

Status Update: Underfunding of IRS Initiatives to Modernize Its Taxpayer Address Systems Undermines Taxpayers' Statutory Rights and Impedes Efficient Resource Allocation

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DEFINITION OF PROBLEM

Over 19 million pieces of mail each year, or about ten percent of all correspondence the IRS sends to taxpayers, are returned as “undeliverable as addressed.”¹ Yet important statutory rights have time limits that begin to run when the IRS *sends* the taxpayer a notice or letter, regardless of whether the taxpayer actually *receives* it. The problem is even more pronounced for international taxpayers because IRS addresses do not conform to the receiving country’s address standards in nearly two of every three international mailings.²

Since the National Taxpayer Advocate raised the issue in 2010, the volume of undelivered mail has increased.³ The IRS has begun to address the problem by assigning this issue to the Office of Taxpayer Correspondence (OTC) and funding an initiative to uniquely identify each piece of outgoing mail with a full-service intelligent mail bar code (FSIMB). However, it has yet to:

- Fully fund remaining phases of the FSIMB program;
- Adjust its databases to properly accommodate international addresses; and
- Create an enterprise-level organization to oversee the modernization of mail systems.

By implementing these changes, the IRS will significantly reduce the volume of undelivered mail and its negative impact on taxpayers.

¹ National Taxpayer Advocate 2010 Annual Report to Congress 221 (Most Serious Problem: *The IRS Has Not Studied or Addressed the Impact of the Large Volume of Undelivered Mail on Taxpayers*), available at: http://www.taxpayeradvocate.irs.gov/files/VOL%201_MSP%2016_21_TaxAdministration.pdf.

² IRS, Wage and Investment Division (W&I), CARE/M&P: Mail Management Project Office, *International Mail Impact Analysis Final Report* (July 2007), reporting that 65 percent of international mail is undeliverable.

³ IRS response to TAS information request (Oct. 15, 2012).

ANALYSIS OF PROBLEM

Background

The IRS still relies upon its many notices and letters — collectively referred to as “correspondence” — as its primary means of communication with taxpayers. The IRS mails over 200 million pieces of correspondence to taxpayers each year, including paper refund checks, with an “undeliverable” rate of approximately ten percent.⁴ Sixty-five percent of all international mail is classified as undeliverable as addressed. The international address the IRS uses is not correctly formatted to meet the receiving country’s address standards.⁵

Nevertheless, taxpayers have important statutory rights that must be claimed within strict periods that often begin to run when the IRS *sends* a notice. For example:

- Internal Revenue Code (IRC) § 6213(a) provides that a taxpayer has 90 days after the IRS sends a statutory notice of deficiency (150 days if addressed to a taxpayer outside the United States) to petition the Tax Court.
- IRC § 6213(b) provides that taxpayers have 60 days after the IRS notifies them of a math error assessment to request abatement of the additional assessment and avail themselves of deficiency procedures.
- IRC § 6320 provides that a taxpayer has 30 days after the IRS sends him or her a notice of lien filing to request an administrative hearing, the outcome of which may be appealed to the Tax Court.⁶
- IRC § 6330 provides that a taxpayer has 30 days after the IRS sends him or her a final notice of its intent to levy to request an administrative hearing, the outcome of which may be appealed to the Tax Court.

Delays created by undelivered mail may also mean that taxpayers do not receive refunds or pay tax liabilities timely, leaving them liable for interest and penalties that could have been avoided.

Undelivered mail is also expensive for the IRS. The Treasury Inspector General for Tax Administration (TIGTA) estimates that wasted printing and postage alone cost the IRS \$57.9 million in fiscal year (FY) 2009.⁷ Other costs include manual processing of undelivered mail, account rework, and avoidable collection and enforcement actions.

⁴ National Taxpayer Advocate 2010 Annual Report to Congress 221 (Most Serious Problem: *The IRS Has Not Studied or Addressed the Impact of the Large Volume of Undelivered Mail on Taxpayers*), available at: http://www.taxpayeradvocate.irs.gov/files/VOL%201_MSP%2016_21_TaxAdministration.pdf.

⁵ IRS, W&I, CARE/M&P: Mail Management Project Office, *International Mail Impact Analysis Final Report* (July 2007).

⁶ IRC §§ 6320(c), 6330(d).

⁷ Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2010-40-055, *Current Practices Are Preventing a Reduction in the Volume of Undelivered Mail* (May 14, 2010), available at <http://www.treasury.gov/tigta/auditreports/2010reports/201040055fr.html>.

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The IRS is Taking Steps to Address Undelivered Mail Problems.

Since the National Taxpayer Advocate's 2010 Annual Report to Congress, the IRS has assigned the Office of Taxpayer Correspondence (OTC) to identify, organize, and coordinate efforts to modernize mail systems and significantly reduce undelivered mail. The OTC established a working group, including a TAS representative, that identified and recommended funding for various changes. These changes include restructuring databases that handle international addresses and releasing funds to implement FSIMB in several phases. The IRS has agreed to fund the first phase of FSIMB, which consists of affixing a bar code to all notices and letters to taxpayers, in FY 2013.⁸ Because the USPS gives barcode users a discount of \$.003 per piece of mail, the one-time cost of about \$1 million for this phase is expected to yield annual savings of \$600,000 in postage costs alone.⁹

Additional Phases of FSIMB Need Funding To Obtain the Benefits of Bar Coding.

