



Highlights of [GAO-09-976](#), a report to the Committee on Finance, U.S. Senate

TAX DEBT COLLECTION

IRS Needs to Better Manage the Collection Notices Sent to Individuals

Why GAO Did This Study

According to the Internal Revenue Service (IRS), \$23 billion in unpaid individual income tax debt existed in 2001, its most recent estimate. The notice phase is the first of IRS's three-phase process to collect unpaid debt. IRS annually sends notices to millions of individual taxpayers about billions of dollars of unpaid tax debt.

Congress and others have questioned IRS's collection process's effectiveness. As requested, GAO is reporting on (1) how well IRS has established objectives, performance measures, and responsibility for reviewing notice-phase performance, and (2) how well IRS's business rules for sending notices to individuals help assure that the collection notice phase is achieving desired results at the lowest costs. To address these objectives, GAO compared the evidence obtained from IRS documents and responsible IRS collection officials to applicable guidance for internal control standards.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue establish for the notice phase: (1) objectives and performance measures, (2) responsibilities for reviewing performance, (3) documented rationales for the business rules, (4) useful information on what the business rules are, and (5) periodic evaluations of the rules. In commenting, IRS agreed with the recommendations and said that IRS would make related improvements.

[View GAO-09-976 or key components.](#) For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

Although the notice phase is a key part of IRS's approach and strategy for resolving billions of dollars of individuals' unpaid tax debt, IRS lacks certain internal controls to assure that notices to individuals are achieving the most benefits—such as debt collected or unpaid debt cases otherwise resolved—with the resources being used. Management controls like clearly defined objectives, performance measures, and clear responsibility for reviewing program performance help provide reasonable assurance that the objectives of an agency are being achieved effectively and efficiently. However, IRS has no documented objectives for the notice phase and no performance measures to indicate how well the phase is performing in resolving debt cases or achieving other potential desired results. Further, IRS has not established responsibility for reviewing the performance of the complete notice phase.

IRS lacks documentation for and evaluations of its business rules for notices to individuals to assure that the collection notice phase is achieving desired results. According to IRS officials, to make the best use of collection resources, IRS uses its business rules to—based on certain dollar thresholds and individual tax debt case characteristics—vary the number and types of notices sent to taxpayers and determine whether unresolved cases will be sent for further collection action or further action will be deferred. However, as shown in the table, in almost all cases, for the five business rules that IRS identified as affecting the most taxpayers, IRS did not have information on the date the rules were established, the rationale for the rule, or data supporting the rationale. IRS collection officials also lacked documentation describing the business rules and how they operate. Further, even though IRS officials estimated that the business rules had been established for years, IRS had documentation for an evaluation of only one of the five business rules. Without relevant evaluations IRS lacks assurance that the notice phase achieves desired collection results at the least cost.

Available IRS Documentation for Selected Notice-Phase Business Rules

Business rule	Date established	Rationale	Data supporting rationale	Evaluation
1. Minimum dollar	No	No	No	Yes
2. Low dollar	No	No	No	No
3. Medium dollar	No	No	No	No
4. Repeater (taxpayer had previous tax debt resolved)	Yes	No	No	No
5. Repeater (taxpayer currently has other unresolved debts)	No	No	No	No

Source: GAO analysis of IRS information.