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Volume 2

TAS Research and Related Studies

Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups

Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups[1]

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EXECUTIVE SUMMARY

Introduction

In response to the National Taxpayer Advocate's concerns that the ongoing cuts to the IRS's budget in fiscal year (FY) 2010–2015 have resulted in unacceptable reductions and changes in taxpayer service, TAS and the Wage & Investment (W&I) Division are developing a ranking methodology for the major taxpayer service activities offered by W&I. We refer to the initiative to develop this methodology as the Service Priorities Project.[2]

Limitations imposed by the lack of available data have, however, delayed implementation. To address some of these "data gaps," TAS contracted for services in March 2016 to advise on survey development, administer the survey, and compile the results. Our targeted completion date for survey administration was the end of September 2016, but due to unanticipated difficulties, our contractor has been unable to complete the 4,000 surveys specified in the contract in accordance with the agreed to schedule.

In the interim, TAS has obtained data for the 1,910 surveys completed through November 16, 2016. While we do not have a sufficient sample size to do rigorous analysis of service usage by major service activity (*e.g.,* tax law questions, help with notices) within channel required for the Service Priorities Project, we can begin to explore the broader issue of how a transition to predominantly web-based services impacts the various demographic groups that comprise the taxpayer population.

Objectives

This report focuses on how taxpayers' service preferences, usage patterns, and usage effectiveness vary by demographic group within the taxpayer population. Our principal objective is to quantify and characterize the demographics of taxpayer groups that appear to have an ongoing need for the IRS personal services provided by phone and in person at the Taxpayer Assistance Centers (TACs). To explore this objective, we conducted the following analyses with demographic breakouts for the taxpayer groups comprising the vulnerable taxpayer population (*i.e.,* low income, seniors, the disabled, and limited English proficiency (LEP) taxpayers):[3]

- Internet access, proficiency, and concerns;
- Service usage by channel (*i.e.,* web, phone, TAC); and
- Willingness and importance scores for service activities (*e.g.,* tax law questions, help with notices, obtaining a copy of a prior year return) by channel.

Methodology

The analyses in this report are based on the 1,910 survey responses obtained as of November 16, 2016 in accordance with the study design methodology. The design calls for the contractor to use Random Digit Dialing (RDD) to contact and recruit eligible survey respondents, all of whom must have either used IRS services or filed a Form 1040 return within the preceding 12 months. The RDD sampling frame must be representative of the population of both land line and cell phone numbers.

2 For in-depth discussions of the Service Priorities Project development challenges and ranking methodology, *see* National Taxpayer Advocate 2014 Annual Report to Congress 26-30 (Most Serious Problem: *Due to the Delayed Completion of the Service Priorities Initiative, the IRS Currently Lacks a Clear Rationale for Taxpayer Service Budgetary Allocation Decisions*); National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 57 (Research Study: *The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services*).

3 Our analyses do not include limited English proficiency (LEP) taxpayers because we did not have an adequate sample size.

TAS developed demographic criteria that are used to assign appropriate weights to all respondents.

Findings

The numbers shown in this narrative represent the point estimate values. Data tables include the lower and upper bound estimates (*i.e.,* confidence intervals), as well as the point estimate.[4]

The vulnerable populations, *i.e.,* low income taxpayers (at or below 250 percent of poverty level based on household size, income, and location), seniors (age 65 and older), those with disabilities (long term condition self-reported in the survey), and taxpayers with limited English proficiency, face greater challenges accessing and navigating the Internet than other taxpayers generally do. In this report we identify these challenges by comparing the vulnerable groups to all taxpayers who are not categorized as low income taxpayers in our analyses.[5] Important results that highlight these challenges include:

- All of the vulnerable groups are less likely to have broadband access at home than the not low income and are also less likely to have internet access at home. Estimates for broadband access at home for the vulnerable groups range between about 60 percent and 72 percent, while approximately 87 percent of the not low income group have broadband access;
- Overall, we found that about 23 percent of taxpayers do not have broadband access, which translates to over 33 million taxpayers without this type of access;
- We estimate that more than 14 million taxpayers do not have internet access at home;
- The vulnerable groups are more likely to access the internet infrequently (less than once a week or not at all) than the not low income group. Millions of taxpayers, particularly those in the vulnerable population groups, only access the Internet infrequently or don't access the internet at all. We estimate that almost 21 million taxpayers access the Internet less than once a week or not at all;
- The vulnerable groups report that they feel less skilled doing internet research than the not low income group. With respect to more basic skills, the vulnerable groups are also less likely than the not low income group to report that they feel comfortable sending emails. Millions of taxpayers in all the demographic groups, however, appear to be uncomfortable sending emails, even though this is a basic internet skill. We estimate that nearly 20 million taxpayers do not feel comfortable sending emails; and
- The vulnerable groups report that they feel less secure sharing personal financial information over the internet than the not low income group. It should be noted, however, that only a minority of respondents in all of the groups report that they feel secure sharing personal financial information over the internet. Conversely, over half of all taxpayers, or more than 74 million, stated they were not comfortable sharing personal financial information over the internet.

These findings show that millions of taxpayers are still reliant on personal services to address their taxpayer service needs and would face challenges if only online services were available.

4 We debated the best approach for presenting the study findings, whether to use the point estimate, lower bound estimate, or upper bound estimate. From a research perspective, studies most often report on point estimates. Using the lower bound has a potential risk, to *underestimate* the population that cannot or will not use online options, and thus undermine tax compliance by not offering needed services. On the other hand, if we *overestimate* taxpayers' inability or unwillingness to use online options, the worst that happens is the IRS gets greater savings from moving options online than it projected. Ultimately, we decided to follow convention and report the point estimate values in the narrative.

5 In this study we represent the group of taxpayers who are generally not vulnerable as the "not low income" group, since the vulnerable groups tend to be low income taxpayers.

INTRODUCTION

In response to the National Taxpayer Advocate's concerns that the ongoing cuts to the IRS's budget in fiscal year (FY) 2010–2015 have resulted in unacceptable taxpayer service, TAS and the Wage & Investment (W&I) Division are developing a ranking methodology for the major taxpayer service activities offered by W&I. We refer to the initiative to develop this methodology as the Service Priorities Project.[6]

The methodology will value each of the major services by delivery channel (*i.e.,* the internet, phone, and walk-in locations referred to as taxpayer assistance centers) from both the government's and the taxpayers' perspective. This is necessary because taxpayers and the IRS have different priorities. The IRS is concerned with conserving scarce resources, especially in a tight budget environment. Taxpayers need services that will enable them to understand their tax obligations and resolve tax issues without imposing undue burden. Frequently, these needs are best met by personal services that are more costly to the IRS than automated services, such as internet based services.

The methodology assigns a score to each initiative that reflects its overall value based on an appropriate balance between criteria that weigh the value of the initiative to the IRS and to the taxpayer. The IRS can use these scores to make resource allocation decisions based on highest valued services in the face of budget or staffing constraints.

Limitations imposed by the lack of available data have, however, delayed implementation. To address some of these "data gaps," TAS contracted for services in March 2016 to provide input to survey development, administer the survey, and compile the results. TAS worked with the contractor to finalize the telephone based survey, and the contractor began survey administration in August 2016.

Our targeted completion date was the end of September 2016, but due to unanticipated difficulties, our contractor has been unable to complete the 4,000 surveys specified in the contract in accordance with the agreed to schedule. The principal causes are a lower than anticipated participation rate among qualified potential respondents and a smaller number of interviewers than anticipated due, in part, to difficulties completing their background investigations. TAS is currently working with the contractor to determine how to best address these issues.

In the interim, TAS has obtained data for the 1,910 surveys completed through November 16, 2016. While we do not have a sufficient sample size to do the rigorous analysis of service usage by major service activity (*e.g.,* tax law questions, help with notices within channel) required for the Service Priorities Project, we can begin to explore the broader issue of how a transition to predominantly web-based services impacts the various demographic groups that comprise the taxpayer population.

6 For in-depth discussions of the Service Priorities Project development challenges and ranking methodology, see National Taxpayer Advocate 2014 Annual Report to Congress 26-30 (Most Serious Problem: *Due to the Delayed Completion of the Service Priorities Initiative, the IRS Currently Lacks a Clear Rationale for Taxpayer Service Budgetary Allocation Decisions*); National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 57 (Research Study: *The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services*).

OBJECTIVES

This report focuses on how taxpayers' service preferences, usage patterns, and service effectiveness vary by demographic group within the taxpayer population. Our principal objective is to quantify and characterize the demographics of taxpayer groups that appear to have an on-going need for the IRS personal services provided by phone and in person at the Taxpayer Assistance Centers (TACs). To explore this objective, we conducted the following analyses with demographic breakouts for the taxpayer groups comprising the vulnerable taxpayer population, *i.e.,* low income, seniors, the disabled, and limited English proficiency (LEP) taxpayers:[7]

- Internet access, proficiency, and concerns;
- Service usage by channel, *i.e.,* web, phone, TAC; and
- Willingness and importance scores for service activities (*e.g.,* tax law questions, help with notices, obtaining a copy of a prior year return) by channel.

METHODOLOGY

As discussed above, the study is still in progress, and the analyses in this report are based on the 1,910 survey responses obtained as of November 16, 2016 in accordance with the study design methodology. The design calls for the contractor to use Random Digit Dialing (RDD) to obtain approximately 4,000 completed surveys from respondents, all of whom either used IRS services or filed a Form 1040 return within the preceding 12 months. The RDD sampling frame must be representative of the population of both land line and cell phone numbers.

TAS developed demographic criteria that are used to assign appropriate weights to all respondents to ensure that the responses are representative of the population of form 1040 filers (individual taxpayers).

The partial sample of 1,910 responses we are analyzing in this study is comprised of 1,428 service users and 482 filers who did not use a service. On completion of survey administration next year, the full sample will be stratified into the following strata:

- About 3,500 of the approximately 4,000 completed surveys will have used an IRS taxpayer service within the preceding 12 months;
- Approximately 1,750 of these will have used the IRS web site; and
- The remaining (about) 1,750 will have used either the IRS toll-free phone service or a TAC.

The survey takes about 20 minutes on average to administer via telephone, and is administered in either English or Spanish in accordance with the respondent's preference.

7 Our analyses do not include LEP taxpayers because we did not have an adequate sample size.

FINDINGS

In this section we cover the important findings of our analyses, which look at differences in the willingness and ability of different demographic groups to use service activities (*e.g.,* help with a notice, help with a tax law question, making a payment) on the IRS's three major service channels: the IRS website (*i.e.,* irs.gov), the IRS toll-free lines, and the IRS walk-in assistance centers (*i.e.,* the TACs).

The demographic groups we analyze include low income taxpayers (*i.e.,*taxpayers whose household income is at or below 250 percent of the federal poverty level), taxpayers who are not low income, seniors (*i.e.,* taxpayers who are age 65 or older), and taxpayers with disabilities (self-reported long term impairments).[8] We chose these breakouts so we could evaluate whether there are any differences between the demographic groups TAS regards as "vulnerable" and all other taxpayers.[9] We do not include LEP taxpayers in the following analyses, because we did not have an adequate sample size of LEP taxpayers.

The numbers shown in this narrative represent the point estimate values. Data tables include the lower and upper bound estimates (*i.e.,* confidence intervals), as well as the point estimate.[10] In the figures that follow, where differences among demographic groups are significant at the 95 percent confidence level, we highlight them in teal.

Internet Access, Proficiency, and Concerns

An important consideration when exploring taxpayers' preferences for service delivery options is whether they have the abilities and capabilities to use the offered options. Several survey questions gathered information to help assess taxpayers' ability to use digital services.

Access

One factor influencing delivery option choice is the speed of internet access. Taxpayers with internet service connections slower than broadband will likely experience delays when trying to access large files or complex web pages. This survey gathered information about what type of internet access taxpayers have at home.

Overall, we found that about 23 percent of taxpayers do not have broadband access, which translates to over 33 million taxpayers without this type of access (see Figure 1.1).

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8 We identified taxpayers with disabilities by their responses to a survey question which asked whether they had any long-term conditions or disabilities (lasting 6 months or more), including:

- Deafness,
- Severe Vision Impairment,
- Severe Hearing Impairment,
- Severe Speech Impairment,
- A condition that substantially limits your physical abilities (such as standing or walking),
- A condition that limits learning or remembering, or
- Some other condition.

9 The vulnerable groups may have special service needs (*e.g.*, those with disabilities or limited English proficiency), may be less skilled on the internet or not have internet access (*e.g.*, the low income and seniors), or may be more reliant on the IRS for services because they cannot afford to pay for services (*e.g.*, the low income). Note: Since the low income and not low income groups collectively include all taxpayers, the senior, disabled and LEP groups overlap with them.

10 We debated the best approach for presenting the study findings, whether to use the point estimate, lower bound estimate, or upper bound estimate. From a research perspective, studies most often report on point estimates. Using the lower bound has a potential risk, to *underestimate* the population that cannot or will not use online options, and thus undermine tax compliance by not offering needed services. On the other hand, if we *overestimate* taxpayers' inability or unwillingness to use online options, the worst that happens is the IRS gets greater savings from moving options online than it projected. Ultimately, we decided to follow convention and report the point estimate values in the narrative.

FIGURE 1.1, Population Estimate for Taxpayers Who Do Not Have Broadband Access

	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
No Broadband	33.4	27.7	39.9
Have Broadband	111.7	105.2	117.3

As shown in Figure 1.2, all of the vulnerable groups are less likely to have broadband access at home than the not low income. These differences are statistically significant. As previously noted, without broadband access taxpayers abilities to search for and save information, or take other actions online, may be hampered.

FIGURE 1.2, No Broadband Access by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**12.5%**	10.1%	15.4%
Low Income	**28.5%**	22.7%	35.1%
Senior	**40.0%**	32.0%	48.6%
Disabled	**31.9%**	23.0%	42.3%

Figure 1.3 shows population estimates for those who don't have internet access at home. As shown, millions of taxpayers, particularly those in the vulnerable population groups, still do not have internet access. We estimate that more than 14 million taxpayers do not have internet access at home.

FIGURE 1.3, Population Estimates for Those Without Internet Access at Home by Demographic Group

	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Not Low Income	4.25	3.0	6.1
Low Income	8.9	6.6	11.7
Senior	7.0	5.2	9.2
Disabled	4.7	3.2	6.8
All Taxpayers	14.4	11.3	18.0

Similar to broadband access, vulnerable groups are less likely than others to have internet access at home. As shown in Figure 1.4, all of the vulnerable groups are also less likely to have internet access at home than the not low income. These differences are statistically significant.

FIGURE 1.4, No Internet Access at Home by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**5.4%**	3.8%	7.7%
Low Income	**13.3%**	9.9%	17.6%
Senior	**28.4%**	21.0%	37.2%
Disabled	**12.6%**	8.6%	18.1%

The vulnerable groups are also more likely than the not low income group to use a device other than a computer to access the internet. This difference is statistically significant for both the low income and disabled groups. In general, internet access and navigation on devices other than a computer can be more challenging, especially for users who are not internet savvy.

FIGURE 1.5, Internet Access by a Device Other Than a Computer by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**9.2%**	6.9%	12.2%
Low Income	**21.9%**	16.1%	29.1%
Senior	**13.5%**	7.2%	23.7%
Disabled	**23.7%**	13.5%	38.1%

In addition, all of the vulnerable groups are more likely to access the internet infrequently (less than once a week or not at all) than the not low income group. All of these differences are statistically significant.

FIGURE 1.6, Infrequent or No Internet Access by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**8.2%**	6.3%	10.6%
Low Income	**16.7%**	12.7%	21.7%
Senior	**39.3%**	31.0%	48.1%
Disabled	**26.9%**	18.2%	37.9%

As shown in Figure 1.7, millions of taxpayers, particularly those in the vulnerable population groups, only access the internet infrequently or don't access the internet at all. We estimate that more than 20 million taxpayers access the Internet less than once a week or not at all.

FIGURE 1.7, Population Estimates for Those Who Access the Internet Less Than Once a Week or Not at All by Demographic Group

	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Not Low Income	6.4	4.9	8.3
Low Income	11.1	8.5	14.5
Senior	9.7	7.6	11.9
Disabled	10.1	6.9	14.3
All Taxpayers	20.7	16.2	26.2

Proficiency

It is not realistic to expect that all taxpayers who have internet access will be able to search for, find, understand, and apply the information they seek to their situation. To understand taxpayers' skills and comfort level performing various types of activities, this survey included questions that would help us learn about taxpayers' capabilities for certain tasks, including internet research.

As shown in Figure 1.8, all of the vulnerable groups report that they feel less skilled conducting internet research than the not low income group. These differences are statistically significant for all groups who agreed with, and for most groups who disagreed with, the statement.

FIGURE 1.8, Feel Skilled Doing Internet Research by Demographic Group

			Estimate	95% Confidence Interval	
				Lower	Upper
Not Low Income	% of Total	Disagree	**5.9%**	4.3%	8.1%
		Neutral	8.2%	6.2%	10.7%
		Agree	**85.9%**	82.8%	88.5%
		Total	100.0%	100.0%	100.0%
Low Income	% of Total	Disagree	12.2%	6.9%	20.6%
		Neutral	14.2%	9.9%	20.1%
		Agree	**73.6%**	65.3%	80.4%
		Total	100.0%	100.0%	100.0%
Senior	% of Total	Disagree	**18.8%**	13.2%	26.10%
		Neutral	25.9%	17.4%	36.6%
		Agree	**55.3%**	45.8%	64.4%
		Total	100.0%	100.0%	100.0%
Disabled	% of Total	Disagree	**18.3%**	10.2%	30.6%
		Neutral	9.9%	6.5%	14.8%
		Agree	**71.9%**	60.6%	80.9%
		Total	100.0%	100.0%	100.0%

With respect to more basic skills, the vulnerable groups are also less likely than the not low income group to report that they feel comfortable sending emails. These differences are statistically significant.

FIGURE 1.9, Feel Comfortable Sending Emails by Demographic Group

		Estimate	95% Confidence Interval	
			Lower	Upper
Not Low Income	Disagree	**7.1%**	5.3%	9.7%
	Neutral	6.0%	4.2%	8.4%
	Agree	**86.9%**	83.7%	89.5%
Low Income	Disagree	**18.7%**	12.5%	27.0%
	Neutral	8.7%	4.9%	14.8%
	Agree	**72.7%**	64.1%	79.8%
Senior	Disagree	**17.1%**	11.9%	24.1%
	Neutral	15.2%	9.8%	23.0%
	Agree	**67.6%**	58.9%	75.3%
Disabled	Disagree	**18.2%**	12.4%	25.9%
	Neutral	13.8%	6.4%	27.4%
	Agree	**68.0%**	56.5%	77.6%

As shown in Figure 1.10, millions of taxpayers in all the demographic groups appear to be uncomfortable sending emails, even though this is a basic internet skill. We estimate that nearly 20 million taxpayers do not feel comfortable sending emails.

FIGURE 1.10, Estimate of Population of Those Comfortable Sending Emails by Demographic Group

		Estimate (in millions)	95% Confidence Interval	
			Lower	Upper
Not Low Income	Disagree	5.6	4.1	7.6
	Neutral	4.7	3.3	6.6
	Agree	68.0	65.5	70.1
Low Income	Disagree	12.5	8.3	18.0
	Neutral	5.8	3.3	9.8
	Agree	48.5	42.8	53.2
Senior	Disagree	4.2	2.9	5.9
	Neutral	3.8	2.4	5.7
	Agree	16.7	14.5	18.6
Disabled	Disagree	6.9	4.7	9.8
	Neutral	5.2	2.4	10.3
	Agree	25.6	21.3	29.3
All Taxpayers	Disagree	19.9	14.5	26.8
	Neutral	10.7	7.4	15.5
	Agree	114.4	107.0	120.7

Concerns Using the Internet

Taxpayers' concerns about items such as internet security will likely influence their decisions about IRS service delivery channel use. The survey asked questions about items that might indicate how likely the respondent would be to share information over the internet with the IRS. Two examples of such questions are shown below. They relate to sharing personal and financial information.

When respondents were asked if they agreed with the following statement, *I feel secure sharing personal information with a government agency*, about 37 percent of the not low income taxpayers disagreed. This translates to more than 28 million taxpayers who are not comfortable sharing personal information with a government agency. The vulnerable taxpayer groups were more likely to disagree with the statement, but only seniors responses were statistically different than the not low income group. Over 50 percent of all taxpayers, or more than 74 million, stated they did not feel secure sharing personal financial information over the internet.

FIGURE 1.11, Attitiudes toward Sharing Personal Information with the Government

			95% Confidence Interval	
		Estimate	Lower	Upper
Not Low Income	Disagree	**37.2%**	32.9%	41.7%
Low Income	Disagree	43.5%	35.8%	51.5%
Senior	Disagree	**60.7%**	52.1%	68.6%
Disabled	Disagree	44.0%	34.1%	54.5%

All of the vulnerable groups report that they feel less secure sharing personal financial information over the internet than the not low income group. These differences are statistically significant. It should be noted, however, that only a minority of respondents in all of the groups report that they feel secure sharing personal financial information over the internet (see Figure 1.12).

FIGURE 1.12, Feel Secure Sharing Personal Financial Information Over the Internet by Demographic Group

			Estimate	Standard Error	95% Confidence Interval	
					Lower	Upper
Not Low Income	% of Total	Disagree	**43.8%**	2.4%	39.2%	48.5%
		Neutral	23.2%	1.9%	19.6%	27.2%
		Agree	**33.0%**	2.5%	28.3%	38.0%
		Total	100.0%	0.0%	100.0%	100.0%
Low Income	% of Total	Disagree	**56.9%**	4.0%	49.0%	64.6%
		Neutral	23.6%	3.5%	17.5%	31.1%
		Agree	**19.4%**	2.9%	14.4%	25.7%
		Total	100.0%	0.0%	100.0%	100.0%
Senior	% of Total	Disagree	**66.2%**	4.8%	56.3%	74.8%
		Neutral	17.7%	3.2%	12.3%	24.8%
		Agree	**16.1%**	4.6%	8.9%	27.3%
		Total	100.0%	0.0%	100.0%	100.0%
Disabled	% of Total	Disagree	**65.1%**	4.8%	55.1%	73.9%
		Neutral	16.9%	2.9%	11.9%	23.3%
		Agree	**18.1%**	4.0%	11.5%	27.3%
		Total	100.0%	0.0%	100.0%	100.0%

Conversely as shown in Figure 1.13, over half of all taxpayers, or about 51 percent stated they were not comfortable sharing personal financial information over the internet.

FIGURE 1.13, Attitudes Toward Sharing Personal Financial Information Over the Internet — All Taxpayers

All Taxpayers	Estimate	95% Confidence Interval	
		Lower	Upper
Disagree	51.3%	46.4%	56.2%
Neutral	23.5%	19.6%	27.9%
Agree	25.3%	21.6%	29.4%
Total	100.0%	100.0%	100.0%

We also asked infrequent users of the internet (those who reported using the Internet less than once a week, or not at all) why they did not go online more often. The leading reasons they cited were lack of convenient access and concerns about security. All the groups were somewhat likely to cite these reasons.

FIGURE 1.14, Don't Have Convenient Access by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	25.7%	16.0%	38.6%
Low Income	34.9%	22.8%	49.3%
Senior	38.2%	24.2%	54.5%
Disabled	32.1%	17.1%	52.0%

FIGURE 1.15, Concerned About Security by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	32.2%	20.8%	46.2%
Low Income	26.7%	16.4%	40.2%
Senior	28.6%	17.1%	43.7%
Disabled	35.2%	19.3%	55.3%

A smaller percentage of respondents cited cost as a reason for not using the Internet more frequently.

FIGURE 1.16, Internet Costs Too Much by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	9.7%	4.3%	20.4%
Low Income	13.2%	6.5%	24.9%
Senior	14.3%	6.7%	28.1%
Disabled	6.7%	2.7%	15.7%

Service Usage by Channel

An original intent of this survey was to understand which delivery channel different taxpayer groups used to obtain various IRS services. Because we do not have enough completed surveys to explore down to that level, the following discussion will focus on the IRS delivery Channels as a whole.

As shown in Figure 1.17, in general the not low income users are more likely to use the web and less likely to use the TACs and phone than the vulnerable groups. These differences are statistically significant for web use. Comparisons for the phone and TACs are usually not statistically significant, however, due to small sample sizes. The exception is seniors, who are significantly more likely to use TACs than the not low income group.

FIGURE 1.17, Channel Usage by Demographic Group

			Estimate	95% Confidence Interval	
				Lower	Upper
Not Low Income	% of Total	IRS Web	**65.6%**	61.5%	69.5%
		TAC	**6.3%**	4.3%	9.2%
		IRS Phone Rep	13.8%	11.4%	16.7%
		Auto, Phone	5.1%	3.7%	7.1%
		Another IRS Channel	9.2%	7.0%	11.9%
		Total	100.0%	100.0%	100.0%
Low Income	% of Total	IRS Web	**50.5%**	43.7%	57.3%
		TAC	12.0%	6.9%	20.0%
		IRS Phone Rep	19.2%	14.7%	24.6%
		Auto, Phone	9.3%	5.8%	14.4%
		Another IRS Channel	9.2%	6.0%	13.7%
		Total	100.0%	100.0%	100.0%
Senior	% of Total	IRS Web	**42.2%**	34.6%	50.3%
		TAC	**19.9%**	12.8%	29.5%
		IRS Phone Rep	19.6%	13.8%	27.2%
		Auto, Phone	4.8%	2.6%	8.7%
		Another IRS Channel	13.5%	8.6%	20.5%
		Total	100.0%	100.0%	100.0%
Disabled	% of Total	IRS Web	**51.3%**	43.8%	58.7%
		TAC	12.1%	7.0%	20.1%
		IRS Phone Rep	21.6%	15.8%	28.7%
		Auto, Phone	4.6%	2.4%	8.6%
		Another IRS Channel	10.3%	6.5%	15.9%
		Total	100.0%	100.0%	100.0%

Willingness and Importance Scores for Service Activities by Channel

As with the delivery channel discussion, the following analyses are by channel rather than service activity within channel. We needed to combine all the service activities by channel due to small sample sizes.