USPS systems read the information on FSIMB bar codes and can transmit information about a bar-coded piece of mail back to the IRS. For example, in addition to identifying a piece of mail as undeliverable, USPS will be able to tell the IRS when there is no such number or no such street as shown on the address, when the premises on the address are vacant, or when the addressee is deceased.¹⁰ Once the IRS adjusts its systems to enable them to receive this information from USPS, the IRS will be able to quickly detect addressing errors or find a new or "better" address.¹¹ The IRS will also be able to use information in a bar code to quickly route returned correspondence to the proper IRS organization. The information may also help identify or confirm cases of identity theft. Later phases of the FSIMB initiative will provide these capabilities, but to date the IRS has not allocated funds for their implementation.¹²

⁸ IRS Agency-Wide Shared Services Web Request Tracking System TIRNO-08-Z-00014 DO 0105 award Sept. 21, 2012. The bar code will be affixed to mail that emanates from one of two IRS National Print Sites (NPS). In fiscal year 2009, 201,254,976 notices and letters were printed and mailed at the two sites, and an additional 45 million tax forms, publications, and other information items were mailed by IRS Media and Publications. National Taxpayer Advocate 2010 Annual Report to Congress 221 (Most Serious Problem: *The IRS Has Not Studied or Addressed the Impact of the Large Volume of Undelivered Mail on Taxpayers*), available at: http://www.taxpayeradvocate.irs.gov/files/VOL%201_MSP%2016_21_TaxAdministration.pdf.

⁹ TIGTA, Ref. No. 2010-40-055, *Current Practices Are Preventing a Reduction in the Volume of Undelivered Mail* (May 14, 2010), available at <http://www.treasury.gov/tigta/auditreports/2010reports/201040055fr.html> (calculating the \$600,000 by multiplying the number of notices the IRS mails annually by the discount the USPS gives for using the bar code (200,000,000 x \$.003); IRS requisition Q2-QF-01-WG-C07-000 shows the cost of the first phase of the initiative as \$1,032,187.53).

¹⁰ USPS will transmit this information by means of codes, referred to as NIXIE Codes, that signify various things. For example, code A means "Attempted - Not Known;" code B means "Returned for Better Address;" code P means "Deceased," and so forth.

¹¹ The IRS currently attempts to obtain a "good" or "better" address for 24 notices that are returned as undeliverable. Most of these are collection-related notices such as balance due, return delinquency, intent to levy, or installment agreement default notices. National Taxpayer Advocate 2010 Annual Report to Congress 226 (Most Serious Problem: *The IRS Has Not Studied or Addressed the Impact of the Large Volume of Undelivered Mail on Taxpayers*) available at http://www.taxpayeradvocate.irs.gov/files/VOL%201_MSP%2016_21_TaxAdministration.pdf. This year, the National Taxpayer Advocate recommends clarifying that the IRS's obligation to exercise due diligence in sending mail to a taxpayer's last known address requires that it search its databases for a "good" or "better" address for all returned mail. See Legislative Recommendation, *Amend IRC § 7701 to Provide a Definition of "Last Known Address," and Require the IRS to Mail Duplicate Notices to Credible Alternate Addresses, infra*.

¹² IRS requisition Q2-QF-01-WG-C07-00 authorizes funding for only the first phase of the initiative.

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The IRS Needs an Enterprise-Level Organization to Oversee the Modernization of its Mail Systems.

The IRS must program an array of systems to properly display both domestic and international addresses and accommodate mail tracking information.¹³ Once the IRS modernizes these systems, an enterprise-level organization to maintain and update the systems will be essential. As the National Taxpayer Advocate has pointed out, undelivered mail affects the efficiency of every IRS operation.¹⁴ Without a single organization to oversee agency-wide operations, improvements to mail handling will be fragmented among the operating divisions, and the IRS will risk losing the benefits of the improvements it has made or may make.

CONCLUSION

In conclusion, the National Taxpayer Advocate recommends that the IRS:

1. Fully fund and implement all phases of FSIMB.
2. Update IRS databases to allow them to accommodate international addresses.
3. Identify an enterprise-level organization to oversee modernization and maintenance of IRS mail systems.

¹³ These include database and inventory management systems that pertain to: individuals, businesses, payer and employee plans, backup withholding, tax delinquent accounts, delinquency investigations, account correspondence, transcript delivery, examination, information returns, taxpayer representatives, payroll agents, underreported income, substitutes for returns, exempt organizations, automated collection, liens, levies, taxpayer identification numbers, residency certification, tax deposits and address research.

¹⁴ National Taxpayer Advocate 2010 Annual Report to Congress 225 (Most Serious Problem: *The IRS Has Not Studied or Addressed the Impact of the Large Volume of Undelivered Mail on Taxpayers*), available at http://www.taxpayeradvocate.irs.gov/files/VOL%201_MSP%2016_21_TaxAdministration.pdf.