

**Millions of Dollars in Internal Revenue Service
Excess Collections Accounts Could Be
Credited to Taxpayers**

June 2000

Reference Number: 2000-30-088

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 13, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Millions of Dollars in Internal Revenue
Service Excess Collections Accounts Could Be Credited to
Taxpayers

This report presents the results of our review of the Internal Revenue Service's (IRS) Excess Collections Accounts. In summary, we found that taxpayers do not always receive credit for certain tax payments, due to the IRS' computing systems limitations and processing procedures, and legal requirements. We determined that millions of dollars need to be credited to taxpayers' accounts. We also identified an opportunity for reducing processing costs while improving customer service.

Management agreed with the recommendations in the report and has already taken steps to improve the process for managing Excess Collections Accounts. However, management did not fully concur that \$25 million needed to be immediately credited to taxpayers' accounts. Rather, IRS management estimates the amount to be credited will be approximately \$8.3 million, based on results of credits given to taxpayers in only 2 of the 10 service centers. We attribute this difference to two things:

- The Treasury Inspector General for Tax Administration's (TIGTA) audit work demonstrated significant differences between service centers when crediting taxpayers' accounts, which will affect the eventual outcome.

- Six months had elapsed from the date TIGTA notified the IRS of accounts which needed to be credited to the date the IRS completed its corrective action.

Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix. Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have any questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Executive Summary

Millions of dollars in Internal Revenue Service (IRS) Excess Collections Accounts could be credited to taxpayers. A computer analysis conducted in March 1999 identified an estimated one million taxpayers that had payments totaling \$2.3 billion in the Excess Collections Accounts. Over the past several years, changes in IRS processing increased the number of payments transferred to the Excess Collections Accounts.

When a payment cannot be associated with a taxpayer's account or a tax return is not filed, the IRS will, after meeting processing requirements, transfer the payment to its Excess Collections Accounts. Payments in Excess Collections also include unidentified remittances (where the identities of taxpayers are unknown), miscellaneous fees, and voluntary contributions.

The objective of the audit was to review the IRS' program for managing its Excess Collections Accounts. The review focused on the approximately 240,000 taxpayers who had payments transferred to Excess Collections Accounts and also owed taxes. Many of these taxpayers made payments to the IRS, subsequently did not file their returns until long after the due date and, as a result, eventually had their payments transferred to the Excess Collections Accounts.

Results

We estimate that \$360 million in the Excess Collections Accounts represents tax payments transferred because these 240,000 taxpayers delayed filing their tax returns. Once the IRS transfers taxpayers' payments to Excess Collections Accounts, the IRS does not always credit these taxpayers for the payments when tax returns are eventually filed.

The following projections are based on a statistically valid sample of the 426,000 payments made by these 240,000 taxpayers whose payments were transferred to Excess Collections Accounts. In each of these situations, the taxpayer and/or the IRS must take actions to ensure any payment(s) in the Excess Collections Accounts are credited when a tax return or claim for refund is filed.

- Seven percent of the payments involving \$25 million needs to be credited to an outstanding liability or refunded as an overpayment, because tax returns were filed within statutory deadlines, but the IRS did not credit the taxpayers' accounts.
- Forty-five percent of the payments involving \$162 million was forfeited by taxpayers because tax returns were not filed within statutory deadlines and credit can only be

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given up to the amount of the liability for the same tax year. The IRS is prohibited from refunding or crediting any overpayment toward other outstanding liabilities.

- Forty-eight percent of the payments involving \$173 million remains in the Excess Collections Accounts until the tax return is filed and a liability assessed for the same period for which the payments were submitted. Until the tax return or claim is filed, the IRS cannot credit the payments to other periods or refund an overpayment.

When taxpayers delayed filing their tax returns but filed within statutory requirements for a claim for refund or credit, the IRS did not always transfer payments in Excess Collections Accounts back to the taxpayers' accounts. This occurred primarily because of computer systems limitations and processing procedures. This control weakness made it appear that these taxpayers had not made payments toward their tax liabilities. As a result, many taxpayers received inaccurate or erroneous balance due notices, sometimes taxpayers made additional payments in excess of their tax liabilities and, in a few instances, taxpayers were subjected to Federal Tax Liens.

Taxpayers who did not file tax returns or filed them after the refund statute date may have already forfeited, or are at risk of forfeiting, millions of dollars in payments. This occurs because the tax law prohibits the IRS from refunding or crediting overpayments to an outstanding tax liability in another tax period if statutory requirements for filing tax returns are not met.

Many Payments in Excess Collections Accounts Should Be Immediately Transferred Back to Taxpayers' Accounts

We estimate that tax payments totaling \$25 million in Excess Collections Accounts should be immediately credited to taxpayers' accounts because the taxpayers filed their tax returns within the statutory requirements. These payments would reduce tax liabilities and, in some cases, result in refunds to taxpayers.

As indicated, once the IRS transfers taxpayer payments to Excess Collections Accounts, these payments are not always credited to taxpayers when tax returns are filed within statutory requirements. This occurs because the taxpayer information is stored in several unlinked computer systems and payments in Excess Collections Accounts are not automatically transferred back to the taxpayers' accounts when overdue tax returns are filed. This control weakness made it appear that these taxpayers had underpaid their tax liabilities.

In these instances, taxpayers must contact the IRS to receive credit for their payments in the Excess Collections Accounts. This usually occurs after the IRS sends notices requesting payment. When taxpayers respond that they have previously sent in payments, the IRS must perform research before manually returning payments in the Excess Collections Accounts to the taxpayers' accounts. As a result, these computing

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system and processing limitations actually increase the IRS' operating costs as well as burden on taxpayers.

Increased Internal Revenue Service Efforts to Secure Overdue Tax Returns Could Help Taxpayers Receive Credit for Their Payments

Many taxpayers who delay filing their tax returns may be relinquishing their rights to receive credit for their payments. This occurs because the Internal Revenue Code § 6511(a) requires that the taxpayer file a claim for credit or refund of an overpayment within three years from the date the tax return was filed or two years from the date the tax was paid, whichever period expires later. If no tax is due, the claim for refund of prepaid credits must be made within two years from the date of payment. This statutory requirement precludes the IRS from offsetting these overpayments (Refund Offset) to other tax periods for which the taxpayer has an outstanding tax liability.

Based on our sample, we estimate that \$335 million in the Excess Collections Accounts could have been refunded or applied to taxpayers' accounts with outstanding tax liabilities. However, these taxpayers either:

- Have already forfeited their rights to refunds or credits of \$162 million in the Excess Collections Accounts because they filed their tax returns after the statute for refunding had expired for the tax years involved. The IRS could have refunded or credited the payments to other tax liabilities if only these taxpayers had filed their tax returns within applicable statutory requirements; or
- Are at risk of not receiving full credit for payments of \$173 million in the Excess Collections Accounts if they do not take action to file their tax returns or claims for refund within the applicable statutory requirements.

In addition to tax law and operational limitations, IRS decisions to focus on other priorities reduced the number of contacts with taxpayers to secure overdue tax returns. These decisions contributed to the increase in payments transferred to Excess Collections Accounts and had an adverse impact on taxpayers. For example, one IRS study determined follow-up contacts with taxpayers for overdue tax returns were unproductive, so this practice was curtailed. In another instance, we found that IRS functions would sometimes transfer payments to the Excess Collections Accounts to periodically reduce active inventories.

