone contact phase.

14The 10-year period can be extended or suspended under a variety of circumstances, such as agreements by the taxpayer to extend the collection period in conjunction with an installment agreement, bankruptcy litigation, offer in compromise, and court appeal.
Table 2: IRS-Wide Collection Process Performance Measure Definitions and Collection Phases Covered

<table>
<thead>
<tr>
<th>Measure</th>
<th>Definition</th>
<th>Collection phases covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection coverage</td>
<td>Percentage of workload that was available and disposed*</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Collection efficiency</td>
<td>Number of cases disposed compared to the number of staff working cases*</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Automated collection system</td>
<td>Percentage of time taxpayers received the correct answers to their inquiries, had their cases resolved correctly, or both</td>
<td>N/A</td>
</tr>
<tr>
<td>customer accuracy</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: GAO analysis of IRS information.

Note: N/A means not applicable.

*In addition to debt cases in the collection process, the measure includes cases where IRS attempts secure tax returns from taxpayers IRS has identified as not having filed a tax return by the return due date, which may or may not eventually involve the collection of unpaid tax debt. For example, IRS could improve collection coverage performance if more delinquent return cases get closed without the taxpayer owing unpaid debt. We did not determine whether or how much these cases affected the performance achieved on the measure shown in table 3 below.

Table 3 shows the goals and actuals for the three IRS-wide performance measures for IRS's collection process. Fiscal year 2005 is the earliest available data for the coverage and efficiency measures.

Table 3: IRS-Wide Goals and Actuals for Collection Performance Measures, Fiscal Years 2005-2007

<table>
<thead>
<tr>
<th>Measure</th>
<th>Fiscal year 2005</th>
<th>Fiscal year 2006</th>
<th>Fiscal year 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Goal</td>
<td>Actual</td>
<td>Goal</td>
</tr>
<tr>
<td>Collection coverage</td>
<td>N/A</td>
<td>53%</td>
<td>52%</td>
</tr>
<tr>
<td>Collection efficiency</td>
<td>N/A</td>
<td>1,514</td>
<td>1,650</td>
</tr>
<tr>
<td>Automated collection system</td>
<td>N/A</td>
<td>N/A</td>
<td>89.3%</td>
</tr>
<tr>
<td>customer accuracy</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IRS data.

Note: N/A means not applicable.

The IRS units that manage the phases of the collection process have more measures and data on their phases. The telephone contact phase operations of SB/SE and W&I and the in-person contact phase operation (which is only SB/SE) have measures and goals on customer satisfaction,
employee satisfaction, and quality. For the notice phase, IRS officials had data on the speed and efficiency of collections. Other measures and data in some units included the time taken to resolve the debt and the age of the debt. IRS officials who manage the different phases of the collection process said that their available data, performance measures, and goals meet the needs of their operations.

These IRS officials also said that IRS does not have performance measures and goals for dollars collected in part because of concerns about legal restrictions on IRS using enforcement records to assess performance. Under Public Law 105-206, IRS cannot evaluate employees or suggest production quotas or goals by using “records of tax enforcement results.” In addition, these officials said that IRS does not, in their view, need more IRS-wide measures to indicate how well the overall collection process is working. They said that to understand what was driving performance trends, any rolled-up measure would have to be broken down into its constituent parts. The officials did not explain why the two IRS-wide measures on coverage and efficiency were useful while other measures would not be useful even though they all would be rolled up.

Our previous work has identified material weaknesses in IRS’s controls over unpaid tax assessments and over the collection of tax revenues due the federal government. Although IRS has made some progress on these weaknesses, progress has not been sufficient to resolve them. In November 2007, we reported that IRS’s efforts to target cases for collection have been hampered by an inability to reliably measure how much it collects compared to the costs, and that these efforts did not represent an agencywide, systematic approach to managing the collection of unpaid taxes. The absence of agencywide cost-benefit information and related performance measures also hampered IRS’s ability to form an effective and efficient collection strategy.

