



*Confirmation of Tax Noncompliance Issues  
Among Low Income Taxpayer Clinics*

**September 18, 2006**

**Reference Number: 2006-10-093**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

**Redaction Legend:**

1 = Tax Return/Return Information

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## *Background*

In September 2005, the Treasury Inspector General for Tax Administration issued an audit report entitled *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program* (Reference Number 2005-10-129).

The National Taxpayer Advocate's (NTA) August 26, 2005, response to the report identified corrective actions. Two comments in the response raised concerns, so we initiated a limited review to determine whether there was sufficient support for the two statements and whether the related recommendations from the September 2005 audit report were still valid. The results of our review were reported in the attached May 10, 2006, memorandum to the NTA.

Subsequent to the issuance of our May 2006 memorandum, the NTA clarified the basis for the statement in her response to the prior audit report concerning the reasons for tax noncompliance by eight clinics. The NTA has recently emphasized to us that she was not disputing the accuracy of our assessment, but rather she agrees with our assessment of the noncompliance by the Low Income Tax Clinics (LITC) in February 2005, when the audit work was conducted. The NTA advised us that, during the prior audit, after we had notified the NTA of the tax noncompliance by certain clinics in July 2005, the LITC Program Office staff began contacting the clinics we had identified to resolve the noncompliance issues. These contacts occurred in August 2005. In the course of these contacts, the LITC Program Office also identified new noncompliance issues, some of which were due to Internal Revenue Service or taxpayer error, and some of the penalties identified were subsequently abated.

In her August 26, 2005, response to the prior audit report, the NTA had provided an update concerning the tax compliance status of the clinics we had identified. The NTA has since clarified that, when she stated in the August 2005 response that the majority of tax noncompliance issues related to either account errors on the part of the Internal Revenue Service or to penalties for which abatement requests were pending, she was referring to the compliance status of the clinics as of the date of her response, which was after some of the clinics had been brought into compliance and included the new noncompliance issues identified after our fieldwork had been completed.

Based on this clarification, we believe the concerns reported in the attached memorandum have been resolved.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

May 10, 2006

MEMORANDUM FOR NATIONAL TAXPAYER ADVOCATE

FROM: *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

SUBJECT: Follow up to the Final Audit Report entitled, *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program (Audit # 200510009, Report Reference # 2005-10-129, dated September 2005)*

In response to the finding, "Some Clinics are not in Compliance with their Federal Tax Responsibilities" in the subject audit report, you raised the following two points in response to Recommendations 9 and 10, respectively:

- Disclosure laws may preclude your staff from discussing tax compliance with clinic personnel when the clinic is a subcomponent of a larger organization.
- The majority of the tax compliance that we identified was due to errors made by the Internal Revenue Service (IRS) or penalties for which abatement requests were pending.

We requested the Taxpayer Advocate Service (TAS) provide support for these two issues so we could review them in greater detail. The results of our follow up efforts are discussed below.

With respect to your first point, we are satisfied from our follow up that the TAS, working with Counsel, developed and implemented formal procedures so unauthorized disclosure of tax return information does not occur if the TAS needs to contact clinic personnel regarding Federal tax noncompliance. The TAS developed a form, similar to a power of attorney form, which allows the larger organization to authorize clinic personnel to discuss the tax compliance issues of the larger organization with the TAS.

This form was provided to all clinics awarded grants in 2006 and will be included in the 2007 revision of Publication 3319.

The other statement in your response refers to eight of the nine clinics we identified with Federal tax noncompliance during the 2005 application period; *“The majority of the noncompliance issues with these eight clinics relate to either account errors on the part of the IRS or penalties for which abatement requests are pending.”*<sup>1</sup> This was not brought to our attention until the response to the draft report. To further consider and evaluate your statement, we researched the clinic tax accounts and requested the TAS provide support for IRS errors and penalty abatement requests for these eight clinics. We could not substantiate the TAS’ claim that a majority of the noncompliance issues relate to either account errors on the part of the IRS or penalties for which abatement requests are pending. Specifically:

- <sup>1</sup> [redacted] The actions of the remaining <sup>1</sup> [redacted] clinics demonstrated that the tax noncompliance was not an IRS error:
  - <sup>1</sup> [redacted] clinics provided missing tax returns and payments for other periods with balances due.
  - <sup>1</sup> [redacted]
  - <sup>1</sup> [redacted] clinics with only balances due provided payments willingly or through a levy.
  - <sup>1</sup> [redacted] clinics either provided a missing return or documentation to support the return was not required.
- Only <sup>1</sup> [redacted] clinics requested abatement of penalties although <sup>1</sup> [redacted] had other tax noncompliance issues that were eventually satisfied either by providing a payment or a missing tax return and <sup>1</sup> [redacted]
- The TAS provided information that supported additional tax noncompliance with some of the same clinics after our review period.

We believe the result of our additional testing reinforces the need for the TAS to strengthen the Low Income Taxpayer Clinic grant program for tax noncompliance. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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<sup>1</sup> *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program* (Reference Number 2005-10-129, dated September 2005), Pages 32-33.

cc: Commissioner C

Office of the Commissioner – Attn: Chief of Staff C

Chief Counsel CC

Deputy, National Taxpayer Advocate TA

Director, Office of Legislative Affairs CL:LA

Director, Office of Program Evaluation and Risk Analysis RAS:O

Office of Management Controls OS:CFO:AR:M

Audit Liaison: National Taxpayer Advocate TA