In reference to the statutory requirements of the law, the National Taxpayer Advocate has identified concerns related to differences between the statute for collecting taxes versus the statute of limitations for issuing credits and refunds to taxpayers. For example, taxpayers who file tax returns late are often put in the position of owing tax for recent years while losing prepaid credits from earlier years. This does little to encourage

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delinquent taxpayers to re-enter the system. The National Taxpayer Advocate is currently pursuing legislative changes to address these statutory requirements.

Program Management and Computer Processing Controls for Handling Excess Collections Accounts Need to Be Addressed

There are no formalized program goals or performance measures for handling the payments in the Excess Collections Accounts. Further, there were no management information systems to specifically monitor the activities in these accounts.

Consequently, the problems we identified were not readily apparent to IRS management, and resources for resolving the accounts or for changing computer programs to link the payments in the Excess Collections Accounts with the IRS' primary computer system (Masterfile) were not allocated. Based on prior year workloads, changes in the way Excess Collections Accounts cases are processed would result in reduced operating costs for the IRS by approximately \$1.5 million over a 3-year period while reducing burden on taxpayers.

Summary of Recommendations

To protect taxpayer rights and reduce the risk of inappropriate collection actions being taken, the IRS needs to immediately credit taxpayers' accounts where appropriate. To prevent future taxpayer payments from being unnecessarily transferred to Excess Collections Accounts, the IRS needs to develop a coordinated, cross-functional strategy to minimize payments being transferred to Excess Collections Accounts. This strategy needs to include interim and long-term measures that address systems and procedural limitations.

Finally, the IRS should correlate our audit results with other support for pending legislative suggestions by the National Taxpayer Advocate's office, regarding statutory requirements for refunding and crediting.

Management's Response: Management agreed with the recommendations in the report and has already taken steps to improve the process for managing Excess Collections Accounts. Based on briefings provided during the audit, the IRS initiated actions to address our concerns. The IRS, using the Treasury Inspector General for Tax Administration (TIGTA) developed database, established an adjustment program to ensure that eligible taxpayers had payments in Excess Collections files transferred to their primary accounts. The IRS also conducted a multi-functional Task Force study that accelerated implementation of several recommendations. In addition, the IRS will be modifying its information system to stop the transfer of taxpayer payments into Excess Collections until the Refund Statute Expiration Date has expired and will send periodic

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letters to taxpayers with credits to remind them to file a return to receive the credit or a refund.

The IRS concurred with the outcome measure that the potential exists for money to be refunded or credited to taxpayers' accounts. However, the IRS did not fully concur with the projected \$25 million that needed to be immediately credited to taxpayers' accounts. Rather, the IRS estimates the amount to be credited will be approximately \$8.3 million, based on results of credits given to taxpayers in only 2 of the 10 service centers.

Management's complete response to the draft report is included as Appendix VII.

Office of Audit Comment: Our audit work demonstrated significant differences between the service centers when crediting taxpayer accounts, which will affect the eventual outcome. The IRS is still in the process of tabulating the results from all service centers.

Further, differences can also be attributed to the six-month period that had elapsed from June 1999, when TIGTA notified the IRS of accounts which needed to be credited, to December 1999, when the IRS completed its corrective action. During these six months, many taxpayers would have responded to inaccurate balance due notices and the IRS would have adjusted these accounts prior to working the listing.

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Objective and Scope

Our objective was to evaluate the IRS' program for managing Excess Collections Accounts.

Our overall objective was to evaluate the Internal Revenue Service's (IRS) program for managing its Excess Collections Accounts. To accomplish this objective, we:

- A. Determined whether a program was in place with controls to ensure that these payments were properly handled.
- B. Determined whether these payments could be applied to taxpayers' accounts.

To achieve our objective, we developed a specialized computer application that identified cases where taxpayers had payments in the Excess Collections Accounts as of June 1998. We then compared these records with information on the IRS' primary computer system (Masterfile) and other IRS computer files. Based on the preliminary results and in response to a management request to work with the latest available data, we updated our database as of March 1999.

In coordination with the Statistics of Income Division, we applied statistical sampling techniques to determine the extent of the problems related to Excess Collections Accounts. We used both the June 1998 and March 1999 databases to analyze characteristics of the population, and we refined the listing to identify cases with the highest likelihood for being resolved.

We conducted this audit from September 1998 to February 2000 at the National Office (Customer Service and Submission Processing functions) and the Office of the National Taxpayer Advocate, and we received data from each of the 10 service centers. We conducted our review in accordance with *Government Auditing Standards*.

Appendix I contains our detailed objective, scope, and methodology. A listing of the major contributors to this report is shown in Appendix II. A Glossary of Terms appears in Appendix VI.

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Background

Payments are moved to Excess Collections Accounts when at least two attempts are made to contact taxpayers and no reply is received.

The IRS maintains an account for each taxpayer on its primary computer system (Masterfile). The Masterfile is updated when a taxpayer files a tax return or makes a payment. If a payment cannot be associated with a taxpayer's account or if a tax return is not filed, the IRS will, after following prescribed procedures, transfer the payment to its Excess Collections Accounts.

Generally, when taxpayers make advance payments (e.g., quarterly estimated payments) but do not timely file their tax returns, the IRS uses multiple programs, where applicable, to initiate contacts with taxpayers. If attempts to resolve the cases are unsuccessful or if the tax returns are not filed by the taxpayers, payments are subsequently transferred to Excess Collections.

The IRS computing systems do not automatically transfer payments from Excess Collections Accounts to the taxpayers' accounts. Once these taxpayers do file their tax returns, the payments will generally be transferred only if the taxpayers contact the IRS. When the taxpayers notify the IRS, the Customer Service staff manually research computer systems to identify the payments in the Excess Collections Accounts that could be transferred to the taxpayers' accounts.

Each of the 10 service centers maintains separate Excess Collections Account files, which are on stand-alone systems and are not fully linked to each other or to the Masterfile. The IRS staff manually researches these independent systems by entering queries into an on-line nationwide data retrieval system.

A computer analysis conducted in March 1999 identified an estimated one million taxpayers that had payments totaling \$2.3 billion in the Excess Collections Accounts. In addition to the advanced payments described above, other types of payments in Excess Collections include unidentified remittances, miscellaneous fees, and voluntary contributions to reduce the public debt.

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There are statutory requirements that govern the IRS' handling of taxpayer payments. The Internal Revenue Code (I.R.C.) § 6511(a)¹ requires that the taxpayer file a claim for credit or refund of an overpayment within three years from the date the tax return was filed or two years from the date the tax was paid, whichever period expires later. If no return is due, a claim for refund of prepaid credits must be made within two years from the date of payment. This precludes the IRS from offsetting these overpayments (Refund Offset) to other tax periods for which the taxpayer has an outstanding tax liability.

Results

Millions of dollars in the Excess Collections Accounts could be credited to taxpayers. Many of these taxpayers made payments to the IRS, subsequently did not file their tax returns until long after the due date and, as a result, had their payments transferred to the Excess Collections Accounts.

Taxpayers are at risk of receiving erroneous notices and may be subjected to IRS collection actions.