Over the last 3 years, IRS has employed various approaches, including sophisticated computer modeling and risk assessment techniques, to assist it in more effectively identifying the tax debt cases with the greatest

---


collection potential and to facilitate prioritizing of these cases for collection. IRS has also employed these techniques to identify the most effective collection approach to take for the various types of outstanding tax debt. Although IRS has ongoing projects to expand the use of these models and techniques, it does not yet have an agencywide, systematic approach to managing the collection of unpaid taxes across the scope of IRS's responsibilities. IRS has acknowledged the need for the parts of the collection process to work better together. In response, IRS created a council of IRS collection officials, for example, to coordinate various collection activities and review how potential changes in one part of the process could affect another part of the process. Further, IRS has a number of ongoing projects to improve aspects of the collection process. However, some of these projects will take a few years to be implemented, as indicated in appendix III.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue provided written comments on a draft of this report in a letter dated June 2, 2008 (which is reprinted in app. V). The Commissioner noted that he appreciated the interest of Congress and other stakeholders in tax debt collection and outlined some related collection process highlights and accomplishments.

In addition to citing the two IRS-wide collection measures—coverage and efficiency—which we discussed in this report, the Commissioner cited other information as signs of IRS collection improvements since 2005. He pointed to improvements in dollars collected, total dispositions, productivity, and cycle time without reducing customer satisfaction, quality, or accuracy. As we discussed in the report, beyond the two IRS-wide collection performance measures, the IRS units that manage the phases of the collection process have other measures and data on their phases of the collection process. We note that although IRS has only two IRS-wide collection measures—coverage and efficiency—that are used by agency management to set performance goals, IRS in effect used measures from the unit level in order to portray a more complete picture of collection performance in its comment letter.

The Commissioner further said that progress in collection performance was recognized when, in October 2006, the material weakness “Collection of Unpaid Taxes” was downgraded to a reportable condition. This downgrade was made by IRS. As we noted in this report, although IRS has made some progress on the material weaknesses we identified in previous work, we concluded that the progress had not been sufficient to resolve
them as of November 2007. We will review this material weakness again in our next report on IRS’s financial management systems.

The Commissioner also referred to 14 collection process improvement projects underway, a count that differs from the 18 projects we identified in our report. We did not reconcile the difference.

In addition to its letter, IRS provided technical comments on a draft of this report which we incorporated as appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. This report will also be available at no charge on GAO’s Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VI.

Michael Brostek
Director, Tax Issues
Strategic Issues
Appendix I: Scope and Methodology

To determine the process the Internal Revenue Service (IRS) uses to attempt to collect or resolve unpaid tax debts, we interviewed IRS officials and reviewed IRS documents. For example, we interviewed the Small Business/Self-Employed Division (SB/SE) and Wage and Investment Division (W&I) officials on how debt cases flow through the process and the various factors that are taken into consideration in deciding how to route cases. We also reviewed IRS documents on the process, including written descriptions of the factors considered and flowcharts of how tax debts are routed through the collection process. In addition, we obtained information on the IRS units involved in administering the process and the volume of workload going through the process from fiscal years 2002 through 2007.

To identify the trends in unpaid tax debt, including the size and composition of the inventory, collections, and other resolutions of unpaid debt in fiscal years 2002 through 2007, we obtained and analyzed data from IRS’s unpaid assessments database, including how IRS categorized the debt. For example, we analyzed debt to identify increases or decreases over time in the various debt categories, such as potentially collectible versus not potentially collectible debt. We also reviewed data IRS provided on the resolution of debt cases, including the debt amounts collected, abated, or written off due to collection statute expiration from fiscal years 2002 through 2007.

To determine the performance measures and related goals that are available to assess how well the collection process works overall, we requested and reviewed the highest-level available, IRS-wide measures of collection performance. We reviewed the measures to determine what results they report about the collection process. We also reviewed the goals/targets and actual performance achieved for these measures from fiscal years 2005 through 2007.

