

**Significant Improvements Are Needed in
Processing Gift Tax Payments and Associated
Extensions to File**

September 2000

Reference Number: 2000-30-154

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.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 22, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Significant Improvements Are Needed in
Processing Gift Tax Payments and Associated Extensions to File

This report presents the results of our review of the processing of gift tax payments and associated extensions to file. The audit objective was to determine if the Internal Revenue Service (IRS) processed Applications for Automatic Extension of Time To File U. S. Individual Income Tax Return (Form 4868) for gift tax return extensions and associated gift tax payments to the proper accounts.

In summary, we found that IRS centers and lockbox processing sites misapplied most gift tax payments made by taxpayers who filed for an automatic extension of time to file. These misapplied payments were incorrectly processed to taxpayers' individual income tax accounts. Further, extensions were usually processed only to individual income tax accounts instead of to both individual and gift tax accounts.

Management's response was due on September 21, 2000. As of September 22, 2000, management had not responded to the draft report.

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.

**Significant Improvements Are Needed in Processing Gift Tax Payments and
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Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

Executive Summary

Internal Revenue Service (IRS) centers and lockbox processing sites¹ misapplied most gift tax payments made by taxpayers who filed Applications for Automatic Extension of Time To File U. S. Individual Income Tax Return (Form 4868).² These payments were processed incorrectly to taxpayers' individual income tax accounts. Further, extensions to file were usually processed only to individual income tax accounts, instead of to both individual and gift tax accounts.³

Since 1989, IRS Inspection (now the Treasury Inspector General for Tax Administration) has issued three audit reports⁴ to IRS management that identified the misapplication of gift tax payments made by taxpayers who filed extensions. The objective of this review was to determine if the IRS is now processing gift tax extensions and the related gift tax payments to the proper accounts.

Our computer extracts identified 724,379 gift tax returns filed for Tax Years (TY) 1996, 1997, and 1998, and 47,589 of these taxpayers reported gift tax liabilities. Approximately 11,648 taxpayers who reported gift tax liabilities also requested extensions of time to file.

Results

We found that taxpayers sent gift tax extensions with and without payments to either IRS centers or lockbox sites, and most were processed incorrectly no matter where they were sent. During our review, we issued a memorandum to IRS management outlining our concerns about the processing of these extensions and gift tax payments. Although management's proposed actions would prevent some erroneous refunds and incorrect

¹ IRS facilities and authorized banks to which taxpayers are directed to mail documents and payments.

² Taxpayers use Form 4868 to request a 4-month extension of time to file individual income tax and/or gift tax returns to August 15. We refer to these in this report as gift tax extensions. An Application for Additional Extension of Time To File U. S. Individual Income Tax Return (Form 2688) is a request for an additional 2-month extension of time to file to October 15.

³ Internal Revenue Code § 6075 (1981) provides that an extension of time granted for filing an individual income tax return also extends the time for filing a gift tax return.

⁴ *Processing of Applications for Extensions of Time To File Returns at the Cincinnati Service Center* (Reference Number 49032, dated March 30, 1989); *Recommendations for Improving the Processing of Application for Extensions of Time To File and Returns with Extended Due Dates* (Reference Number 09203, dated December 27, 1989); *Follow-up Review: The Processing of Extensions of Time To File* (Reference Number 030303, dated April 4, 1993).

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notices from being sent to taxpayers, additional actions need to be taken to address the root cause of the problem and all the effects of improper processing.

The Internal Revenue Service Incorrectly Processed Most Gift Tax Payments and Associated Extensions to File

At least 8,626 extensions were processed to the taxpayers' individual income tax accounts only. During a test of a statistical sample of 164 of the 8,626 taxpayer accounts, we found that IRS centers and lockbox sites misapplied \$26 million in gift tax payments, and correctly processed none of the extensions to file to taxpayers' gift tax accounts. Based on the results of our analyses, we estimate that \$1.4 billion in gift tax payments were misapplied during the processing of TY 1996, 1997, and 1998 extensions.⁵ As a result, the IRS sent taxpayers an estimated \$237 million in erroneous refunds and 18,357 incorrect notices. In addition, the IRS charged taxpayers an estimated \$3.2 million for penalties that they did not owe and paid an estimated \$8.1 million in interest to taxpayers for delayed refunds. Our limited study of TY 1999 case processing showed similar results.