As of March 1999, approximately 240,000 taxpayers who had outstanding tax liabilities had 426,000 payments involving \$360 million transferred to the Excess Collections Accounts. This increased the burden to these taxpayers and placed some at financial risk.

There were several aspects to this problem. First, when taxpayers delayed filing their tax returns but filed within statutory requirements for a claim for refund or credit, the IRS did not always transfer payments in Excess Collections Accounts back to the taxpayers' accounts. This occurred primarily because of computer systems limitations and processing procedures. This control weakness made it appear that these taxpayers had not made payments toward their tax liabilities. As a result, many taxpayers received inaccurate or erroneous balance due notices, sometimes taxpayers made additional

¹ Internal Revenue Code, 26 U.S.C. § 6511(a), Limitations on Credit or Refund.

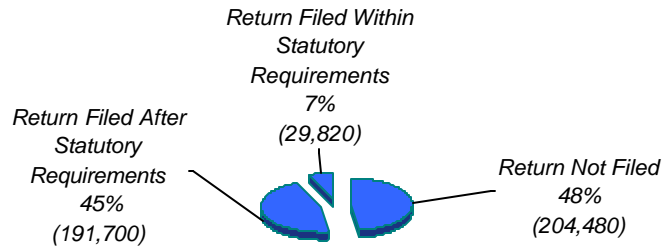
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payments in excess of their tax liabilities and, in a few instances, taxpayers were subjected to Federal Tax Liens.

Second, taxpayers who did not file tax returns or filed them after the refund statute date may have already forfeited, or are at risk of forfeiting, millions of dollars in payments. This occurs because the tax law prohibits the IRS from refunding or crediting overpayments to an outstanding tax liability in another tax period if statutory requirements for filing tax returns are not met.

The following chart illustrates statistically valid projections² for the 426,000 payments identified in our computer match.

**Estimated Distribution of Payments in Excess Collections
Accounts for Taxpayers with Outstanding Balances**



- Seven percent of the payments involving \$25 million needs to be credited to an outstanding liability or refunded as an overpayment, because tax returns were filed within statutory deadlines, but the IRS did not credit the taxpayers' accounts.
- Forty-five percent of the payments involving \$162 million was forfeited by taxpayers because tax returns were not filed within statutory deadlines and credit can only be given up to the amount of the liability for the same tax year. The IRS is prohibited from refunding or crediting any overpayment toward other outstanding liabilities.
- Forty-eight percent of the payments involving \$173 million remains in the Excess Collections Accounts until the tax return is filed and a liability assessed for the same tax period for which the payment was submitted. Until the tax return or claim is filed, the IRS cannot credit the payments to other periods or refund an overpayment.

² Estimates are based on a statistically valid sample of 300 payments, which provided a 90 percent confidence level with a precision level of +/- 5 percent.

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Appendix V contains examples of how taxpayers can experience financial impact.

Third, the IRS did not have formalized program goals, performance measures, controls, or management information systems in place to monitor this activity. Efforts were primarily focused on accounting for the funds and were not proactively focused on taking the systemic and management control steps needed to ensure that taxpayers received credit for payments in the Excess Collections Accounts.

Many Payments in Excess Collections Accounts Should Be Immediately Transferred Back to Taxpayers' Accounts

We estimate that tax payments totaling \$25 million in Excess Collections Accounts should be immediately credited to taxpayers' accounts. These taxpayers filed their returns within statutory deadlines, but the IRS has not credited the payments towards their liability or refunded them as overpayments.

In our two phases of testing, we determined that the IRS needs to transfer millions of dollars in payments from Excess Collections Accounts back to taxpayers' accounts. We started our testing with a computer extract as of June 1998. Later, due to an IRS management request for an updated extract, we conducted further analysis using information as of March 1999.

The samples resulted in comparable outcomes. Both samples showed that the IRS generally transferred taxpayers' payments to its Excess Collections Accounts after attempts to obtain tax returns were unsuccessful. However, when taxpayers eventually filed their tax returns, the IRS did not automatically transfer these payments to the taxpayers' accounts.

Generally, these taxpayers must contact the IRS to receive credit for their payments in the Excess Collections Accounts. This contact would usually occur

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after the IRS sends notices requesting payment. However, without taxpayer complaints regarding incorrect balances or IRS computer identification, the IRS would not be aware that further actions were needed to move payments in the Excess Collections Accounts to the taxpayers' accounts.

This situation occurred because IRS computing systems do not link payments in the Excess Collections Accounts maintained by the 10 service centers to the taxpayers' accounts on the IRS' primary computer system (Masterfile). These computing system and processing limitations actually increase the IRS' operating costs as well as burden on taxpayers.

Phase One Results

Using June 1998 data and a specially programmed computer application, we identified 21,944 payments totaling over \$44 million in the Excess Collections Accounts nationwide. These payments closely matched information on the Masterfile.

Our analysis of a statistically valid sample of 817 payments showed that taxpayers filed within the statutory requirements and could have received credits or refunds for overpayments. We estimated that 12,403 of the 21,944 tax payments involving \$17 million should have been credited to the taxpayers' accounts.

Phase Two Results

Since there was an extended period of time between the data match and case analysis for our Phase One results, IRS management requested a more current (March 1999) database match to increase the productivity of their planned case analysis efforts. We also used this database to conduct an expanded follow-up analysis to update our initial results.

Our Phase Two results confirmed those from Phase One. Based on a new statistically valid sample of 300 payments from the March 1999 database, we project an estimated 7 percent (29,820 of 426,000) of the tax payments involving \$25 million should be credited to

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taxpayers' accounts because the taxpayers filed within statutory requirements.³

Recommendation

1. The Customer Service function should use Treasury Inspector General for Tax Administration (TIGTA) developed computer-matching techniques to identify and, where appropriate, transfer payments from the Excess Collections Accounts to the taxpayers' Masterfile accounts. We provided an updated file of all 29,820 payments to Customer Service management in order to help them make these adjustments. IRS management has already initiated efforts to resolve these accounts.

Management's Response: The listing generated by the TIGTA computer program was provided to the Service Center Collection Branches to resolve the above identified accounts. All payments that could be applied to the taxpayers' accounts have been appropriately applied. Also, the TIGTA program will be used to generate an additional "clean-up" listing which the Service Center Accounting function can work in the interim before programming changes are completed. Programming changes are being made to periodically generate a listing of all credits in Excess Collections. This listing will be reviewed and monies appropriately applied to the taxpayers' accounts.

IRS management did not concur with the \$25 million projected to be refunded or credited to taxpayer accounts. Rather, management estimates the amount to be approximately \$8.3 million. The IRS is in the process of tabulating the results from all 10 service centers.

³ The disparity in the volumes of cases and the financial impact on taxpayers occurred between the two phases because we completed our case analysis on the second sample immediately after the updated Excess Collections database was received. In Phase I, we performed the initial sample review several months subsequent to the computer run.

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Office of Audit Comment: Our audit work demonstrated significant differences between the service centers when crediting taxpayer accounts, which will affect the eventual outcome. Differences can also be attributed to the six-month period that had elapsed from June 1999, when TIGTA notified the IRS of accounts which needed to be credited, to December 1999, when the IRS completed its corrective action. During the intervening period, many taxpayers would have responded to inaccurate balance due notices and the IRS would have adjusted these accounts prior to working the listing.