Willingness to Use Services on a Channel

As shown in Figure 1.18, respondents rated their willingness to use a service in the future on a scale of one to five, where one is not at all willing and five is completely willing. We show the average score by demographic group.

Seniors and the disabled are less willing to use the web for services in the future than the not low income group, but the difference for the disabled is not statistically different due to sample size. The difference for seniors is significantly different.

FIGURE 1.18, Willingness to Use the Web in the Future by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**3.88**	3.75	4.01
Low Income	3.85	3.67	4.04
Senior	**3.35**	3.04	3.66
Disabled	3.51	3.24	3.78

As shown in Figure 1.19, all the vulnerable groups are more willing to use the TACs in the future than the not low income. These differences are statistically significant.

FIGURE 1.19, Willingness to Use the TACs in the Future by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	**2.52**	2.39	2.65
Low Income	**3.06**	2.84	3.27
Senior	**3.02**	2.72	3.32
Disabled	**2.95**	2.70	3.19

There were only minor differences regarding willingness to use the phones in the future among all demographic groups.

Importance to Taxpayers of Continued Access to Services by Channel

As shown in Figure 1.20, respondents rated how much they would be impacted if they could not use a particular service in the future on the covered channels (*i.e.,* the IRS website, the IRS toll-free service, the TACs). The rating was on a scale of one to five, where one is no impact at all and five is very strong negative impact. Due to sample size constraints, we aggregated the results by channel, rather than breaking out individual services. We show the average score by demographic group.

Not low income taxpayers rate losing web-based services higher than all the vulnerable groups, but the differences are not statistically significant due to sample size.

FIGURE 1.20, Impact of Losing Access to Web-Based Services by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	3.53	3.40	3.65
Low Income	3.35	3.16	3.53
Senior	3.18	2.93	3.44
Disabled	3.35	3.13	3.57

The vulnerable groups rate losing access to TAC-based services higher than the not low income taxpayers, but again the difference is not statistically significant due to sample size.

FIGURE 1.21, Impact of Losing Access to TAC-Based Services by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	2.74	2.61	2.87
Low Income	2.98	2.77	3.19
Senior	3.03	2.74	3.32
Disabled	3.02	2.77	3.27

It should be noted that TAC users are especially loyal to the TAC. Below we look only at users who picked a particular channel as their first choice, and show their scores for losing access to services on that channel. TAC users show the highest negative impact from losing access to their preferred channel and web users show the smallest impact, the differences are not statistically significant, however, due to small sample sizes.

FIGURE 1.22, Importance of Losing Access to Services on the First Choice Channel

Channel	Estimate	95% Confidence Interval	
		Lower	Upper
IRS Web	3.55	3.40	3.71
IRS Phone	3.74	3.44	4.04
TAC	4.16	3.70	4.62

There were only minor differences regarding the impact of losing access to phone based services in the future among all groups.

CONCLUSION

The vulnerable populations (*i.e.,* low income taxpayers, seniors (age 65 and older), those with disabilities, and taxpayers with limited English proficiency) face greater challenges accessing and navigating the Internet than other taxpayers generally do. In this report we identify these challenges by comparing the vulnerable groups to all taxpayers who are not low income taxpayers in our analyses.[11] Important results that highlight these challenges include:

- All of the vulnerable groups are less likely to have broadband access at home than the not low income and are also less likely to have internet access at home. Estimates for broadband access at home for the vulnerable groups range between about 60 percent and 72 percent, while approximately 87 percent of the not low income group has broadband access.
- Overall, we found that about 23 percent of taxpayers do not have broadband access, which translates to over 33 million taxpayers without this type of access.
- We estimate that more than 14 million taxpayers do not have internet access at home.
- The vulnerable groups are more likely to access the internet infrequently (less than once a week or not at all) than the not low income group. Millions of taxpayers, particularly those in the vulnerable population groups, only access the Internet infrequently or don't access the internet at all. We estimate that almost 21 million taxpayers access the Internet less than once a week or not at all.
- The vulnerable groups report that they feel less skilled doing internet research than the not low income group. With respect to more basic skills, the vulnerable groups are also less likely than the not low income group to report that they feel comfortable sending emails. Millions of taxpayers in all the demographic groups, however, appear to be uncomfortable sending emails, even though this is a basic internet skill. We estimate that nearly 20 million taxpayers do not feel comfortable sending emails.
- The vulnerable groups report that they feel less secure sharing personal financial information over the internet than the not low income group. It should be noted, however, that only a minority of respondents in all of the groups report that they feel secure sharing personal financial information over the internet. Conversely, over half of all taxpayers, or more than 74 million, stated they were not comfortable sharing personal financial information over the internet.

These findings show that millions of taxpayers are still reliant on personal services to address their taxpayer service needs. Moreover, the finding that only a minority of all taxpayers feels secure sharing personal financial information over the internet has serious implications for IRS Future State expectations that taxpayers will engage with an online IRS account.[12]

11 In this study we represent the group of taxpayers who are generally not vulnerable as the "not low income" group, since the vulnerable groups tend to be low income taxpayers.

12 For related information, see the National Taxpayer Advocate's 2016 Annual Report to Congress, IRS Future State, and Most Serious Problem: *Online Accounts: Research into Taxpayer and Practitioner Needs and Preferences Is Critical As the IRS Develops an Online Taxpayer Account System* at www.TaxpayerAdvocate.irs.gov/2016AnnualReport.

APPENDIX – SURVEY QUESTIONS

SECTION A.1: Introduction

Hello, I'm ____ with _____ Research, a national research firm.

We are conducting an anonymous national survey for the Taxpayer Advocate Service, an independent organization that helps taxpayers resolve problems.

This is an opinion survey about YOUR experiences with and feelings about the tax system. Our survey will take about 20 minutes and we'd appreciate your participation.

SECTION A.2: Screening

[CONTINUE w/Q1 — UNLESS YOU DETECT THAT THE RESPONDENT SPEAKS **MAINLY SPANISH**, IN WHICH CASE, ASK HIM/HER TO HOLD WHILE YOU TRANSFER TO A **BI-LINGUAL INTERVIEWER**, WHO WILL SECURE A LANGUAGE PREFERENCE AND CONTINUE THE INTERVIEW.]

1. [WILL BE RECODED INTO OLD #1]

1a. Which of the following categories includes your age, under 45, 45- 74, 75 or older?

1. Under 45
2. 45-74
3. 75 or older

11 Not sure/Refused [term]

If (under 45)

1b. Are you ...

1 Under 18 [TERM]
2 18 to 24 years
3 25 to 34 years
4 35 to 44 years
11 Not sure/Refused [TERM]

If (45–74)

1c. Are you ...

5 45 to 54 years
6 55 to 59 years
7 60 to 64 years
8 65 to 74 years
11 Not sure/Refused [TERM]

If (75 or older)

1d. Are you ...

9 75 to 84 years
10 85 years and over
11 Not sure/Refused [TERM]

2. Are you the individual most familiar with your Federal individual Income Tax Return (Form 1040 series) that you filed in the last 12 months? READ

1 Yes, most familiar
2 Equally familiar
3 Neither most nor equally familiar
4 Did not file a tax return in the last 12 months
5 [DNR] Not sure if filed in last 12 months

3. In the past 12 months, did you contact the IRS for any reason, using any of the following methods? You can answer yes or no as I read each one. Did you... [Select all that apply]

1. Call an IRS Toll-Free line
2. Visit a local IRS office (Taxpayer Assistance Center, walk-in center)
3. Visit the IRS website to obtain specific information. Please do not count casual browsing.
4. Contact the IRS by some other method [if did not call or visit, or use IRS website, and if the respondent filed and have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]
5. [ONLY READ IF "no" to all prior items] **Did you contact the IRS** at all outside of filing your return [if the respondent filed and we have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]
6. [DNR] Don't know [Don't read but select if taxpayer doesn't know.] [if the respondent filed and we have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]

[CONTINUE IF Q3=1-3 OR UP TO QUOTA OF 500 IF Q3=4-6 and Q2=1-2]

FOR THOSE WHO USED A SERVICE, but did not file a return skip to the Service Usage Section (Q7)

4. Which filing status did you use on the tax return that you filed in the last 12 months?
[DON'T READ UNLESS NEEDED]

1. Single
2. Married, filing jointly
3. Married, filing separately
4. Head of Household which is single with dependent parent or child
5. Or Qualifying widow(er) with dependent child
6. [DNR] Don't know [Terminate if did not use a service, Q3 IS NOT 1-3]]

5. Who prepared your taxes? [DON'T READ UNLESS NEEDED]

1. You yourself, with software [go to 6a]
2. You yourself, without software [go to 6a]
3. A volunteer preparer from a community organization *(do not include a tax software company's promotional events) [go to 6b]*
4. A paid professional [go to 6b]
5. Or an unpaid third party (*e.g.* friend or family member) [go to 6b]
6. [DNR] Don't know [Terminate if did not use a service]

[ONLY ASK IF Q5= 1 or 2; ELSE SKIP TO Q6b]

6a. Thinking about your most recently filed individual tax return, please rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree
[READ SCALE ONLY ONCE UNLESS ASKED TO REPEAT.]
[IF NEEDED: *"Please give me a number from 1 to 5 or any number in between."*]

1. I had a good understanding of what the IRS expected.
2. I felt competent when doing my taxes.
3. I was confident that the deductions and credits I claimed were correct.

[ONLY ASK IF Q5= 3, 4, or 5; ELSE SKIP TO Q7]

6b. Thinking about your most recently filed individual tax return, rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree:
[READ SCALE ONLY ONCE UNLESS ASKED TO REPEAT.]
[IF NEEDED: *"Please give me a number from 1 to 5 or any number in between."*]

1. I believe my preparer had a good understanding of what the IRS expected.
2. I believe my preparer was competent when doing my taxes.
3. I believe my preparer was confident that the deductions and credits I claimed were correct.

FOR THOSE WHO FILED A RETURN (Q2=1 or 2) BUT DID NOT USE A SERVICE from one of the channels of interest (Q3=4-6), skip to TRUST Section

Section B: Service Usage

[ONLY ASK THIS SECTION TO THOSE WHO HAVE CONTACTED IRS IN Q3; ELSE SKIP TO TRUST SECTION]

7. You mentioned that you have contacted the IRS in the *past 12 months*. Did you contact the IRS for any of the following reasons? [select all that apply] ***Please say yes or no to each one*.**

1. Get a form or publication
2. Get transcripts or prior year tax return information
3. Get answers to your tax law questions (READ, but do not include in following questions in programming) *such as information on withholding, dependents, deductions, or tax credits*
4. Get tax return preparation help such as *help filling out forms*
5. Get information or assistance about an IRS notice or letter *(ONLY IF ASKED for EXPLANATION and do not include in following questions in programming): notices are mailed letters about issues such as balances due, overpayments, underpayments, audits, information about tax credits or requests for more information)*
6. Make a payment
7. Get information about making payments (READ, but do not include in following questions in programming) not including setting up a payment plan
8. Set up a payment plan
9. Get information about a refund
10. Get an Individual or Employer Tax ID (ITIN, EIN)
11. Or did you contact the IRS for some other reason — specify [Record service used, but do not select as a service to ask the looping questions unless the respondent did not use two of the first 10 services]

[For those with MORE THAN ONE "YES" in Q7 select the category with the fewest responses in Q7 1–10 (only loop on response 11 if individual used 2 or fewer services including 11). ***Be sure to record the services selected for discussion. Identify which is the first service and which is the second service. Make sure that the responses for questions 8–15 can be associated with the service selected and evaluated in the loop.****]*

[Complete loop for 2 different services if used more than one service.]

[Begin section]

Loop begins for those using one or more service activity.

FOR this question, select the service identified above with the fewest respondents for Q7.

8. What was the first IRS information source you used to [INSERT service selected in Q7]? Was it …"

1. IRS Website (www.IRS.gov)
2. IRS Tax Assistance Center (or walk-in site) — *Note to assistor: includes those who set up appointment by phone*
3. IRS phone representative (*includes those calling to make appointment, but issue resolved on phone*)
4. Automated IRS phone system
5. Another IRS information source — specify

9. How completely were you able to achieve what you set out to do when using the [*INSERT source selected in Q8***] to [***INSERT service selected in Q7***]?**
Please use a 1–5 scale where 1 is not at all and 5 is completely resolved and needed no further efforts. (*Likert 1–5, 1 = not at all, 5 = completely resolved, needed no further efforts*)

[IF Q9= 5 Completely RESOLVED, SKIP to Q10]

[FOR ALL ANSWERS less than completely resolved, branch to I9, P9, T9, or O9 depending on channel. If Q9=5 completely resolved go to Q10.]

Internet

I9. Why weren't you able to achieve what you set out to do when you visited the IRS website? Was it because …? *(Select all that apply)*

1. You did not find the information or service you were looking for
2. You did not understand the information provided
3. Or another reason — specify

[Go to Q10]

TAC

T9. Why weren't you able to achieve what you set out to do when you visited the IRS walk-in site? Was it because …? *(Select all that apply)*

1. All of your questions were not answered
2. The walk-in site was closed
3. You did not have an appointment
4. The service you needed was not available
5. You left because the wait was too long
6. You did not understand the information provided
7. You did not get the information or service you were looking for
8. You waited for service but were turned away before receiving service
9. Or another reason specify

[Go to Q10]

Phone

P9. Why weren't you able to achieve what you set out to do when you called the IRS? Was it because …? *(Select all that apply)*

1. All of your questions were not answered
2. Couldn't understand the information provided
3. Kept getting a busy signal
4. Placed on hold too long
5. Kept getting transferred
6. Couldn't understand the menu system
7. Call disconnected
8. Or another reason — specify

[Go to Q10]

Other IRS

O9. Why weren't you able to achieve what you set out to do? Was it because …? *(Select all that apply)*

1. You did not get the information you were looking for
2. You did not understand the information provided
3. Or another reason — specify

[Go to Q10]

9a. Capture any additional comments from the respondent here.

10. Overall, how satisfied were you with using [INSERT delivery channel selected in Q8] **to** [INSERT service selected in Q7]**? Please use a 1–5 scale where 1 is very dissatisfied and 5 is very satisfied.**
[*IF NEEDED: "Please give me a number from 1 to 5 or any number in between."*]
[5 point Likert: 1 Very dissatisfied to 5 Very satisfied]

11. Please rate your satisfaction with the following aspects related to using [INSERT delivery channel selected in Q8] **to** [INSERT service selected in Q7]**. Please use the same 1–5 scale where 1 is very dissatisfied and 5 is very satisfied.**

[5 point Likert: 1 Very dissatisfied to 5 Very satisfied] [ONLY READ SCALE AGAIN IF ASKED TO REPEAT. IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

How satisfied were you with [READ FOR FIRST TWO ITEMS]:

a. The time it took to achieve what you set out to do
b. How satisfied are you with the number of steps needed to obtain the information you sought
c. How well you understood the information you received
d. The accuracy of the information you received

[IF Q9= 5 Completely RESOLVED, SKIP to Q14 intro]

12. **What other information sources did you use when trying to** [INSERT service selected in Q7]**? Was it ...?** *(Select all that apply)*
    1. IRS Website (www.IRS.gov)
    2. IRS Tax Assistance Center (walk-in site)
    3. IRS phone representative (DO NOT READ: *includes those calling to make appointment, but issue resolved on phone*)
    4. Automated IRS phone system
    5. Other IRS information source — specify
    6. Or Other non-IRS source (*do not read*)
    7. Was not able to resolve (*do not read*)

13. **Which information source ultimately resolved your need to** [INSERT service selected in Q7] **or were you unable to resolve your need?** *(DO NOT READ, unless does not say one of these answers)*
    1. Was not able to resolve
    2. IRS Website (www.IRS.gov)
    3. IRS Tax Assistance Center (walk-in site)
    4. IRS phone representative (DO NOT READ: *includes those calling to make appointment, but issue resolved on phone*)
    5. Automated IRS phone system
    6. Other IRS information source — specify
    7. [DNR] Other non-IRS source

SECTION B: Willingness and Importance

READ: For the next question, please use a 1-5 scale where 1 is not at all willing and 5 is completely willing. [ONLY READ SCALE ONCE UNLESS ASKED TO REPEAT. IF NEEDED: "*Please give me a number from 1 to 5 or any number in between.*"]

14. **In the future, how willing would you be to** [INSERT Q7 activity] **by ...**
    a. Using the IRS website (irs.gov)
    b. Calling an IRS phone representative
    c. Calling an Automated IRS phone system
    d. Going to an IRS Taxpayer Assistance Center (walk-in site)

    [5 point Likert: 1 is **not at all willing** and 5 is **completely willing**]

READ For the next question, please use a 1-5 scale where 1 is no impact at all and 5 is very strong negative impact. [ONLY READ ONCE UNLESS ASKED TO REPEAT. IF NEEDED: *"Please give me a number from 1 to 5 or any number in between."*]

15. How much would you be impacted if you could not [insert Q7 activity] **by …**

a. Using the IRS website (irs.gov).
b. Calling an IRS phone representative
c. Calling an Automated IRS phone system
d. Going to an IRS Taxpayer Assistance Center (walk-in site)

[5 point Likert: 1 is no impact at all and 5 is very strong negative impact]

[If respondent used a 2nd service go to Q8 to loop again for the second service, (be sure to record first and second services discussed in Q8–15); else continue]

DELETE SECTION Section C: TRUST IN IRS

READ: ***We are almost 80% done*****.**

Section D: Taxpayer Rights and Responsibilities

NEXT ARE SOME QUESTIONS ABOUT YOUR RIGHTS AND RESPONSIBILITIES AS A TAXPAYER. Please answer yes, no, or not sure to the following questions.

17. As a taxpayer, do you believe you have rights before the IRS? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

18. Do you know what your rights are as a taxpayer when dealing with the IRS? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

19. Have you ever heard of Publication 1, which defines your rights as a taxpayer? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

20. Do you know what your responsibilities are as a taxpayer [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

21. How would you like to learn about your rights and responsibilities as a taxpayer? Would it be from ...? *(Select all that apply)*

1. A separate publication you could order by phone or get on the IRS web site
2. A separate letter included with IRS notices
3. A page on the IRS web site
4. The home page of the IRS web site
5. [DNR] Not sure
6. [DNR] Or you don't need to learn about your rights and responsibilities as a taxpayer

Section E: Computer and Internet Usage

READ: The following section will ask about your computer skills and internet usage.

22. What kind of internet access do you have at home for your computer? Is it ...? *(Select all that apply)*

1. Broadband (cable, dsl, high speed internet)
2. Dial-up (telephone)
3. Mobile Data Plan
4. Or do you not have internet access [go to Q24]
5. [DNR] Do not know [go to Q24]
6. I do not use the internet [go to Q25]

[ONLY ASK IF HAVE INTERNET ACCESS AT HOME ELSE SKIP TO Q24]

23. What device do you use to access the internet at home when searching for information? Is it by ...? *(Select all that apply)*

1. Computer
2. Tablet
3. Smart Phone
4. Other (please specify)
5. [DNR] None of these

24. How often do you go on the internet (including weekdays and weekends)? This includes access from home, work, or elsewhere. [READ ONLY IF RESPONSE DOESN'T FIT A CATEGORY]

1. One or more times a day [Go to Q26]
2. Several times a week [Go to Q26]
3. Once a week [Go to Q25]
4. Less than once a week [Go to Q25]
5. Never [Go to Q25]

25. Which of the following are reasons why you don't go online, or go online more often? *(Select all that apply)* [READ ONLY IF RESPONSE DOESN'T FIT A CATEGORY]

1. You don't have convenient access to the internet
2. You are worried about the security of your personal information on the Internet
3. Internet access costs too much
4. You don't like spending a lot of time on the internet
5. Or You don't feel comfortable using the internet
6. Other

If Q24=Never, Skip to Demographics]

26. Where do you spend the majority of your time online? [READ OPTIONS; Single response]

1. Home
2. Work
3. School
4. Library
5. Hotspots (for example, Starbucks, airports, restaurants)
6. Smart Phone
7. [DNR] Other

27. Where are you when you go online to conduct sensitive personal business such as filing a tax return or banking online? *(Select all that apply)* [READ ONLY IF NEEDED: How about other sensitive personal business?]

1. Home
2. Work
3. School
4. Library
5. Hotspots (for example, Starbucks, airports, restaurants)
6. Smart Phone
7. [DNR] Other (specify)

28. How would you rate your ability to use the internet to find information related to a topic you are interested in? Please use a 1-5 scale where 1 is not able to find information and 5 is always able to find information.

[*5 point Likert*: 1 not able to find information and 5 is always able to find information]

29. Please tell me the degree to which you agree with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree.

[*5 pt Likert*: *1 Strongly disagree to 5 Strongly agree, 6= not applicable*]
[ONLY READ SCALE ONCE, UNLESS ASKED TO REPEAT;
IF NEEDED: *"Please give me a number from 1 to 5 or any number in between."*]

a. I feel comfortable sending emails
b. I am skilled at doing research on the Internet
c. I feel secure sharing personal financial information over the Internet
d. I feel secure sharing personal information with a government agency

30. What concerns do you have when sharing personal financial information over the Internet with a government agency? Are you ... *(Select all that apply/yes/no to each one)*

1. [READ] Concerned your privacy is not protected
2. [READ] Concerned the Internet is not secure
3. [DNR] Don't have Internet access at home
4. [READ] Or some Other reason (specify)
5. [DNR/REMOVE] confident your privacy is protected
6. [DNR/REMOVE] confident the Internet is secure
7. [DNR] Don't know or unsure
8. [DNR] I have no concerns

SECTION F: DEMOGRAPHICS

READ: Finally I'm going to ask you some demographic questions for classification purposes only. These questions will help us better understand how people with different backgrounds feel about tax issues. We only have a few more questions.

31. What level of education have you completed? (DO NOT READ LIST — Select One Answer.)

1. Elementary school
2. Some high school
3. High school graduate
4. Some college
5. College graduate
6. Post-Graduate work

(DON'T READ BUT CLICK IF:) Prefer not to answer

32. (ONLY ASK IF UNABLE TO DETERMINE) **For classification purposes only, are you male or female?**

1. Male
2. Female
3. [DNR] Other
4. Not sure/Refused

33. What language do you primarily speak at home? (*DO NOT READ CHOICES. CLICK ANSWER.*)

1. English
2. Spanish
3. Chinese
4. Vietnamese
5. Korean
6. Russian
7. French
8. German
9. Some other language

(DON'T READ BUT CLICK IF:) Prefer not to answer

34. In which US state do you live? [ENTER 2 character abbreviation]

35. How many family members live in your house, including yourself?
[CLARIFY IF NEEDED: This is not asking for individuals claimed on tax return. This includes family members who are in college but live at home when not at school.]

36. [RECODE BACK TO PREVIOUS Q36]

36. Which of the following categories best describes your household income before taxes for 2015?
READ APPROPRIATE CATEGORIES UNTIL GET TO THE ANSWER.

1. Less than $35,000
2. $ 35,000–$75,000
3. $75,000–$200,000
4. Over $200,000

15 [DNR] Prefer not to answer

IF (less than 35,000)

1. Less than $10,000
2. $10,000 to less than $15,000
3. $15,000 to less than $20,000
4. $20,000 to less than $25,000
5. $25,000 to less than $35,000

15 [DNR] Prefer not to answer

If (35,000–$75,000)

6. $35,000 to less than $40,000
7. $40,000 to less than $50,000
8. $50,000 to less than $60,000
9. $60,000 to less than $75,000

15 [DNR] Prefer not to answer

If (75,000–$200,000)

10. $75,000 to less than $100,000
11. $100,000 to less than $150,000
12. $150,000 to less than $200,000

15 [DNR] Prefer not to answer

If (over $200,000)

13. $200,000 to less than $1 million
14. $1 million or more

15 [DNR] Prefer not to answer

37. Do you have *any* long-term conditions or disabilities (lasting 6 months or more)?
[DO NOT READ UNLESS UNSURE OF RESPONSE] *(Select all that apply)*

1. Deafness
2. Severe Vision Impairment
3. Severe Hearing Impairment
4. Severe Speech Impairment
5. A condition that substantially limits your physical abilities (such as standing or walking)
6. A condition that limits learning or remembering
7. Some other condition
8. Do not have a long-term condition
9. (DON'T READ:) **Prefer not to answer**

SECTION G: Closing

That completes our survey

37a. Capture any additional comments from the respondent here.

We are required by law to provide you the OMB (Office of Management and Budget) Control Number for this public information request. That number is 1545-1432.

If you have any questions about _____, please log onto our website at _____ and you can verify who we are and our research work.

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Internal Revenue Service
Tax Products Coordinating Committee
SE:W:CAR:MP:T:T:SP
1111 Constitution Ave. NW
Washington, DC 20224.

Thank you for your time and for your help with this survey!

Volume 2

TAS Research and Related Studies

Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate

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EXECUTIVE SUMMARY

In January of 2016, the National Taxpayer Advocate sent 6,564 letters (the Taxpayer Advocate Service, or TAS letter) to taxpayers who appeared to have erroneously claimed the Earned Income Tax Credit (EITC) on their 2014 returns, whose 2014 returns were not audited. The express purpose of the TAS letter was "so that you can avoid an error in the future." The TAS letter explained the requirements for claiming EITC, identified the specific requirement the recipient did not appear to meet, and suggested sources of additional information and assistance, including TAS. TAS then undertook a study to compare the level of compliance shown on taxpayers' 2015 returns among three groups:

- Taxpayers who were sent the TAS letter;
- A representative sample of taxpayers whose 2014 returns had similar characteristics as those who received the TAS letter and whose 2014 returns were not audited, but who were not sent the TAS letter (the control group); and
- A representative sample of taxpayers whose 2014 returns had similar characteristics as those who received the TAS letter but were not sent the TAS letter and whose 2014 returns were audited.

The objective of the study is to ascertain the extent to which the opportunity to educate taxpayers may be followed by increased compliance. Unless otherwise noted, the study findings for the populations studied are statistically significant at least at the 95 percent confidence level.

