

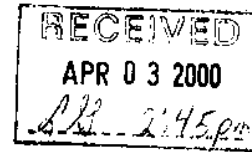
Report Reference 2000-30-059, dated March, 2000
Management's Response to Draft Report



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

March 31, 2000



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Charles O. Rossotti *(C.O.R.)*
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report-The Internal Revenue Service Can
Improve the Estate Tax Collection Process

We appreciate the opportunity to respond to your draft report entitled "The Internal Revenue Service (IRS) Can Improve the Estate Tax Collection Process." The report is a review of the IRS' efforts to effectively collect estate taxes while protecting the rights of taxpayers. We agree with the majority of your recommendations and will use them to improve the estate tax collection process and to ensure we are protecting our customers' rights.

In addition, the IRS' new organizational structure will improve our ability to address some of these cross-functional issues. We believe the implementation of the Small Business/Self Employed (SB/SE) business operating unit will enhance the coordination of the estate tax process.

Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION #1

Collection and service center management should assign the responsibility for determining whether a bond or tax lien should be secured to the service center employees who process the installment agreements instead of the district offices. Management should also ensure that procedures require the determination and the securing of bonds or liens before installment agreements are accepted.

ASSESSMENT OF CAUSE

Many section 6166 deferrals were not secured by a bond or lien, so the IRS was unprotected after the estate tax lien, which existed for the first 10 years after the Date of Death expired. In addition, other factors may have caused some of the section 6166 deferrals to become uncollectible. For example, the value of the estate may have declined substantially in value.

CORRECTIVE ACTION

District Examination personnel makes the determination regarding the election under 6166. Collection and Examination will coordinate with Chief Counsel to develop new procedures that will address the determination and the securing of bonds or liens for 6166 cases.

IMPLEMENTATION DATE:

Proposed: December 1, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Collection)
Assistant Commissioner (Examination)

CORRECTIVE ACTION MONITORING PLAN

Collection and Examination will conduct periodic reviews after the implementation of the new procedures.

IDENTITY OF RECOMMENDATION #2

Service center management should review and approve all requests for payment extensions. The review should ensure the estate has demonstrated reasonable cause before granting the payment extension.

ASSESSMENT OF CAUSE

Requests for extensions of time to pay the estate tax were not properly evaluated.

CORRECTIVE ACTION

Customer Service will send a memorandum indicating that the estate tax extension must be approved by the Chief, Service Center Collection Branch, when a reasonable cause determination is made by the Service Center Collection. In addition, the SB/SE design team, Customer Service, and the Assistant Commissioner (Examination) are considering centralization of the process of making the estate tax extension determination to pay.

IMPLEMENTATION DATE:

Proposed: May 1, 2000 (Memorandum)

RESPONSIBLE OFFICIALS

Assistant Commissioner (Customer Service)
Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

Customer Service will follow-up to ensure completion of the memorandum in a timely manner and will provide a copy to Collection. Responsible staff in Customer Service

and Collection will provide written notification to the Assistant Commissioner (Customer Service) and Assistant Commissioner (Collection) of their findings in regard to the determination.

IDENTITY OF RECOMMENDATION #3

Service center management should conduct reviews to ensure that employees use the prescribed filing system needed to monitor, assess, and bill estates with payment extensions.

ASSESSMENT OF CAUSE

Internal Revenue Manual (IRM) 3.17.243.8.1(18) requires a filing system to monitor, assess, and bill estates. There was no requirement to review the system.

CORRECTIVE ACTION

We will add to IRM 3.17.243.8.1 the requirement that management conduct periodic reviews of the filing system to ensure that employees use the filing and cross-reference system for monitoring estates, making assessments, and sending billings.

IMPLEMENTATION DATE:

Proposed: April 1, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Customer Service)
Assistant Commissioner (Forms and Submission Processing)

CORRECTIVE ACTION MONITORING PLAN

Forms and Submission Processing and Customer Service will conduct reviews to ensure changes made to the filing system are complied with by October 1, 2000.