Increased Internal Revenue Service Efforts to Secure Overdue Tax Returns Could Help Taxpayers Receive Credit for Their Payments

Many taxpayers who do not timely file their tax returns may be relinquishing their rights to receive credit for their payments. This occurs because the I.R.C. § 6511(a) requires that a claim for credit or refund of an overpayment be filed by the taxpayer within three years from the date the tax return was filed or two years from the date the tax was paid, whichever period expires later. If no tax return is due, a claim for refund of prepaid credits must be made within two years from the date of the payment. This precludes the IRS from offsetting these overpayments (Refund Offset) to other tax periods for which the taxpayer has an outstanding tax liability.

Based on our review of the Phase Two testing, we further expanded our analysis to identify attributes of other payments in the Excess Collections Accounts where taxpayers also had accounts with outstanding tax liabilities. The statistical analysis of 300 payments indicated that taxpayers were jeopardizing their rights to have these payments refunded or credited to their accounts.

Instances where tax returns had not been filed or were filed over three years late comprised 93 percent of the population.

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Taxpayers need to file overdue tax returns prior to statute expiration dates or risk losing credit for tax payments.

- Forty-five percent of the payments involving \$162 million in the Excess Collections Accounts were for tax periods where the taxpayers filed after the statute for refunding expired. As a result, these taxpayers forfeited their rights to these overpayments because the law prohibits the IRS from refunding or crediting these payments to other tax liabilities.⁴
- Forty-eight percent of the payments involving \$173 million are for still unfiled prior year tax returns. These taxpayers are at risk of losing full credit for these payments if they do not take action and file these tax returns within statutory requirements. Until the tax return or claim is filed, the IRS cannot credit the payments to other periods or refund an overpayment.

In addition to taxpayer delays in filing their tax returns, IRS decisions to focus resources on other priorities may not have fully considered the operational limitations in transferring payments to Excess Collections. For example, in 1995, the IRS conducted a study that recommended the Compliance function discontinue the practice of following up with taxpayers for overdue tax returns because it was considered unproductive. Payments for these cases were then transferred to the Excess Collections Accounts.

In another instance, we found that the Collection function would sometimes transfer payments to the Excess Collections Accounts to periodically reduce active inventories.

Past decisions regarding Excess Collections Accounts had a detrimental impact on taxpayers.

Although these IRS actions may have been prudent from a productivity or cost-savings perspective, from a customer service standpoint, the actions had a detrimental impact on the affected taxpayers. These IRS decisions significantly increased the number of payments in the Excess Collections Accounts. These taxpayers were

⁴ This issue coincides with the National Taxpayer Advocate's efforts to request legislative changes to statute limitations regarding pre-paid tax credits.

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placed at financial risk and could have been subjected to collection actions.

These past IRS decisions may not be compatible with the new IRS mission to provide taxpayers with top quality service. The revised mission may affect the manner in which the IRS chooses to deal with Excess Collections payments from taxpayers who are long overdue in filing tax returns.

Finally, in reference to the statutory requirements, the National Taxpayer Advocate has identified concerns related to differences between the statute for collecting taxes and the statute of limitations for issuing credits and refunds to taxpayers. For example, taxpayers who file tax returns late are often put in the position of owing tax for recent years while losing prepaid credits from earlier years. This does little to encourage delinquent taxpayers to re-enter the system. The National Taxpayer Advocate is currently pursuing legislative changes to address these statutory requirements.

Recommendations

2. The Chief Operations Officer (COO) needs to coordinate education efforts for employees handling these accounts and develop strategies for increasing taxpayer and practitioner awareness of the law on the statute of limitations for refunding and crediting payments related to overdue tax returns.

Management's Response: Programming changes will be made to allow IRS systems to automatically generate a notice to the taxpayer every six months as a reminder that credit(s) are available and that a return must be filed to receive the credit. This notice will explain the statute of limitations of the available credit.

Also, the IRS will add procedures to the Internal Revenue Manual on the Excess Collections process and increase employee training on the procedures for handling these accounts.

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3. Customer Service and Submission Processing management should develop procedures for contacting taxpayers one last time prior to the statute expiration date of payments in the Excess Collections Accounts and advise them of the possible forfeiture of payments if the necessary tax returns are not filed.

Management's Response: Program changes will allow a final notice to be issued to the taxpayer six months before the statute of limitations expires. The notice will alert the taxpayer that the statute is imminent.

4. The IRS should correlate our audit results with any support for pending legislative suggestions by the National Taxpayer Advocate's office, regarding statutory requirements for refunding and credits.

Management's Response: The National Taxpayer Advocate's office will be provided a copy of this final report. A representative of the National Taxpayer Advocate's office participated in the Excess Collections Task Force and helped make decisions on needed changes.

Program Management and Computer Processing Controls for Handling Excess Collections Accounts Need to Be Addressed

There are no formalized program goals or performance measures for handling the payments in the Excess Collections Accounts. Further, there were no management information systems to specifically monitor the activities in these accounts. Some IRS functions mistakenly believed that payments moved to Excess Collections Accounts could always be systemically transferred back to taxpayers' accounts. However, this approach placed increased burden on taxpayers and resulted in increased processing costs to the IRS.

Given the IRS' revised mission statement and emphasis on customer service, IRS management needs to re-evaluate current operational practices to ensure taxpayers

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Formalized program goals, objectives, and performance measures were not established for Excess Collections Accounts.

IRS computer systems do not automatically link the 10 Excess Collections Accounts to taxpayers' accounts on the IRS' primary computer system.

receive timely credit for payments transferred to Excess Collections Accounts.

Program Management Controls

The IRS did not have a system in place to monitor the Excess Collections Program. Formalized program goals, objectives, and related performance measures were not established. Information systems reports related to activity in the program were also limited.

These elements, which are required by the Government Performance and Results Act of 1993,⁵ are critical to a cohesive, well-coordinated program. The absence of formalized program goals and objectives allowed various IRS functions handling Excess Collections cases to pursue independent courses of action. The directions taken were not always in the best interest of other internal stakeholders or the affected taxpayers.

Computer and Processing Controls

The computer system limitations and processing decisions played a considerable role in the growth of Excess Collections Accounts. An automated computer application was never designed to systemically transfer taxpayer payments in and out of Excess Collections Accounts. This issue is similar to an issue presented in a recent General Accounting Office (GAO) report (GAO/GGD-99-42, dated April 21, 1999) on linking problems between the Masterfile and other Non-Masterfile computer systems. The IRS needs to ensure that its Tax Systems Modernization redesign efforts address this computer limitation.

Until these problems are addressed, the IRS will continue to experience problems in ensuring taxpayers receive timely credit for payments transferred to Excess Collections Accounts. To service these taxpayers, the IRS will need to either:

⁵ Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat. 285.

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- Continually incur the costs of manually resolving individual cases; or
- Consider delaying the transfer of payments to Excess Collections Accounts until the statute for refunding or crediting payments to other tax liabilities expires.

Based on prior year workloads, we estimate that implementing the latter option could reduce processing costs by approximately \$1.5 million over a 3-year period. This processing change would also improve service and reduce burden on affected taxpayers. These cost savings also support the need to prioritize the programming changes previously outlined.

Recommendations

5. Until systemic and interim recommendations are operational, the COO needs to coordinate a cross-functional strategy to resolve and minimize payments being transferred to Excess Collections Accounts.