IRS center processing guidelines caused incorrect processing of gift tax payments and extensions

The IRS allows its centers to choose how they wish to process extensions and related payments from among several methods. However, the instructions for some of the methods are unclear and incomplete. Functional processing areas, such as Code and Edit and Data Conversion, did not appear to be aware that the method they chose resulted in misapplied gift tax payments and ineffective processing of extensions to gift tax accounts. The incorrect processing was caused in part by the following:

- Some centers used incorrect program processing codes for extensions, which caused the payments and extensions to post automatically to the taxpayers' individual income tax accounts, rather than to the proper gift tax accounts.
- The Integrated Submission and Remittance Processing (ISRP) System processes single payments to multiple accounts, but it is not currently capable of processing an extension to both a taxpayer's individual income tax and gift tax accounts. In the mistaken belief that the ISRP System also processed the extensions to the gift tax accounts, some centers stopped the separate processing necessary to post the extensions to taxpayers' gift tax accounts.

⁵ IRS reports could not be used to determine the number of Forms 4868 sent in by taxpayers that involved gift tax, so we developed computer extracts to identify the number of gift tax accounts that reflected extensions.

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- An IRS report designed to identify the volume of gift tax payments and extensions processed at IRS centers did not reflect accurate figures.

Lockbox processing guidelines were not followed or caused incorrect processing of gift tax payments and extensions

For some situations, lockbox guidelines were clear but not followed, and in other situations the processing guidelines were incomplete or unclear.

- Lockbox guidelines provided clear instructions for the processing of extensions submitted with payments for both the individual income tax and gift tax accounts, but the guidelines were not always followed.
- Lockbox guidelines did not provide complete instructions for the processing of extensions for both the individual income tax and gift tax accounts when taxpayers sent in payments for only one of the accounts.
- Lockbox guidelines did not provide clear direction for processing extensions and gift tax payments designated by taxpayers as “for gift tax only.”

In addition, established controls were ineffective in alerting management to lockbox processing problems.

- Reviews of lockbox processing by IRS lockbox coordinators did not ensure that gift tax payments and extensions were processed correctly.
- The report designed to alert the National Headquarters Lockbox Analyst about lockbox processing problems required information on the number of gift tax payments and extensions processed, but this figure was not reflected on the version of the report used by lockbox coordinators.
- An IRS report designed to identify the volume of gift tax payments and extensions processed at lockbox sites did not reflect accurate figures.

Summary of Recommendations

During the review, we recommended that the Assistant Commissioner (Forms and Submission Processing) require the review of all balance due notices for gift tax returns. We further recommended that tax examiners be instructed to review the taxpayers’ corresponding individual income tax and gift tax accounts to determine if the taxpayers’ gift tax payments and extensions to file were applied correctly.

Management’s Response to Office of Audit Memorandum: IRS management provided a response to our memorandum (see Appendices V and VI) stating that they would work with the Customer Service function to determine if a 100 percent review of all balance

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due notices issued for gift tax returns could be implemented. They also indicated that a Request for Information Services would be prepared to effect an automated solution. When underpayments are present on gift tax accounts, the related individual income tax accounts will be automatically searched for equivalent payments. If any are found, they will be automatically transferred to the gift tax accounts.

Management's complete response to the memorandum is included as Appendix VI.

Although management's proposed actions would prevent some erroneous refunds and incorrect notices from being sent to taxpayers, the root cause of the problem and all the effects of improper processing will not be addressed. Management needs to take additional actions to ensure the effective processing of extensions to file gift tax returns and associated gift tax payments. Therefore, we recommend that the Assistant Commissioner (Forms and Submission Processing) take the following steps:

- The IRS guidelines containing IRS center processing instructions for extensions need to be revised to ensure that payments and extensions involving gift tax returns are processed to the proper taxpayer accounts. The IRS should explore the possibility of updating the ISRP System to permit the posting of payments and extensions to both individual income and gift tax accounts.
- Current lockbox guidelines covering the processing of extensions involving gift tax returns and/or gift tax payments need to be followed, while other guidelines need to be completed or made clearer. Reviews of lockbox performance need to be improved and the reporting of that performance enhanced.

Management's Response to the Draft Report: Management's response was due on September 21, 2000. As of September 22, 2000, management had not responded to the draft report.

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Objective and Scope

The objective of this audit was to determine if the IRS is now processing Forms 4868 involving gift tax returns and associated gift tax payments to the proper accounts.

Taxpayers use an Application for Automatic Extension of Time To File U. S. Individual Income Tax Return (Form 4868)¹ to request extensions to file their individual income tax and/or gift tax returns. Since 1989, Internal Revenue Service (IRS) Inspection (now the Treasury Inspector General for Tax Administration) has issued three audit reports² to the IRS that identified the misapplication of gift tax payments made by taxpayers who filed these extensions. The objective of this audit was to determine if the IRS is now processing gift tax return extensions and associated gift tax payments to the proper accounts.³

In order to achieve our objective, we obtained a database of all gift tax accounts for which gift tax returns were filed for Tax Years (TY) 1996, 1997, and 1998. Our computer extracts identified 724,379 gift tax returns filed for this 3-year period, and 47,589 of these taxpayers reported gift tax liabilities. Approximately 11,648 taxpayers who reported gift tax liabilities also requested extensions of time to file their individual income tax return. At least 8,626 extensions were

¹ Taxpayers use Form 4868 to request a 4-month extension of time to file individual income tax and/or gift tax returns to August 15. We refer to these in this report as gift tax extensions. An Application for Additional Extension of Time To File U. S. Individual Income Tax Return (Form 2688) is a request for an additional 2-month extension of time to file to October 15.