- The TAS letter averted noncompliance on 2015 returns where:
  - The 2014 return appeared erroneous because the relationship test was not met. Taxpayers who were sent the TAS letter were less likely to repeat the same error on their 2015 returns than unaudited taxpayers who did not receive TAS letters. Sending the TAS letter to all taxpayers whose 2014 returns appeared to be erroneous because the relationship test was not met would have averted about $47 million of erroneous EITC claims; and
  - The 2014 return appeared erroneous because another taxpayer claimed the same qualifying child. Taxpayers who were sent the TAS letter were less likely to claim EITC on their 2015 returns than unaudited taxpayers who did not receive the TAS letter. This averted noncompliance for these taxpayers and reduced the number of EITC returns the IRS would have included in its inventory of accounts potentially selected for audit. However, taxpayers who received the TAS letter and did file EITC returns were more likely to make a different mistake on the 2015 return than 2015 filers who did not receive the TAS letter. Thus, the extent to which the TAS letter prevented erroneous EITC claims in these instances is unclear.
- Audited taxpayers whose 2014 return appeared to contain a duplicate claim for EITC were more likely to make different errors on their 2015 returns than taxpayers in either of the other two groups; and
- Regardless of the apparent error on the 2014 return, audited taxpayers were less likely to file 2015 returns or to claim EITC on their 2015 returns, and less likely to repeat the error than taxpayers in either of the other two groups.

INTRODUCTION

Thirty-six percent of all IRS individual audits are of returns on which taxpayers claim EITC.[1] For 2014, the most recent year for which data is available, the average amount of EITC paid out was more than $2,400.[2] Because taxpayers may claim the credit in more than one tax year, using the audit opportunity to educate them about the requirements for claiming EITC is of particular benefit to them and to the IRS. Taxpayers who understand why they erred in claiming the credit are not only able to become compliant but to remain compliant going forward. The same principles apply to EITC returns the IRS does not audit but identifies as containing an error. The IRS may not have the resources to audit these taxpayers, but by educating them about why they appear to have erroneously claimed EITC the IRS may avert future noncompliance.

TAS undertook a study of taxpayers who were not audited but appeared to have erroneously claimed EITC on their 2014 returns. The study was undertaken to determine whether the subsequent compliance of taxpayers who appear to have erroneously claimed EITC but were not audited is affected by an educational letter that explains the requirements for claiming the credit and identifies the error the taxpayers appear to have made on the earlier returns. Unless otherwise noted, our findings for the population studied are statistically valid at least at the 95 percent confidence level.

BACKGROUND

For eligible taxpayers whose incomes do not exceed certain amounts, Internal Revenue Code (IRC) § 32 provides for a refundable credit, calculated as a function of the number of the taxpayer's "qualifying children."[3] A "qualifying child" is a person who among other things meets age requirements, bears a specified relationship to the taxpayer, and has the same principal residence as the taxpayer for more than half the year.[4] The last two components of EITC eligibility — relationship and residency — can be particularly difficult to substantiate.[5] According to a study of 2006 to 2008 of EITC returns, the IRS disallowed the most dollars of EITC because taxpayers did not substantiate that their qualifying children lived with them for over half of the tax year.[6]

The IRS selects for audit returns that claim EITC on the basis of information contained in the Dependent Database (DDb). As the IRS explains:

> The [DDb] database is a combination of taxpayer return information from the IRS and child custody information from the Department of Health and Human Services (HHS) and the Social Security Administration (SSA) used to determine the validity of dependent and EITC claims. DDb is rule driven. If a rule condition is met as returns are processed through

1 IRS FY 2015 Data Book Table 9a, and note 5 to Table 9a, showing that out of 1,228,117 returns the IRS examined in fiscal year (FY) 2015, 445,594 were audits of returns on which Earned Income Tax Credit (EITC) was claimed.

2 IRS, *About EITC*, https://www.eitc.irs.gov/EITC-Central/abouteitc.

3 Internal Revenue Code (IRC) § 32(c)(1) sets out the definition of "eligible individual" and IRC § 32(b) contains the calculation of the amount of allowable credit. The credit is also available to taxpayers who do not have qualifying children. IRC § 32(b)(1)(A).

4 IRC §§ 32(c)(3); 152 (c) (providing that a qualifying child is an individual who is the taxpayer's son, daughter, stepchild, foster child, or a descendant of any of them (*e.g.*, a grandchild), or a child who is a sibling, stepsibling, or half-sibling of the taxpayer, or a descendant of any of them).

5 National Taxpayer Advocate 2011 Annual Report to Congress 296, 304 (Most Serious Problem: *The IRS Should Reevaluate Earned Income Tax Credit Compliance and Take Steps to Improve Both Service and Compliance*).

6 IRS Pub. 5162, *Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns* 19 (Aug. 2014), https://www.irs.gov/PUP/individuals/EITCComplianceStudyTY2006-2008.pdf.

> the DDb rule filtering process, the rule "fires" and the return is flagged for examination. … Out of approximately 18 million EITC returns that are entered, the DDb identifies about 3 million as non-compliant. Out of the 3 million non-compliant returns, approximately 300,000 are examined or audited.[7]

In other words, the DDb operates as a workload selection tool.[8] As the IRS processes a return on which a taxpayer claims EITC, information reported on the return is compared to data from external sources. To assist the IRS in selecting EITC returns to audit, a scoring system based on programmed algorithms applies points to returns that "break" DDb rules.[9]

RESEARCH QUESTIONS

The study explores the effect of the TAS letter on unaudited taxpayers by comparing the filing behavior of taxpayers who were sent the TAS letter with that of unaudited taxpayers who were not sent the TAS letter. The study also explores the effect of audits by comparing the filing behavior of taxpayers who were audited with that of the other two groups. We did not determine the extent to which taxpayers who did not file returns were actually required to do so.

1. Compared to taxpayers who were not sent a TAS letter and whose 2014 returns were not audited, how often did a taxpayer who was sent a TAS letter:
   a. File a 2015 return;
   b. Claim EITC with respect to a another person on the 2015 return;
   c. Appear to erroneously claim EITC with respect to another person on the 2015 return; and
   d. Appear to claim EITC in error on the 2015 return, with the apparent error the same as the apparent error on the 2014 return.
2. Compared to taxpayers who were not sent a TAS letter and whose 2014 returns were audited, how often did a taxpayer who was sent a TAS letter:
   a. File a 2015 return;
   b. Claim EITC with respect to another person on the 2015 return;
   c. Appear to erroneously claim EITC with respect to another person on the 2015 return; and
   d. Appear to claim EITC in error on the 2015 return, with the apparent error the same as the apparent error on the 2014 return.

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7 Standard Form 115, *Request for Records Disposition Authority*, filed with the National Archives and Records Administration by the IRS Wage and Investment Division (W&I) (Dec. 2006), http://www.archives.gov/records-mgmt/rcs/schedules/departments/department-of-the-treasury/rg-0058/n1-058-07-004_sf115.pdf.

8 For a discussion of the drawbacks of using Dependent Database (DDb) as a workload selection tool, *see* National Taxpayer Advocate 2015 Annual Report to Congress 248-60 (Most Serious Problem: *Earned Income Tax Credit (EITC): The IRS Is Not Adequately Using the EITC Examination Process As an Educational Tool and Is Not Auditing Returns With the Greatest Indirect Potential for Improving EITC Compliance*).

9 *See* Wendy Handin and Scott Mendelson, W&I, *Dependent Database And Earned Income Tax Credit, Applicability For Development Of Risk-Based Examination Strategies* 3, presented at the 2002 IRS Research Conference, *available at* https://www.irs.gov/pub/irs-soi/dedaeitc.pdf.

METHODOLOGY

In fiscal year (FY) 2015, of the 28 million returns on which taxpayers claimed the EITC, the IRS selected 1.6 percent (nearly 450,000) for audit.[10] The IRS selected about 300,000, or 67 percent, of EITC returns for audit because they broke DDb rules. There were nearly six million returns that broke the DDb rules but were not selected for audit.[11] Of these six million returns, 1,933,052 broke a single rule of the type indicated below:

- 680,550 returns tripped a DDb rule because the residency test did not appear to have been met;
- 1,197,374 returns tripped a DDb rule because the relationship test did not appear to have been met;[12] and
- 55,128 returns tripped a DDb rule because another taxpayer claimed the same qualifying child or children.[13]

TAS Research identified a random sample of taxpayers from each of these three groups. The initial sizes were equal among the groups, consisting of 2,400 returns each. TAS Research then adjusted the records in each sample to remove those with an inadequate address, those of deceased taxpayers, and those with undeliverable mail. The resulting data file included 6,564 returns:

- There were 2,173 returns in the representative sample of the group that tripped a DDb rule because the residency test did not appear to have been met;
- There were 2,202 returns in the representative sample of the group that tripped a DDb rule because the relationship test did not appear to have been met; and
- There were 2,189 returns in the representative sample of the group that tripped a DDb rule because another taxpayer claimed the same qualifying child or children.

The National Taxpayer Advocate sent one of three versions of a letter to each taxpayer (or taxpayers, for joint returns) who filed one of the 6,564 returns. The letters, which appear in the Appendices A, B, and C, informed the taxpayers that their 2014 returns may have contained an error and explained the error that appeared to have been made (residency test not met, relationship test not met, or another taxpayer claiming the same qualifying child or children). The letters were mailed in an envelope (which appears in Appendix D) that carried the notation, in red capital letters, "Important Tax Information."

Taxpayers who were sent the TAS letter were in the sample group; taxpayers who were not sent a TAS letter and were not audited were in the control group. We ensured that the sample cases and control group cases had DDb scores at least as high as those audited by the IRS because of relationship, residency, or the claiming of an EITC dependent already claimed on another tax return. We only selected returns where the DDb rule break occurred in one of the aforementioned categories. However, the taxpayer could have incurred other DDb rule breaks related to other issues. The sample and control group initially had returns with nearly identical DDb scores. However, we did not send some taxpayers in the

10 IRS FY 2015 Data Book Table 9a,and note 5 to Table 9a, showing that 28,308,931 returns claiming EITC during calendar year 2014, 445,594 were audits of returns on which EITC was claimed during FY 2015.

11 Data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for processing year 2015, which generally corresponds to returns filed for tax year (TY) 2014.

12 Returns that trip a DDb rule because the relationship test was not met also trip a DDb rule for the residency test because where there is no known relationship to the person for whom EITC was claimed, the IRS assumes that the taxpayer did not live with that person.

13 As discussed below, while there are other DDb rules that may be broken, the study is confined to these three types of rule breaks.

sample group the test letter because of issues associated with the taxpayer address or because the taxpayer was deceased. Of the original 7,200 sample taxpayers, we mailed 7,092 an educational letter regarding claiming the EITC. We adjusted the sample group accordingly. We analyzed all of the audited returns with corresponding rule breaks, regardless of the DDb score. The following figure depicts the average and median DDb scores and EITC (*i.e.*, the amounts allowed by the IRS after math error processing) for the three categories of returns in our study.

FIGURE 2.1, Overall Comparison of EITC Amounts and DDb Scores Among the Audit, Control, and Sample Groups

	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	1,951	1,511	5,926	2,436	2,473	14,194	2,476	2,536	7,092
DDb Score	51.04	47.00	5,926	53.86	47.00	14,194	54.12	47.00	7,092

The median DDb scores of each group were identical. The average DDb score for the test and control group were within .26 point and the test group, as a whole, claimed $40 more EITC than the control group. The audit group had an average DDb score of slightly over 51; however, the average and median amount of EITC claimed was significantly lower than for the test group. Prior to beginning our analysis, we removed cases where the TAS educational letter was returned as undeliverable and cases where the IRS disposed of the audit as undeliverable. The following figure shows the comparison of the DDb scores and EITC claimed from the tax year (TY) 2014 return, after removing the undeliverables.

FIGURE 2.2, Overall Comparison of EITC Amounts and DDb Scores Among the Audit, Control, and Sample Groups

	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	1,954	1,547	5,523	2,436	2,473	14,194	2,443	2,490	6,564
DDb Score	50.96	48.00	5,523	53.86	47.00	14,194	53.78	47.00	6,564

When considering the rules stratified by the type of DDb rule break (relationship, residency, or the claiming of a duplicate dependent), the following figure shows the average and median DDb score and EITC claimed.

FIGURE 2.3, Comparison of EITC Amounts and DDb Scores among the Audit, Control, and Sample Groups by DDb Rule Break Category

Residency									
	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	2,159	2,014	1,917	2,688	2,776	4,794	2,665	2,661	2,173
DDb Score	53.00	48.00	1,917	51.80	42.00	4,794	49.35	40.00	2,173
Relationship									
	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	1,697	451	2,044	2,433	2,486	4,788	2,478	2,610	2,202
DDb Score	57.07	57.00	2,044	60.66	62.00	4,788	61.95	64.00	2,202
Duplicate Dependents									
	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	2,030	1,760	1,562	2,135	2,039	4,650	2,160	2,134	2,189
DDb Score	38.96	35.00	1,562	43.43	42.00	4,650	46.15	45.00	2,189

The EITC claimed is generally less for the audit group; however, the amount of EITC claimed is relatively similar for the test and control group across the three categories of DDb rule breaks. Overall, the DDb scores are similar among all three groups. When comparing the sample group and the control group, the TY 2014 DDb score is slightly higher in the sample group, for residency and duplicate dependent issues, but slightly lower for relationship issues. The audit group has the highest DDb average score of the three groups when considering residence issues.

DATA COLLECTION

TAS Research reviewed IRS records to determine how many taxpayers whose letters were not returned as undeliverable filed a return for 2015.[14] Of this group, TAS researched:

- How many taxpayers claimed EITC with respect to another person;[15]
- Of those who claimed EITC with respect to another person on their 2015 return, how many appeared to have done so erroneously (*i.e.*, the return broke a DDb rule); and
- Of the 2015 EITC returns, how many appeared to break the same DDb rule as appeared to have been broken on the 2014 return (*i.e.*, the reason for the apparent error was the same as that identified in the TAS letter).

14 As of June 30, 2016, out of 620 outreach letters returned to TAS as undeliverable, 528 could be matched to the names of taxpayers who were selected to receive a TAS outreach letter.

15 We have not yet determined the extent to which taxpayers claimed EITC with respect to the same person as on their 2014 returns.

TAS Research collected the same information about taxpayers:

- Who broke the same DDb rules as those who received the TAS letter but did not received the TAS letter and were not audited; and
- Who broke the same DDb rules as those who received the TAS letter and were audited.

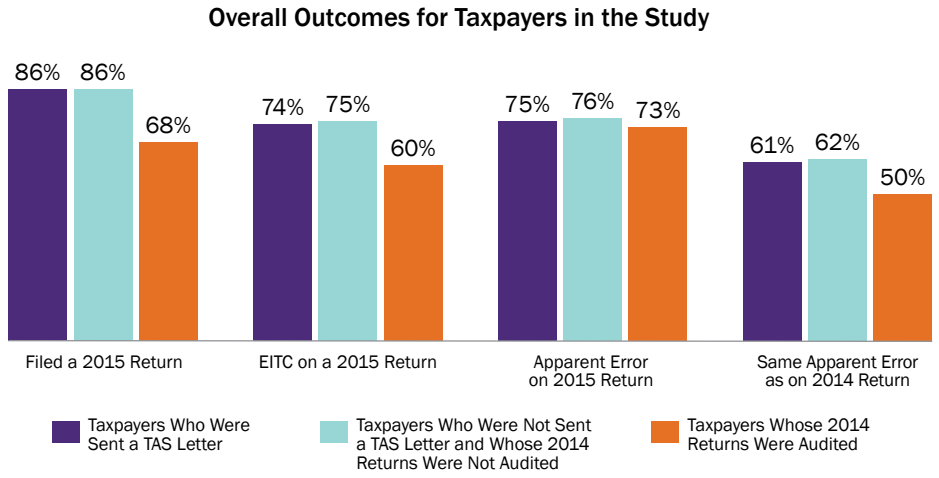
FINDINGS

I. Overall, the TAS letter averted erroneous EITC claims, mostly because taxpayers who were sent TAS letters were less likely to repeat on a 2015 return the same error that appeared to have been made on the 2014 return compared to unaudited taxpayers who did not receive a TAS letter

Compared to unaudited taxpayers who did not receive a TAS letter, taxpayers who received a TAS letter were less likely to repeat on their 2015 returns the same error they appeared to have made on their 2014 return. Taxpayers whose 2014 returns were audited were significantly less likely to file 2015 returns, and those who filed were significantly less likely to claim EITC, compared to the other two groups. Audited taxpayers' 2015 returns were much less likely to repeat the same error that appeared to have been made on their 2014 returns than 2015 returns filed by taxpayers in the other two groups.

Figure 2.4 summarizes the overall data.

FIGURE 2.4



A. Of the 6,564 taxpayers who were sent a TAS letter, and the letter was not returned as undeliverable:

   1. 5,651, or 86 percent, filed a return for TY 2015;
   2. 4,175, or 74 percent, of the 2015 returns claimed EITC;
   3. Of the 4,175 returns filed for 2015 that claimed EITC, it appeared that 1,025, or 25 percent, qualified for the credit and it appeared that 3,150, or 75 percent, did not qualify for the credit, according to DDb rules; and
   4. Of the 4,175 EITC returns filed for 2015, for 2,543 returns, or 61 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

B. Of the 14,194 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have been eligible for the EITC claimed on their 2014 returns:

   1. 12,159, or 86 percent, filed a return for TY 2015;
   2. Of the 12,159 returns filed for 2015, 9,172, or 75 percent, claimed EITC;
   3. Of the 9,172 returns filed for 2015 that claimed EITC, it appeared that 2,245, or 24 percent, qualified for the credit and it appeared that 6,927, or 76 percent, did not, according to the DDb; and
   4. Of the 9,172 EITC returns filed for 2015, for 5,727 returns, or 62 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, over 62 percent of taxpayers who were not sent a TAS letter repeated on their 2015 returns what appeared to be the same error as appeared to have been made on the 2014 return, compared to less than 61 percent where taxpayers were sent a TAS letter, a difference that is statistically significant at the 90 percent confidence level.

C. Of the 5,523 taxpayers in the study whose 2014 returns were audited:

   1. 3,758, or 68 percent, filed a return for TY 2015, a lower frequency than for taxpayers in the other two groups (who both filed at the rate of 86 percent) that is statistically significant;
   2. Of the 3,758 returns filed for 2015, 2,252, or 60 percent, claimed EITC, a lower frequency than for returns in the other two groups (74 or 75 percent) is statistically significant;
   3. Of the 2,252 returns filed for 2015 that claimed EITC, it appeared that 618, or 27 percent, qualified for the credit and it appeared that 1,634, or 73 percent, did not, according to DDb rules; and
   4. Of the 2,252 EITC returns taxpayers filed for 2015, for 1,120 returns, or 50 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules, a lower frequency than for taxpayers in the other two groups (61 or 62 percent) is statistically significant.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2014 returns were audited were less likely to file a return the following year. Those who did file a return were less likely to claim EITC. Those who claimed EITC were also less likely to have done so erroneously as taxpayers in the other two groups, and the error was significantly less likely to have been the same error that appeared to have been made on the 2014 return.

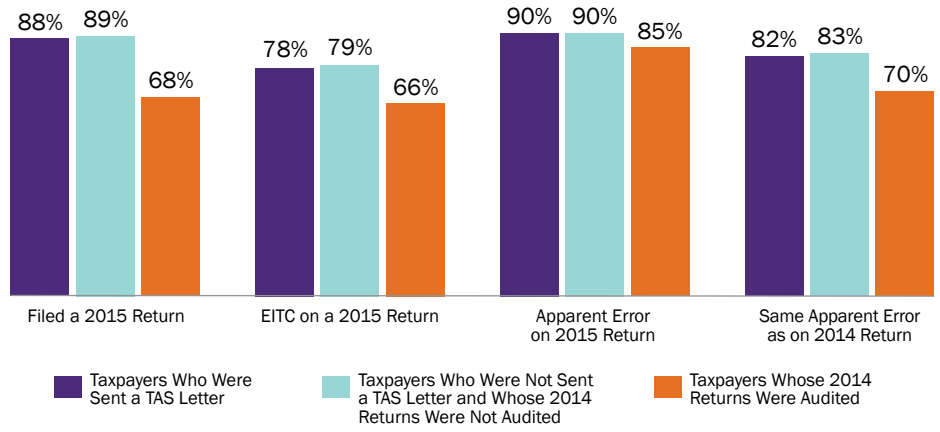
II. Audits were the most effective means of preventing noncompliance among taxpayers who appeared to not meet the residency test

There were no significant differences in outcomes between the group of taxpayers who received the TAS letter advising that the residency test appeared to not have been met and the group of unaudited taxpayers who did not receive the TAS letter. Taxpayers whose 2014 returns appeared to contain this error and who were audited were significantly less likely to file returns for 2015. Returns for 2015 filed by taxpayers in the audit group were less likely to contain any errors than 2015 returns filed by taxpayers in the other two groups. These taxpayers' returns were also less likely to contain the same error as was made on the 2014 return, compared to 2015 returns filed by taxpayers in the other two groups.

Figure 2.5 shows the outcomes for taxpayers whose 2014 returns appeared to erroneously claim EITC because the residency test was not met.

FIGURE 2.5

Outcomes for Taxpayers Whose 2014 Returns Appeared to Erroneously Claim EITC Because the Residency Test Was Not Met, According to Dependent Database Rules



A. Of the 2,173 taxpayers who were sent a TAS letter advising them that the residency test did not appear to have been met with respect to EITC claimed on their 2014 return, and the letter was not returned as undeliverable:

1. 1,915, or 88 percent, filed a return for TY 2015;
2. 1,499, or 78 percent, of the 2015 returns claimed EITC;
3. Of the 1,499 returns filed for 2015 that claimed EITC, it appeared that 148, or ten percent, qualified for the credit and it appeared that 1,351, or 90 percent, did not qualify for the credit, per DDb rules; and
4. Of the 1,499 EITC returns filed for 2015, for 1,235, or 82 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

B. Of the 4,794 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the residency test for EITC claimed on their 2014 returns:

1. 4,274, or 89 percent, filed a return for TY 2015;
2. Of the 4,274 returns filed for 2015, 3,385, or 79 percent, claimed EITC;
3. Of the 3,385 returns filed for 2015 that claimed EITC, it appeared that 333, or 10 percent, qualified for the credit and it appeared that 3,052, or 90 percent, did not, per DDb rules; and
4. Of the 3,385 EITC returns filed for 2015, for 2,820, or 83 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, there were no significant differences in outcomes between the group of taxpayers who received the TAS letter and taxpayers who did not.

C. Of the 1,917 taxpayers in the study whose 2014 returns were audited because they appeared to not meet the residency test for EITC claimed on their 2014 returns:

1. 1,309 or 68 percent, filed a return for TY 2015, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 88 or 89 percent) is statistically significant;
2. Of the 1,309 returns filed for 2015, 856, or 66 percent claimed EITC, a lower frequency than for returns in the other two groups (78 or 79 percent) is statistically significant;
3. Of the 856 returns filed for 2015 that claimed EITC, it appeared that 129, or 15 percent, qualified for the credit and it appeared that 736, or 85 percent, did not (according to the DDb), a lower frequency than for taxpayers in either of the other two groups (90 percent) is statistically significant; and
4. Of the 865 EITC returns taxpayers filed for 2015, for 527, or 70 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2014 returns were audited because they did not appear to meet the residency test for claiming EITC were less likely to file a return the following year. Those who did file a return were less likely to claim EITC. Those who claimed EITC were less likely than taxpayers in the other two groups to have done so erroneously, and they were less likely to make the same mistake that appeared to have been made on the 2014 return as taxpayers in the other two groups.

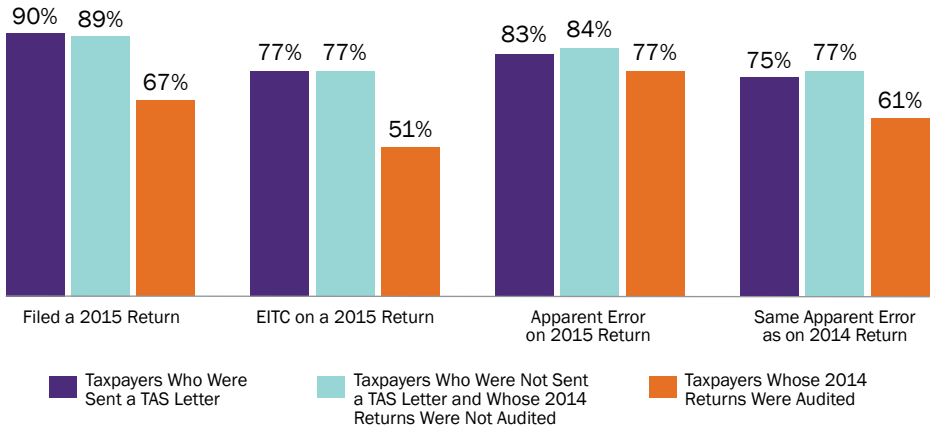
III. Because the TAS letter prevented taxpayers who appeared to not meet the relationship test on their 2014 returns from repeating that error on their 2015 returns, sending the TAS letter to all taxpayers whose 2014 returns appeared to be erroneous because the relationship test was not met would have averted about $47 million of erroneous EITC claims

Taxpayers who were sent a TAS letter were less likely to file a 2015 return that repeated the apparent error of not meeting the relationship test, compared to unaudited taxpayers who were not sent a TAS letter. Taxpayers whose 2014 returns were audited were significantly less likely to file 2015 returns, and those who filed were significantly less likely to claim EITC, compared to the other two groups. A taxpayer whose 2014 return was audited was less likely to file a 2015 return that appeared to contain an error, or to contain the same error as appeared to have been made in 2014, compared to 2015 returns filed by taxpayers in either of the other two groups.

Figure 2.6 shows the outcomes for taxpayers whose 2014 returns appeared to erroneously claim EITC under the DDb rules because the relationship test was not met.