Management's Response: A cross-functional Task Force was organized to review the Excess Collections File and develop a plan to resolve and minimize payments being transferred to Excess Collections. This group worked together to develop recommendations to improve internal processes and customer satisfaction. One immediate procedural change was to (1) review statute imminent returns to have credits transferred from Excess Collections, and (2) keep credits on the Masterfile.

6. The IRS stakeholders (Submission Processing, Customer Service, and Compliance functions) should re-evaluate any function-oriented decisions to transfer taxpayers' payments to Excess Collections Accounts.

Management's Response: A task force comprised of representatives from Submission Processing, Customer Service, various field Compliance functions and TIGTA reviewed the current procedures for transferring credits to Excess Collections when a credit is on the module and a return has not been filed. A recommendation was made to change the procedures and leave the credit on the

Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers

module, while the IRS pursues the open delinquency, until the statutory period for refund has expired. All task force members agreed to this recommendation, and procedures were disseminated to the field for immediate implementation.

7. The IRS stakeholders (Submission Processing, Customer Service, and Compliance functions) should ensure that planned Tax Systems Modernization redesigns address linking limitations between the Masterfile and the Excess Collections Accounts maintained by the 10 service centers.

Management's Response: Programming changes are being made that will identify balance due notices that have credits for the same tax periods in Excess Collections. This will allow credits to be reapplied to the taxpayers' accounts and the notices to be destroyed or reissued with correct balances. Information on the linking limitations between the Masterfile and the Excess Collections has been provided to the Customer Account Data Engine (CADE) so that the issue may be addressed during the Business Requirement phase of their planning process.

8. Pending implementation of systemic programming changes, the COO should consider delaying the movement of payments from the taxpayers' Masterfile accounts to the Excess Collections Accounts until applicable statute dates for refunding or crediting the overpayments expire.

Management's Response: Procedures have been implemented to keep credits on the Masterfile for accounts that require a return to be filed. The account will remain open and available on the Masterfile during the statutory period, so the IRS may actively pursue the taxpayer's return and case resolution.

Conclusion

To protect taxpayer rights and reduce the risk of inappropriate collection actions being taken, the IRS

**Millions of Dollars in Internal Revenue Service Excess Collections
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needs to immediately credit taxpayer accounts where appropriate. To prevent taxpayer payments from being classified as Excess Collections, the IRS needs to develop new approaches in its computer system redesign and processing procedures to avoid, or minimize, the current limitations of the Excess Collections program.

Finally, to remedy current concerns and avoid similar recurrences in the future, the IRS must ensure that functional goals are more compatible with overall organizational goals for delivering top-quality customer service.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to evaluate the Internal Revenue Service's (IRS) program for managing its Excess Collections Accounts. The audit was on-going when the Inspection Service was transferred to the Treasury Inspector General for Tax Administration on January 19, 1999.

Audit work was conducted during the period September 1998 to February 2000 in the National Office (Customer Service and Submission Processing functions) and the Office of the National Taxpayer Advocate, and we received data from each of the 10 service centers.

To achieve the objective, data were extracted from the Excess Collections Accounts that are separately maintained at each of the 10 service centers. Then, we compared this information with taxpayer data on the IRS' primary computer system (Masterfile). This database was updated based on a request by IRS management as of March 1999.

- I. To determine whether a program was in place with controls to ensure that the Excess Collections Accounts are properly handled, we:
 - A. Interviewed primary stakeholders in the process (staff in the offices of Submission Processing and the Executive Officer for Service Center Operations).
 - B. Interviewed other related stakeholders (staff in the offices of the National Taxpayer Advocate, the Chief Financial Officer, the Collection function and the Customer Service function).
 - C. Conducted a walk-through of the Excess Collections Unit at the Philadelphia Service Center to determine procedures used by the Excess Collections employees.
- II. To determine whether payments in the Excess Collections Accounts could be applied to taxpayers' accounts, we conducted testing in two phases.

Phase One

- A. Selected a statistically valid sample of 411 Individual Masterfile and 406 Business Masterfile payments from the Excess Collections Accounts as of June 1998, and compared these payments to the taxpayers' accounts to determine whether offsets would be appropriate. This sample provided a confidence level of 95 percent with a precision level of +/- 5 percent. The

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Statistics of Income Division assisted in reviewing the sampling methodology and projections made during the audit.

- B. Judgmentally selected 50 accounts for taxpayers with payments in the Excess Collections Accounts and determined if these taxpayers received incorrect balance due notices, made additional payments, and/or were placed in collection enforcement status.

Phase Two

IRS management requested a more current database match in order to increase the productivity of their case analysis efforts.

- A. In order to confirm the results of our Phase One review, we conducted an analysis of a statistically valid sample of 300 payments (from both the Individual and Business Masterfiles) using data as of March 1999.
- B. We further analyzed the database to evaluate the impact of taxpayers filing tax returns late but within statutory requirements or after the statute dates for refunding or crediting payments to other tax periods.

These tests provided a confidence level of 90 percent with a precision level of +/- 5 percent. The Statistics of Income Division again assisted in reviewing the sampling methodology and projections made during the audit.

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Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs)
Richard Dagliolo, Director
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Appendix III

Report Distribution List

Deputy Commissioner Modernization C:DM
Deputy Commissioner Operations C:DO
Chief Information Officer IS
Chief Operations Officer OP
Assistant Commissioner (Collection) OP:CO
Assistant Commissioner (Customer Service) OP:C
Assistant Commissioner (Forms and Submission Processing) OP:FS
Assistant Commissioner (Service Center Operations) IS:SC
National Director, Customer Service Compliance, Accounts and Quality OP:C:A
National Director, Submission Processing OP:FS:S
National Director for Legislative Affairs CL:LA
Chief, Customer Service Field Operations OP:C:CS
Office of the Chief Counsel CC
Office of Management Controls M:CFO:A:M
Office of the National Taxpayer Advocate C:TA
Director, Office of Program Evaluation and Risk Analysis M:O
All Service Center Directors
Audit Liaisons:
 Assistant Commissioner (Collection) OP:CO
 Assistant Commissioner (Customer Service) OP:C
 Assistant Commissioner (Forms and Submission Processing) OP:FS
 Assistant Commissioner (Service Center Operations) IS:SC

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Finding and Recommendation:

Many payments in the Excess Collections Accounts have not been properly credited to taxpayers' accounts. We recommended that the Internal Revenue Service (IRS) research payments listed on a Treasury Inspector General for Tax Administration (TIGTA)-developed database and refund or credit the taxpayers' accounts whenever appropriate.

Type of Outcome Measures:

Taxpayer rights and entitlements

Value of the Benefit:

The potential exists for up to \$25 million to be refunded or credited to taxpayers' accounts. Proper crediting of taxpayers' payments will increase reliability of tax information on the IRS' primary computer system (Masterfile). This action will also result in the intangible benefit of ensuring the accuracy of IRS balance due notices and the appropriateness of IRS collection actions.

It is not possible to objectively quantify the impact of properly crediting payments to current and future taxpayer accounts, or of minimizing the efforts these taxpayers would take to ensure they receive credit for their payments. We are unable to estimate the intangible benefits of ensuring the accuracy of IRS balance due notices and the appropriateness of IRS collections actions.