² *Processing of Applications for Extensions of Time To File Returns at the Cincinnati Service Center* (Reference Number 49032, dated March 30, 1989); *Recommendations for Improving the Processing of Application for Extensions of Time To File and Returns with Extended Due Dates* (Reference Number 09203, dated December 27, 1989); *Follow-up Review: The Processing of Extensions of Time To File* (Reference Number 030303, dated April 4, 1993).

³ Internal Revenue Code (I.R.C.) § 6075 (1981) provides that an extension of time granted for filing an individual income tax return also extends the time for filing a gift tax return.

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processed to the taxpayers' individual income tax accounts only and not to their gift tax accounts. We selected a statistically valid sample of 164 accounts out of the 8,626 accounts.

We matched the identified accounts to their corresponding individual income tax accounts for the same tax periods. We determined if there were extensions to file posted in the gift tax accounts and/or the corresponding individual income tax accounts of the taxpayers and/or their spouses. We obtained the extension documents and performed tax account research on the individual and gift tax accounts. We also performed a limited study of TY 1999 case processing.

This audit was performed in accordance with *Government Auditing Standards* from November 1999 through May 2000. The audit was conducted at the National Headquarters and the Brookhaven IRS Center. Data and cases reviewed were selected from extensions processed nationwide at IRS centers and lockbox sites.⁴

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

⁴ IRS facilities and authorized banks to which taxpayers are directed to mail documents and payments.

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

Background

The IRS instructs taxpayers to request gift tax extensions by writing letters to their IRS district directors or centers or by submitting one of the forms used to extend the filing of their individual income tax returns.

A United States Gift (and Generation-Skipping Transfer) Tax Return⁵ is an annual return that must be filed on or before April 15 following the calendar year in which the gift was given. The IRS instructs taxpayers to request gift tax extensions by writing letters to their IRS district directors or centers or by submitting one of the forms used to extend the filing of their individual income tax returns.⁶

The I.R.C. provides that an extension of time granted for filing an individual income tax return also extends the time for filing a gift tax return.⁷ The extension of time to file does not extend the time to pay the gift tax.

The extension form includes a specific checkbox for taxpayers to indicate whether gift tax returns are expected to be filed for the taxpayer and/or their spouse. It also provides separate lines for the taxpayers to show their individual income tax liabilities and gift tax payments.

IRS centers and lockbox sites process gift tax payments and extensions. Taxpayers are instructed to send extensions with payments to designated lockbox sites and extensions with no payments to IRS centers. During processing, gift tax payments should be correctly credited to the gift tax accounts of the taxpayers and/or their spouses. Individual income tax payments should be correctly credited to the taxpayers' individual income tax accounts. Extensions should be processed to both

⁵ United States Gift (and Generation-Skipping Transfer) Tax Return information is submitted on Form 709 or 709-A, the short form.

⁶ Taxpayers use Form 4868 to apply for a 4-month extension of time to file their individual income tax and/or gift tax returns. Form 2688 is submitted to request 2 additional months. U.S. citizens and resident aliens abroad submit Form 2350.

⁷ I.R.C. § 6075 (1981).

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the individual and gift tax accounts of the taxpayers and/or their spouses if requested, automatically extending the due date of the individual income tax and gift tax returns to August 15.

Results

Most extensions that involved gift tax returns and associated payments were processed incorrectly at IRS centers and lockbox sites.

Even though taxpayers were instructed to send applications for extension of time to file with payments to lockbox sites and extensions without payments to IRS centers, taxpayers sent extensions with and without payments to both. Further, most extensions that involved gift tax returns and associated payments were processed incorrectly no matter where they were sent.

During our review, we issued a memorandum to IRS management recommending the review of all balance due notices involving gift tax returns.⁸ Although management's proposed actions would prevent some erroneous refunds and incorrect notices from being sent to taxpayers, additional actions need to be taken to address the root cause of the problem and all the effects of improper processing.

The Internal Revenue Service Incorrectly Processed Most Gift Tax Payments and Associated Extensions to File

In our sample of 164 extensions processed by IRS centers and lockbox sites, we found that 100 (61 percent) of the taxpayers sent in gift tax payments with their extensions and 64 (39 percent) did not make gift tax payments with their extensions.