FIGURE 2.6

Outcomes for Taxpayers Whose 2014 Returns Appeared to Erroneously Claim EITC Because the Relationship Test Was Not Met, According to Dependent Database Rules



A. Of the 2,202 taxpayers who were sent a TAS letter advising them that the relationship test did not appear to have been met with respect to EITC claimed on their 2014 return, and the letter was not returned as undeliverable:

   1. 1,981, or 90 percent, filed a return for TY 2015;
   2. 1,517, or 77 percent of the 2015 returns claimed EITC;
   3. Of the 1,517 returns filed for 2015 that claimed EITC, it appeared that 265, or 17 percent, qualified for the credit and it appeared that 1,252, or 83 percent, did not qualify for the credit (according to DDb rules); and
   4. Of the 1,517 EITC returns filed for 2015, for 1,133, or 75 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

B. Of the 4,788 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the relationship test for EITC claimed on their 2014 returns:

   1. 4,281, or 89 percent, filed a return for TY 2015;
   2. Of the 4,281 returns filed for 2015, 3,282, or 77 percent, claimed EITC;
   3. Of the 3,282 returns filed for 2015 that claimed EITC, it appeared that 510, or 16 percent, qualified for the credit and it appeared that 2,772, or 84 percent, did not, according to DDb rules; and
   4. Of the 3,282 EITC returns filed for 2015, for 2,538, or 77 percent, the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules. This rate is higher than for taxpayers who were sent the TAS letter (75 percent) and is statistically significant.

Thus, taxpayers who were sent the TAS letter because they appeared to not meet the relationship test on their 2014 returns were less likely to repeat that error on their 2015 returns. Those who did not receive the TAS letter repeated their error 77.3 percent of the time, compared to 74.7 percent for the TAS group, an improvement of 2.6 percent.

Projecting these results to the relevant population, there were about 1.2 million returns for 2014 that appeared to erroneously claim EITC because the relationship requirement had not been met.[16] Whether they were sent the TAS letter or were unaudited taxpayers who were not sent the TAS letter, taxpayers who in 2014 appeared to not meet the relationship test filed 2015 EITC returns at the rate of 69 percent, which amounts to about 826,000 returns.[17] Taxpayers who were sent the TAS letter, however, made the same mistake on their 2015 return less frequently than did taxpayers who were not sent the TAS letter (74.7 percent of the time vs. 77.3 percent of the time, a difference of 2.6 percent). Thus, of the 826,000 returns, the TAS letter would have averted about 21,500 erroneous EITC claims.[18]

However, based on sample results, about eight percent of these 21,450 taxpayers, or 2,000 taxpayers, could be expected to file EITC returns on which they would make a *different* error.[19] Thus, the number of erroneous claims the TAS letter would have averted, 21,450, is reduced by about 1,700, the number of erroneous claims the TAS letter would not have prevented, leaving nearly 20,000 averted erroneous claims.[20] Because the average amount of EITC paid to 2014 claimants was more than $2,400, sending the TAS letter to all taxpayers who did not appear to meet the relationship test would have averted about $47 million of erroneous EITC claims.[21] We did not quantify the cost of sending letters to all 1.2 million taxpayers who appeared to have made this error, but even if the cost was $2 per letter, for a total cost of $2.4 million, the cost of sending the letter would be far outweighed by the increased compliance.

C. Of the 2,044 taxpayers in the study whose 2014 return was audited because they appeared to not meet the relationship test for EITC claimed on their 2014 returns:

   1. 1,367, or 67 percent, filed a return for TY 2015, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 89 or 90 percent) is statistically significant;
   2. Of the 1,367 returns filed for 2015, 691 or 51percent, claimed EITC, a lower frequency than for returns in the other two groups (77 percent) that is statistically significant;
   3. Of the 691 returns filed for 2015 that claimed EITC, it appeared that 160, or 23 percent, qualified for the credit and it appeared that 531, or 77 percent, did not, according to DDb rules, a lower frequency than for taxpayers in the other two groups is statistically significant; and
   4. Of the 691 EITC returns taxpayers filed for 2015, for 421, or 61 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules, a lower frequency than for taxpayers in the other two groups (75 or 77 percent), that is statistically significant.

16 There were 1,197,374 returns processed in 2015 (which generally equates to returns filed for TY 2014) that appeared to contain this error. Data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for processing year 2015, which generally corresponds to returns filed for TY 2014.

17 69 percent of 1,197,374 is 826,188.

18 826,188 times 2.6 percent is 21,481.

19 Eight percent of 21,481 is 1,718.

20 21,481 minus 1,718 = 19,763.

21 19,763 x $2,400 = $47.4 million. This number represents the midpoint of our 95 percent confidence interval. Dollar values are significantly different at both ends of the confidence interval.

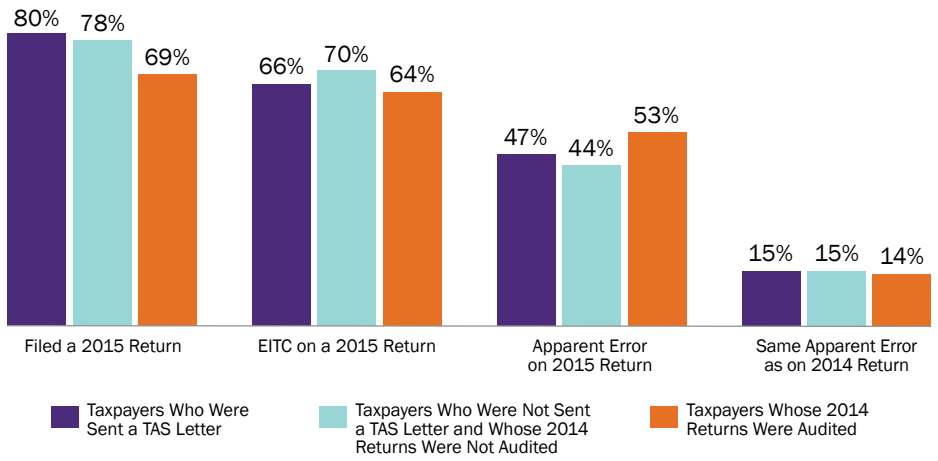
IV. The TAS letter to taxpayers who appeared to claim the same qualifying child as another taxpayer impeded taxpayers from claiming EITC, thus reducing the IRS's inventory of potential EITC audits, compared to unaudited taxpayers who were not sent the TAS letter

Where the 2014 return appeared to contain a duplicate claim for EITC, the TAS letter impeded taxpayers from claiming EITC on a 2015 return, an outcome that did not occur where the apparent error on the 2014 return was that the residency or relationship tests were not met.

Figure 2.7 shows the outcomes for taxpayers whose 2014 returns appeared to erroneously claim EITC because another taxpayer claimed the same qualifying child.

FIGURE 2.7

Outcomes for Taxpayers Whose 2014 Returns Appeared to Erroneously Claim EITC Because Another Taxpayer Claimed the Same Qualifying Child, According to Dependent Database Rules



A. Of the 2,189 taxpayers who were sent a TAS letter advising them that another taxpayer appeared to have claimed the same qualifying child on their 2014 return, and the letter was not returned as undeliverable:

1. 1,755, or 80 percent, filed a return for TY 2015;
2. 1,159, or 66 percent, of the 2015 returns claimed EITC;
3. Of the 1,159 returns filed for 2015 that claimed EITC, it appeared that 612, or 53 percent, qualified for the credit and it appeared that 547, or 47 percent, did not qualify for the credit, according to DDb rules; and
4. Of the 1,159 EITC returns filed for 2015, for 175, or 15 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

B. Of the 4,650 taxpayers in the study who were not audited and were not sent the TAS letter, but another taxpayer appeared to have claimed the same qualifying child on a 2014 return:

1. 3,634, or 78 percent, filed a return for TY 2015;
2. Of the 3,634 returns filed for 2015, 2,524, or 70 percent, claimed EITC, a higher rate than for those who received the TAS letter (66 percent) is statistically significant;
3. Of the 2,524 returns filed for 2015 that claimed EITC, it appeared that 1,405, or 56 percent, qualified for the credit and it appeared that 1,119, or 44 percent, did not, according to DDb rules. The lower frequency with which taxpayers appeared to not qualify for the credit compared to those who received the TAS letter (47 percent) is statistically significant; and
4. Of the 2,524 EITC returns filed for 2015, for 383, or 15 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, the TAS letter resulted in taxpayers not claiming EITC on their 2015 returns, compared to taxpayers who were not sent the TAS letter and who were not audited, thereby averting potential noncompliance and reducing the IRS's potential audit inventory. However, compared to taxpayers who were not sent the TAS letter and who were not audited, taxpayers who were sent the TAS letter and did claim EITC on a 2015 return were more likely to make a different error. Thus, it is not clear that the TAS letter produced net gains in terms of averting erroneous EITC claims.

C. Of the 1,562 taxpayers in the study whose 2014 return was audited because they appeared to have claimed the same qualifying child as another taxpayer on their 2014 returns:

1. 1,082 or 69 percent, filed a return for tax year 2015, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 78 or 80 percent) is statistically significant;
2. Of the 1,082 returns filed for 2015, 696, or 64 percent, claimed EITC, a lower frequency than for returns in the other two groups (66 and 69 percent) is statistically significant;
3. Of the 696 returns filed for 2015 that claimed EITC, it appeared that 329, or 47 percent, qualified for the credit and it appeared that 367, or 53 percent, did not, according to DDb rules. The higher rate at which the credit appeared unavailable compared to the other two groups (47 and 44 percent) is statistically significant; and
4. Of the 367 EITC returns taxpayers filed for 2015, for 97, or 14 percent, EITC the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules, a lower frequency than for taxpayers in the other two groups (15 percent) which is not statistically significant.

Thus, taxpayers whose returns were audited because their 2014 returns contained a duplicate claim for EITC were less likely to file 2015 returns and those who filed returns were less likely to claim EITC, compared to taxpayers in the other two groups. However, the 2015 returns of audited taxpayers were more likely to contain an error than taxpayers in the other two groups.

CONCLUSION

The TAS letter, intended to educate taxpayers about the requirements for claiming EITC, appeared to help taxpayers avoid repeating their mistakes. The TAS letter sent to taxpayers who appeared not to have met the relationship test was particularly effective. Had all taxpayers whose returns appeared to contain this error been sent a TAS letter, $47 million of erroneous EITC claims could have been averted, a compliance gain that far outweighed the cost of sending the letters.

Sending a TAS letter to taxpayers who submitted duplicate EITC claims in 2014 helped them avoid claiming EITC on 2015 returns they filed. However, those who did claim EITC were just as likely as taxpayers in the other two groups to make the same mistake of claiming EITC with respect to a person claimed on another taxpayer's return. The TAS letter did prevent these taxpayers from making other mistakes, compared to audited taxpayers, but not compared to unaudited taxpayers who did not receive the TAS letter. The same is true of audited taxpayers: they were less likely to repeat this mistake, but they made other mistakes on their returns. Audited taxpayers actually made other mistakes more frequently than taxpayers in the other two groups. The TAS letter was not as effective in educating taxpayers who did not meet the residency test, suggesting that the letter could be modified to provide more details about the residency requirement, or that the availability of "Extra Help" phone assistance for EITC taxpayers might avoid future errors, where household arrangements and EITC rules are too complex to address in a simple letter. TAS will test the effectiveness of an "Extra Help" line in its iteration of this research study during the 2017 Filing Season.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Send letters similar to the TAS letter to EITC claimants the IRS does not have current plans to audit, particularly where:
    a. The EITC claimant does not appear to meet the relationship requirement for claiming EITC, because such a letter appears to prevent taxpayers from repeating the error of not meeting the relationship test; or
    b. Another taxpayer claimed EITC with respect to the same qualifying child or children, because such a letter appears to prevent taxpayers from claiming EITC on a later return, thus averting noncompliance for those taxpayers and reducing the IRS's potential audit inventory.
2. Conduct a study to determine why audits of taxpayers whose 2014 return appeared to contain a duplicate claim for EITC do not prevent taxpayers from making different errors on a subsequent return.
3. Explore how letters similar to the TAS letters can help educate taxpayers about the requirements for claiming EITC. For example, the National Taxpayer Advocate will continue to try and measure the educational effect of such letters by revising the TAS letters to include a telephone number taxpayers can call for assistance and repeating this study in future years.

APPENDIX A: TAS LETTER, VERSION ONE: RESIDENCY AT ISSUE

THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

January 20, 2016

INSERT ADDRESS

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2015 Form 1040.

Your 2014 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2014 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2014 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test.**
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2014 Form 1040 may not have lived with you for more than six months of the year. Before you file your 2015 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at https://www.irs.gov/Advocate/Local-Taxpayer-Advocate, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX B: TAS LETTER, VERSION TWO: RELATIONSHIP AT ISSUE

THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

January 20, 2016

INSERT ADDRESS

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2015 Form 1040.

Your 2014 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2014 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2014 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test.**
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that you may not have an eligible relationship with the child or children claimed on your 2014 Form 1040. Before you file your 2015 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at https://www.irs.gov/Advocate/Local-Taxpayer-Advocate, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX C: TAS LETTER, VERSION THREE: THE SAME CHILD OR CHILDREN CLAIMED BY ANOTHER TAXPAYER

THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

January 20, 2016

INSERT ADDRESS

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2015 Form 1040.

Your 2014 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2014 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2014 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test.**
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

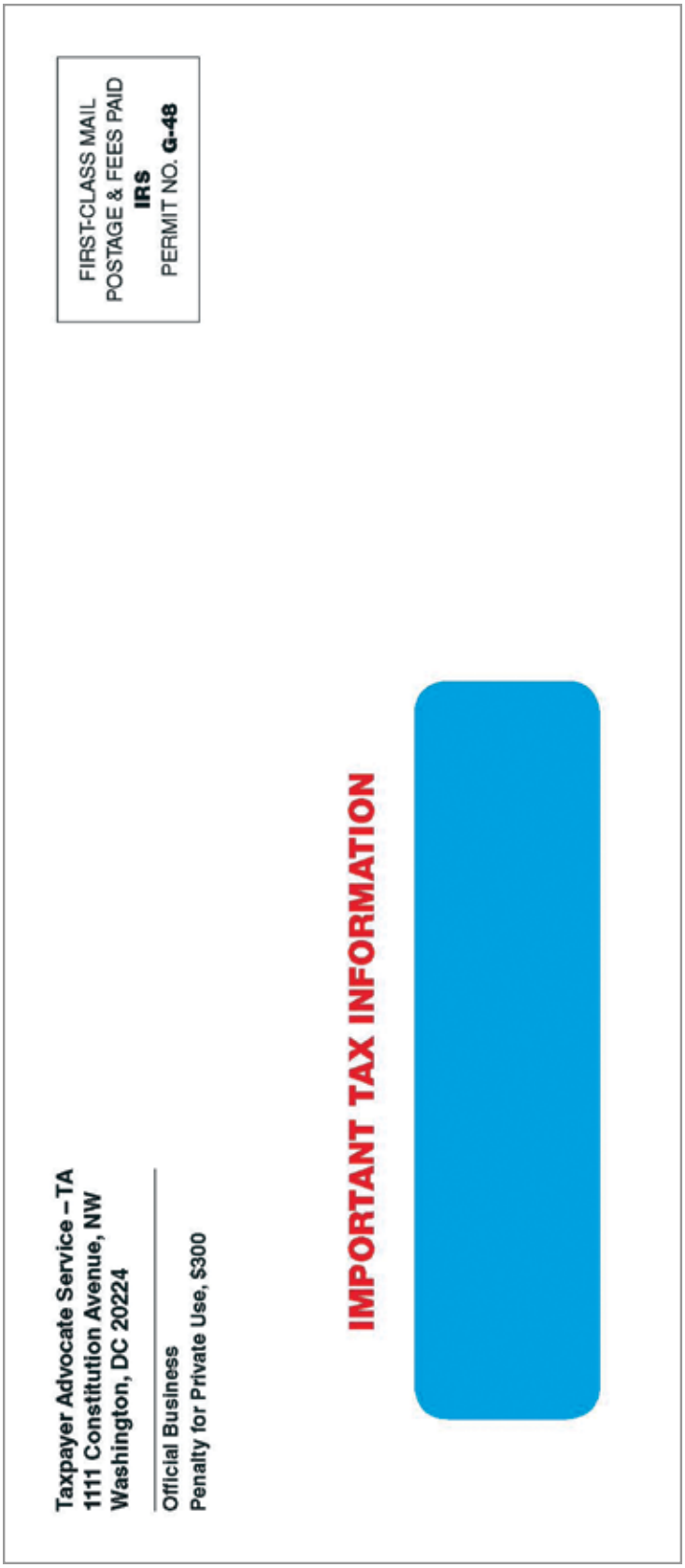
It appears that the child or children claimed on your 2014 Form 1040 were also claimed on another person's tax return for that year. Before you file your 2015 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at https://www.irs.gov/Advocate/Local-Taxpayer-Advocate, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX D: ENVELOPE USED TO SEND TAS LETTERS



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Volume 2

TAS Research and Related Studies

The Importance of Financial Analysis in Installment Agreements (IAs) in Minimizing Defaults and Preventing Future Payment Noncompliance

The Importance of Financial Analysis in Installment Agreements (IAs) in Minimizing Defaults and Preventing Future Payment Noncompliance[1]

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1 The principal authors of this study are Jeff Wilson, Mike Nestor, Scott Rutz, and Stacie Swanson, TAS Research and Analysis.

INTRODUCTION

In fiscal year (FY) 2016, over three million taxpayers entered into an installment agreement (IA) to satisfy their delinquent individual taxes.[2] Taxpayers owe most of their delinquencies on individual income taxes. However, penalties assessed against an individual corresponding to trust fund taxes withheld but not paid to the government also account for some of the delinquencies. In many cases, the taxpayer is eligible to enter into an IA without submitting any financial documentation. Taxpayers who owe $10,000 or less are guaranteed the right to an IA if the liability can be satisfied within three years.[3] The IRS allows taxpayers who owe no more than $50,000 and who can satisfy the liability within six years and within the ten-year statutory period to collect taxes to enter into an IA, without submitting any financial documentation. In fiscal year (FY) 2016, taxpayers entered into streamlined IAs nearly 85 percent of the time.

Streamlined IAs benefit the taxpayer by not requiring time to locate and submit financial verification, and they benefit the IRS because collection personnel do not have to conduct a financial analysis to determine what amount, if any, the taxpayer can afford. However, in many cases, streamlined IAs have the unintended consequence of taxpayers initiating IAs that they cannot afford.

The IRS has developed allowable expense standards, which determine what amount taxpayers need for basic living expenses, such as housing and utilities, food, transportation, and health care. The IRS bases these expenditures on family size. The IRS derives most of these amounts from the Bureau of Labor Statistics survey of expenditures. These amounts form basic guidelines regarding what a taxpayer needs for health and welfare, including the production of income. However, IRS guidelines also instruct Collection personnel to consider other special circumstances such as medical expenses or work related expenses.

Nevertheless, almost 40 percent of taxpayers entering into an IA in 2014 agreed to make installment payments even though their allowable living expense (ALE) exceeded their Total Positive Income (TPI). It is true that if a taxpayer does not pay or make payments on his or her delinquency, penalties and interest will continue to grow, increasing the size of the debt. Some taxpayers may also not require certain allowable living expenses (ALEs) (*e.g.*, a taxpayer may not have housing expenses because he lives with someone else). However, when taxpayers enter into truly unaffordable IAs, they are likely foregoing some necessities in order to meet the terms of the IA. These taxpayers may also be more likely to default their IA.

TAS reviewed the financial circumstances of over 3.4 million taxpayers who began an IA in 2014. The analysis included a comparison of the taxpayer's ALE and the TPI. We also considered the size of the liability. This study details the number of taxpayers who enter into IAs even though their ALE exceed their income, and explores the differences in the default rate at different ratios of income to ALE, as well as the subsequent compliance of the taxpayers after they enter into the IA. Finally, this study compares the default rates and subsequent compliance of taxpayers who receive an IA directly from the IRS with similar taxpayers who receive an IA after TAS involvement. We feel this is an important comparison because TAS procedures include a financial analysis to determine what IA payment the taxpayer can afford, while including the determination of the amount necessary to pay current taxes, so that the taxpayer does not incur future delinquencies.

2 Fiscal Year (FY) 2016 Collection Activity Report 5000-6 (Oct. 3, 2016).

3 IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, § 3467, 112 Stat. 685 (1998) (codified at IRC § 6159(c)). This legislation codified the IRS's standard practice. Conf. Rep. No. 105-599, at 292-93 (1998).

BACKGROUND

Individual taxpayers who are unable to pay their tax debt immediately can make monthly payments through an IA with the IRS. These agreements allow taxpayers to pay off their tax debt over time. Unfortunately, a number of these taxpayers, after initiating an IA, fail to make their balance due payments and default on their agreements. Defaulted IAs place an administrative strain on the IRS and may weigh down defaulting taxpayers with further IRS enforcement action.

IAs play a significant role in the tax administration of the United States. The IA program allows taxpayers who do not have the means to immediately satisfy their tax liabilities the flexibility to meet their tax obligations. Over three million individual taxpayers took advantage of this program in calendar year 2014 to initiate an IA with the IRS.[4] With this in mind, the National Taxpayer Advocate directed TAS Research to examine the default and subsequent compliance rate of taxpayers who enter into various types of IAs.

There are several types of IAs. Taxpayers enter into online IAs electronically over the internet. Taxpayers may also enter into IAs through direct interaction with the IRS or by mailing their request for an IA to the IRS. The IRS classifies IAs as either streamlined or non-streamlined. Streamlined agreements carry an assessed tax liability of $50,000 or under. Taxpayers must pay the debt in full within six years or within the time limit for the IRS to collect the tax, whichever is earlier. They do not need to submit a financial statement with their request for an IA, but must pay their agreements through either a direct debit or payroll deduction arrangement.[5] Since streamlined IAs do not require financial analysis, taxpayers may enter into these agreements regardless of their financial circumstances.

In addition to streamlined IAs, the IRS conducts financial analysis on non-streamlined IAs. These non-streamlined IAs also generally have a higher balance due associated with them. The IRS has developed ALE standards, which Collection personnel apply to determine if a taxpayer has the ability to enter into a non-streamlined IA.

The ALE standards estimate the amounts of money taxpayers need for their health and welfare, based on family size and residential location. A comparison of the taxpayer's income and the ALE standards determine what IA payment the taxpayer can afford, or if the taxpayer can afford an IA at all (*i.e.,* should the taxpayer be placed in Currently Not Collectible (CNC)-Hardship status or encouraged to submit an Offer in Compromise based on doubt as to collectability).

Before entering into any kind of IA, taxpayers are required to file all past due returns. Once taxpayers have initiated an agreement, they need to pay all future taxes on time or their agreements may default.

4 The IRS assigns a different collection status to taxpayers with approved IAs.

5 Internal Revenue Manual (IRM) 5.14.5, *Streamlined, Guaranteed and In-Business Trust Fund Express Installment Agreements* (Dec. 23, 2015).

OBJECTIVES

To begin exploration of this topic, TAS Research answered the following research questions:

1. Regarding taxpayers who had an IA opened in calendar year (CY) 2014, what was their default rate and subsequent compliance as of September 2016? We provided answers to this question for each of the following stratifications:
   - Level of last recorded balance due
   - TPI[6] to ALE[7] ratio
2. What was the subsequent filing and payment compliance behavior of TAS customers and non-TAS taxpayers who had an IA opened in CY 2010?

METHODOLOGY

Research Question 1: Comparing the IA Default Rates by Different Levels of Balance Due and Ratios of TPI to ALE

To answer the first research question, TAS Research queried the IRS Compliance Data Warehouse (CDW) to find data on taxpayers with IAs initiated in CY 2014.[8] To measure taxpayer income and balance due, we used Tax Year 2014 TPI from the taxpayer's Individual Income Tax Return (Form 1040) and aggregated the Total Module Balance Due from the Accounts Receivable Dollar Inventory (ARDI) for Individual Master File (IMF) taxpayers. We identified cases that entered into an IA during CY 2014 through the IMF status code. We identified the type of IA (online, streamlined, or non-streamlined) from the IMF IA Originator Code.

The Small Business/Self-Employed (SB/SE) Finance, Research, and Strategy Office publishes ALE data each year.[9] We calculated ALE amounts for the health, housing, transportation, and general table standards to compare to the TPI from a taxpayer's 2014 tax return.[10] We then produced figures showing the default rate for the stratifications of IA taxpayers listed above.

6 TPI is calculated by summing the positive values from the following income fields from a taxpayer's most recently filed individual tax return: wages; interest; dividends; distribution from partnerships, small business corporations, estates, or trusts; Schedule C net profits; Schedule F net profits; and other income such as Schedule D profits and capital gains distributions. Losses reported for any of these values are treated as zero.

7 IRM 5.15.1.7(2) ALE standards provide a way of estimating the minimum dollar amount a taxpayer's expenses for his or her family's health, welfare and production of income. The standards are determined yearly by family size, geographic location, as well as the unique circumstances of individual taxpayers. In this analysis, we used the 2014 ALE standards to help establish a taxpayer's ability to pay off an IA. *See* IRM 5.15.1.7(2), *Financial Analysis Handbook, Allowable Expense Overview* (Nov. 17, 2014).

8 To identify taxpayers with new IAs, we selected records with a Master File Status Code equal to 60 from extract cycle 201401 to 201453 in the Accounts Receivable Delinquent Inventory (ARDI) Individual Master File (IMF) Module table, then deleted any continuing IA records from CY 2013.

9 For more information, see 2016 Most Serious Problem: *The IRS Is Failing to Properly Evaluate Taxpayers' Living Expenses and Is Placing Taxpayers in IAs They Cannot Afford*.

10 For a more detailed explanation, see the 2016 TAS research study, entitled, *The IRS Should Use its Internal Data to Determine if Taxpayers Can Afford to Pay Their Tax Delinquencies*, *infra/supra*.

Research Question 2: Comparing Subsequent Compliance of Taxpayers Receiving IAs After TAS Involvement to Similar Taxpayers Receiving IAs Without TAS Involvement

To answer the second research question, TAS Research compared the subsequent compliance of two groups of taxpayers:

1. Those who had a TAS case closed in CY 2010 (referred to in this paper as "TAS customers"), and;
2. Those from the general population who did not have a TAS case closed in CY 2010 (referred to as "non-TAS taxpayers").