IDENTITY OF RECOMMENDATION #4

Service center management should develop procedures to ensure estates requesting installment agreements or payment extensions are sent a settlement notice and Publication 1, Your Rights as a Taxpayer, explaining their taxpayer rights. The special status code for estates should not be used until the proper notification has been sent and the installment agreement or extension request has been granted.

ASSESSMENT OF CAUSE

Publication 1 was not sent and estates were not properly advised of their taxpayer rights.

CORRECTIVE ACTION

To IRM 3.17.243.8.1, we will add requirements ensuring estates requesting an installment agreement or a payment extension are sent a settlement notice and a Publication 1 explaining their rights. A requirement will be added for sending the 2568c letter to estates requesting installment agreements. (Selective paragraphs to be used are: (F) Received Your Request for Installments, (G) Assessment and Balance, (S) Contact information, and (Y) Publication, send Publication 1.)

IMPLEMENTATION DATE:

Proposed: April 1, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Customer Service)
Assistant Commissioner (Forms and Submission Processing)

CORRECTIVE ACTION MONITORING PLAN

Customer Service and Forms and Submission Processing will perform periodic reviews to ensure that estates receive billing notices and Publication 1.

IDENTITY OF RECOMMENDATION #5

Collection management should instruct managers and employees to conduct a 100 percent review of all current estate cases to ensure active tax liens are input to the Automated Lien System (ALS), tax liens and lien fees are properly reflected on the taxpayer accounts, and all tax liens are released on accounts that have no tax obligation.

ASSESSMENT OF CAUSE

The ALS is currently not programmed for the Form 668-J and Form 668-H liens. In addition, not all districts have been charging estate tax lien fees.

CORRECTIVE ACTION

We will explore the feasibility of performing an electronic match between records on ALS and the Master File. Collection will also send out a memorandum indicating that the lien fees should be charged for estate tax liens. However, the memorandum will also indicate that the districts should not go back to charge lien fees, but instead, should charge lien fees as they file new liens. Furthermore, a memorandum will be sent out indicating that the Form 668-Y should be filed on ALS and that the Form 668-J and Form 668-H should not be processed through ALS. Collection will also coordinate with Examination to automate the Form 668-J and Form 668-H on ALS.

IMPLEMENTATION DATE:

Proposed: July 1, 2000 (to send out the memorandum(s) and to provide information to the lien programmer to automate the Form 668-H and Form 668-J on to ALS).

Proposed: March 1, 2001 (to determine the feasibility of performing an electronic match).

RESPONSIBLE OFFICIAL

Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

Collection and Examination will conduct a review by April 1, 2001, to determine how well the process of filing and recording liens (on estate taxes) is working.

IDENTITY OF RECOMMENDATION #6

Collection and Information Systems (IS) management should develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts.

ASSESSMENT OF CAUSE

ALS is not being reconciled with taxpayer accounts.

CORRECTIVE ACTION

Collection will submit a Request for Information Services (RIS) requesting that tax lien information on the Master File accounts is reconciled with information shown on the ALS. The RIS is subject to approval by IS.

IMPLEMENTATION DATE:

Proposed: June 1, 2000 (to submit the RIS)

RESPONSIBLE OFFICIAL

Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

Collection will monitor the response to the RIS.

IDENTITY OF RECOMMENDATION #7

Collection management should clarify procedures to employees that all estate tax liens should be recorded on the ALS.

ASSESSMENT OF CAUSE

ALS is not programmed to record the Form 668-J and Form 668-H tax liens.

CORRECTIVE ACTION

The corrective actions shown in recommendation 5 address this recommendation.

IMPLEMENTATION DATE:

Proposed – Same as shown in recommendation 5.

RESPONSIBLE OFFICIALS

Assistant Commissioner (Collection)
Assistant Commissioner (Examination)

CORRECTIVE ACTION MONITORING PLAN

Collection and Examination will conduct a review by April 1, 2001, to determine how well the process of filing and recording liens (on estate taxes) is working.