In addition, for context on the debt inventory and collection process, we also asked IRS to provide (1) data and analysis on the inflow and outflow of debt, and the status of debt identified in fiscal year 2002, from fiscal years 2002 through 2007 and (2) a list of IRS efforts to improve the management of the inventory and collection process. The results of these requests for IRS information are in appendixes II and III, respectively.

Much of the IRS information we relied on was descriptive. To the extent possible, we corroborated interview evidence with documentation. Where not possible, we attributed descriptive information to IRS officials. The reliability of quantitative data on the tax debt inventory is assured as part
of our annual audit of IRS’s financial statements. We corroborated data on the resolutions of tax debt with other IRS data and determined that they were reliable for our purposes.

We conducted this performance audit from July 2007 to May 2008 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.
Appendix II: Challenges in Tracking the Inventory and Collection of Tax Debts across Fiscal Years

To help provide context on the magnitude of the Internal Revenue Service's (IRS) unpaid tax debt inventory and changes in the inventory over time we requested data from IRS to show the flow of debt into and out of the inventory during fiscal years 2002 through 2007. For example, we requested for each fiscal year:

- the amount of new debt that came into the inventory and the amount of debt resolved during the year, and
- the balance of the inventory at year's end.

In addition, we requested data from IRS that tracked the dispositions and status of unpaid tax debts identified in fiscal year 2002 through the end of fiscal year 2007. For example, for each “new” unpaid tax debt assessed in fiscal year 2002, we requested data that showed the amounts collected, abated, or otherwise resolved by fiscal year. For the balance remaining at the end of each fiscal year, we requested data on the status of the debt, for example, where the debt was in the collection phase, such as, in the notice phase or assigned for an in-person field contact.

Our data requests were a challenge for IRS, in part, because of how IRS maintains data for the unpaid tax debts inventory and the resulting complexity in trying to reconcile the data and ensure its reliability. For example:

- IRS does not have one information system that tracks, in detail, what happens to unpaid tax debts over time. The unpaid tax debt data come from several sources including reports from IRS's Master file and Compliance Data Warehouse (CDW). As such, doing the tracking that we requested required much of it to be provided in the form of queries that had to be analyzed and adjusted for things such as duplicate records, anomalies in the data, or both.¹
- IRS's beginning and ending unpaid tax debt inventory balances for each fiscal year represents a snapshot of the balances at those points in time. Yet the inventory is based on what happens during each fiscal year to accumulated tax debt from multiple tax years; therefore, a snapshot of the balances at the end of a specific fiscal year will not reflect the details of what occurred to the debt during the year.

¹For example, an anomaly occurs when a taxpayer’s unpaid tax debt record is created under one Social Security number (SSN) but payments are recorded to another SSN. A merging of the accounts is done to resolve the unpaid debt.
IRS could provide mostly summary-level data. An IRS official responsible for the data believed that the methodology used to produce the summary-level data provided enough details to reflect the various activities that occurred in each fiscal year at the time the reports were generated. More useful and reliable information that tracked all activity affecting the unpaid tax debt inventory balances across fiscal years was difficult for IRS to produce.

According to this IRS official, the difficulty in trying to produce this level of detailed information is one reason that IRS requested and eventually received an exemption from the Federal Accounting Standards Advisory Board. This exemption relieved IRS from a financial reporting requirement to disclose detailed information on the flow of debt into and out of the unpaid assessment inventory.
The Internal Revenue Service (IRS) has numerous projects planned or underway to improve the collection process. To better understand the improvements, we asked IRS to provide us with a list of all improvement projects on the collection process, and details such as their goals, their objectives, their measures of success, and their status. We received a list of projects from the Small Business/Self-Employed Division (SB/SE) and Wage and Investment Division (W&I). We also identified additional ones from various IRS documents, including the strategy and program plans of W&I and SB/SE. Also, we did not include a number of outstanding legislative proposals whose enactment would affect collection practices because their enactment is uncertain and beyond the control of IRS. We do not know if this list is complete, and IRS was not able to provide complete information on some projects as of May 2008.