We used a propensity matching technique and a matched pair process to develop valid, unbiased comparison groups for analysis. After developing the comparison groups, we established baseline numbers using CY 2010 compliance data and then contrasted the compliance behavior of TAS customers to the compliance behavior of non-TAS taxpayers for TYs 2010 through 2013. This allowed us to examine the question of whether service by TAS had an impact on the subsequent compliance of the two groups.

One problem that can arise in a comparison analysis such as ours is selection bias. Selection bias is defined as an error in selecting statistical observations such that all study participants are not equally balanced. The following example illustrates how selection bias had the potential to compromise our study.

Assume that TAS Research observed a difference in subsequent compliance between TAS and non-TAS groups and attributed that difference to service received from TAS. However, suppose that in our analysis we failed to take into account that TAS customers were already more compliant than the general population going into their experience with TAS. In that instance, therefore, we would have drawn a biased conclusion because we failed to compare two groups with similar characteristics (that is, the groups were not equally balanced).

To avoid the problem of selection bias, TAS Research took the following steps. We first identified key variables — for example, income level, taxpayer's age, or prior year compliance — that could possibly have provided an alternative reason for a difference in compliance. We then used a propensity matching technique and a matched pair process to develop comparison groups that were effectively identical with respect to those key variables.

The first step in the propensity matching technique was to produce propensity scores that estimated the probability an individual taxpayer in the dataset would become a TAS customer. We used logistic regression analysis to derive the propensity scores.

In the logistic regression procedure, we selected certain key demographic and operational fields as independent variables (for example, adjusted gross income, balance due amount, Business Operating Division code). We ran the regression to predict whether the taxpayer was a TAS customer or not and derived propensity scores from the regression.[11] We then used propensity scores in the matched pair process.

11 We developed the regression on a dataset that contained a random sample of non-TAS taxpayer records combined with TAS customer records.

The matched pair process paired individual taxpayers with similar propensity scores from each group.[12] The result of the propensity matching technique and the matched pair process was a dataset of non-TAS taxpayers that were effectively identical to TAS customers over the entire set of key variables. Thus, we avoided the problem of selection bias because we were able to make comparisons of similar groups of taxpayers.

TAS Research matched pairs of TAS customers and non-TAS taxpayers on the following key variables to ensure that the comparison groups were effectively identical to each other.

- Propensity score;
- Adjusted Gross Income;
- Age of Taxpayer;
- Filing Status Code;
- Business Operating Division Code;
- Tax Module Balance Due Amount;
- Major Source of Assessment Code categories;
- Earned Income Tax Credit (EITC) Indicator;
- CY 2010 Delinquent Return Indicator; and
- CY 2010 Count of TDAs (please note that these last two variables served as baseline indicators to make certain that the two comparison groups were identical in terms of filing and payment compliance going into the year that the TAS group received service).

To develop the TAS customer groups, we selected the entire population of TAS closed cases who had an IA.[13] To develop the non-TAS taxpayer group, we drew a random sample of 5,000 taxpayers from the general population who had IAs.

We combined the TAS and non-TAS groups into a single dataset and ran a logistic regression model that produced propensity scores. These scores generated the probability that a particular taxpayer came to TAS for service. The model correctly classified 79 percent of the observations in the data.

After completing propensity matching, TAS Research used the matched pair process to ensure that the TAS and non-TAS groups were effectively identical with respect to the key variables listed above. Please see Appendix A for a comparison of key variables between the TAS and non-TAS groups, and Appendix B for the classification figure results of the logistic regression.

To analyze filing compliance, we compared the percentage of the taxpayers in the TAS customer group who had a Status Code of 2, 3, or 6 (that is, a return due) to the percentage for non-TAS taxpayers.

12 For a more detailed description of the matched pair process, see National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 92, 99 (*Estimating the Impact of Liens on Taxpayer Compliance Behavior and Income*). For those readers with a technical interest, TAS used a "5 -> 1 Greedy" matching technique to produce the matched pairs by performing a logistic regression as described in Lori S. Parsons, Ovation Research Group, Seattle, WA, Working Paper 214-26, *Reducing Bias in a Propensity Score Matched-Pair Sample Using Greedy Matching Techniques* (Mar. 2001).

13 For TAS customers with IAs, we selected taxpayers who had an IA initiated in CY 2010, and who had a primary issue code of 751 to 759 (which marked the observation as a TAS IA case). We selected non-TAS taxpayers who had an IA initiated in CY 2010. A Status Code 60 in the IMF Status History table denoted IAs.

For the analysis of payment compliance, we compared the percentages of TAS customers who had a Status Code greater than 12 (that is, a payment due) to the percentages for non-TAS taxpayers. We made both of these comparisons for TYs 2010 through 2013. We used two-sided z-tests for proportions to determine the significance of any differences in the percentages.

FINDINGS

Research Question 1: Comparing the IA Default Rates by Different Levels of Balance Due and Ratios of TPI to ALE

TAS Research found that:

1. Nearly 40 percent of taxpayers entering into IMF IAs in 2014 had incomes below their ALE.
2. Looking at IMF IAs on balances of over $1,000 (80 percent of all IAs in 2014), taxpayers have lower default rates as the ratio of TPI to ALE increases, as indicated by the following figure:

FIGURE 3.1, Defaulted and Non-Defaulted IAs by Ratio of TPI to ALE and Amount Owed

			Defaulted		
			Not Defaulted	Defaulted	Total
Balances Owed Between $1,001 – $10,000	TPI < ALE	Count	632,596	207,690	840,286
		%	75.3%	24.7%	100.0%
	TPI/ALE Ratio Between 1–2.5	Count	856,692	245,013	1,101,705
		%	77.8%	22.2%	100.0%
	TPI/ALE Ratio > 2.5	Count	205,180	51,974	257,154
		%	79.8%	20.2%	100.0%
	Total	Count	1,694,468	504,677	2,199,145
		%	77.1%	22.9%	100.0%
Balances Owed > $10,000	TPI/ALE < 1	Count	61,648	46,169	107,817
		%	57.2%	42.8%	100.0%
	TPI/ALE Between 1–2.5	Count	155,708	97,666	253,374
		%	61.5%	38.5%	100.0%
	TPI/ALE > 2.5	Count	128,355	67,080	195,435
		%	65.7%	34.3%	100.0%
	Total	Count	345,711	210,915	556,626
		%	62.1%	37.9%	100.0%

The first half of the figure includes balances owed from $1,001–$10,000. The second part of the figure includes taxpayers who owe more than $10,000. The three TPI to ALE ratios categories are less than one; one to 2.5; and more than 2.5. An analysis of the figure shows that the default rates decrease as the ratio of income to ALE increase. This is especially true when considering instances where the taxpayer owes over $10,000 where the default rate for taxpayers is 8.5 percent higher for taxpayers with an income to ALE ratio less than one than for taxpayers whose ratio of income to ALE is greater than 2.5.

For IMF taxpayers who owe no more than $1,000, the TPI to ALE ratio makes little difference in whether the IA will default. It is likely that even taxpayers with income below their ALE are able to shuffle

spending priorities for a short time to satisfy the IA. It is also likely that these taxpayers have other refund offsets, which satisfy the liability thereby fulfilling the IA.[14]

As previously noted, taxpayers enter into a preponderance of IAs through streamlined procedures. In FY 2016, the IRS entered into streamlined IAs, requiring no financial analysis over 80 percent of the time. When we consider only streamlined IAs with balances owed over $1,000, the difference among the default rates at different ratios of income to TPI is more pronounced, as indicated by the following figure:

FIGURE 3.2, Defaulted and Non-Defaulted IAs by Ratio of TPI to ALE and Amount Owed — Only Streamlined IAs

				Defaulted		
				Not Defaulted	Defaulted	Total
Balances Owed Between $1,001 – $10,000	TPI_ALE$	TPI < ALE	Count	598,726	194,475	793,201
			%	75.5%	24.5%	100.0%
		TPI/ALE Ratio Between 1–2.5	Count	810,811	227,785	1,038,596
			%	78.1%	21.9%	100.0%
		TPI/ALE Ratio > 2.5	Count	191,952	47,382	239,334
			%	80.2%	19.8%	100.0%
	TOTAL		Count	1,601,489	469,642	2,071,131
			%	77.3%	22.7%	100.0%
> $10,000	TPI_ALE$	TPI < ALE	Count	50,900	35,283	86,183
			%	59.1%	40.9%	100.0%
		TPI/ALE Ratio Between 1–2.5	Count	136,474	76,711	213,185
			%	64.0%	36.0%	100.0%
		TPI/ALE Ratio > 2.5	Count	112,463	51,093	163,556
			%	68.8%	31.2%	100.0%
	TOTAL		Count	299,837	163,087	462,924
			%	64.8%	35.2%	100.0%

When considering only streamlined IAs for taxpayers who owe from $1,001 to $10,000, taxpayers with income less than TPI have a default rate nearly five percent more than taxpayers whose incomes is over 2.5 times their ALE. For taxpayers who owe over $10,000, the default rate for taxpayers whose income does not exceed their ALE is nearly ten percent higher than taxpayers whose income is over 2.5 times their ALE. Again, there is little difference in the default rates for taxpayers who owe no more than $1,000.

We also examined the subsequent compliance of taxpayers who entered into IAs in 2014 when considering their income to ALE ratio and the amount owed. However, an analysis of the TY 2015 subsequent compliance shows that taxpayers with incomes less than their ALE were much more likely to

14 TAS Research Study, *The IRS Should Use its Internal Data to Determine if Taxpayers Can Afford to Pay Their Tax Delinquencies* (2016), *infra/supra*.

be noncompliant than taxpayers with incomes in excess of their ALE.[15] The following figure depicts the TY 2015 subsequent noncompliance of taxpayers by whether or not their income is below their ALE, by three categories of the amount of the delinquency:

FIGURE 3.3, Tax Year Subsequent Paying and Filing Compliance by Ratio of TPI to ALE and Amount Owed

			Filing and Payment Noncompliance TY 2015		
			Not Both Filing and Payment Noncompliant	Both Filing Noncompliant and Payment Noncompliant	Total
Balance ≦ $1,000	TPI < ALE	Count	209,024	177,479	386,503
		% within TPI < ALE	54.1%	45.9%	100.0%
	TPI ≧ ALE	Count	190,501	108,201	298,702
		% within TPI ≧ ALE	63.8%	36.2%	100.0%
Balance $1,001 – $10,000	TPI < ALE	Count	465,568	374,678	840,246
		% within TPI < ALE	55.4%	44.6%	100.0%
	TPI ≧ ALE	Count	872,574	486,325	1,358,899
		% within TPI ≧ ALE	64.2%	35.8%	100.0%
Balance > $10,000	TPI < ALE	Count	58,668	49,147	107,815
		% within TPI < ALE	54.4%	45.6%	100.0%
	TPI ≧ ALE	Count	296,501	152,310	448,811
		% within TPI ≧ ALE	66.1%	33.9%	100.0%
TOTAL	TPI < ALE	Count	733,260	601,304	1,334,564
		% within TPI < ALE	54.9%	45.1%	100.0%
	TPI ≧ ALE	Count	1,359,576	746,836	2,106,412
		% within TPI ≧ ALE	64.5%	35.5%	100.0%

The figure shows that taxpayers with incomes below their ALE who entered into IAs in 2014 have about a ten percent higher subsequent noncompliance level than those taxpayers who entered into an IA with income at least equal to their ALE. For taxpayers who owed over $10,000, taxpayers with incomes less than their ALE were nearly 12 percent more likely to be filing and payment noncompliant than taxpayers with incomes equal to or higher than their ALE. This difference in future noncompliance may occur because the required IA payments do not allow more financially disadvantaged taxpayer to also meet current tax obligations.

15 Although taxpayers whose incomes were over 2.5 their ALE were less likely to be noncompliant than taxpayers whose incomes were greater than or equal to their ALE, but not more than 2.5 times their ALE, the differences were relatively small; therefore, we combined the taxpayers with incomes at least as high as their ALE into a single category.

Research Question 2 – Comparing Subsequent Compliance of Taxpayers Receiving IAs After TAS Involvement to Similar Taxpayers Receiving IAs Without TAS Involvement

We found no significant difference between the TAS customers and non-TAS taxpayers in terms of delinquent returns in subsequent years, thus indicating that service by TAS had no appreciable effect on filing compliance (see Figure 3.4). However, Figure 3.5 shows that the TAS group had a significantly lower percentage of taxpayers with a delinquent balance due than the non-TAS group for TYs 2010 and 2011, suggesting that TAS service had the effect of increasing payment compliance for TAS customers in the first two years after service was provided.

FIGURE 3.4, Taxpayers With a Delinquent Return Due

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	33.1%	34.9%	-1.8%	No significance
TY 2011	36.5%	37.8%	2.7%	No significance
TY 2012	36.7%	36.3%	.4%	No significance
TY 2013	33.1%	32.6%	.5%	No significance

As mentioned, when exploring subsequent payment compliance, we did find that taxpayers who had sought TAS assistance with an IA were less likely to incur subsequent liabilities for two years after the IA was initiated. The following figure depicts this information.

FIGURE 3.5, Taxpayers With a Delinquent Balance Due

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	49.8%	41.4%	8.4%	Significant at .05
TY 2011	42.2%	35.4%	6.8%	Significant at .05
TY 2012	32.4%	31.7%	.7%	No significance
TY 2013	33.1%	32.6%	.5%	No significance

To augment the finding in Figure 3.5, TAS Research examined the percentage of taxpayers in each group who kept their IAs in good standing (that is, they either full-paid their accounts or were able to keep their agreements from defaulting). Figure 3.6 below displays the percent of taxpayers who had a Status 12 (Full Paid) or an ongoing Status 60 (IA). As seen in the figure, the TAS group showed significantly higher percentages of taxpayers who full paid or who had ongoing IAs for TYs 2011, 2012, and 2013.

FIGURE 3.6, Taxpayers With Status 12 (Full-Pay) or an Ongoing Status 60 (Installment Agreement)

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	94.3%	95.8%	1.5%	No significance
TY 2011	87.2%	91.5%	4.3%	Significant at .05
TY 2012	79.4%	83.6%	4.2%	Significant at .05
TY 2013	74.4%	79.8%	5.4%	Significant at .05

TAS Case Advocates may be more effective than IRS Collection personnel in creating IAs which allow taxpayers to meet ongoing tax obligations while remaining current with the payment of delinquent taxes. TAS Case Advocates also educate taxpayers about their ongoing responsibility to remain current with their tax obligations. For example, TAS Case Advocates will ensure that wage earners have sufficient income tax withheld from their pay and that self-employed taxpayers can maintain their estimated tax payments.

CONCLUSIONS

The IA is an important tool to collect delinquent taxes. In FY 2016, individual taxpayers initiated over three million IAs. Nearly 85 percent of these IAs were streamlined agreements, requiring no financial analysis.[16] In fact, taxpayers with incomes not in excess of the ALE initiated nearly 800,000 (38.3 percent) of the 2014 IAs for delinquencies between $1,001 and $10,000. While not requiring financial analysis reduces short-term work for the IRS, failing to conduct some degree of financial analysis may actually increase rework and foster additional noncompliance in future years, as the IA will prevent some taxpayers from meeting ongoing tax obligations. Taxpayers also face additional burden as they enter into IAs which they cannot afford. From the findings of this report, we have listed the following overall conclusions:

- Many taxpayers initiate IAs even though their income is less than their ALE, meaning that taxpayers are likely foregoing necessities to meet the terms of their IA.
- Taxpayers are more likely to default on their IAs when their income is below their ALE, suggesting that these taxpayers are entering into IAs that they cannot afford.
- Taxpayers become more likely to be noncompliant in the years after they start an IA, suggesting that the terms of the IA do not always provide taxpayers with the means to pay current taxes.
- The involvement of TAS in IAs increases subsequent payment compliance and decreases the likelihood that taxpayers will default on their IAs. This fact suggests that additional financial analysis will increase the number of successful IAs and reduce subsequent noncompliance.

RECOMMENDATIONS

In light of the previous conclusions, we believe that additional financial analysis is needed to determine if a taxpayer can afford an IA, and, if so, what payment amount will allow tax delinquencies to be satisfied, while maintaining current tax obligations. As part of its Future State initiative, the IRS can provide an online payment estimator, which considers the broad spectrum of taxpayer financial circumstances. However, the IRS should also not neglect its duty to provide financial analysis directly to taxpayers not comfortable with online tools. The IRS also must recognize that delinquencies should be reported as CNC (hardship) when taxpayers' ALE exceed their income. Our specific recommendations follow:

- Create an online financial calculator, which will assist taxpayers with establishing IAs that they can afford, while paying current tax liabilities. This calculator should consider various financial circumstances, and not just compute the ratio of taxpayers' delinquencies and a stated number of payments.
- Provide basic financial analysis for taxpayers who are not comfortable with the online experience to determine the appropriate amount for an IA.
- When financial analysis shows taxpayers as being unable to afford an IA, report the delinquencies as CNC.

16 IRS FY 2016 Collection Activity Report 5000-6 (Oct. 3, 2016).

APPENDIX A

FIGURE 3.7, Comparison of TAS Customers and Non-TAS Taxpayers With Respect to Key Variables in the Analysis

Key Variable	Variable Value	TAS Customers	Non-TAS Taxpayers
Mean of Adjusted Gross Income Amount		$80,750	$79,020
Mean of Age of Taxpayer		43.0	44.1
Filing Status Code	Single	39.6%	39.3%
	Married Filing Joint	45.0%	45.1%
	Married Filing Separate	6.1%	6.3%
	Head of Household	9.3%	9.3%
Business Operating Division Code	W&I	48.7%	47.1%
	SB/SE	51.3%	52.9%
Quartile Categories for Tax Module Balance Due Amount	$6 - 2,751	9.2%	9.7%
	$2,752 - 7,100	15.1%	14.8%
	$7,101 - 21,084	28.2%	26.9%
	> $21,084	47.6%	48.5%
Major Source of Assessment Code Categories	TDI, Taxpayer Delinquent Investigation, Status 03 and Delinquency, Status 02, Delinquent Return Notice status	11.1%	11.8%
	Exam Assessments and Underreporter program	35.2%	34.2%
	Balance Due	50.6%	50.9%
	Adjustments, Math Errors, Penalties/any unreversed penalty, Other/debit module with none of the above conditions	3.1%	3.0%
Earned Income Tax Credit Indicator	No	93.2%	91.6%
	Yes	6.8%	8.4%
CY 2010 Delinquent Return Indicator	No	58.5%	57.4%
	Yes	41.5%	42.6%
Mean of CY 2010 Count of TDAs		3.01	3.06

APPENDIX B

FIGURE 3.8, Classification for the Logistic Regression Performed to Develop Propensity Scores

Observed	Predicted		
	Non-TAS Taxpayer	TAS Customer	Percent Correct
Non-TAS Taxpayer	2,714	380	87.7%
TAS Customer	500	575	53.5%
Overall Percentage			78.9%

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Volume 2

TAS Research and Related Studies

IRS Should Use Its Internal Data to Determine If Taxpayers Can Afford to Pay Their Tax Delinquencies

IRS Should Use Its Internal Data to Determine If Taxpayers Can Afford to Pay Their Tax Delinquencies[1]

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1 The principal authors of this study are Stacie Swanson and Jeff Wilson.

INTRODUCTION

The IRS collection division is charged with collecting taxes from taxpayers with balances due from various tax obligations. In general, taxpayers are required to pay the delinquency in full, if the taxpayer has the means to do so. While the IRS seeks an immediate complete satisfaction of an outstanding liability, some taxpayers are not able to immediately pay their tax debts. In such cases, the IRS offers payment arrangements for taxpayers to satisfy their debts through an installment agreement (IA).[2] In recent years, the IRS has expanded the time period for IAs so that a taxpayer may pay liabilities up to $50,000 on a monthly basis over six years.[3] Nevertheless, some taxpayers cannot afford to either fully satisfy or make payments on their liability. To validate these claims the IRS has developed Allowable Living Expense (ALE) standards to determine whether a taxpayer does have the ability to make payments on their tax liabilities.[4]

The ALE standards determine how much money taxpayers need for basic living expenses based on family size and where they live. When compared with taxpayer income, the ALE standards determine the taxpayer's ability to pay his or her tax debt and at what level. The ALE analysis will, however, show that some taxpayers do not currently have the ability to make payments on their outstanding liability, and meet their basic living expenses. In these instances, the IRS will report any outstanding liabilities as currently not collectible CNC-Hardship.

As it stands now, the IRS generally assigns all delinquencies[5] remaining unsatisfied to Taxpayer Delinquent Accounts (TDA) status, after it sends the taxpayers a series of three to four notices requesting that the liability be paid either immediately or through monthly installments. The National Taxpayer Advocate would like to determine if the IRS could use internally available information on the taxpayer's financial status to decide if it should code the liability CNC-Hardship prior to its continuation as a TDA. The IRS would save significant resources by not continuing to attempt collections on these cases. The discontinuation of IRS collection actions would also not further burden the taxpayer.

The ALE Standards, also known as Collection Financial Standards, provide for a taxpayer's and his or her family's health and welfare and/or production of income. These expenses must be reasonable in amount for the size of the family and the geographic location, as well as any unique individual circumstances. The total necessary expenses establish the minimum a taxpayer and family needs to live.[6] However, if a taxpayer qualifies for an IA, which does not require financial analysis, the taxpayer may voluntarily enter into an IA even if a comparison of the taxpayer's income and their ALE show the taxpayer is unable to meet the terms of the IA. In this situation, the taxpayer may fail to make the necessary payments and

2 In 1998, Congress generally required the IRS to enter into so-called "guaranteed" IAs if the taxpayer owed $10,000 or less, had a clean compliance history, was financially unable to pay the liability timely, and would repay the liability within three years under the agreement. Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, § 3467, 112 Stat. 685 (1998) (codified at IRC § 6159(c)). This legislation codified the IRS's standard practice. Conf. Rep. No. 105-599, at 292-93 (1998).

3 Per Internal Revenue Manual (IRM) 5.14.1.4.1, *Six-Year Rule and One-Year Rule* (1/1/16), http://irm.web.irs.gov/Part5/Chapter14/Section1/IRM5.14.1.asp#5.14.1.4.1 (accessed 12/19/16).

4 For more information, see the 2016 Most Serious Problem: *The IRS Is Failing to Properly Evaluate Taxpayers' Living Expenses and Is Placing Taxpayers in IAs They Cannot Afford*.

5 Some small liabilities may be shelved because the IRS determines that further resources should not be expended on the liabilities. Additionally, the IRS will prioritize the liabilities, and assign some low priority cases to the collection queue until resources are available for assignment to collection personnel.

6 IRM 5.15.1.7, *Allowable Expense Overview*, http://irm.web.irs.gov/Part5/Chapter15/Section1/IRM5.15.1.asp#5.15.1.7 (accessed 6/2/16).

thereby default the IA or the taxpayer may continue with the IA, but be unable to meet what the IRS has determined are basic living expenses.

BACKGROUND

The IRS sends a series of notices to taxpayers with new unpaid tax liabilities requesting either immediate payment or resolution of the liability through an online payment arrangement or by contacting IRS personnel. Online payment agreements must satisfy the liability within 72 months, and require the taxpayer to provide no financial information. If a taxpayer contacts the IRS regarding the delinquency, the taxpayer may also enter into a "streamlined" payment arrangement, which requires no financial information. If the taxpayer is unable to meet the terms for IAs not requiring financial information, the taxpayer may still enter into an IA if a comparison of the taxpayer's income and the ALE substantiate the payment amount. In some cases, the comparison of a taxpayer's income to ALE shows that the taxpayer has no ability to pay. In these instances, the IRS places the unpaid liability in CNC-Hardship status. While in this status, active collection will not resume until the IRS detects an increase in income indicating that the taxpayer could make payments after considering the ALE. However, the IRS will offset any future refunds due the taxpayer until the delinquent liability is satisfied.

The IRS assigns most taxpayers with unpaid delinquencies after the notice stream to its Automated Collection System (ACS). The ACS is a computerized inventory system and telephone call center that maintains balance-due accounts and return delinquency investigations.[7] Customer Service Representatives (referred to as "Collection Representatives")[8] work ACS cases and primarily respond to phone calls from taxpayers who call in response to IRS enforcement actions (*e.g.*, levies or liens) or additional collection notices. Alternatively, the IRS generally assigns cases to Collection Field function (CFf) when the taxpayer has accrued significant liabilities, or when the ACS is unable to resolve the case. Upon assignment to the CFf, a revenue officer (RO) will actively work the case, attempting to contact the taxpayer and collect the information necessary to determine how to resolve the delinquency. The IRS may also assign cases to the collection queue to await assignment to a revenue officer in accordance with the priority the IRS assigns to the case and when CFf inventory levels permit the assignment of a new case.

When financial analysis is required, the IRS utilizes its ALE standards. In 1995, using the Bureau of Labor Statistics' Consumer Expenditure Survey data, Collection developed national standards for apparel and services, food, housekeeping supplies, personal care products and services, and miscellaneous expenses. The IRS designed the ALE to help ensure that the IRS afforded taxpayers the opportunity to meet basic living expenses and to ensure that the IRS applied consistent financial analysis to all taxpayers, regardless of location and collection jurisdiction. We provide a detailed explanation of ALE in the Methodology section of this report. We also discuss our concerns with the current ALE standards in the Most Serious Problem: ALE Standards in Volume I of this Annual Report to Congress.

7 IRM 5.19.5.2.1, *ACS Security* http://serp.enterprise.irs.gov/databases/irm.dr/current/5.dr/5.19.dr/5.19.5.dr/5.19.5.2.htm, (accessed 6/2/16).

8 IRM 21.1.1.6, *Customer Service Representative (CSR) Duties* (10/1/16).

METHODOLOGY

We examined TDAs closed in calendar year (CY) 2014. Taxpayers may have full paid the account, or have entered into an IA. Otherwise, the IRS has reported the account as CNC-Hardship.[9] Full pay accounts may have occurred because of taxpayer payments, refund offsets or the abatement of the liability. We describe specific details about how we identified each type of TDA closure below.

