



Highlights of [GAO-06-525](#), a report to the Committee on Finance, U.S. Senate

### Why GAO Did This Study

Taxpayers unable to fully pay their tax liabilities may apply for an offer in compromise (OIC), an agreement with IRS to pay what they can afford. IRS writes off the rest of the liability. In 2005, IRS accepted over 14,000 offers. Because of concerns about program performance and a new category of offers based on exceptional circumstances, GAO was asked to (1) describe the trends in program's performance and their causes and (2) determine whether IRS's regulations for exceptional circumstance offers are consistent with statute. GAO examined five program objectives: timeliness, quality, accessibility, compliance, and cost.

### What GAO Recommends

GAO recommends that IRS (1) measure accessibility, compliance, and timeliness by taxpayer; (2) set timeliness goals by taxpayer; (3) analyze causes of trends in repeat offers, timeliness, and accessibility; (4) adjust staffing to correspond with workload; and (5) eliminate the distinction between most exceptional circumstances offers and offers based on inability to fully pay.

IRS partially agreed with our recommendations. IRS agreed to consider tracking compliance, study repeat offers, and reduce staffing. IRS did not agree to measuring or set goals for timeliness from the perspective of taxpayers. IRS said it will study whether our other recommended changes should be implemented. [www.gao.gov/cgi-bin/gettrf?GAO-06-525](http://www.gao.gov/cgi-bin/gettrf?GAO-06-525).

To view the full product, including the scope and methodology, click on the link above. For more information, contact James R. White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

## IRS OFFERS IN COMPROMISE

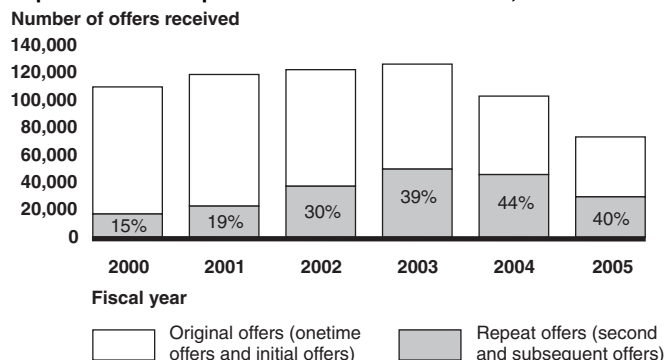
# Performance Has Been Mixed; Better Management Information and Simplification Could Improve the Program

### What GAO Found

OIC Program performance has been mixed. Timeliness improved for taxpayers making one offer to 5.8 months in 2005 but stayed constant, at an average of two years, for those making repeat offers. Quality goals have been met but IRS does not routinely track compliance and accessibility. Further, cost per offer has increased in that IRS has not decreased staffing since fiscal year 2003 in proportion to declines in offers. Improving the program depends on how well IRS management understands the reasons for the program's performance. One step in understanding performance is measuring it. However, IRS does not measure timeliness from the perspective of the taxpayer—for taxpayers with repeat offers IRS measures the time to decide each offer but not the overall time to resolve the taxpayer's liability. IRS lacks compliance and accessibility trend data useful for assessing performance. Another step in understanding performance is setting goals. IRS set numeric goals for timeliness and quality, but IRS's timeliness goals do not have a rationale and are not based on taxpayer needs or other benefits. A third step in understanding performance is analysis. While IRS has done some analyses that led to program changes, IRS has not analyzed the effect of repeat offers on timeliness to determine whether it would be less costly to deal once with a taxpayer rather than have to process repeat offers. IRS also has not analyzed whether the decrease in offers accepted since fiscal year 2003 reflects a decrease in program accessibility, or whether the efforts to improve the compliance of program participants have been successful.

IRS's regulations for exceptional circumstance offers, intended for taxpayers who can fully pay, are consistent with statute. However, most exceptional circumstance offers are granted to taxpayers who cannot fully pay. These offers are not meaningfully distinct from the more common offers based on inability to fully pay. The lack of distinction causes unnecessary program complexity and confusion. Taxpayers are faced with the paradoxical process of proving that they can pay their tax liability and then explaining why they cannot.

**Repeat Offers Compared to Total Offers Received, Fiscal Years 2000-2005**



Source: GAO analysis of IRS's AOIC database.