



COMPLIANCE AND COLLECTION

Challenges for IRS in Reversing Trends and Implementing New Initiatives

Highlights of GAO-03-732T, a testimony before the Subcommittee on Transportation, Treasury, and Independent Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

Taxpayers' willingness to voluntarily comply with tax laws depends in part on their confidence that friends, neighbors, and business competitors are paying their fair share of taxes. The Internal Revenue Service's (IRS) programs to ensure compliance and to collect delinquent taxes are viewed by many as critical for maintaining the public's confidence in our tax system.

The Subcommittee asked GAO to present information on trends in IRS's compliance and collection programs and to discuss issues related to IRS's efforts to increase staffing for these programs. GAO was also asked to discuss IRS's plans to launch new initiatives to reduce noncompliance with the Earned Income Tax Credit (EIC) and to use private collection agencies to assist in collecting delinquent taxes.

What GAO Recommends

GAO is not making any recommendations. GAO is currently working with members of Congress to define the scope of work they would like GAO to do to assess IRS's proposed initiative to address EIC noncompliance.

What GAO Found

From fiscal years 1993 through 2002, IRS's four major compliance programs for individual taxpayers had mixed trends in the portion of taxpayers they contacted with two declining, one increasing, and one staying relatively the same. Among the programs, IRS's often-cited audit rate declined about 38 percent. From fiscal years 1996 through 2001, IRS's collection program experienced almost universal declines in workload coverage, cases closed, direct staff time used, productivity, and dollars of unpaid taxes collected. Many parties have expressed concern about the compliance—especially audit—and collections trends for their potential to undermine taxpayers' motivation to fulfill their tax obligations.

Since 2001 IRS has sought more resources including increased staffing for compliance and collections. Despite receiving requested budget increases, staffing levels in key occupations were lower in 2002 than in 2000. These declines occurred for reasons such as unbudgeted expenses consuming budget increases and other operational workload increases. Based on past experience and uncertainty regarding some expected internal savings, fiscal year 2004 anticipated staff increases might not fully materialize.

IRS's 2004 budget proposes a substantial initiative to address known sources of EIC noncompliance. IRS intends to ramp up the initiative rapidly with planning and implementation proceeding simultaneously. If it is to succeed, the initiative will require careful planning and close management attention.

IRS also proposes to use private collection agencies to assist in collecting certain delinquent tax debt. IRS is seeking authority to retain some tax receipts in a revolving fund to pay the private collectors. A pilot effort to use private collectors in 1996 was unsuccessful, in part because IRS was unable to identify and channel appropriate collection cases to the private collectors. Key implementation details for this proposal must be worked out and it too will require careful planning and close management attention.

Proposed EIC Initiative Caseloads by Fiscal Year and Initiative Type, 2004-08

Initiative		Fiscal year				
		2004	2005	2006	2007	2008
Qualifying child						
Relationship certification		45 <sup>a</sup>	2,000	1,500	800	100
Residency certification		<sup>a</sup>	0	1,000	1,000	1,000
Filing status		5	450	450	450	450
Income reporting <sup>b</sup>		175	470	470	470	470

Source: IRS.

Note: Projections are based on receiving an initiative-specific annual appropriation of \$100 million.

<sup>a</sup>In 2004, a total of 45,000 claimants will be asked to certify both their relationship and their residency.

<sup>b</sup>Also known as the "underreporter" initiative.

[www.gao.gov/cgi-bin/getrpt?GAO-03-732T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-732T).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.