We did not attempt to evaluate the information provided; nor did we attempt to evaluate the process for evaluating and approving collection improvement projects to ensure that projects had clear goals, measures, and rationales to support their implementation. Table 4 identifies the various improvement projects provided by SB/SE and W&I as well as the projects’ goals, measures, and status in terms of key milestone dates.

Table 4: IRS Collection Improvement Projects (as of May 2008)

<table>
<thead>
<tr>
<th>Project</th>
<th>Project goal</th>
<th>Measure of success</th>
<th>Key project milestone dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>SB/SE projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Master File-Case Creation Nonfiler Identification Process</td>
<td>Better identify and pursue businesses that fail to file tax returns and those most likely to have a tax liability.</td>
<td>Reduce by 50 percent the number of business nonfiler cases worked that do not result in a tax liability. Decrease staff time needed to work cases.</td>
<td>Implementation by August 2008</td>
</tr>
<tr>
<td>Integrated Collection System (ICS) Windows—automated inventory management system.</td>
<td>Improve electronic case processing by upgrading ICS application to a Windows-based system.</td>
<td>Two percent increase in overall user efficiency (i.e., the average case cycle time will be reduced from 36 to 35.3 weeks, and 2 percent more cases will be worked.</td>
<td>Implementation by November 2008</td>
</tr>
<tr>
<td>Consolidated Decision Analytics -system to help score and route cases</td>
<td>Enhance the collection inventory delivery system (IDS) to more effectively select cases to work, treatments to use, and staff to work the case.</td>
<td>Increase both cases worked and dollars collected by 5 percent.</td>
<td>Implementation by January 2009</td>
</tr>
</tbody>
</table>
### Appendix III: IRS Efforts to Improve the Collection Process as of May 2008

<table>
<thead>
<tr>
<th>Project</th>
<th>Project goal</th>
<th>Measure of success</th>
<th>Key project milestone dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic Lien – to process over a million liens each year</td>
<td>Streamline and expedite lien filing, reduce lost lien reports, and ensure prompt payment of lien filing fees by making process electronic.</td>
<td>Reduce costs for lost lien research and analysis by 15 percent in 2010 and 40 percent in 2011. Similar savings in these 2 years in lien filing fees. Collect additional revenue by raising IRS’s priority against other creditors.</td>
<td>Implementation by December 2011</td>
</tr>
<tr>
<td>Enhanced Inventory Delivery System (IDS)</td>
<td>Enhance IDS by performing its analytics and case-routing decisions more quickly and accurately after first notice rather than after final notice.</td>
<td>Reduce cycle time by as much as 15 weeks. Allow caseworkers to intervene earlier resulting in an estimated 7 percent reduction in repeat tax delinquencies.</td>
<td>Implementation by January 2011</td>
</tr>
<tr>
<td>Bulk Electronic Levy</td>
<td>Automate the process for delivering levy notices to and processing responses and remittances from financial institutions and large employers, including the posting of levy payments to taxpayer accounts.</td>
<td>Reduce the cycle time for sending levies. Reduce mailing costs. Expedite posting of payments to taxpayers’ accounts.</td>
<td>Implementation by January 2012</td>
</tr>
<tr>
<td>Camera cell phones</td>
<td>Improve (1) productivity of revenue officers in determining asset valuation, (2) communication between IRS and taxpayers, and (3) employee safety on field visits.</td>
<td>Increased employee and taxpayer satisfaction.</td>
<td>Implementation by September 2008</td>
</tr>
<tr>
<td>Electronic Processing Initiative</td>
<td>Automate the process for making adjustments to collection field function accounts.</td>
<td>Reduce time to process audit reconsiderations from 18 plus months to 3 months. Reduce mail costs of over $500,000 annually. Raise employee satisfaction.</td>
<td>Completion by September 2008</td>
</tr>
<tr>
<td>Employer Identification Number (EIN) Project</td>
<td>Understand the impact of the current EIN application process on compliance (e.g., businesses misuse EIN’s to create successive entities without resolving tax debts). Determine if EIN application data can help identify such businesses, and recommend any changes to help identify them.</td>
<td>To identify and quantify (including tax amounts involved) the universe of EIN requesters who are likely to create multiple entities without paying their taxes.</td>
<td>Phase 1 to be completed by August 2008</td>
</tr>
<tr>
<td>Collection due process (CDP) project</td>
<td>Identify improvements to reduce the time expended by collection field function staff, reduce nonproductive cases, improve the quality of the CDP referrals to Appeals, and reduce the amount of CDP process time.</td>
<td>Improvements in Collection Field Function productivity, reduction in the time a case is in Appeals, and improved employee satisfaction.</td>
<td>Completion by October 2008</td>
</tr>
<tr>
<td>Redesign Installment Agreement (IA) Processing</td>
<td>Identify errors and areas for redesign to increase IA processing efficiencies.</td>
<td>Reduce errors and allow for the faster establishment of IA’s.</td>
<td>Implementation by June 2008</td>
</tr>
</tbody>
</table>
## Appendix III: IRS Efforts to Improve the Collection Process as of May 2008