Methodology Used to Measure the Reported Benefit:

Using TIGTA-developed computer matching techniques, we identified 29,820 payments (as of March 1999) where testing indicated a high probability of up to \$25 million in payments in Excess Collections Accounts that should be credited to the taxpayers' accounts. Submission Processing initially viewed sample cases and Customer Service is currently reviewing the entire database. Both functions concurred with our methodology. The Statistics of Income Division reviewed the methodology for developing the projections. The IRS has been provided a copy of the database and is currently researching the payments and making adjustments where appropriate. Management has agreed to input the results of the adjustments to taxpayers' accounts onto a specially

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designed spreadsheet embedded in the TIGTA database that is being used to work affected accounts.

Audit work indicated that most of the taxpayers involved in our testing would have received balance due notices that were inaccurate and sometimes unwarranted. Some taxpayers were subjected to Federal Tax Liens or submitted additional tax payments in excess of their tax liabilities.

We are unable to place a monetary benefit on ensuring taxpayers' payments are accurately recorded. However, we believe that accuracy is of critical importance to the mission of the IRS and taxpayers' confidence in the IRS itself.

Finding and Recommendation:

Increased IRS efforts to secure prior year tax returns from taxpayers before statute expiration dates could help taxpayers reduce the risk of forfeiting their rights to have payments in Excess Collections Accounts either refunded or credited to other tax periods. We recommended that the IRS generate a "last chance" notice clearly warning the taxpayer that payments in Excess Collection were at risk of being forfeited if tax returns were not filed prior to statute expiration. We also recommended that the IRS initiate efforts to increase employee awareness of processing limitations. Also, we recommended increasing taxpayer and practitioner awareness of statutory requirements related to overdue tax returns.

Type of Outcome Measures:

Taxpayer rights and entitlements

Value of the Benefit:

The potential exists for an estimated \$173 million in Excess Collections Accounts to be refunded or credited to taxpayers' accounts. Also, statistical sampling identified an estimated \$162 million in Excess Collections Accounts that was forfeited by taxpayers because tax returns were not filed within statutory requirements.

Methodology Used to Measure the Reported Benefit:

Using TIGTA-developed computer-matching techniques, we identified 426,000 payments in Excess Collections Accounts where these taxpayers also had outstanding tax liabilities for the same or other tax periods. Analysis of a statistical sample of these accounts resulted in the estimates referred to above. Submission Processing and Customer Service management viewed a sample of the data and concurred with our methodology. The Statistics of Income Division reviewed the methodology for developing the projections. Tracking of actual financial accomplishment would need to be linked to program or activity codes developed to monitor taxpayer responses to "last chance" notices.

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Finding and Recommendation:

The IRS has not developed formalized program controls or computer programs to ensure Excess Collections Accounts are effectively managed and the payments properly credited to the taxpayers' accounts. We recommended that the IRS establish a cross-functional approach to coordinate its efforts. We also recommended that the IRS initiate efforts to ensure linking programs are included in Tax Systems Modernization efforts. Until systems are modernized, the IRS should consider leaving the credits in the taxpayer accounts until the statute of limitations for refunding or crediting overpayments has expired.

Type of Outcome Measures:

Cost savings - funds put to better use

Value of the Benefit

Changes in processing procedures and computer system changes to link the payments in the Excess Collections Accounts with the Masterfile would result in estimated processing cost savings of \$1.5 million over a 3-year period.

Methodology Used to Measure the Reported Benefit:

We calculated estimated cost savings for the recommendation by using the IRS Service Center Costing Guidelines and data from our computer extracts. We developed a labor cost and staff hour model for processing requests to transfer payments to and from Excess Collections Accounts and taxpayers' accounts. Submission Processing and Customer Service management viewed the cost savings calculations and concurred with our methodology. IRS management is currently developing a more comprehensive cost analysis to justify systems modifications. Their estimate, when finalized, will be incorporated into our final assessment of cost savings.

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Appendix V

Hypothetical Examples of Financial Impact on Taxpayers

Statutory requirements govern the Internal Revenue Service's (IRS) handling of taxpayer payments. The Internal Revenue Code § 6511(a)¹ requires that a claim for credit or refund of an overpayment be filed by the taxpayer within three years from the date the tax return was filed or two years from the date the tax was paid, whichever period expires later. If no return is due, a claim for refund of prepaid credits must be made within two years from the date of payment. This precludes the IRS from offsetting these overpayments (Refund Offset) to other tax periods for which the taxpayer has an outstanding tax liability.

The following hypothetical scenarios based on the Treasury Inspector General for Tax Administration's (TIGTA) review illustrate how taxpayers can experience adverse financial consequences.

Taxpayer Return Filed Late but Within Statutory Deadlines

A taxpayer's 1995 individual tax return is due on April 15, 1996. We will assume that during 1995, the taxpayer makes estimated payments of \$1,000, but does not then timely file the tax return. Subsequent to the due date of the return, the IRS would send notices inquiring about the filing of the overdue tax return. If the taxpayer does not respond to the IRS notices, then in 1998, after unsuccessful attempts to contact the taxpayer, the IRS would transfer the \$1,000 from the taxpayer's account on the IRS' primary computer system (Masterfile) to one of its Excess Collections Accounts in the 10 service centers.

We will further assume that in January 1999 (which is **within** the statutory deadline of April 15, 1999), the taxpayer files the overdue 1995 individual tax return with a tax liability of \$500 and with claimed estimated payments of \$1,000. The taxpayer requests a refund of the remaining \$500.

When the Masterfile checks for estimated payments, they would not appear in the taxpayer's account because they were removed in 1998, and the Masterfile is not linked to the Excess Collections Accounts. As a result, the taxpayer would not receive a refund, but instead would receive a balance due notice of \$500, plus interest and penalty.

In order to resolve the problem, the taxpayer would need to contact the IRS and explain that he/she had made estimated payments. An IRS employee would conduct research to locate the payments claimed by the taxpayer. If the payments are located, the employee would formally request a transfer of the payments from the Excess Collections Accounts

¹ 26 U.S.C. § 6511 (a), Limitations on Credit or Refund.

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to the taxpayer's primary account on the Masterfile. Documentation would be needed to substantiate the transfer and would be forwarded to a unit within the service center to correct the account.

Actual Financial Impact Identified in Audit: At the time of the TIGTA analysis, an estimated 29,820 payments involving \$25 million needed to be credited to taxpayers' accounts because the taxpayers filed their tax returns within statutory deadlines.

Taxpayer Return Filed After Statutory Deadlines

This situation is similar to the first hypothetical example. Again, a taxpayer's 1995 individual tax return is due on April 15, 1996. We will assume that during 1995, the taxpayer makes estimated payments of \$1,000, but does not then timely file a tax return for 1995. Subsequent to the due date of the return, the IRS would send notices inquiring about the filing of the overdue tax return. If the taxpayer does not respond to the IRS notices, then in 1998, after unsuccessful attempts to contact the taxpayer, the IRS would transfer the \$1,000 from the taxpayer's account to Excess Collections Accounts.

The important difference from the first example is that we will assume on June 1, 1999, **subsequent to** the statutory deadline for the 1995 tax return (April 15, 1999), the taxpayer files the 1995 individual tax return with a tax liability of \$500 and with claimed estimated payments of \$1,000. The taxpayer requests a refund of the remaining \$500.