Determining Closures in 2014

Full Pay

TAS Research used the Accounts Receivable Dollar Inventory (ARDI) database on the Compliance Data Warehouse (CDW) to select modules reaching full pay status during 2014.[10] We matched these cases back to the ARDI file to determine which modules were a TDA by only selecting those assigned to ACS or CFf.[11]

Installment Agreements

TAS Research used the ARDI database to select modules with an unresolved record type, but with the IA collection status code input during 2014.[12] We matched these cases to the ARDI file to determine which ones the IRS had assigned to ACS or CFf.

CNC-Hardship

TAS Research used ARDI on CDW to select unresolved modules reported as uncollectible due to hardship during 2014.[13] We matched these cases to the ARDI file to determine which ones the IRS had assigned to ACS or CFf.

We then matched these cases to the Individual Return Transaction File (IRTF) Form to obtain their Total Positive Income (TPI)[14] and the number of exemptions, state, ZIP code and age for tax year 2014. The ZIPCODE table was used to identify the counties from the ZIP code data.

Allowable Living Expense (ALE) Data

The ALE data is published every year by Small Business/Self Employed Finance, Research and Strategy (SB/SE FR&S). TAS Research calculated the ALE amounts for each of the TDA taxpayers with a TDA closure in 2014 as a Full Pay, IA or CNC-Hardship. The following data describes the computation of each of the ALE standards.

9 We did not examine other possible dispositions of TDAs including a pending offer in compromise or suspension of collection action due to an insolvency proceeding.

10 The ARDI denotes full paid cases with a record type (Rectype1) equal to 'R'.

11 TDAs in ACS have a Master File collection status code of 22, while TDAs in CFf have a Master File collection status code of 26.

12 Installment Agreements have a Master File collection status code of 60.

13 The IRS places a TC 530 closing code 24 to closing code 32 on TDAs, which are reported CNC because of financial hardship.

14 TPI is calculated by summing the positive values from the following income fields from a taxpayer's tax year 2014 individual tax return: wages; interest; dividends; distribution from partnerships, small business corporations, estates, or trusts; Schedule C net profits; Schedule F net profits; and other income such as Schedule D profits and capital gains distributions. Losses reported for any of these values are treated as zero.

Health

The 2014 ALE for the health care standard is as follows:

FIGURE 4.1, Health Care Standard[15]

Age Category	Expense per person per month
Under 65	$60
65 and Older	$144

TAS Research used the date of birth from the IRTF to calculate the age for the primary and secondary taxpayers. If either the primary and/or secondary taxpayer is 65 or older, then their expense is $144. For all other members of their household (exemptions), their expense is $60.

General

The 2014 ALE for the general (national) standard is as follows:

FIGURE 4.2, General (National) Standard[16]

Exemptions	Total
One	$583
Two	$1,092
Three	$1,249
Four	$1,482
More than four	add $298

Research used the number of exemptions to calculate the general (national) standard. This amount is allowed for food and other necessary incidentals.

Housing

A sample of the 2014 ALE for housing is included below.

15 Allowable Living Expenses Project, SB/SE FR&S, August 2014.

16 *Id*.

FIGURE 4.3, Housing Standard (Sample)[17]

State Initials	County	Family Size				
		1	2	3	4	5
AK	Aleutians East Borough	$1,146	$1,346	$1,418	$1,581	$1,607
AK	Aleutians West Census Area	$1,852	$2,175	$2,292	$2,556	$2,597
AK	Anchorage Municipality	$1,904	$2,237	$2,357	$2,628	$2,670
AK	Bethel Census Area	$1,386	$1,628	$1,715	$1,912	$1,943
AK	Bristol Bay Borough	$1,714	$2,013	$2,121	$2,365	$2,403
AK	Denali Borough	$1,399	$1,643	$1,731	$1,930	$1,961
AK	Dillingham Census Area	$1,577	$1,852	$1,952	$2,176	$2,212
AK	Fairbanks North Star Borough	$1,798	$2,112	$2,225	$2,481	$2,521
AK	Haines Borough	$1,443	$1,695	$1,786	$1,991	$2,024
AK	Hoonah-Angoon Census Area	$1,396	$1,640	$1,728	$1,927	$1,958
AK	Juneau City and Borough	$2,034	$2,389	$2,517	$2,806	$2,852
AK	Kenai Peninsula Borough	$1,430	$1,680	$1,770	$1,974	$2,005
AK	Ketchikan Gateway Borough	$1,731	$2,033	$2,142	$2,388	$2,427
AK	Kodiak Island Borough	$1,942	$2,280	$2,403	$2,679	$2,723
AK	Lake and Peninsula Borough	$1,697	$1,993	$2,100	$2,342	$2,379
AK	Matanuska-Susitna Borough	$1,625	$1,908	$2,011	$2,242	$2,278
AK	Nome Census Area	$1,277	$1,499	$1,580	$1,762	$1,790
AK	North Slope Borough	$1,248	$1,465	$1,544	$1,722	$1,749
AK	Northwest Arctic Borough	$1,323	$1,554	$1,637	$1,825	$1,855
AK	Petersburg Census Area	$1,464	$1,720	$1,812	$2,020	$2,053
AK	Prince of Wales-Hyder Census Area	$1,288	$1,513	$1,594	$1,777	$1,806
AK	Sitka City and Borough	$1,795	$2,108	$2,221	$2,476	$2,516
AK	Skagway Municipality	$2,160	$2,537	$2,673	$2,980	$3,029
AK	Southeast Fairbanks Census Area	$1,394	$1,637	$1,725	$1,923	$1,954
AK	Valdez-Cordova Census Area	$1,622	$1,906	$2,008	$2,239	$2,275
AK	Wade Hampton Census Area	$818	$960	$1,012	$1,128	$1,147
AK	Wrangell City and Borough	$1,464	$1,720	$1,812	$2,020	$2,053
AK	Yakutat City and Borough	$1,250	$1,468	$1,547	$1,725	$1,753
AK	Yukon-Koyukuk Census Area	$1,175	$1,380	$1,454	$1,621	$1,647

The housing allowance provides for a monthly rental or mortgage payment, utilities, and other expenses associated with maintaining a home. TAS Research used the county data, obtained from the ZIPCODE file and the number of exemptions to determine the amount of ALE for each taxpayer.

Transportation

The 2014 ALE for transportation has two parts. First, the ownership costs are as follows:

17 Allowable Living Expenses Project, SB/SE FR&S, August 2014.

FIGURE 4.4, Ownership Costs for Transportation Standard[18]

Number of Cars	Ownership Costs
One Car	$517
Two Cars	$1,034

To decide number of cars, TAS Research determined if the taxpayer entity included both a primary and a secondary filer.[19] When there was no secondary filer, then the entity was allowed $517. If there was a secondary filer present, the entity was allowed $1,034.

In addition to ownership costs, the transportation standard also includes operating costs. These are based on Metropolitan Statistical Area (MSA).[20]

FIGURE 4.5, Operating Costs for Transportation Standard[21]

Operating Costs	One Car	Two Cars
Northeast Region	$278	$556
Boston	$277	$554
New York	$342	$684
Philadelphia	$299	$598
Midwest Region	$212	$424
Chicago	$262	$524
Cleveland	$226	$452
Detroit	$295	$590
Minneapolis-St. Paul	$217	$434
South Region	$244	$488
Atlanta	$256	$512
Baltimore	$250	$500
Dallas-Ft. Worth	$277	$554
Houston	$312	$624
Miami	$346	$692
Washington, D.C.	$277	$554
West Region	$236	$472
Los Angeles	$295	$590
Phoenix	$291	$582
San Diego	$301	$602
San Francisco	$306	$612
Seattle	$192	$384

18 Allowable Living Expenses Project, SB/SE FR&S, August 2014.

19 Since there was no available data to determine the number of cars that the taxpayers had, TAS Research used the CDW Form 1040 database to determine the number of primary and secondary taxpayers. If there was only a primary taxpayer then the household was allotted the expenses for one car, if there was a primary and secondary taxpayer, the household was allotted the expenses for two cars.

20 The counties that make up each MSA can be found at https://www.irs.gov/businesses/small-businesses-self-employed/local-standards-transportation (accessed 6/2/16).

21 Allowable Living Expenses Project, SB/SE FR&S, August 2014.

TAS Research used the county data from the ZIPCODE table on CDW to determine the ownership costs and the corresponding operating costs for each taxpayer entity.

Total ALE

To determine the total ALE amount for each taxpayer, TAS Research added up the four standards (Health, general (national), housing, and transportation) and then multiplied them by twelve to get their annual ALE amount. We then compared this amount to the taxpayer's total positive income to determine if the disposition of the TDA was consistent with a comparison of the taxpayer's ALE and their TPI. We also compared multiples of the poverty level to TPI to determine if some multiple of a poverty level could be used as a proxy for when a taxpayer was unable to resolve their TDA through full payment or an IA. We used the 2014 poverty guidelines from the Health and Human Services website to determine whether they were a simpler determination of collectibility.[22]

In some instances, taxpayers had multiple TDAs, which were satisfied differently. For example, a taxpayer may have satisfied one TDA, but the IRS classified any remaining TDAs as CNC-Hardship. If the IRS classified at least one TDA as CNC-Hardship, we considered that taxpayer a CNC taxpayer. If the IRS did not report a TDA as CNC-Hardship and the taxpayer entered into an IA to satisfy the outstanding TDAs, we considered the TDA resolution as an IA. We considered taxpayers who full paid all TDAs resolved in 2014 as full pay taxpayers.

LIMITATIONS, DATA ISSUES, AND RESOLUTIONS

Total Positive Income (TPI) was used to represent a taxpayer's total income. TPI does not consider actual losses; however, we chose this amount as a conservative estimate of taxpayer's income. There were also a number of taxpayers whose TDAs were closed in 2014 as a Full Pay, IA or CNC (hardship) but did not file a return for TY 2014. For the taxpayers that did not file a return in TY 2014, we used the Form W-2 and Form 1099 income information, when available. In other cases where TPI was present for TY 2014 but the Form 1099 income was actually higher, we used the Form 1099 income in place of TPI.[23]

For the taxpayers that did not have any exemptions or did not have a state present for TY 2014, TAS Research used the lowest amount for each standard, as follows:

FIGURE 4.6, Minimum ALE Standards for Non-Filers[24]

Standard	Minimum
Health	$60
Housing	$720
General	$583
Transportation	$192

22 https://aspe.hhs.gov/2014-poverty-guidelines, accessed 7/11/16.

23 We used the Information Returns Master File documents for Form W-2: *Wage and Tax Statement*; Form 1099-INT: *Interest Income*; 1099-DIV: *Dividends and Distribution*; 1099-MISC: *Miscellaneous Income*; 1099-R: *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc*; 1099-SSA: *Social Security and Equivalent Railroad Benefits*.

24 Allowable Living Expenses Project, SB/SE FR&S, August 2014.

There were also a number of taxpayers who filed but did not have ZIP code information available. Therefore it was not possible to get the county for the Housing standard. For these cases, the taxpayer received the minimum ALE amount for the state. Finally, to determine a taxpayer's relationship to the poverty level, the taxpayers that did not have an exemption were considered to have a household size of one.

FINDINGS

TAS Research identified 3,442,645 taxpayers with full pay, IA, or CNC-Hardship TDA closures in CY 2014. We classified these taxpayers by the type of their TDA closure as indicated in the methodology section. The following figure shows the breakout of the taxpayers:

FIGURE 4.7, Counts of Full Pay, IA, and CNC-Hardship Taxpayers

Full Pay	2,149,748
IA	1,127,658
CNC	165,239

We performed our analysis of the TDAs at the taxpayer level as indicated. However, as previously mentioned, some taxpayers had modules resolved through more than one method as indicated in the following figure:

FIGURE 4.8, Modules Identified by Full Pay, Installment Agreement and CNC-Hardship

Full Pay Only	3,008,417
IA Only	1,931,378
CNC-Hardship Only	422,615
Full Pay and IA	148,138
Full Pay and CNC-Hardship	21,393
IA and CNC-Hardship	16,901
Full Pay, Installment Agreement and CNC-Hardship	525

Total Positive Income vs. ALE

The following figure shows the taxpayers with TDA closures in CY 2014 and their method of closure (Full Pay, Installment Agreement or CNC). This figure also shows the breakout of how the TPI compares to the ALE for each of the groups:

FIGURE 4.9, Breakout of All TDA Closures in CY 2014 (By Taxpayer)

All Taxpayers with TDA closures in 2014	All Cases	Full Pay	Installment Agreement	CNC Hardship
Count	**3,442,645**	**2,149,748**	**1,127,658**	**165,239**
TY2014 Filers	**3,179,158**	**1,930,639**	**1,097,525**	**150,994**
TY 2014 Nonfilers	263,487	219,109	30,133	14,245
% Nonfilers	7.70%	10.20%	2.70%	8.60%
TPI Mean	$78,051	$80,595	$78,966	$38,855
TPI Median	$44,390	$42,136	$51,755	$23,594
ALE Mean	$42,259	$41,796	$44,663	$36,044
ALE Median	$37,464	$36,252	$41,496	$28,980
Count of taxpayers with TPI ≦ ALE [a]	**1,442,025**	**926,165**	**412,171**	**103,689**
Percent of taxpayers with TPI ≦ ALE	45.40%	48.00%	37.60%	68.70%
Median TPI of taxpayers with TPI ≦ ALE	$22,181	$21,461	$25,402	$16,520
Median ALE of taxpayers with TPI ≦ ALE	$42,276	$44,028	$44,700	$32,376
Count of taxpayers with TPI > ALE	**1,737,133**	**1,004,474**	**685,354**	**47,305**
Percent of taxpayers with TPI ≧ ALE	54.60%	52.00%	62.40%	31.33%
Median TPI of taxpayers with TPI > ALE	$74,125	$74,029	$75,763	$53,192
Median ALE of taxpayers with TPI > ALE	$39,120	$38,532	$42,312	$30,792

a Excludes the 263,487 nonfilers.

The above figure shows:

- The median TPI for the Full Pay taxpayers was almost twice as high as taxpayers whose TDAs were reported CNC-Hardship.
- Taxpayers whose accounts were reported CNC-Hardship actually had a smaller percentage of nonfilers than taxpayers who full paid their liabilities. The nonfiling rate is understandably low for IA taxpayers as filing required returns is a requirement for continuing with the payment plan.
- When considering full pay taxpayers, the percentage of those with TPI less than or equal to ALE is considerably lower than for CNC-Hardship taxpayers (48.0% vs 68.7%).
- The median TPI is over three times higher for taxpayers with TPI greater than their ALE compared to taxpayers whose TPI is less than or equal to their ALE.

We would expect that taxpayers with income in excess of their ALE would likely be able to either full pay their liability or enter into an installment agreement. Although the IRS only classified three percent of taxpayers with TPI in excess of their ALE, as CNC-Hardship, these taxpayers represented nearly one-third of all taxpayers, which the IRS classified as CNC-Hardship. The IRM instructs collection personnel to make allowances for expenses in excess of stated allowable standards when circumstances warrant.[25] Therefore, we are not surprised that some taxpayers with incomes above their ALE actually have their delinquencies reported CNC-Hardship.

25 IRM 5.15.1.10, *Other Expenses* (11/17/14).

Analysis of Taxpayers With ALE Equal to or in Excess of Their TPI Whose TDAs Were Completely Satisfied

Over 60 percent of those taxpayers (926,165) with incomes below their ALE paid their TDA liability. Since the IRS may be concerned that systemically reporting these taxpayers as CNC would result in significant revenue loss, we performed additional analysis regarding the resolution of the liability. To determine why these taxpayers were able to satisfy their TDAs even though they had income below their ALE, we further explored the circumstances resulting in the full pay. An analysis of these TDA accounts shows that in many cases, the IRS abated all or most of the liability. Another reason that taxpayers satisfied these liabilities is because of refund offsets. Accordingly, we removed taxpayers whose accounts had the following characteristics:[26]

- Abatements that were at least 50 percent of the balance;[27]
- Refund offsets that were at least 95 percent of the balance; and
- Cases where the IRS classified a taxpayer CNC-Hardship prior to satisfaction of the outstanding TDAs.

After removing taxpayers with these criteria, about 32 percent of the taxpayers with TPI below their ALE paid their liability without abatement, refund offset, or the IRS determining that the taxpayer should be classified as CNC-Hardship. The following figure describes the TPI, ALE, and balance due of these taxpayers.

FIGURE 4.10, Remaining Full Paid With TPI Less Than ALE After Removals

Total Number of Full Pay Taxpayers with TPI ≦ ALE	926,165
Remaining Number of Taxpayers with TPI less than ALE that Full Paid (after any abatements or refund offsets)	297,203
Average Balance Due (after any abatements or refund offsets)	$6,887
Median Balance Due (last Status 22)	$1,543
Average TPI for TY 2014	$26,402
Median TPI for TY 2014	$24,128
Average ALE for TY 2014	$45,681
Median ALE for TY 2014	$45,708

Figure 10 shows that these taxpayers often owe only small liabilities. More than half owe less than $1,550 and even at the 75th percentile, these taxpayers owe about $5,000 or less. On average, these taxpayers also have total incomes, which are less than 60 percent of their ALE. While it is admirable that these taxpayers are satisfying their liabilities, doing so is likely creating an extreme financial hardship. Systemically reporting these TDAs as CNC-Hardship would not prevent these taxpayers from voluntarily paying their liabilities, but with such a classification; these taxpayers might not feel compelled to pay these liabilities, since doing so would likely create financial hardship.

26 The total balance due minus refund offsets was used to calculate the percentage of abatements.

27 The IRS only abates assessed amounts, which cause the accrued penalty and interest to be abated automatically. Therefore a complete abatement represents a much smaller percent of the total balance due (which includes accrued penalty and interest). Some abatements occurred because the statutory period to collect the tax expired.

Further analysis of these accounts shows that about 14 percent of these taxpayers have assets, which the taxpayer might be able to use to satisfy the liability.[28] Therefore, after removing taxpayers with the assets to potentially satisfy their TDAs, the IRS's use of available tax return and information return data to systemically report cases as CNC-Hardship would result in about 28 percent of the taxpayers who directly paid their liabilities being placed in CNC-Hardship status.

Analysis of Taxpayers With ALE in Excess of Their TPI Who Entered into an IA to Pay Their TDA

Another 28.6 percent of taxpayers (412,171) with incomes below their ALE entered into an IA to pay their TDA liability. Again, to determine why these taxpayers were able to satisfy their TDAs even though they had income less than their ALE, we further explored the circumstances resulting in the full pay. An analysis of these TDA accounts also shows that in many cases, the IRS abated all or most of the liability or the taxpayer's refund offset satisfied the liability. In some other cases, the IRS determined that the taxpayer did not have the wherewithal to meet the terms of the IA and classified the TDA as CNC-Hardship. Accordingly, we removed taxpayers whose accounts had the following characteristics:

- Abatements that were at least 50 percent of the balance;[29]
- Refund offsets that were at least 95 percent of the balance; and
- Cases where the IRS classified a taxpayer as CNC-Hardship after the IA was entered into in 2014; and
- The IA defaulted and the TDA remains unresolved.

After removing taxpayers with these criteria, slightly over two-thirds of the taxpayers with TPI not in excess of their ALE continued to meet the terms of their IA without an abatement, refund offset, the IRS determining that the taxpayer should be classified as CNC-Hardship, or the default of the IA with no new resolution. The following figure describes the TPI, ALE, and balance due of these taxpayers.

FIGURE 4.11, Remaining Full Paid With TPI Less Than ALE After Removals

Total Number of Installment Agreement Taxpayers with TPI ≦ ALE	412,171
Remaining Number of Taxpayers with TPI less than ALE that Full Paid (after any abatements or refund offsets)	286,141
Average Balance Due (after any abatements or refund offsets)	$6,761
Median Balance Due (last Status 22)	$2,615
Average TPI for TY 2014	$28,049
Median TPI for TY 2014	$25,917
Average ALE for TY 2014	$44,949
Median ALE for TY 2014	$43,476

Figure 11 shows that these taxpayers often owe only small liabilities. Around half owe about $2,600 or less, and as a whole, these taxpayers only owe an average amount of $6,761. On average, these taxpayers

28 Although a taxpayer may have assets, they may not be liquid. Furthermore, the assets may be needed for the production of income. An actual financial analysis may be required to determine if the taxpayer can actually use his assets to assist with the satisfaction of the tax delinquency.

29 The IRS only abates assessed amounts, which cause the accrued penalty and interest to be abated automatically. Therefore a complete abatement represents a much smaller percent of the total balance due (which includes accrued penalty and interest).

also have total incomes that are less than two-thirds of their ALE. While these taxpayers are trying to satisfy their liabilities, doing so is likely creating a financial hardship. Again, systemically reporting these TDAs as CNC-Hardship would not prevent these taxpayers from voluntarily paying their liabilities, however, with that classification the taxpayer might not feel compelled to pay these liabilities, since by the IRS standard, these taxpayers' payments would likely create financial hardship.

Further analysis of these accounts shows that about 18 percent of these taxpayers have assets, which the taxpayer could possibly use to sustain them while making the IA payments.[30] Therefore, after removing taxpayers with the assets, the IRS's use of available tax return and information return data to systemically report TDAs as CNC-Hardship when taxpayers' TPI is less than or equal to their ALE would result in about 57 percent of these taxpayers with an existing IA being reported CNC-Hardship.

The IRS had already classified another seven percent of the taxpayers with TPI equal to or less than their ALE as CNC-Hardship. Therefore, we did not perform additional analysis on these taxpayers. We also did not perform additional analysis on those taxpayers with TPI in excess of their ALE, since the taxpayers would be unaffected by a systemic classification of TDA taxpayers as CNC-Hardship.

Analysis of the Federal Poverty Level as a Proxy for the ALE Analysis

We compared multiples of the poverty level to the results of our ALE analysis to determine if some multiple of the poverty level could be used as a proxy (*i.e.*, in lieu of computing the ALE and comparing it to TPI) to determine when a taxpayer might be unable to resolve their TDA through full payment or an IA. We determined that over 80 percent of the taxpayers with TPI equal to or less than their ALE had TPI at or below 250 percent of the poverty level.

CONCLUSIONS

- When considering taxpayers who full paid their TDAs or who entered into an IA that is still in effect even though their ALE is greater than or equal to their TPI, over 55 percent of the time the IRS classified the taxpayer as CNC-Hardship; the liability was satisfied because of refund offsets or abatements; or the IA defaulted.
- Those taxpayers, who were able to directly satisfy their TDAs even though their TPI was not in excess of their ALE, generally had only small liabilities and their TPI was well below their ALE.
- Over 80 percent of the taxpayers with TPI equal to or less than their ALE had TPI at or below 250 percent of the poverty level.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Consider the development of a filter which would use internal IRS data to classify taxpayer delinquencies as TDA hardship if their TPI is less than or equal to their ALE. This procedure could both save IRS resources and reduce taxpayer burden.
2. Require collection personnel to determine if taxpayers can actually afford the payment amount in all types of IAs.

30 Although a taxpayer may have assets, they may not be liquid. Furthermore, the assets may be needed for the production of income. An actual financial analysis may be required to determine if the taxpayer can actually use his assets to assist with the satisfaction of the tax delinquency.

Volume 2

TAS Research and Related Studies

Collecting Business Debts: Issues for the IRS and Taxpayers

Collecting Business Debts: Issues for the IRS and Taxpayers[1]

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1 The principal authors of this study are Tom Beers, Joe Saldana, and Jeff Wilson, TAS Research and Analysis.

EXECUTIVE SUMMARY

In the preceding year, the Taxpayer Advocate Service published a study of the Individual Master File (IMF) Collectibility Curve, which focused on how dollars collected decrease as the years progress after the IRS assigns the case to Taxpayer Delinquent Account (TDA) status. To further explore the issue of collectibility, TAS Research conducted a study of IRS Business Master File (BMF) collections. The study focuses on the collection of business debts from both the IRS and taxpayer perspectives. The IRS sees a significant decline in the reduction of the initial TDA balance as the years progress after the IRS assigns a liability to TDA status with collection often becoming non-existent after four years. Not unexpectedly, the percent of TDAs fully resolved also decline as the years progress.

The IRS is more likely to abate liabilities, which are not self-reported by the taxpayer (e.g., math error assessments or substitute for return assessments). Interestingly the IRS is actually more effective at collecting larger liabilities. This phenomenon may stem from the method that the IRS used to prioritize collections. The IRS is more likely to assign larger liabilities for immediate collection action including the assignment of large delinquencies to a revenue office for personal contact. However, when more time elapses from the return due date until an unpaid balance due return is filed by the taxpayer, the IRS is significantly less effective at collecting the resulting TDA. Another consequence is that the taxpayer becomes more likely to accrue additional unpaid liabilities. From the taxpayer's perspective, the delay in securing balance due returns also causes additional penalty and interest to accrue.

A clear relationship exists between the due date of a liability and additional penalty and interest, the percent of modules remaining open, and the percent of initial module balance remaining. Tax liabilities due for longer periods are more likely to remain open because more penalty and interest will be charged. As a result, more of the dollars collected are applied to penalties and interest compared to those liabilities, which have been due for a shorter timeframe. Taxpayers are burdened as penalties and interest increase significantly, and may no longer have the ability to pay the debt. This is particularly true when multiple tax returns (employment tax returns are due quarterly) are unfiled for an extended period after their due date. The result is an overwhelming debt for the taxpayer and reduced revenue for the IRS.

The study includes detailed findings related to the following general conclusions:

- Collections decrease as more time elapses from the initial BMF TDA assignment;
- Penalties and interest are a significant component of the unpaid BMF liability, particularly for unresolved TDAs, likely overwhelming most taxpayers;
- Overall, the IRS is more effective at closing smaller BMF TDAs, but collects a larger percent of the TDA when balances are larger. However, the IRS is more effective collecting employment tax TDAs when the balance due is smaller;
- The IRS abates a significant amount of BMF TDA assessments; this means the IRS is using collection resources to resolve incorrect assessments; and
- As more time passes from the due date of a tax return to BMF TDA assignment, the IRS is less likely to close the TDA or see as great of a reduction in the initial TDA balance. The likelihood of accruing sizable new delinquencies also increases when there are longer lapses between the BMF tax return due date and when the IRS secures the return and assesses the tax.