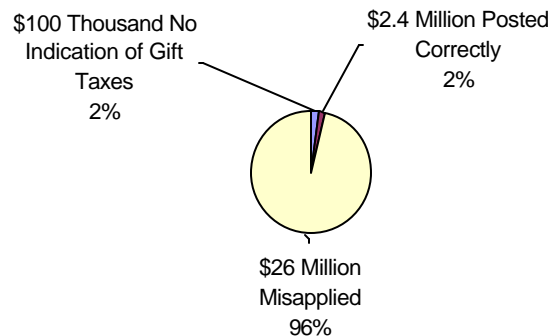
In 96 (96 percent) of the 100 cases where taxpayers sent in gift tax payments, the payments were incorrectly

⁸ Our memorandum and Management's Response appear as Appendices V and VI, respectively.

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applied to taxpayers' individual income tax accounts (see Figure 1). The IRS correctly processed the gift tax payments to gift tax accounts in only two of the cases. In the two other cases, taxpayers submitted payments with their extensions but did not indicate on the extensions that the payments were for gift tax.

Figure 1. Gift Tax Payments Misapplied



In 64 of the 164 extensions in our sample, taxpayers did not send in gift tax payments, but 29 of these taxpayers clearly requested gift tax extensions by checking the correct box on the extension form. The other 35 taxpayers who did not send in gift tax payments did not indicate on their extension forms that they intended to file gift tax returns.

However, we did not find that any of the 164 taxpayers in our sample were given extensions to file their gift tax returns. This happened regardless of whether they made gift tax payments or clearly indicated on the extension forms that they intended to file gift tax returns.

In our sample of 164 cases, the IRS centers and lockbox sites misapplied \$26 million in gift tax payments to taxpayers' individual income tax accounts and sent taxpayers \$4.5 million in erroneous refunds and 349 incorrect notices, including 53 Notices of Intent to Levy, at a cost of approximately \$5,144. In addition, the

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We estimated that \$1.4 billion in gift tax payments were misapplied nationwide during the processing of TY 1996, 1997, and 1998 extensions.

IRS charged taxpayers \$60,692 for penalties which they paid but did not owe, and paid over \$153,000 in interest to taxpayers for delayed refunds.

When we projected the results of our analyses to the remaining 8,462 accounts that met the same selection criteria as our sample, we estimated that \$1.4 billion in gift tax payments were misapplied nationwide during the processing of TY 1996, 1997, and 1998 extensions. As a result, we estimated that the IRS:

- Sent taxpayers an estimated \$237 million in erroneous refunds.
- Issued 18,357 incorrect notices at a cost of approximately \$270,000, including 2,788 incorrect Notices of Intent to Levy.
- Charged taxpayers an estimated \$3.2 million in penalties that they did not owe.
- Paid taxpayers an estimated \$8.1 million in interest for delayed refunds.

Besides the taxpayer burden created by errors in processing these extensions and the related costs for necessary account adjustments, the IRS placed itself at considerable risk of embarrassment. Some taxpayers were sent balance due notices for underpayments in their gift tax accounts and refund checks for overpayments in their individual income tax accounts within the same week. In addition, although the majority of the erroneous refunds issued were returned by taxpayers, most of the refunds would not be collectible under normal collection procedures because of recent court decisions.

Management needs to improve the handling of extensions involving gift tax payments and associated gift tax extensions at IRS centers and lockbox sites to increase processing effectiveness and efficiency and to decrease taxpayer burden.

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The IRS allows centers to choose how they wish to process payments and associated extensions from among several methods. However, the instructions for some of the methods are unclear and incomplete.

IRS center processing guidelines caused incorrect processing of gift tax payments and extensions

The IRS allows centers to choose how they wish to process payments and associated extensions from among several methods. However, the instructions for some of the methods are unclear and incomplete. Functional processing areas, such as Code and Edit and Data Conversion, did not appear to be aware that the method they chose resulted in misapplied gift tax payments and ineffective processing of gift tax extensions. As a result of unclear and incomplete instructions:

- Some centers used incorrect program processing codes for extensions, which caused the extensions and payments to post automatically to the taxpayers' individual income tax accounts, rather than to the proper gift tax accounts.
- The Integrated Submission and Remittance Processing (ISRP) System processes single payments to multiple accounts, but it is not currently capable of processing an extension to both a taxpayer's individual income tax and gift tax accounts. In the mistaken belief that the ISRP System also processed the extensions to the gift tax accounts, some centers stopped the separate processing necessary to post the extensions to taxpayers' gift tax accounts.
- An IRS report designed to identify the volume of gift tax payments and extensions processed at IRS centers did not reflect accurate figures. The Report of Requests for Extension of Time to File (P/R/F NO-O:R:R-64) records only extensions processed to the individual income tax accounts on the Individual Masterfile⁹ at the IRS centers, and does not capture the extensions processed at lockbox sites. It is inaccurate because it includes some extensions that