When the Masterfile checks for estimated payments, these payments would not appear in the taxpayer's account because they would have been removed in 1998, and the Masterfile is not linked to the Excess Collections Accounts. As a result, the taxpayer would not receive a refund, but instead would receive a balance due notice of \$500, plus interest and penalty.

In order to resolve the problem, the taxpayer would need to contact the IRS and explain that he/she had made estimated payments. An IRS employee would conduct research to locate the payments claimed by the taxpayer. If the payments are located, the employee would formally request a transfer of the payments from the Excess Collections Accounts to the taxpayer's primary account on the Masterfile.

However, the IRS is prohibited from transferring the entire amount to the taxpayer's account because the statute of limitations has expired. The taxpayer would receive credit up to the amount of his/her liability (\$500). Any remaining overpayment (\$500) would be forfeited because the tax return was filed after the statutory deadlines.

Documentation would be needed to substantiate the transfer and would be forwarded to a unit within the service center to correct the account.

Actual Financial Impact Identified in Audit: At the time of the TIGTA analysis, an estimated 191,700 payments involving \$162 million were

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forfeited by taxpayers because the tax returns were filed after the statutory deadlines. Further, an estimated 204,480 payments involving \$173 million are at risk of being forfeited if tax returns or claims are not filed before the statute expires for refunding or crediting overpayments.

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Appendix VI

Glossary of Terms

Balance Due Notices – Bills that are sent to taxpayers who have filed a tax return and have not fully paid the balance, or have not paid additional assessments of tax, penalties, or interest.

Computing Centers – Under the Internal Revenue Service (IRS) reorganization plan, the Martinsburg Computer Center, the Detroit Computing Center, and the Memphis Computing Center will support IRS tax processing and information management through a data processing and telecommunications infrastructure. They eventually will receive all electronically filed tax returns and payments, maintain tax account and related case data, and provide users at other IRS sites on-line access to the data.

Customer Service – The IRS component that answers tax law questions over the telephone and with automated systems. Customer Service in the district offices includes the toll-free and the Automated Collection System (ACS) programs. In the service centers, Customer Service encompasses toll-free, ACS, adjustments, collection and examination activities.

Lien – Encumbrance on property or rights to property as security for a debt or obligation. The Federal Tax Lien provides the statutory basis for all the enforcement actions the IRS takes to secure payment for outstanding taxes.

Masterfile (MF) – The IRS' database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

National Taxpayer Advocate – The IRS component that ensures that taxpayer problems, which have not been resolved through normal channels, are promptly and properly handled.

Non-Masterfile (NMF) – Consists of transactions on tax accounts not included on the Masterfile.

Refund Offset – Occurs when a taxpayer's refund is applied to other taxes owed by the taxpayer to offset the balance due. The unapplied balance will be refunded to the taxpayer, unless other debts subject to offset are owed.

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Service Center – The 10 service centers are the data processing arm of the IRS. The centers process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

Statute of Limitations – Period of time allowed by law that the IRS can collect balance due assessments.

Submission (Accounts) Processing – The IRS component that processes tax returns, payments and refunds, sends notices, and reconciles taxpayer accounts.

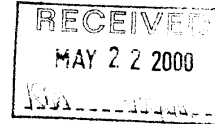
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Appendix VII

Management's Response to the Draft Report



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



May 22, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

Charles O. Rossotti *Bob Wenzel*
for - Commissioner of Internal Revenue

SUBJECT:

Treasury Inspector General for Tax Administration
(TIGTA) Draft Report - Millions of Dollars in Internal
Revenue Service (IRS) Excess Collections Accounts
Could Be Credited To Taxpayers (Audit No. 19980008)

Thank you for the opportunity to respond to your draft report entitled "Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers." We share your concern that taxpayers who have made timely payments and subsequently filed late returns are not being credited with the payments until they received balance due notices. We will be modifying our information system to stop the transfer of taxpayer payments into Excess Collections until the Refund Statute Expiration Date has expired. We will be sending periodic letters to taxpayers with credits to remind them to file a return to receive the credit or a refund.

We agree with your outcome measure that the potential exists for money to be refunded or credited to taxpayers' accounts. However, our analysis does not support the \$25 million you cite. The clean-up effort in both the Brookhaven and Kansas City Service Centers addressed a total of 2,637 payments (both IMF and BMF). We credited back into the taxpayers' accounts 1,398 payments totaling \$1,656,586. The clean-up effort has been completed, but we are still in the process of tabulating the results from the other centers. If the remaining centers have similar results, we will have credited approximately \$8,282,930.

We also agree it is not possible to objectively quantify the impact of properly crediting payments to current and future taxpayer accounts, or of minimizing the efforts taxpayers would take to ensure they receive credit for their payments. We also agree that changes in processing procedures and computer systems to link the payments in the Excess Collections Accounts with the Masterfile would save costs.

If you have any questions about our response, please contact me at (202)622-9511 or your staff may contact Robert Wilkerson, Assistant Commissioner (Customer Service), at (202)622-5044.

Millions of Dollars in Internal Revenue Service Excess Collections Accounts Could Be Credited to Taxpayers

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IDENTITY OF RECOMMENDATION/FINDING #1

The Customer Service function should use Treasury Inspector General for Tax Administration developed computer-matching techniques to identify and, where appropriate, transfer payments from the Excess Collections accounts to the taxpayers' Masterfile accounts. We provided an updated file of all 29,820 payments to Customer Service management in order to help them make these adjustments. IRS management has already initiated efforts to resolve these accounts.

ASSESSMENT OF CAUSE(S):

There currently is no procedural or systemic programming in place that allows credits in Excess Collections to be matched and moved back to the appropriate taxpayer's account when a return is filed late.

CORRECTIVE ACTION #1:

The listing generated by the TIGTA computer program was provided to the Service Center Collection Branches to resolve the above-identified accounts. All payments that could be applied to the taxpayers' accounts have been appropriately applied.

CORRECTIVE ACTION #2:

The TIGTA program will be used to generate an additional "clean-up" listing which the Service Center Accounting function can work in the interim before programming changes are completed. Programming changes are being made to periodically generate a listing of all credits in Excess Collections. This listing will be reviewed and monies appropriately applied to the taxpayers' accounts.

IMPLEMENTATION DATE:

Corrective Action #1 - Completed - December 31, 1999
Corrective Action #2 - Proposed - October 1, 2000 (Clean-Up Listing)
Proposed - October 1, 2001 (Excess Collections RIS
Implementation)

RESPONSIBLE OFFICIALS:

Corrective Action #1 - Assistant Commissioner (Customer Service)
Corrective Action #2 - Assistant Commissioner (Forms and Submission Processing)

CORRECTIVE ACTION(S) MONITORING PLAN:

The Assistant Commissioner (Forms and Submission Processing) will follow up with TIGTA to receive the clean-up listing and with Information Systems to ensure the timely implementation of the RIS.

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IDENTITY OF RECOMMENDATION/FINDING #2

The Chief Operations Officer (COO) needs to coordinate education efforts for employees handling these accounts and develop strategies for increasing taxpayer and practitioner awareness of the law on the statute of limitations for refunding and crediting payments related to overdue tax returns.