While we believe that the findings and conclusion in this study can have a positive impact on various IRS collection policies regarding BMF TDAs, we have also made the following specific recommendations:

- The IRS should try to determine if unfiled BMF tax returns, particularly employment tax returns, have unpaid liabilities, and should secure those returns as soon as possible after the return due date; and
- The IRS should determine and, to the extent possible, mitigate the factors causing such a large percent of the tax assigned to TDA status to be abated, so that resources are not wasted on assessments not due.

INTRODUCTION

Last year, the Taxpayer Advocate Service published a study on the Individual Master File (IMF) Collectibility Curve. Specifically, we analyzed how dollars collected on taxpayer delinquent accounts (TDAs) decrease as time elapses after the initial assignment to TDA status. For TDAs originating from 2003 to 2012, our analysis showed that: (a) dollars collected decrease by more than 50 percent from the first year to the second year; and (b) in the third year, collections decrease by about one-third from the amount collected in the second year.[2] In other words, collections are over twice as much during the first year as in the following year and over three times the collections in the third year. In addition to the rapid decrease in dollars collected as TDAs age, we also found:

- Penalties and interest increase significantly;
- The IRS is less likely to collect TDAs as the balance increases;
- IRS imposed assessments are more likely to be abated than collected; and
- For cases assigned to revenue officers, the IRS abates about a third of the initial TDA module balance.

This year, TAS Research conducted a study on the Business Master File (BMF) collectibility curve. In past Annual Reports to Congress, the National Taxpayer Advocate noted that many of the TDAs[3] in the IRS Automated Collection Branch and the Collection Field function (CFf) are delinquencies that have existed for several years. The following statistics highlight the age of the IRS BMF TDA inventory at the beginning of fiscal year (FY) 2017:[4]

- Overall, almost 54 percent of the IRS BMF TDA inventory has been in the function assigned the delinquency for at least ten months (the delinquency may have been in TDA status much longer);
- Nearly 64 percent of the BMF TDAs in IRS inventory at the end of FY 2016 are tax year (TY) 2011 and prior liabilities; and
- Over a fifth of the BMF TDAs have less than four years remaining on the collection statute, meaning that the delinquency has existed for over six years.

We examined the BMF Accounts Receivable Dollar Inventory (ARDI) and the Enforcement Revenue Information System (ERIS) to conduct analyses of BMF taxpayers. In particular, we explored patterns in

2 In 2003, collections of new taxpayer delinquent accounts (TDAs) decreased by only about 35 percent from the first to the second year, even though the decrease from the second to the third year was similar to later years.

3 A TDA represents only one module, generally a tax return for a single tax year. Since Forms 941, *Employer's Quarterly Federal Tax Return*, are filed quarterly, many business taxpayers have multiple TDAs. At the end of 2012 (the last year analyzed in this study), the ratio of TDAs to Business Master File (BMF) taxpayers was 3.3. Collection Activity Report 5000-2 (Dec. 9, 2013). A taxpayer may have multiple TDA delinquencies.

4 IRS Collection Activity Report 5000-2 (Oct. 3, 2016).

dollars collected on TDAs during the entire ten-year statutory period for collection.[5] Additional analyses include:

- Dollars abated by the underlying source of assessment (*e.g.*, the major cause of the delinquency such as an unpaid balance due return or an audit assessment);
- How accruals of penalty and interest affect the balance due; and
- How the amount of balance due and the time elapsed from the tax return due date until TDA assignment affect the reduction in TDA balance.

Our focus during the IMF study was the description of the collectibility curve and how it varied by different taxpayer characteristics. While the report highlighted areas for additional IRS consideration and study, it did not have findings directed at collection policy or make specific recommendations. In the BMF study, we also describe the collectibility curve of the BMF taxpayers, but we have a greater focus on findings, which the IRS may be able to use to alter its collection policies. Proper resource allocation makes the effective and efficient collection of delinquencies paramount. As discussed below, although business liabilities represent only a small portion of the IRS TDA inventory, these liabilities comprise over half of the CFf inventory. In addition, the CFf staff is significantly more costly on a per employee basis than other IRS Collection staff. The IRS should carefully study and apply the data on how the failure to resolve liabilities soon after their initial due date often leads to fewer dollars collected and additional unresolved liabilities.

Valuable information on the time available to collect business delinquencies effectively will assist the IRS in determining what liabilities should be collected first, and if it makes sense to defer the collection of smaller, more current liabilities in favor of older, larger liabilities. In addition to discussing the collection of existing delinquencies, the report highlights how delays in addressing delinquencies result in taxpayers accumulating new delinquencies.

BACKGROUND

Overview of the IRS Collection Process

When taxpayers incur delinquent tax liabilities, the IRS sends them a series of notices over a four-month period. This period is referred to as "notice status." If the taxpayer does not resolve the liability during notice status, the account enters into TDA status. The IRS then determines whether the case will be referred to the Automated Collection System (ACS), assigned directly to the CFf for in-person contact by a revenue officer (RO), assigned to the Collection Queue ("Queue") to await assignment to an RO, or shelved.[6] A discussion of each of these alternative assignments follows.

5 We chose the ten-year period for analysis because the IRS's authority to collect delinquent taxes, *i.e.*, the statutory period to collect an assessed tax, generally expires ten years after the date of assessment. Section 3461(c)(2) of Revenue Reconciliation Act of 1998 (RRA 98), which controls most lengthy collection statute expiration date (CSED) accounts, states: — If, in any request to extend the period of limitations made on or before December 31, 1999, a taxpayer agreed to extend such period beyond the 10-year period referred to in section 6502(a) of the Internal Revenue Code of 1986, such extension shall expire on the latest of (A) the last day of such 10-year period, (B) December 31, 2002, or (C) in the case of an extension in connection with an installment agreement, the 90th day after the end of the period of such extension. RRA 98, Pub. L. No. 105-206, § 3461(c)(2), 112 Stat. 685, 764 (1998). In some instances, we only show results through the fourth year after the IRS initially assigns a case to TDA status. Modules generally reach TDA status approximately 120 days after the IRS assesses the tax. Therefore, the statutory period to collect delinquent taxes often expires during the tenth year after reaching TDA status. Since the IRS is required to abate tax assessments after the expiration of this statutory period, this abatement sometimes obscures trends in the amount of the initial TDA balance remaining or the number of TDAs remaining open.

6 Shelving refers to the IRS reporting a liability as currently not collectible (CNC) because of its small balance due.

The ACS is a computerized inventory system and telephone call center. After a case arrives in ACS, the IRS checks for levy sources, telephone numbers, and other characteristics. These actions result in additional computer-generated notices to taxpayers. Customer Service Representatives (referred to as "Collection Representatives")[7] work ACS cases and primarily respond to phone calls from taxpayers who call in response to IRS enforcement actions (*e.g.,* levies or liens) rather than proactively contacting taxpayers.

The Queue is an electronic holding bin that holds TDA accounts awaiting assignment to field ROs based on inventory levels.[8] The IRS prioritizes cases assigned to the Queue using a risk-scoring algorithm. The IRS generally assigns cases to CFf when the taxpayer has accrued significant liabilities, when the accrual of new balances due continues to occur (pyramiding), or when the ACS is unable to resolve the case. Upon assignment to the CFf, an RO will actively work the case, attempting to contact the taxpayer and collect the information necessary to determine how to resolve the delinquency. ROs can take enforcement action (*i.e.,* initiate liens, levies or seizures) when deemed necessary to resolve a case.

If the IRS shelves a case, it does not actively work it, but these cases continue to accumulate penalties and interest. This study does not specifically explore collections on shelved cases.

Overview of the BMF Collection Inventory

Overall, the IRS issues most TDAs on individual liabilities. At the beginning of FY 2017, BMF taxpayers comprised less than 14 percent of the total taxpayers in the IRS TDA inventory. Business taxpayers often file quarterly employment tax returns, and, therefore, these taxpayers are more likely to have more delinquent TDA modules (*i.e.,* be delinquent on more than one business return). Nevertheless, BMF taxpayers still account for less than a quarter of all TDA modules.

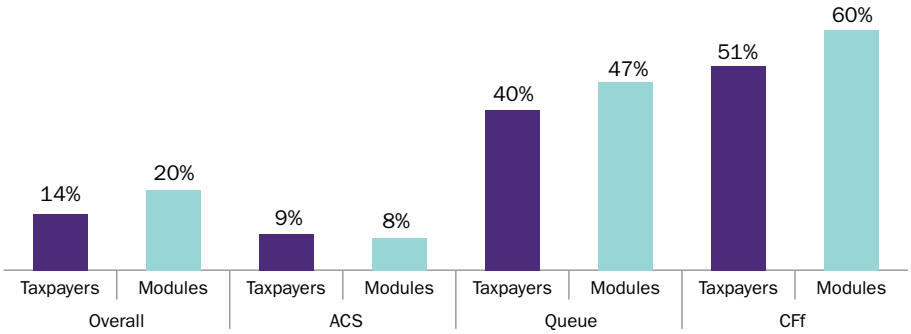
BMF taxpayers comprise less than eight percent of inventory in the IRS ACS. However, BMF taxpayers comprise over 40 percent of the IRS collection queue total taxpayer inventory.[9] This circumstance occurs because business tax liabilities often require personal contact to properly assess and address their unique compliance circumstances. Accordingly, in FY 2016, ACS transferred 45.9% of its BMF modules to the queue, amounting to over $1.4 billion. As a result, BMF cases are often queued, awaiting assignment to a RO. As indicated, BMF taxpayers comprise over half of the IRS CFf (*i.e.,* cases assigned to a RO) total inventory. The following figure depicts the percent of TDA taxpayers and modules contained in the IRS Collection functions.

7 Internal Revenue Manual (IRM) 21.1.1.6, *Customer Service Representative (CSR) Duties*.

8 Work also goes into the Queue from ACS if it cannot be resolved while in ACS status.

9 IRS Collection Activity Report 5000-2 (Oct. 3, 2016).

FIGURE 5.1, Percent of BMF TDA Taxpayers and Modules in IRS Collection Functions



Accordingly, even though business taxpayers are not the majority of the IRS TDA inventory, these taxpayers are the majority of the taxpayer TDAs worked by ROs who represent the most expensive part of IRS Collections operations. To ensure the effective use of IRS Collection resources, TAS wanted to examine what happens over the life of a BMF tax debt: do businesses pay more of the tax debt if the IRS collects earlier in the debt cycle (closer to when the debt actually occurs)? TAS Research examined the BMF ARDI and the ERIS to determine how dollars collected fluctuate over time. We looked at delinquencies that originated in each of ten years (2003 through 2012) and analyzed those delinquencies over the next ten years.[10]

OBJECTIVES

We identified four objectives to explore the relationship between the age of a BMF TDA, the amount of the liability, and the dollars that the IRS collects on these liabilities, *i.e.,* specifically how the module balance declines. We also explore the effect of aging on the number of modules resolved, the accumulation of penalties and interest, the percent abated on various types of assessments, and the accumulation of additional liabilities. Specifically, for BMF liabilities reaching TDA status, we:

1. Explore the effects of aging on BMF TDAs
   - The rate of reduction of these TDA module balances over time;
   - The increase of penalties and interest as a percent of the module balance as a delinquency ages; and
   - The amount and percent of dollars collected as time elapses;
2. Study how the percentage collected and the number of resolved modules change as the TDA balance increases;
3. Determine what percent of the tax comprising BMF TDA liabilities is abated by the IRS and if the percent abated varies by the source of assessment; and

10 We chose the ten-year period for analysis because the IRS's authority to collect delinquent taxes, *i.e.*, the collection statute, expires ten years after the date of assessment. In some instances, we only show results through the fourth year after the IRS initially assigns a case to TDA status. Modules generally reach TDA status approximately 120 days after the IRS assesses the tax. Therefore, the statute to collect delinquent taxes often expires during the tenth year after reaching TDA status. Since the IRS is required to abate tax assessments after the expiration of the collection statute, this abatement sometimes obscures trends in the amount of the initial TDA balance remaining or the number of TDAs remaining open.

4. Examine the effect of the time lapse between the tax return due date and TDA assignment:
   - The effect on the reduction of the initial TDA balance; and
   - The number of delinquent taxpayer modules.

METHODOLOGY

This study analyzes all BMF modules that first entered TDA status between 2003 and 2012 based on the ARDI table of the Compliance Data Warehouse (CDW). Each module was grouped into an inventory year based on the year of its earliest extract cycle posting of TDA status in ARDI. Each inventory year was analyzed separately and then compared to other years to determine where patterns were consistent across inventory years.

ARDI fields for each module were extracted and aggregated over time to analyze the composition of each inventory year, and then to characterize how modules age after reaching TDA status, through up to the full ten years of the statutory collection period. Fields include the total module balance, assessed tax, assessed penalties, interest and accruals of interest and penalties. Modules were also categorized and analyzed based on the age of the module, the quartile of the module balance within its inventory year, and the major source of assessment at the time of TDA assignment.

The analysis was supplemented using matching transaction data (including codes, amounts, dates and cycles) from the BMF Transaction History Table of the CDW. This data was used to compute payments and tax abatement amounts and trends across subsequent years after initial TDA assignment.

Finally, each taxpayer entity's end-of-year module balances owed and total number of debt modules were extracted from ARDI (whether or not the module was in TDA status). These fields were used to contrast the average initial assessment, year ending balance owed, and number of debt modules for each BMF taxpayer entity based on that taxpayer's oldest module in a given inventory year of our study.

As used in this report, the phrase "initial TDA assignment" refers to the time when a module first reaches TDA status, even if the TDA is first assigned to the Collection queue. We have analyzed the data by the year in which the delinquency first reached TDA status. For example, if a taxpayer has an outstanding tax debt assigned to TDA status in 2003 and then an additional module reaches TDA status in 2004, each module is analyzed with respect to the year it became a TDA. However, in the last section on the number of additional delinquent modules, we examine all of the delinquent modules accrued by a taxpayer in the years after the first delinquent module reached TDA status.

Limitations

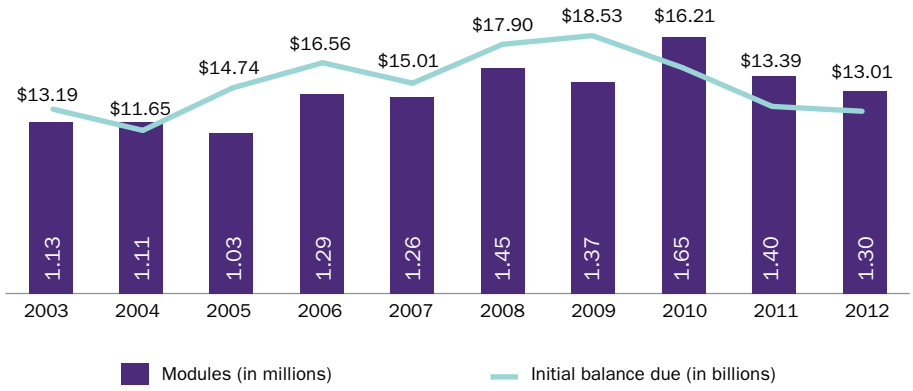
Because tracking in ARDI is limited to monthly extract cycles, there is an unavoidable fuzziness at the edges of time intervals in cases where the actual change in status occurred earlier than posted. However, because this effect only occurs at the boundaries (*e.g.*, at the beginning or end of years of age in the tabulations) the effects are expected to be minimal.

Interest assessed amounts do not contain restricted interest assessments. Although it is a relatively small portion of abatements, dollars abated as a result of accepted offers in compromise (OIC) are included in total abatements.

FINDINGS

For modules reaching TDA status in 2003 (the first year analyzed), the module balance due at the time of TDA assignment was over $13 billion. A similar TDA balance occurred in 2012, the most recent year analyzed. However, the intervening years often saw higher initial TDA balances, with the amount peaking at over $18.5 billion in 2009. At least part of the increase in the amount of liabilities reaching TDA status in 2009 may have been due to the economic recession in the preceding year. Figure 5.2 shows both the number of modules reaching TDA status from 2003 to 2012 and the total amount of the initial TDA balance in each year.

FIGURE 5.2, Number and Amount of Modules Assigned to TDA Status by Calendar Year Initially Assigned to TDA Status



As shown, the amount initially due on TDAs generally reflects the number of TDAs, although there are some slight discrepancies.

Explore the Effects of Aging on BMF TDAs

The Rate of Reduction of These TDA Module Balances Over Time

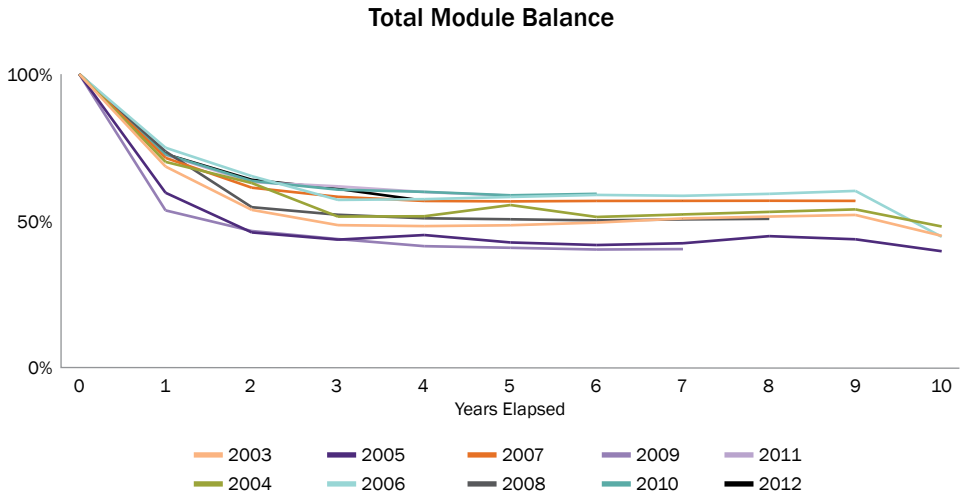
On average, the decline in the initial TDA balance is greatest in the first year after the initial TDA assignment[11] as the balance remaining on the TDA decreases by about 25 to 30 percent from its starting point. However, in 2005, the initial TDA balance decreased by 40 percent, and in 2009, the initial TDA balance declined by nearly 50 percent, even though the initial TDA balance was highest in this year.

In the second year after TDA assignment, the IRS only reduced the initial TDA balance by no more than about an additional 20 percent. By the third year, the initial balance had only further decreased by less than ten percent, with decreases of less than five percent in the fourth year. Further, subsequent to year four, the decrease in the initial TDA balance continued to decline.[12] In general, the ongoing accrual of interest and penalties on unpaid liabilities offsets any additional amounts paid after year four, and we see little or no decrease in the initial TDA balance, and, in fact, the balance due may actually increase. This information is depicted in Figure 5.3.

11 For purposes of this study, the initial TDA balance is the balance due including assessed and accrued penalties and interest upon first reaching TDA status, regardless of whether the IRS assigns the TDA to automated collection system (ACS), Collection Field function (CFf), or the Collection Queue.

12 We have examined the decline in the amount due at the time of the initial assignment to TDA status. The ongoing balances due will often be higher because of additional penalties and interest.

FIGURE 5.3, Percent of Initial TDA Balance Remaining by Years Elapsed After Initial Assignment to TDA Status[13]

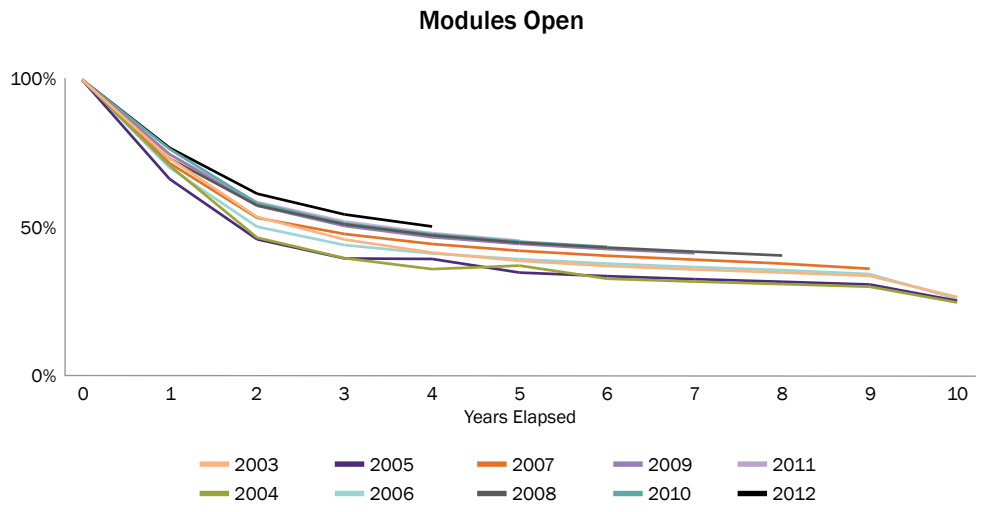


The Rate of Closure of TDA Modules Over the Ten Years of the Collection Statute

As might be expected, the decline in TDA modules remaining open follows a similar trend to the decline in initial TDA balance. Nevertheless, the decline in open TDA modules always exceeds the decline in initial TDA balance, suggesting that the IRS closes smaller TDA modules associated with the overall taxpayer TDA liability. This circumstance may occur because taxpayers are often able to satisfy their Form 940, *Federal Unemployment Tax*, liabilities, even though they cannot satisfy their generally larger quarterly Form 941 employment tax liabilities. The following figure depicts the decline in open TDA modules as the years elapse since assignment to TDA status.

13 The period available to collect delinquent taxes is generally ten years from when the IRS first assesses the tax. Cases generally reach TDA status about 120 days after being assessed. Therefore, the statutory collection period will expire during the tenth years. Absent any extension of the statutory period to collect taxes, the IRS must abate the amount due after the expiration of the collection statute, which is why we see a sharp decline in the percent of the initial TDA balance remaining during in the tenth year after the IRS assigns a case to TDA status. The ten-year period to collect the tax may, however, be extended by certain events such as a taxpayer's bankruptcy or by a voluntary waiver signed by the taxpayer. In addition, some time may elapse between the expiration of the statutory period to collect tax and when the IRS actually abates the outstanding liability.

FIGURE 5.4, Decline in Open TDA Modules by Year After Initial Assignment to TDA Status



The Increase of Penalties and Interest

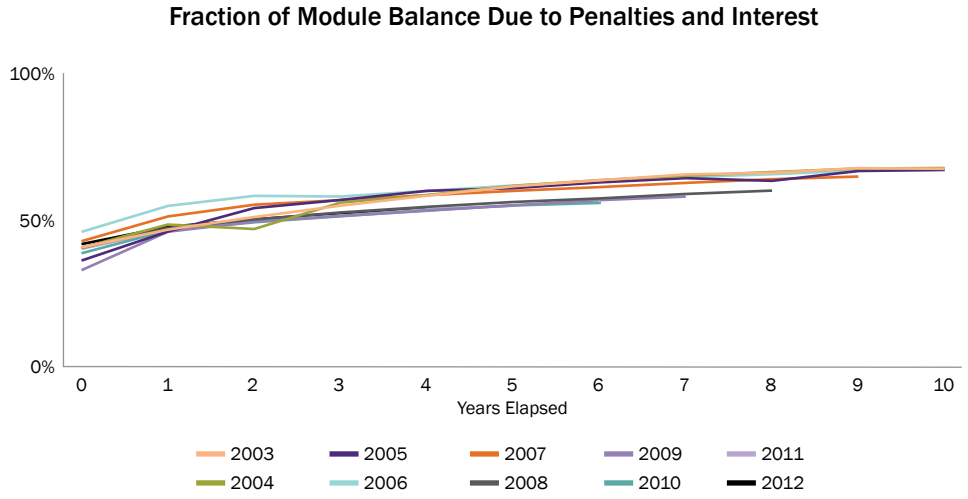
Penalties and interest generally comprised about 40 percent of the balance due when a module reached TDA status.[14] While this initial amount may seem high, the liability does not become a TDA until about four months after the IRS assesses the liability. Furthermore, as we will explore later, due to taxpayer delays in filing unpaid balance due returns, the IRS often does not assess the liabilities until long after the return is originally due. This situation results in significant penalties and interest at the creation of the TDA, since the IRS assesses these amounts from the date the return is due, not from when the taxpayer finally files the return.

For those modules remaining open throughout the ten-year collection statute, penalties and interest comprised over two-thirds of the final balance due. In all the years except 2005, at least half of the balance due by the third year after the IRS assigned the account to TDA status was attributable to penalties and interest.[15] The following figure shows how penalties and interest comprise a growing percent of the TDA balance due as time elapses:

14 In 2009, penalties and interest only comprised a third of the initial TDA balance. This year also saw the highest initial TDA balance.

15 In 2005, penalties and interest were 47 percent of the liability three years after the IRS assigned the delinquency to TDA status.

FIGURE 5.5, Percent of TDA Balance Attributable to Penalties and Interest Increases as the Years Elapse Subsequent to TDA Assignment

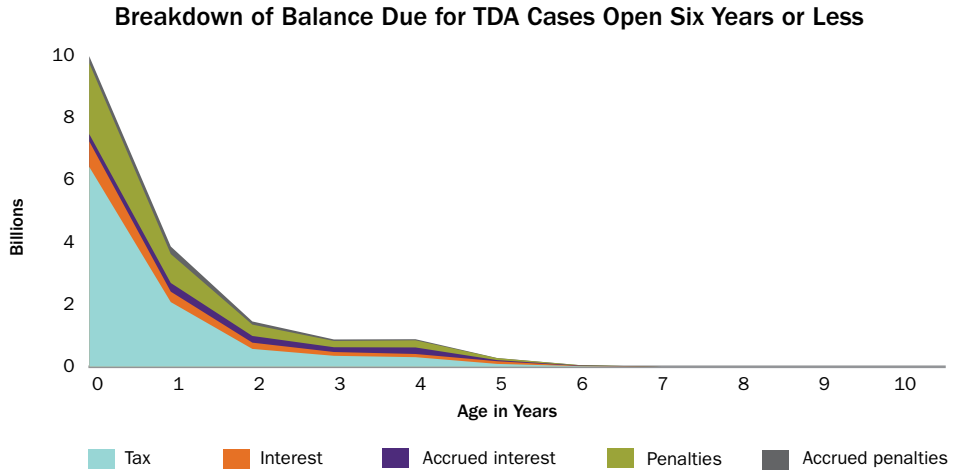


While one reason for the assessment of penalties and interest[16] is to discourage taxpayers from becoming delinquent, interest and penalties are burying many taxpayers. Over time, the total amount paid by the taxpayer is much larger than the amount of tax originally due. The following figures, using the example year of 2006, show the amount of tax, accrued and assessed penalties, and accrued and assessed interest for cases closed within the first six years and cases closed in seven to ten years after TDA issuance.[17] We chose 2006 as an example year, but the other study years where at least 6 years had elapsed show similar results.

