



Treasury Inspector General for Tax Administration

INSTALLMENT AGREEMENT USER FEES WERE NOT PROPERLY CALCULATED OR ALWAYS COLLECTED

Issued on May 13, 2008

Highlights

Highlights of Report Number: 2008-40-113 to the Internal Revenue Service Deputy Commissioners for Operations Support and for Services and Enforcement.

IMPACT ON TAXPAYERS

Each year, the Internal Revenue Service (IRS) initiates approximately 1.5 million installment agreements with taxpayers allowing them to pay delinquent Federal tax in installment payments. The IRS charges a user fee for setting up these agreements. Our review of the IRS cost estimates for the installment agreement user fees established in January 2007 indicated that the user fees charged taxpayers were set incorrectly and were sometimes waived without justification, and some taxpayers were charged duplicate fees.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the Fiscal Year 2006 Annual Audit Plan. Installment agreements are considered a special service and taxpayers are charged a fee to offset the IRS' cost of providing that service. In Fiscal Year 2006, the IRS received approval from the Office of Management and Budget to increase its user fees for installment agreements—from \$43 to \$105 for new agreements and from \$24 to \$45 for reinstated/restructured agreements. It also received approval to charge a reduced user fee of \$43 for low-income taxpayers and \$52 for taxpayers who entered into installment agreements by direct debit payment method.

The overall objective of this audit was to evaluate controls over establishing installment agreement user fees, recognizing user fee revenue, accounting for user fees, and correcting duplicate user fee payments.

WHAT TIGTA FOUND

The cost estimates used to establish user fees required to be re-evaluated every 2 years to keep the costing current should be based on the best available records and represent the full cost of providing the service. However, for installment agreement user fees, the IRS did not perform the required reviews every 2 years.

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Furthermore, the new user fees in 2007 were based on inaccurate cost estimate assumptions and contained calculation errors and unsupported costs resulting in a higher user fee estimate than was justified by the supporting documentation. Based on our recalculations, the IRS is potentially overcharging taxpayers \$16.85 for initiating an installment agreement and \$7.77 for restructuring/reinstating an installment agreement. Since January 2007, TIGTA estimates that the IRS has collected excess amounts for user fees which could total \$10.3 million for initial agreements and \$2.5 million for restructured/reinstated agreements.

IRS examiners were also improperly waiving user fees and failing to document the reasons behind the waivers. The amount of uncollected installment agreement user fees could be \$629,021 as a result of improperly waiving the initial user fee. Moreover, \$457,982 in waived restructured/reinstated installment agreement user fees is questionable due to the lack of documentation. Duplicate user fees were also being charged with 15 percent of the duplicates going uncorrected, which could have resulted in 435 taxpayers being overcharged user fees totaling \$18,705 in the second quarter of Fiscal Year 2006.

WHAT TIGTA RECOMMENDED

The Chief Financial Officer should ensure that the methodology used to support installment agreement user fee rates is properly revised. The Commissioner, Wage and Investment Division, should establish a system control to ensure that fees for an initial installment agreement are not waived and the justification for waiving restructured or reinstated fees is documented. To ensure collection of the user fee, the practice of processing installment agreement tax payments without a coupon should be revised, and the information provided to examiners on duplicate payments should be expanded to include information on the number of duplicates that exist.

IRS management agreed with five of our recommendations and partially agreed with one recommendation. However, the IRS disagreed with our conclusions that taxpayers were overcharged for user fees based on a revised methodology developed but never sent forward to the Office of Management and Budget for approval. The IRS has decided to re-examine its revised methodology, which is scheduled to be completed by May 2009. TIGTA believes the IRS cannot with any certainty establish the actual cost of providing an installment agreement to a taxpayer until it conducts a thorough analysis and validates its approach and data.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:
<http://www.treas.gov/tigta/auditreports/2008reports/200840113fr.pdf>.

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