<table>
<thead>
<tr>
<th>Project</th>
<th>Project goal</th>
<th>Measure of success</th>
<th>Key project milestone dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable Cause Assistant</td>
<td>Automate the process for reasonable cause determinations to reduce cycle time and improve timeliness.</td>
<td>Reduce cycle time for posting adjustments. Increase uniformity of abatement decisions.</td>
<td>Implementation by September 2008</td>
</tr>
<tr>
<td>Case Assignment Grading</td>
<td>Improve revenue officer (RO) case assignments through a more systemic process and a better automated system.</td>
<td>Reduce number of systemic case reassignments that require manual case grading changes. Align systemic case assignment criteria with manual case assignment factors. Reduce managerial burden and improve case grading accuracy to better match the case grade with the revenue officer grade and skill level.</td>
<td>Implementation by November 2009</td>
</tr>
</tbody>
</table>

### W&I projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Project goal</th>
<th>Measure of success</th>
<th>Key project milestone dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic Automated Collection System Guide — decision logic guide / support tool</td>
<td>Help ensure that correct and consistent determinations of case outcomes are made based on information taxpayers provide.</td>
<td>None provided</td>
<td>None provided</td>
</tr>
<tr>
<td>Imaging Delivery for Compliance — Web-accessible, digital image-based system.</td>
<td>Provide online access to images of Form 1040X, correspondence, and notices to increase number of cases worked electronically.</td>
<td>No specific numerical measures provided.</td>
<td>Delivery of images expected in fiscal years 2009 and 2010</td>
</tr>
</tbody>
</table>

### Additional improvement projects identified in IRS documents

<table>
<thead>
<tr>
<th>Project</th>
<th>Project goal</th>
<th>Measure of success</th>
<th>Key project milestone dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update IRS risk model</td>
<td>Improve grading of collection potential after notice phase and provide better assurance that the right kind of work will be assigned to the right person on a timely basis.</td>
<td>None provided</td>
<td>Delivery expected in November 2008</td>
</tr>
<tr>
<td>Hybrid Automated Collection System Site</td>
<td>Provide staff with more specialized skills and ability to handle certain types of cases (e.g., employment tax). Hybrid site will keep control of such cases until they are resolved.</td>
<td>None provided</td>
<td>Two prototype sites currently in operation</td>
</tr>
<tr>
<td>Universal Case History</td>
<td>Provide a fuller view of the taxpayer across multiple data sources, databases, and business lines with the ability to associate electronic imaged correspondence, checks, and related documents.</td>
<td>No specific measures provided but hope to (1) decrease cycle time, and (2) increase number of cases that staff can work in a given period.</td>
<td>Not funded</td>
</tr>
</tbody>
</table>