ASSESSMENT OF CAUSE(S):

Resource limitations prevent the IRS from actively pursuing these delinquent returns during the period of statute of limitations.

CORRECTIVE ACTIONS #1:

Programming changes will be made to allow our systems to automatically generate a notice to the taxpayer every 6 months as a reminder that we have credit(s) available and that a return must be filed to receive the credit. This notice will explain the statute of limitations of the available credit.

CORRECTIVE ACTIONS #2:

We will add procedures to the Internal Revenue Manual (IRM) on the Excess Collections process and increase employee training on the procedures for handling these accounts.

IMPLEMENTATION DATE:

CORRECTIVE ACTIONS #1:

Proposed - January 1, 2001 (Creation of Notices RIS Implementation)

CORRECTIVE ACTIONS #2:

Proposed - January 1, 2001 (IRMs updated)

RESPONSIBLE OFFICIALS:

Corrective Action #1 - Assistant Commissioner (Forms and Submission Processing)

Corrective Action #2 - Assistant Commissioner (Customer Service)

Assistant Commissioner (Collection)

Assistant Commissioner (Examination)

CORRECTIVE ACTION(S) MONITORING PLAN:

The Assistant Commissioner (Forms and Submission Processing) will ensure the RIS for the new notices is implemented timely and the new instructions are included in the IRM.

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IDENTITY OF RECOMMENDATION/FINDING #3

Customer Service and Submission Processing management should develop procedures for contacting taxpayers one last time prior to the statute expiration date of payments in the Excess Collections Accounts and advise them of the possible forfeiture of payments if the necessary tax returns are not filed.

ASSESSMENT OF CAUSE(S):

After initial attempts to contact the taxpayer to secure a return, monies were moved to Excess Collections and no further attempts were made to contact the taxpayer, although the statute of limitations had not expired.

CORRECTIVE ACTIONS:

Program changes will allow a final notice to be issued to the taxpayer 6 months before the statute of limitations expires. The notice will alert the taxpayer that the statute is imminent.

IMPLEMENTATION DATE:

Proposed - January 1, 2001 (Implementation of RIS)

RESPONSIBLE OFFICIALS:

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

CORRECTIVE ACTION(S) MONITORING PLAN:

The Assistant Commissioner (Forms and Submission Processing) will ensure that the RIS for the final notice is implemented timely.

IDENTITY OF RECOMMENDATION/FINDING #4

The IRS should correlate our audit results with any support for pending legislative suggestions by the Taxpayer Advocate's office, regarding statutory requirements for refunding and credits.

ASSESSMENT OF CAUSE(S):

Current law prohibits the refunding or offsetting of credits beyond the statute of limitations.

CORRECTIVE ACTIONS:

The Taxpayer Advocate's office will be provided a copy of this report, when finalized. A representative of the Taxpayer Advocate's office participated in the Excess Collections Task Force and helped make decisions on needed changes.

IMPLEMENTATION DATE:

Proposed - May 31, 2000

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RESPONSIBLE OFFICIAL:

Assistant Commissioner (Forms and Submission Processing)

CORRECTIVE ACTION(S) MONITORING PLAN:

Not applicable

IDENTITY OF RECOMMENDATION/FINDING #5

Until systemic and interim recommendations are operational, the COO needs to coordinate a cross-functional strategy to resolve and minimize payments being transferred to Excess Collections Accounts.

ASSESSMENT OF CAUSE(S):

An automated computer system was never designed to systemically transfer taxpayer payments in and out of Excess Collections Accounts.

CORRECTIVE ACTIONS:

A cross-functional Task Force was organized to review the Excess Collections File and develop a plan to resolve and minimize payments being transferred to Excess Collections. This group worked together to develop recommendations to improve internal processes and customer satisfaction. One immediate procedural change was to (1) review statute imminent returns to have credits transferred from Excess Collections and (2) keep credits on Masterfile.

IMPLEMENTATION DATE:

Completed - September 22, 1999 -- Statute instructions to the field (1)

Completed - April 3, 2000 -- Instructions to Customer Service and Submission Processing (2)

RESPONSIBLE OFFICIALS:

Assistant Commissioner (Forms and Submission Processing)

Assistant Commissioner (Customer Service)

CORRECTIVE ACTION(S) MONITORING PLAN:

Not applicable

IDENTITY OF RECOMMENDATION/FINDING #6

The IRS stakeholders (Submission Processing, Customer Service, and Compliance functions) should reevaluate any function-oriented decisions to transfer taxpayers' payments to Excess Collection Accounts.

ASSESSMENT OF CAUSE(S):

Lack of resources and current procedures contributed to many credits being moved to Excess Collections.

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CORRECTIVE ACTION:

A task force comprised of representatives from Submission Processing, Customer Service, various field Compliance functions and TIGTA reviewed the current procedures for transferring credits to Excess Collections when a credit is on the module and a return has not been filed. A recommendation was made to change the procedures and leave the credit on the module, while we pursue the open delinquency, until the statutory period for refund has expired. All task force members agreed to this recommendation. The procedures were disseminated to the field for immediate implementation.

IMPLEMENTATION DATE:

Completed - April 3, 2000

RESPONSIBLE OFFICIAL:

Chief Operations Officer

CORRECTIVE ACTION(S) MONITORING PLAN:

Not applicable

IDENTITY OF RECOMMENDATION/FINDING #7

The IRS stakeholders (Submission Processing, Customer Service, and Compliance functions) should ensure that planned Tax Systems Modernization redesigns address linking limitations between the Masterfile and the Excess Collections Accounts maintained by the 10 service centers.

ASSESSMENT OF CAUSE(S):

Masterfile and Excess Collections are not currently linked. Therefore, erroneous balance due notices are issued when a taxpayer files a late return and has credits which were transferred to Excess Collections.

CORRECTIVE ACTIONS:

Programming changes are being made that will identify balance due notices that have credits for the same tax periods in Excess Collections. This will allow credits to be reapplied to the taxpayers' accounts and the notices to be destroyed or reissued with correct balances. Information on the linking limitations between Masterfile and Excess Collections have been provided to Customer Account Data Engine (CADE) so that the issue may be addressed during the Business Requirement phase of their planning process.

IMPLEMENTATION DATE:

Proposed - January 1, 2001 (Implementation of RIS)

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RESPONSIBLE OFFICIALS:

Assistant Commissioner (Forms and Submission Processing)

CORRECTIVE ACTION(S) MONITORING PLAN:

The Assistant Commissioner (Forms and Submission Processing) will ensure the timely implementation of the RIS.

IDENTITY OF RECOMMENDATION/FINDING #8

Pending implementation of systemic programming changes, the COO should consider delaying the movement of payments from the taxpayers' Masterfile accounts to the Excess Collections Accounts until applicable statutory dates for refunding or crediting the overpayments expire.

ASSESSMENT OF CAUSE(S):

To close active inventories, credits were moved to Excess Collections as part of the case resolution process.

CORRECTIVE ACTIONS:

Procedures have been implemented to keep credits on Masterfile for accounts that require a return to be filed. The account will remain open and available on Masterfile during the statutory period so the IRS may actively pursue the taxpayers return and case resolution.

IMPLEMENTATION DATE:

Completed - April 3, 2000 -- Instructions to Customer Service and Submission Processing

RESPONSIBLE OFFICIALS:

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