IDENTITY OF RECOMMENDATION #8

Collection and IS management should coordinate to review the collection statute abatement programming for accurate Collection Statute Expiration Date (CSED) calculations. The program should specifically check for calculations related to installment agreements and litigation.

ASSESSMENT OF CAUSE

The CSEDs for estate tax accounts shown on Master File were not always computed correctly. Computations failed to properly account for 6166 deferrals, payment extensions, litigation, and offers in compromise that should have extended the period to collect the tax.

CORRECTIVE ACTION

Collection has submitted a RIS placeholder to request programming changes related to CSED calculations. The RIS placeholder states that after the programming changes are completed, the program should be run to correct the CSEDs for all open and closed Individual Master File (IMF) and Business Master File (BMF) accounts (except for cases in retention). A final RIS has also been submitted by Collection and is subject to approval by IS.

IMPLEMENTATION DATE:

N/A – A final RIS has been submitted by Collection.

RESPONSIBLE OFFICIAL

Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

Collection will monitor the response to the RIS. In addition, after the corrections to the program (for CSED calculations) have been completed, Collection will review a sample of cases to determine if the program is correctly computing the CSEDs.

IDENTITY OF RECOMMENDATION #9

Collection management should ensure tax is properly reinstated, including recalculation of penalties and interest, for accounts abated prematurely. Not only will this resume any necessary Collection enforcement action; it will also correct IRS financial accounts.

ASSESSMENT OF CAUSE

Programming changes were made to Master File in January 1999 that recomputed and corrected some of the CSED computations. However, based on the inaccurate CSEDs before this programming change, tax amounts had already been adjusted.

CORRECTIVE ACTION

Collection will explore the feasibility of reinstating high dollar estate tax cases. We will reinstate estate tax cases abated prematurely due to programming problems only where it will not have a negative impact on taxpayer relations, and a negative impact on our ability to work other high priority cases, such as delinquent trust fund taxpayers.

IMPLEMENTATION DATE:

Proposed: June 1, 2000

RESPONSIBLE OFFICIAL

Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

After the corrections to the program (for CSED calculations) have been completed, Collection will review a sample of cases to determine if the program is correctly computing the CSEDs.

IDENTITY OF RECOMMENDATION #10

Collection and service center management should ensure all estate tax accounts with collection statute abatements are manually reviewed to verify or correct CSED calculations.

ASSESSMENT OF CAUSE

Guidelines in the IRM that require a review of accounts with expired CSEDs were not followed. Computer listings of accounts with current collection statute adjustments were not adequately reviewed due to other priorities.

CORRECTIVE ACTION

The programming requested for corrective action #8 will address this recommendation.

IMPLEMENTATION DATE:

Proposed: December 1, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Collection)

Assistant Commissioner (Customer Service)

CORRECTIVE ACTION MONITORING PLAN

A file will be created to document actions taken concerning this recommendation.

IDENTITY OF RECOMMENDATION #11

Collection and IS management should coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest CSED is reached.

ASSESSMENT OF CAUSE

Estate accounts that have multiple assessments with different collection statute dates were not identified for partial adjustments according to the earliest CSED. The total balance due amount was adjusted according to the last CSED. As a result, tax balances were overstated and interest and penalty calculations were incorrect because they were based on amounts that should have been partially adjusted.

CORRECTIVE ACTION

Collection has submitted a RIS placeholder requesting the automation of this process. The RIS placeholder requests a program that performs partial adjustments on accounts with multiple assessments and collection statute dates. A final RIS has also been submitted by Collection. The RIS is subject to approval by IS. Furthermore, Collection and Customer Service will send out memorandums reminding employees in these functions to follow current IRM procedures concerning adjusting accounts due to an expiration of the CSED.

IMPLEMENTATION DATE:

Proposed: June 1, 2000 (to send out memoranda)

RESPONSIBLE OFFICIALS

Assistant Commissioner (Collection)

Assistant Commissioner (Customer Service)

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CORRECTIVE ACTION MONITORING PLAN
Collection will monitor the response to the RIS.

If you have any questions, please call Charles W. Peterson, Assistant Commissioner
(Collection), at (202) 622-5100.