Source: IRS information.
### Table 5: Unpaid Tax Debt Inventory (as of the end of Fiscal Years 2002-2007)

<table>
<thead>
<tr>
<th>Fiscal years</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unpaid tax debt inventory</td>
<td>$279.8</td>
<td>$278.1</td>
<td>$284.8</td>
<td>$257.9</td>
<td>$270.4</td>
<td>$290.1</td>
</tr>
<tr>
<td>Assessed amount</td>
<td>$180.9</td>
<td>$182.6</td>
<td>$190.9</td>
<td>$184.5</td>
<td>$198.9</td>
<td>$216.2</td>
</tr>
<tr>
<td>Accrued interest and penalty</td>
<td>$98.8</td>
<td>$95.5</td>
<td>$93.9</td>
<td>$73.4</td>
<td>$71.5</td>
<td>$73.4</td>
</tr>
<tr>
<td>Percentage of assessed amount to total inventory</td>
<td>64.7%</td>
<td>65.7%</td>
<td>67.0%</td>
<td>71.5%</td>
<td>73.6%</td>
<td>74.5%</td>
</tr>
<tr>
<td>Percentage of accrued interest and penalty to total inventory</td>
<td>35.3%</td>
<td>34.3%</td>
<td>33.0%</td>
<td>28.5%</td>
<td>26.4%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Total percentage</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>99.8%</td>
</tr>
</tbody>
</table>

Source: IRS data.

Note: Dollar amounts and percentages may not add to totals due to rounding and variances in IRS’s data.

### Table 6: Potentially Collectible Inventory versus Non-Potentially Collectible Inventory of the Unpaid Assessments

<table>
<thead>
<tr>
<th>Fiscal years</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unpaid assessment inventory</td>
<td>$279.8</td>
<td>$278.1</td>
<td>$284.8</td>
<td>$257.9</td>
<td>$270.4</td>
<td>$290.1</td>
</tr>
<tr>
<td>Non-potentially collectible inventory</td>
<td>$203.1</td>
<td>$198.9</td>
<td>$203.5</td>
<td>$170.9</td>
<td>$174.8</td>
<td>$184.8</td>
</tr>
<tr>
<td>Potentially collectible inventory</td>
<td>$76.7</td>
<td>$79.2</td>
<td>$81.3</td>
<td>$87.0</td>
<td>$95.6</td>
<td>$105.3</td>
</tr>
<tr>
<td>Percentage of non-potentially collectible inventory to the unpaid assessment inventory</td>
<td>72.6%</td>
<td>71.5%</td>
<td>71.5%</td>
<td>66.3%</td>
<td>64.5%</td>
<td>63.7%</td>
</tr>
<tr>
<td>Percentage of potentially collectible inventory to the unpaid assessment inventory</td>
<td>27.4%</td>
<td>28.5%</td>
<td>28.5%</td>
<td>33.7%</td>
<td>35.4%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Total percentage</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>99.9%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: IRS data.

Note: Percentages may not add to totals due to rounding.
### Table 7: Potentially Collectible Inventory in Active Collection and Non-Active Collection Status

<table>
<thead>
<tr>
<th></th>
<th>Dollars in billions</th>
<th>Fiscal years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td><strong>Total potentially collectible inventory</strong></td>
<td>$76.7</td>
<td>$79.2</td>
</tr>
<tr>
<td><strong>Potentially collectible inventory in active collection status:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notice</td>
<td>$14.3</td>
<td>$13.7</td>
</tr>
<tr>
<td>Telephone (Automated Collection System)</td>
<td>13.3</td>
<td>15.4</td>
</tr>
<tr>
<td>In-person contact (Collection Field Function)</td>
<td>20.1</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>Potentially collectible inventory dollars in active collection status</strong></td>
<td>$47.7</td>
<td>$50.6</td>
</tr>
<tr>
<td>Percentage of potentially collectible inventory in active collection status</td>
<td>62.2%</td>
<td>63.9%</td>
</tr>
<tr>
<td><strong>Potentially collectible inventory in a non-active collection status:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Queue</td>
<td>$21.5</td>
<td>$21.3</td>
</tr>
<tr>
<td>Shelved due to lack of resources</td>
<td>7.6</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Potentially collectible inventory dollars not in active collection status</strong></td>
<td>$29.1</td>
<td>$28.6</td>
</tr>
<tr>
<td>Percentage of potentially collectible inventory in non-active collection status</td>
<td>37.9%</td>
<td>36.1%</td>
</tr>
<tr>
<td><strong>Total percentage</strong></td>
<td>100.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: IRS data.