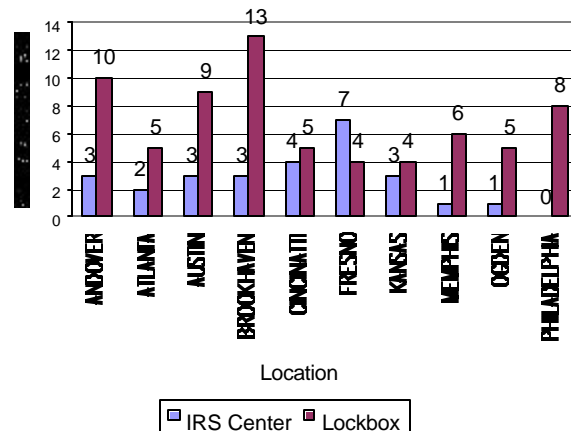
⁹ The IRS database that maintains transactions or records of individual tax accounts.

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should have been processed to gift tax accounts on the Business Masterfile.¹⁰

As previously stated, in our sample of 164 gift tax extensions, 96 (96 percent) of the 100 gift tax payments made by taxpayers, totaling \$26 million, were misapplied to their individual income tax accounts. IRS centers processed 25 (26 percent) of the 96 misapplied payments, and lockbox sites processed 71 (74 percent) (see Figure 2).

Figure 2. Misapplied Gift Tax Payments



When the IRS centers misapplied gift tax payments to individual income tax accounts during the processing of extensions, credit balances were created in the taxpayers' individual income tax accounts. As soon as the affected taxpayers filed their individual and gift tax returns, the "overpayments" in their individual income tax accounts and the "underpayments" in their gift tax accounts caused the following to occur:

¹⁰ The IRS database that consists of federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, excise taxes and gift taxes.

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- Erroneous refund checks were generated from taxpayers' individual income tax accounts, returning to them the payments they had intended for their gift taxes.
- Incorrect notices were generated and sent to taxpayers, informing them of "overpayments" in their individual income tax accounts.
- Balance due notices were generated and sent to taxpayers, informing them of gift tax payments due, as well as interest and penalties owed to the IRS.
- Some large dollar refunds, requiring review before issuance, were stopped when tax examiners identified debit balances in the gift tax accounts. The IRS had to pay interest to the affected taxpayers because the time to reissue corrected refunds for individual income tax accounts extended beyond the interest free period allowed by law.¹¹
- Some Taxpayer Delinquency Investigations (TDIs) did not generate in the IRS Collection function inventory. When extensions and/or payments were not processed to taxpayers' gift tax accounts and taxpayers did not file their gift tax returns, the IRS was not aware that the gift tax returns were delinquent. No TDIs were initiated to ensure compliance with tax laws.

Lockbox processing guidelines were not followed or caused incorrect processing of gift tax payments and extensions

For some situations, lockbox guidelines were clear but not followed, and in other situations the processing guidelines were incomplete or unclear.

Lockbox processing sites operate under guidelines agreed to by the IRS, the Department of the Treasury's Financial Management Services, and the banks operating the lockbox facilities. During our review, we found that for some situations, lockbox guidelines were clear but not followed, and in other situations the

¹¹ The IRS does not pay interest to taxpayers if a refund is issued within 45 days after the later of the return due date or the return received date.

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processing guidelines were incomplete or unclear. As a result, gift tax payments and associated extensions were incorrectly processed.

- Lockbox guidelines provided clear instructions for the processing of extensions submitted with payments for both the individual income tax and gift tax accounts, but the guidelines were not always followed.
- Lockbox guidelines did not provide complete instructions for the processing of extensions for both the individual income tax and gift tax accounts when taxpayers sent in payments for only one of the accounts.
- Lockbox guidelines did not provide clear direction for the processing of gift tax payments and extensions designated by taxpayers as “for gift tax only.”

Established controls, such as IRS reviews of lockbox processing, were ineffective in alerting management to extension processing problems at lockbox sites.

