



Treasury Inspector General for Tax Administration

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2007

Issued on April 18, 2008

Highlights

Highlights of Report Number: 2008-30-095 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

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

WHY TIGTA DID THE AUDIT

This review was initiated due to an ongoing request of the IRS Oversight Board to provide statistical information and trend analyses of collection and examination activities within the IRS. Data were obtained from various IRS management information systems.

WHAT TIGTA FOUND

Many compliance activities increased and results improved during Fiscal Year 2007. Since Fiscal Year 2000, the IRS has reversed numerous downward trends in compliance activities that had occurred in prior years. Some of the positive changes might be attributable to management emphasis on the Collection and Examination functions' programs. Over the last few years, the Small Business\Self-Employed Division has implemented reengineering and organizational changes, and both the Collection and Examination functions continue to study ways to improve workload selection.

The level of compliance activities and the results obtained in many Collection function areas showed a continued increase. Use of collection enforcement tools was greater and enforcement revenue collected continued to increase (to \$59.2 billion), but the total dollar amount of uncollected liabilities increased to \$290 billion. The gap between new delinquent account

receipts and closures had widened by 63 percent as of the end of Fiscal Year 2007.

The overall percentage of tax returns examined increased by almost 9 percent, even though the number of field examiners decreased by just over 4 percent. In addition, the overall percentage of tax returns examined was 2 percent higher than in Fiscal Year 1998.

The number of individual tax returns examined increased. However, 83 percent were conducted via correspondence examinations, which are usually not as comprehensive as face-to-face examinations.

The number of corporate tax returns examined increased by just over 4 percent, after decreasing 1 percent in Fiscal Year 2006. However, this number has decreased almost 45 percent since Fiscal Year 1998.

Continued effort to improve compliance is important to maintaining the integrity of the voluntary compliance system and reducing the tax gap. According to a tax gap strategy document dated September 2006, the tax gap for Tax Year 2001 was \$345 billion. The strategy document provides a broad base on which to build future efforts to address the tax gap but depends on future budget funding to provide detailed strategy elements. In August 2007, the IRS released a report that builds on the strategy by providing details about actions planned to reduce the tax gap. However, many of the actions will require the assistance of Congress.

WHAT TIGTA RECOMMENDED

Due to the nature of this review, TIGTA made no recommendations in the report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200830095fr.pdf>

Email Address: inquiries@tigta.treas.gov
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