Note: Dollar amounts and percentages may not add to totals due to rounding and variances in IRS’s data.
Mr. Michael Brostek  
Director, Tax Issues  
Strategic Issues Team  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548  

Dear Mr. Brostek:

Thank you for the opportunity to review and comment on your draft report titled: “Tax Debt Collection: IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts” (GAO-08-728). We appreciate the interest Congress and other stakeholders have in tax debt collection and strive to develop methods that will target and resolve the underpayment tax gap. Highlights of our Collection program and its accomplishments are outlined below.

As noted in your report, IRS is responsible for collecting a significant inventory of tax debt. The IRS Collection program accounts for over 50 percent of annual enforcement revenue, bringing in $31.8 billion in 2007—a 30 percent increase from the 2002 level of $24.4 billion. It is designed to move delinquencies through the collection process while assuring that cases are resolved effectively at the earliest possible time with the least possible cost to the American taxpayer. At each major point in the collecting stream—notice, telephone, and in-person—taxpayers are afforded the opportunity to self-correct or to come into compliance voluntarily by working with an IRS employee. The Collection Governance Council, comprised of executives from IRS’ four major operating divisions plus those from all Collection programs, is an agency-wide body charged with ensuring that development of strategies and strategic, tactical, and resource priorities are consistent, address the tax gap, and support IRS’ strategic goals.

Since 2005, IRS Collection coverage has been maintained at approximately 54 percent despite a concurrent 14 percent increase in inventory and 4 percent decline in resources. Over the same time period, IRS Collection efficiency increased 20 percent, total collections increased nearly 17 percent, total dispositions increased 16 percent, plus productivity and cycle time within operations improved. These positive results were gained without sacrificing customer satisfaction, quality or accuracy as measured within various collecting streams.
IRS progress in this area was recognized when, in October 2006, the long-standing material weakness "Collection of Unpaid Taxes" was downgraded to a reportable condition. In order to continue to strengthen the Collection program, each year we review and pursue the best suggestions for improvements. There are currently 14 Collection improvement projects underway. Thirty-six percent of these will be implemented by the end of FY 2008, with others to be completed in FY 2009 and later.

Thank you for your interest in this area. If you have any questions or would like to discuss this response in more detail, please contact Frederick W. Schindler, Director, Collection Policy at 202-283-7650.

Sincerely,

[Signature]

Douglass H. Shulman
## Appendix VI: GAO Contact and Staff

### Acknowledgments

In addition to the contact named above, Tom Short, Assistant Director; Ray B. Bush; William J. Cordrey; George Guttman; Ronald W. Jones; Veronica Mayhand; Donna Miller; John G. Smale; and A.J. Stephens made key contributions to this report.

### GAO Contact

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Email Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Brostek</td>
<td>(202) 512-9110</td>
<td><a href="mailto:brostekm@gao.gov">brostekm@gao.gov</a></td>
</tr>
</tbody>
</table>
### GAO’s Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO’s commitment to good government is reflected in its core values of accountability, integrity, and reliability.

### Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO’s Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select “E-mail Updates.”

### Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, DC 20548

To order by Phone:  
Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

### To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

E-mail: fraudnet@gao.gov  
Automated answering system: (800) 424-5454 or (202) 512-7470

### Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, DC 20548

### Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

PRINTED ON RECYCLED PAPER