In addition, established controls were ineffective in alerting management to lockbox processing problems. Each IRS center appoints a lockbox coordinator who has oversight responsibility for the lockbox facility servicing that particular center. The Quality Assurance Branch at the center assists the lockbox coordinator in ensuring that quality standards are maintained through in-house programs or process reviews and on-site procedural reviews, as well as in reviewing of taxpayer notices. We found that the following controls needed strengthening:

- The IRS lockbox coordinators’ reviews of lockbox processing appeared to be inadequate and did not ensure that gift tax payments and extensions were processed correctly.
- The Service Center Monthly Lockbox Performance Report required a separate entry for the volume of extensions involving gift tax accounts and the associated gift tax payments processed at lockbox sites. However, these figures were not reflected on the version of the report sent by lockbox

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coordinators to the National Headquarters Lockbox Analyst.

- An IRS report designed to identify the volume of gift tax payments and extensions processed at lockbox sites did not reflect accurate figures. The Report of Requests for Extension of Time to File (P/R/F 701-32-11 NO-T:I:I:D-252) captured only approved extensions processed to gift tax accounts at lockbox sites. However, since there were so few extensions processed correctly to gift tax accounts at the lockbox sites, the figures shown in the reports did not reflect how many gift tax extensions were actually filed.

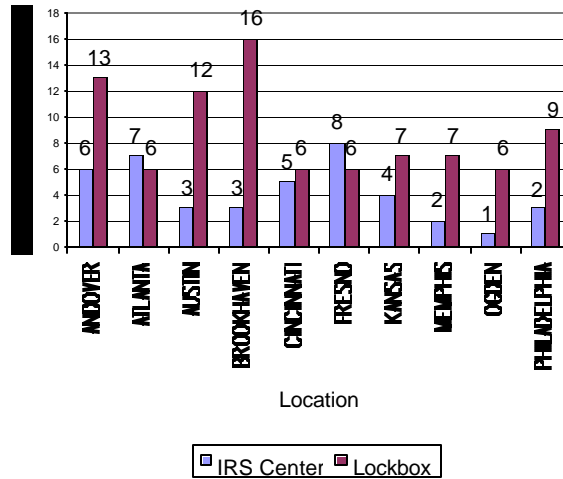
When the IRS lockbox sites misapplied gift tax payments to individual income tax accounts during the processing of extensions, credit balances were created in taxpayers' individual income tax accounts. As soon as the affected taxpayers filed their individual and gift tax returns, the "overpayments" in their individual income tax accounts and the "underpayments" in their gift tax accounts created the same problems that occurred when IRS centers processed extensions and associated gift tax payments incorrectly.

In our sample of 164 cases, we identified 129 taxpayer requests for gift tax extensions (79 percent of the cases). These taxpayers either entered gift tax payment amounts on the appropriate line or checked the box on the extensions expressing their intent to file gift tax returns, or both.

However, there was no indication that these extensions were processed to any of the 129 gift tax accounts. This happened regardless of whether the taxpayers made gift tax payments or clearly indicated on the extension forms that they intended to file gift tax returns. IRS centers processed 41 (32 percent) of the extension requests, and lockbox sites processed the remaining 88 (68 percent) (see Figure 3).

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Figure 3: Extensions Not Processed Correctly



Hypothetical case example

Appendix VII shows a hypothetical case example processed at a lockbox site. We assume that Mr. and Mrs. Taxpayer A paid \$2.1 million with their extension and indicated that they wished \$2 million to be applied to their joint individual income tax account and \$50,000 to be applied to their separate gift tax accounts.

They also checked both the boxes in Part II of the extension form, indicating that they were each requesting extensions for their gift tax returns, as well as their joint individual income tax return. We further assume that the processing staff at the lockbox site incorrectly credited the entire payment of \$2.1 million to their individual income tax account and gave the extension to only their individual income tax account.

When the taxpayers ultimately filed their individual income tax return (Form 1040), we assume that they had overestimated their income tax due when they filled out their extension request by \$100,000. As a result, their individual income tax account would now have been

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overpaid by \$200,000. This included \$100,000 in gift tax payments incorrectly credited and \$100,000 in overpaid individual income tax. They were legitimately due a refund of \$100,000 upon the filing of their Form 1040. Instead, the IRS would have sent them a notice advising them that there was a \$200,000 overpayment in their individual income tax account and sent them a refund of \$200,000.

By this time, we assume Mr. and Mrs. Taxpayer A would have also filed their separate gift tax returns without payments for gift tax, as they had paid the gift tax due when they filed their request for an extension. So, the IRS would have sent each of them a balance due notice for \$50,000 in gift tax, plus a late filing penalty (because the extensions were not processed to the gift tax accounts), late payment penalty, and interest computed on the tax due plus the late filing penalty.

If the taxpayers, for any reason, did not send back the erroneous \$200,000 refund within 5 weeks, the IRS would have then sent them a notice that the IRS intended to levy their accounts. We assume Mr. and Mrs. Taxpayer A contacted the IRS inquiring as to why they were sent this check, and then returned the \$200,000 check uncashed.