16 Interest is also assessed to compensate for receiving tax payments after their original due date. Also, interest accrues daily on outstanding balance, including on penalties.

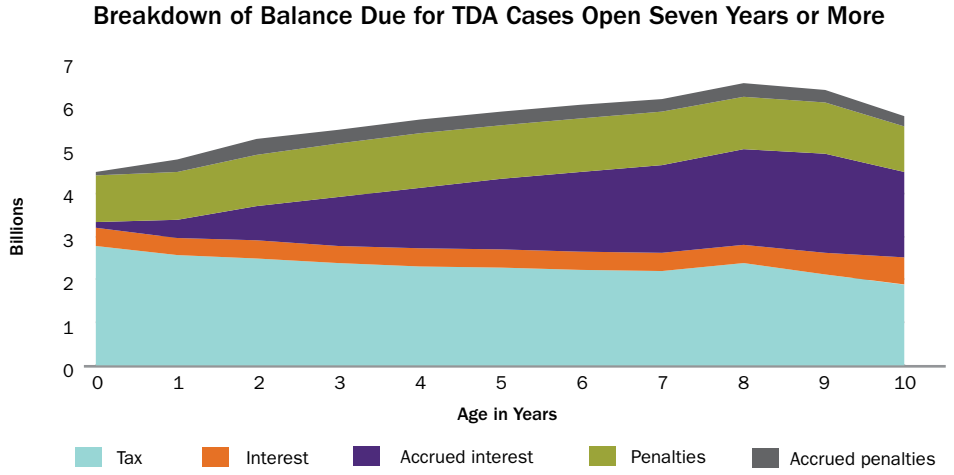
17 The IRS assesses the amount of penalty and interest due when it initially assesses the tax on a module. Penalties and interest continue to accrue until the liability is completely satisfied (or, in the case of penalties, the maximum amount of penalty has been assessed); however, these accruals do not generally become assessments until the assessed tax, penalty, and interest have been paid and additional payments are received, necessitating that accruals be assessed in the amount of the additional payment.

FIGURE 5.6, Composition of Module Balance for TDA Cases Open Six Years or Less — Example Year 2006



As the previous figure shows, for modules closed within the first six years,[18] the assessed and accrued penalties and interest are generally small, compared to the collected tax. Furthermore, the penalties and interest are decreasing as time elapses. However, as the following figure illustrates, the module balance is comprised more of penalties and interest than underlying tax for modules that are open seven years or more. In addition, unlike TDA modules resolved in the first six years, these cases have amounts of penalties and interest that are increasing.

FIGURE 5.7, Composition of Module Balance for TDA Cases Open Seven Years or More — Example Year 2006[19]



18 We chose to look at the difference between penalties and interest assessed and accrued within six years and after six years because the statutory period for collecting delinquent tax was previously limited to six years. However, as we have seen, most collections on delinquent TDAs occur in the first three years. Therefore, if we compared assessed and accrued interest and penalty for modules closed in the first three years and those remaining open past three years, we would see similar trends. A small category of "other" assessments exists, but represents less than .1 percent of the total module balance.

19 We chose 2006 as an example year, but the other years where at least 6 years had elapsed would show similar results. A small category of "other" assessments exists, but represents less than .1 percent of the total module balance.

A comparison of the prior two figures demonstrates several points. First, for the cases closed within the first six years, most of the dollars collected go towards tax due; and the figure shows the amount of dollars applied to tax decreasing throughout the six years.[20] However, since the IRS applies dollars collected to tax first, the decline in penalties and interest does not occur until the latter part of the six years.

On the other hand, cases that remain open in years seven through ten have much more of their total liability attributable to interest and penalty. In fact, in the later years, the amount of interest and penalty may exceed the original liability. Not surprisingly, we only see a minor decrease in the amount of tax due. As discussed previously, the IRS assesses penalties and interest to prevent delinquent behavior so that the IRS receives the monies due it in a timely manner. The IRS also assesses interest to compensate for not receiving tax payments in a timely manner. Unfortunately, for taxpayers struggling to pay off their tax liabilities, penalties and interest can overtake the amount of tax due, making it even more difficult for the taxpayer to pay the delinquency.

How the Percentage Collected and the Number of Resolved Modules Change As the TDA Balance Increases

We divided the balance owed at the initial assignment to TDA status into quartiles when considering all ten years of data. The lowest category has a TDA balance below about $689. The next category has balances between $689 and about $1,877. The third category has balances ranging between $1,877 and $5,623, and the final category has module balances exceeding $5,623.[21] The following figure contains the percent of modules remaining open at the end of the period under study in each TDA balance category.[22]

FIGURE 5.8, Percent of TDA Modules Remaining Open by Amount of Balance Due

Balance Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
< $689	19%	18%	19%	19%	27%	33%	36%	36%	40%	45%
$689 – $1,877	20%	19%	20%	20%	31%	36%	38%	39%	43%	48%
$1,877 - $5,623	28%	26%	26%	26%	37%	41%	40%	44%	46%	51%
>$5,623	39%	37%	38%	39%	50%	53%	52%	55%	55%	59%

In all years, we see there are more TDA modules remaining open in the highest TDA balance category. However, while the IRS generally closes more TDAs in the lower dollar TDA balance categories, the IRS realizes more dollars collected in the highest TDA balance due categories. The following figure shows the percent of the initial TDA balance remaining uncollected at the end of the study period for each category.

20 The IRS applies dollars collected to tax, penalty, and interest, respectively, on the oldest assessment. After, the oldest assessment is satisfied the IRS begins the process again with the next oldest assessment. Therefore, older assessments that remain unpaid and accrue more interest and penalty, cause more collections to be applied to penalty and interest, before being applied to tax on the next oldest assessment.

21 We computed the breakpoints for the quartiles by using the data from all ten years; however, when computed separately, by year, the quartiles were very similar. The exact breakpoints for the quartiles, are $688.75, $1,877.10, and $5.623.14.

22 The study period is ten years for modules reaching TDA status from 2000 to 2006. For all other years, it is the end of 2015.

FIGURE 5.9, Percent of Initial TDA Balance Remaining by Quartile of Initial TDA Balance Due

Balance Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
< $689	68%	64%	56%	56%	68%	71%	67%	62%	70%	74%
$689 – $1,877	43%	40%	40%	46%	55%	56%	55%	54%	56%	61%
$1,877 – $5,623	49%	43%	42%	41%	55%	55%	52%	54%	55%	58%
>$5,623	44%	48%	39%	44%	57%	50%	39%	60%	59%	56%

In every year, the IRS saw a greater decrease in the module balance of TDAs in the highest dollar category when compared to the lowest TDA balance category. This is different from the analysis of IMF TDAs, where the IRS was both more effective at closing small balance due modules and at collecting more on smaller balance TDAs. Higher dollar TDAs may generate more collections because these TDAs are generally assigned to a revenue officer before other smaller TDA balances. There is also a greater variance of the dollars due in the highest TDA balance category. Therefore, the collection of even a few of the highest dollar liability TDAs is likely to increase the overall percent of dollars collected. Additionally, IRS policy applies dollars collected to the oldest modules first. Since the oldest modules are more likely to have higher amounts of penalties and interest, we likely see more dollars collected on TDAs in the highest dollar category.

In most years, TDAs in the highest balance category saw their module balance reduced by about 15 to 20 percent more than TDAs in the lowest category of balance due.[23] However, the IRS was also more likely to resolve 15 to 20 percent more modules in the lowest TDA balance category than the highest TDA balance category. Interestingly, TDAs in the middle categories of initial TDA balance due have similar percentages of the initial balance remaining as those in the highest category of initial TDA balance. In some years, TDAs in these middle categories saw a greater reduction in the initial TDA balance due than TDAs in the highest initial balance due category. In other years, TDAs in the highest initial balance due category saw a greater reduction of the initial balance.

While it is true overall that the IRS collects a greater percent of the TDA balance due when the most is owed, the initial TDA module balance generally sees a greater reduction when the amount owed is less for employment tax liabilities. Figure 5.10 illustrates the percent of the initial TDA balance remaining when only considering employment tax liabilities.

FIGURE 5.10, Percent of Initial TDA Balance Remaining by Quartile of Initial TDA Balance Due for Employment Tax Liabilities

Balance Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
< $689	46%	38%	42%	45%	63%	57%	55%	46%	51%	53%
$689 – $1,877	39%	35%	37%	36%	50%	52%	48%	45%	47%	49%
$1,877 – $5,623	50%	43%	43%	42%	53%	54%	50%	51%	51%	53%
>$5,623	59%	54%	38%	56%	63%	62%	61%	62%	57%	63%

23 The difference was only two percent in 2010, and 11 percent in 2011.

This figure illustrates the IRS has more difficulty collecting employment tax liabilities when the TDA balance increases. Therefore, the IRS should consider an increased reliance on Federal Tax Deposit (FTD) alerts, which assign instances of missed FTDs to field ROs for investigation and quick resolution with the goal of preventing delinquencies from getting out of hand. The IRS might also consider assigning these investigations to ACS, since many FTD alerts are explained by changes in circumstances and do not actually represent delinquent behavior; however, only if true delinquencies could be quickly assigned to ROs so that true problems could be resolved expeditiously. Many FTD alerts occur because the business has suddenly become defunct with no further liabilities. However, some FTD alerts occur because an in-business taxpayer has failed to remit funds withheld from taxpayers. In these latter instances, it is imperative that the IRS initiate immediate taxpayer contact to resolve the current delinquency as well as to begin the timely remittance of newly withheld funds.

When considering non-employment tax liabilities (*e.g.*, Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, corporate income tax, penalties for failure to file, information returns, etc.), the IRS is clearly more effective at collecting larger balance due TDAs, as indicated by Figure 5.11.

FIGURE 5.11, Percent of Initial TDA Balance Remaining by Quartile of Initial TDA Balance Due for Non-Employment Tax Liabilities

Balance Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
< $689	102%	109%	77%	71%	74%	88%	81%	78%	87%	96%
$689 – $1,877	51%	54%	47%	70%	68%	69%	68%	68%	67%	74%
$1,877 – $5,623	43%	41%	35%	39%	63%	59%	57%	63%	63%	65%
$5,623	26%	37%	41%	33%	49%	37%	21%	56%	61%	48%

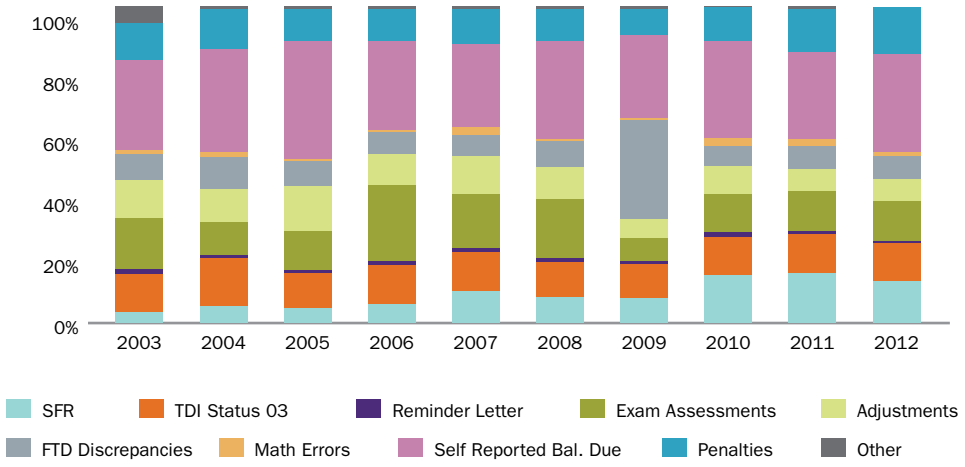
More investigation is needed to determine why, overall, the IRS collects a greater percentage of the initial TDA balance due when more is owed. However, it may be because small non-employment tax liabilities have a low priority in the IRS' significant BMF caseload.

Determine the Percent of Liabilities Abated by the IRS and If the Percent Abated Varies by the Source of Assessment

When considering all types of assessments, the IRS abates about a quarter or more of the initial BMF TDA balances in each year.[24] As a result, the IRS is spending significant resources working erroneous assessments. We are not advocating that the IRS should not abate bad assessments, but rather that the IRS needs to more accurately determine the correct amount of tax when it imposes additional assessments, whether through math error authority, examination, its authority to estimate and assess delinquent unfiled returns (a Substitute for Return (SFR) or Automated Substitute for Return (ASFR)), or other means. Figure 5.12 displays the volume of TDA modules initially assigned in each year by the source of assessment.

24 The percent abated is only 18 percent in 2012, but sufficient time has not elapsed for all of the abatements to occur.

FIGURE 5.12, Source of Assessment of Modules by Year Initially Assigned to TDA Status



While self-reported balance due assessments account for the largest single source of assessment of liabilities reaching TDA status, these assessments generally only account for a quarter to a third of the TDAs assessed in each year. Examination assessments on BMF liabilities usually account for the next largest category of assessments resulting in TDAs, but the IRS usually abates approximately a quarter of these assessments.[25] TDA modules from IRS assessed BMF penalties also account for similar percentages of assessments of the TDA tax liabilities assessed in each year, yet the IRS often abates the majority of the amounts assessed. However, we should note that penalty assessments may be abated because the IRS abates the underlying tax prior to TDA assignment; therefore, the abated amount may be attributable to one of the other sources of assessment.

IRS SFR assessments have increased, accounting for less than five percent of the TDA assessments in 2003, but accounting for about 15 percent of TDA assessments in the recent years. Nevertheless, the IRS consistently abates about 40 percent of the amounts assessed. On the other hand, for every year except 2003, unfiled return investigations (TDI Status 03) resulted in returns that had abatement rates, which were about three times smaller than the abatement rates for SFR assessments.

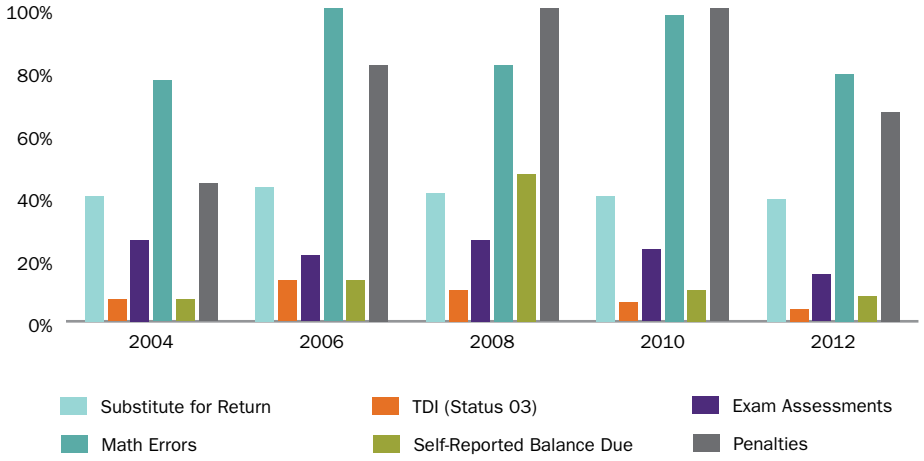
Math error assessments only account for a few percent of the TDAs assessed each year; however, the IRS abates about 80 percent of these assessments.[26] The following figure depicts the major source of the assessment and the amount of the assessment abated.[27]

25 In 2003, the IRS only abated nine percent of BMF examination assessments. In 2012, the IRS only abated 15 percent of BMF examination assessments, but sufficient time may not have elapsed for abatements to occur on these assessments.

26 The IRS assigns a math error to a BMF return when the return contains an apparent mathematical error. For example, the net of two lines is mathematically incorrect, but only because of a transposition error on one of the netted lines. Accordingly, the net amount may actually be correct, but appear incorrect.

27 The figure does not show 2005 Windfall Profits Program Assessments of $27,751. None of this amount was abated.

FIGURE 5.13, Percent of Assessments Abated by Selected Source of Assessment and Selected Years[28]



Examine the Effect of the Time Lapse Between the Tax Return Due Date and TDA Assignment

The Effect on the Reduction of the Initial TDA Balance

To further explore how the age of the liability impacts the dollars collected, we looked at the age of the liability when computed from the original return due date, regardless of when the tax was assessed. For example, a TDA may be delinquent for only 90 days because the return was secured a short time ago, even though the return was actually due two years ago. The following figure depicts the percent of the original module balance remaining open at the end of the study period[29] by quartiles of time elapsed since the original return due date. We divided the time categories from return due date to TDA assignment into quartiles when considering the elapsed time for all years analyzed. We define the resulting categories in the figure below. When the age of the liability is computed from the due date of the tax return to the time of TDA assignment, a clear relationship exists between the time elapsed and the amount of interest and penalty remaining uncollected, as shown in the following figure.

28 The source of assessment represents the major reason for the assessment resulting in the TDA. The percent abated considers tax only, so abatements of penalties due to reasonable cause or the abatement of penalties and interest, because the underlying tax has been abated, are not included. The percent abated for the math error source of assessment in 2006 and the penalties and other source of assessment categories were set to 100 percent for graphical representation purposes, but were actually 112 percent, 133 percent, and 143 percent, respectively. The percent abated may exceed 100 percent when tax assessed prior to TDA assignment is abated subsequent to TDA assignment.

29 The study period is ten years for modules reaching TDA status from 2003 to 2006. For all other years, it is the end of 2015.

FIGURE 5.14, Percent of Module Balance Remaining Attributable to Interest and Penalty

Years from tax return due date to TDA	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Up to 1.25 Years	62%	61%	61%	59%	56%	52%	49%	47%	45%	43%
> 1.25 Years to 2 Years	65%	64%	64%	63%	60%	56%	53%	51%	48%	46%
>2 Years to 3 Years	68%	67%	67%	66%	63%	59%	57%	53%	54%	53%
> 3 Years	75%	75%	72%	73%	71%	66%	67%	63%	62%	62%

In addition to examining how the time elapsed between the due date of a tax return and TDA assignment affects the increase of penalties and interest we also examined how this lapse of time affects the percent of modules remaining open and the percent of the initial TDA balance remaining uncollected. The following figure depicts the percent of TDA modules remaining open by quartiles of time elapsed between tax return due date and TDA assignment four years after the IRS assigned the case to TDA status.

FIGURE 5.15, Percent of TDAs Remaining Open After Four Years by Time Elapsed from Return Due Date to TDA Status

Years from tax return due date to TDA	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Up to 1.25 Years	37%	34%	35%	36%	40%	42%	43%	40%	41%	42%
> 1.25 Years to 2 Years	38%	31%	34%	33%	38%	41%	41%	39%	39%	41%
>2 Years to 3 Years	45%	37%	42%	44%	46%	49%	47%	48%	49%	50%
> 3 Years	50%	43%	48%	50%	52%	56%	55%	59%	57%	61%

The prior figure shows that for all years, when the time between the return due date and TDA assignment is greater than two years, the percent of TDAs remaining open is higher than when no more than 1.25 years elapse from the tax return due date to TDA assignment. The next figure shows the percent of initial TDA balance remaining after four years.[30]

FIGURE 5.16, Module Balance Remaining – After Four Years by Time Elapsed from Return Due Date to TDA Status

Years from tax return due date to TDA	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Up to 1.25 Years	56%	54%	29%	55%	49%	60%	24%	56%	48%	50%
> 1.25 Years to 2 Years	60%	49%	59%	55%	58%	59%	61%	57%	56%	53%
>2 Years to 3 Years	40%	52%	43%	52%	50%	34%	48%	51%	49%	47%
> 3 Years	44%	52%	53%	66%	63%	55%	58%	68%	72%	69%

30 The statutory period to collect tax is limited to ten years after the IRS assesses the tax liability. Modules generally reach TDA status approximately 120 days after the IRS assesses the tax. Therefore, the statutory collection period often expires during the tenth year after reaching TDA status. Since the IRS is required to abate tax assessments after the expiration of the statutory period, this abatement sometimes obscures trends in the amount of the initial TDA balance remaining or the number of TDAs remaining open.

In general, the percent of the initial TDA balance remaining is higher when more than three years have elapsed from the tax return due date to the time the IRS assigns the module to TDA status, especially when compared to modules assigned to TDA status within 1.25 years after the tax return due date. Surprisingly, however, there are three notable exceptions to this trend. In 2003, 2004, and 2008, the TDA module balances declines the most when a longer time elapsed from the due date of the return until the IRS assesses the TDA. Additional analyses, such as the impact of economic factors (*e.g.,* the 2001 and 2008 recessions and subsequent recoveries), and IRS collection policies would be required to identify additional factors that may have influenced these outcomes.

While we have not shown the dollars collected in a figure, no clear trend exists in the ratio of dollars collected to initial TDA balance. In some years, a higher percent of the initial TDA balance is collected when more time elapsed from the return due date to the initial assignment to TDA status; however, this relationship is not always true. In most of the years from 2003 to 2012, the percent of the initial TDA balance collected is very similar regardless of the time elapsed from the tax return due date.

When examined in this light, a clear relationship exists between the due date of a liability and additional penalty and interest, the percent of modules remaining open, and the percent of initial module balance remaining. Tax liabilities due for longer periods are more likely to remain open because more penalty and interest will be charged. Therefore, more of the dollars collected will be applied to penalties and interest compared to those liabilities, which have been due for a shorter timeframe. This can have negative consequences for the taxpayer. Taxpayers are burdened as penalties and interest increase significantly, and may no longer have the ability to pay the debt. This is particularly true when multiple tax returns (employment tax returns are due quarterly) are unfiled for an extended period after their due date. The result is an overwhelming debt for the taxpayer and reduced revenue for the IRS.

The IRS' failure to secure returns shortly after their due date significantly decreases the number of modules successfully resolved, and, correspondingly, the reduction in the initial TDA balance. The IRS should factor the importance of securing delinquent returns soon after the return's due date into its prioritization of inventory delivery. We also saw, however, that when the IRS assesses estimated liabilities, the IRS ultimately abates a significant portion of these assessments. Accordingly, the IRS needs to focus on securing the taxpayer's self-reported return as soon as possible.

Describe How the Delay in Assignment of BMF TDAs Affects the Number and Amount of Delinquencies Accrued Subsequent to the Initial Unresolved TDA

We have seen that the amount of collections decreases as time progresses from initial TDA assignment, causing liabilities to remain unresolved longer, penalties, and interest to continue to accumulate. This decrease occurs not just because the taxpayer owes less as the IRS collects money to satisfy the debts, but more importantly because a smaller percent of the amount remaining due is collected.

As we have seen, another significant factor negatively influencing collections is the length of time between a tax return's original due date and when the liability reaches TDA status. This delay primarily occurs because the taxpayer files returns late, probably because paying the debt would have been difficult at the time the return was due. However, of more significance than how delays in collecting liabilities decrease the success of resolving the liability is the increase in unpaid modules, as time elapses between the due date of the first delinquent return and the taxpayer's first TDA. The following figure shows how the number of delinquent modules and the total amount due increase as the time from the due date of the first delinquent return to the initial TDA assignment increases.

FIGURE 5.17, Taxpayer's Number of Delinquent Modules and Total Amount Due by Time Elapsed from Tax Return Due Date to Initial Assignment to TDA Status — Example Year 2006[31]

The figure indicates, the longer the time elapses between the due date of a tax return and the taxpayer's first TDA, the greater the number of delinquent modules. Interestingly, the elapsed time shown above in quartiles two and three does not appear to have a large impact on the number and amount of delinquencies. However, when the time between the due date of a tax return and the initial TDA assignment for the taxpayer exceeds three years, the taxpayer owes two to three times as much as when the initial liability reaches TDA status within three years of the tax return due date.[32]

CONCLUSIONS

- Collections decrease as more time elapses from the initial BMF TDA assignment.
- Penalties and interest are a significant component of the unpaid BMF liability, particularly for unresolved TDAs, likely overwhelming most taxpayers.
- Overall, the IRS is more effective at closing smaller BMF TDAs, but collects a larger percent of the TDA when balances are larger. However, the IRS is more effective collecting employment tax TDAs when the balance due is smaller.
- The IRS abates a significant amount of BMF TDA assessments; this means the IRS is utilizing collection resources to resolve incorrect assessments.
- As more time passes from the due date of a tax return to BMF TDA assignment, the IRS is less likely to close the TDA or see as great of a reduction in the initial TDA balance. The likelihood of accruing sizable new delinquencies also increases when there are longer lapses between the BMF tax return due date and when the IRS secures the return and assesses the tax.

31 We show the average number of delinquent modules and total tax due by the quartiles of time elapsed from the tax return due date to a taxpayer's initial assignment in a typical year, 2006. The other nine years have similar trends.

32 During the most recent five years analyzed, the average number of delinquent modules when more than three years had elapsed from the tax return due date until the taxpayer's first TDA assignment had increased to over five.

RECOMMENDATIONS

- The IRS should try to determine if unfiled BMF tax returns, particularly employments tax returns, have unpaid liabilities, and should secure those returns as soon as possible after the return due date.
- The IRS should determine and, to the extent possible, mitigate the factors causing such a large percent of the tax assigned to TDA status to be abated, so that resources are not wasted on assessments not due.
- The IRS should explore how employment tax balances due and time lapses between the tax return due date and TDA assignment should affect how it prioritizes collection inventory.