The IRS would then have credited the \$200,000 back to their individual income tax account and transferred \$50,000 to each of their gift tax accounts. The IRS would also have issued a \$100,000 refund check to the taxpayers plus interest, since it was now past the 45 days within which the IRS can issue a refund without paying interest. Additional notices would then have been sent to Mr. and Mrs. Taxpayer A informing them that the penalties and interest charges on their gift tax returns were abated and that there was no balance due on the accounts.

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In a limited review of TY 1999 extension processing at 1 lockbox site, we found that 84 percent of the gift tax payments, totaling \$71 million, were misapplied to the taxpayers' individual income tax accounts. No extensions were posted to their gift tax accounts.

Limited TY 1999 study

We also performed a limited study of one lockbox site for TY 1999 processing and found similar results. We reviewed 95,106 Forms 4868 processed at the lockbox site and found that there were 3,186 requests¹² for gift tax extensions.

Gift tax payments, totaling \$84 million, were submitted by 291 taxpayers, and 84 percent of the gift tax payments, totaling \$71 million, were misapplied to the taxpayers' individual income tax accounts. Only 16 percent of the gift tax payments were correctly applied to taxpayers' gift tax accounts. None of the taxpayers, who indicated very clearly on the extension forms that they intended to file gift tax returns, had gift tax extensions correctly posted to their gift tax accounts.

Recommendations

During our review, we issued a memorandum to the Assistant Commissioner (Forms and Submission Processing) (see Appendix V) and recommended that:

1. All balance due notices generated for gift tax accounts be reviewed. We further recommended that tax examiners be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions were correctly processed.

Management's Response to Office of Audit

Memorandum: IRS management provided a response to our memorandum (see Appendix VI). They stated that they would work with the Customer Service function to determine if a 100 percent review of all balance due notices issued for gift tax accounts could be

¹² While married taxpayers have only one joint individual income tax account, they each have their own separate gift tax accounts. We identified 1,968 separate Forms 4868 associated with 3,186 gift tax accounts for primary taxpayers and their spouses.

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implemented. They also indicated that a Request for Information Services would be prepared to effect an automated solution. When underpayments are present on gift tax accounts, the related individual income tax accounts will be automatically searched for equivalent payments. If any are found, they will be automatically transferred to the gift tax accounts.

Although management's proposed actions would prevent some erroneous refunds and incorrect notices from being sent to taxpayers, we recommend that the Assistant Commissioner (Forms and Submission Processing) take these additional actions to address the root cause of the problem and all the effects of improper processing:

2. Revise the current IRS center instructions for the processing of Forms 4868 to ensure that gift tax payments and extensions are processed to the proper taxpayer accounts. The following should be considered:
 - Forms 4868 received at the IRS centers **with** gift tax payments should be photocopied and the copies sent to the Code and Edit function. The Code and Edit function should research to see if the gift tax accounts are established, then input the extensions to the gift tax accounts. The payment(s) for the individual income tax accounts and/or gift tax accounts and the extensions for the individual income tax accounts should be processed through ISRP Deposit.¹³
 - Forms 4868 received at the IRS centers **without** payments should also be sent to the Code and Edit function. The Code and Edit function should research the gift tax accounts for those taxpayers requesting extensions for gift tax and input the extensions before forwarding the forms

¹³ Certain deposits are processed through the Deposit function of ISRP.

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

to the Data function. The Data function should input the extensions to the taxpayers' individual income tax accounts.

3. Explore the possibility of updating the ISRP System to permit the posting of extensions to both the individual and gift tax accounts. The Form 4868 is voucher sized and could be scanned. This would also eliminate the need to obtain documents from paper files.

To address problems with lockbox processing, the Assistant Commissioner (Forms and Submission Processing) should:

4. Ensure that current lockbox guidelines for the processing of Forms 4868 with payments for both the individual income tax and gift tax accounts are followed.
5. Expand and clarify the current lockbox guidelines for the processing of Forms 4868 sent by taxpayers requesting extensions for both their individual income and gift tax accounts but with payments for only one of the accounts.
6. Clarify the current lockbox guidelines for the processing of payments and extensions submitted by taxpayers "for gift tax only."
7. Determine whether payments and extensions submitted by taxpayers "for gift tax only" could be completely processed at lockbox sites.
8. Ensure that Service Center Monthly Lockbox Performance Reports prepared by the lockbox coordinators conform to the exhibit in Internal Revenue Manual (IRM) 3.0.230-1 (01-01-2000). This report requires the lockbox coordinator to record a separate figure for Forms 4868 involving gift tax payments and extensions processed at lockbox sites.
9. Instruct the lockbox coordinators and the quality reviewers assigned to review lockbox processing to determine whether payments and extensions were

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

applied to the correct taxpayers' accounts (individual income and gift tax accounts) during their reviews of Forms 4868 involving gift tax extensions and/or gift tax payments.

10. Direct the lockbox coordinators to review correspondence both to and from taxpayers involving gift tax accounts as provided for in IRM 3.0.230.6(2)e.
11. Instruct the lockbox depository to perform a review of the Forms 4868 during the 2001 Filing Season. Processing payments to the correct accounts is one of their Quality Control Standards.

Management's Response to the Draft Report:

Management's response was due on September 21, 2000. As of September 22, 2000, management had not responded to the draft report.

Conclusion

The IRS mission is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities. When taxpayers understand their responsibilities and are trying to meet their tax obligations, the internal procedures and processes of the IRS should not hamper them.

The IRS needs to greatly improve its performance in the processing of taxpayers' gift tax payments and associated gift tax extensions. The IRS must continue to work to provide the easiest and most efficient ways for taxpayers to fulfill their obligations when they make an honest effort to comply with a complex tax code.

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine if the Internal Revenue Service (IRS) is now processing Applications for Automatic Extension of Time To File U. S. Individual Income Tax Return (Form 4868) for gift tax returns and associated gift tax payments to the proper accounts. In order to accomplish our objective, we:

- I. Determined what measures were taken by the IRS to ensure that extensions to file gift tax returns and related gift tax payments were correctly processed.
 - A. Reviewed corrective actions taken by the IRS to resolve processing problems identified in prior audit reports.
 - B. Interviewed appropriate IRS management and submission processing staff to obtain information and input regarding procedures, controls, Internal Revenue Manuals (IRM), managerial reviews and reports, and other related processing instructions for these extensions and payments.
 - C. Reviewed 25 balance due notices involving gift tax accounts selected from the Brookhaven IRS Center's inventory. Analyzed cases to identify any processing problems.
 - D. Discussed with National Headquarters officials possible solutions to resolve any processing problems identified.
- II. Determined the effect(s) when extensions involving gift tax returns and associated gift tax payments were not processed correctly.
 - A. Reviewed data extracted by Treasury Inspector General for Tax Administration's Information Technology staff. Data extracts obtained identified all gift tax accounts on the Business Masterfile¹ for which gift tax returns were filed for Tax Years (TY) 1996, 1997, and 1998.² We matched the identified accounts to their corresponding individual income tax accounts on the Individual Masterfile³ for the same tax periods.

¹ The IRS database that consists of federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, excise taxes and gift taxes.

² IRS reports could not be used to determine the number of Forms 4868 sent in by taxpayers that involved gift tax, so we developed computer extracts to identify the number of gift tax accounts that reflected extensions.

³ The IRS database that maintains transactions or records of individual tax accounts.

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We determined if there were extensions to file posted in the gift tax accounts and/or the corresponding individual income tax accounts of the taxpayers and/or their spouses. From the accounts that reflected extensions, we selected a statistically valid sample of 164 accounts out of 8,626 accounts that met the following criteria:

1. The individual income tax accounts reflected automatic extensions of time to file to August 15, but the gift tax accounts had either no extensions or reflected only Applications for Additional Extension of Time To File U. S. Individual Income Tax Return (Form 2688), extending the time to file to October 15.
2. There was gift tax due.
3. A gift tax return was submitted to the IRS after the due date of the return.

We obtained the extension documents and performed tax account research on the individual and gift tax accounts and determined if the extensions and gift tax payments were correctly processed.

- B. Measured the cumulative effect on taxpayers in terms of the number of incorrect notices generated and mailed to taxpayers, and the number and amount of erroneous refunds generated and sent to taxpayers. Determined the cost to the IRS when appropriate cost figures were available. Reviewed the processing data of over 95,106 TY 1999 Forms 4868 processed at one lockbox site and determined how many involved gift tax extensions and payments and if processed correctly.

**Significant Improvements Are Needed in Processing Gift Tax Payments and
Associated Extensions to File**

Appendix II

Major Contributors to This Report

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**Significant Improvements Are Needed in Processing Gift Tax Payments and
Associated Extensions to File**

Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self-Employed Division S
Chief Information Officer IS
Chief Operations Officer OP
Assistant Commissioner (Customer Service) OP:C
Assistant Commissioner (Forms and Submission Processing) OP:FS
National Director, Customer Service Compliance, Accounts and Quality OP:C:A
Director, Customer Account Services, Small Business/Self-Employed Division S
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis M:O
National Taxpayer Advocate C:TA
Office of the Chief Counsel CC
Office of Management Controls CFO:A:M
Audit Liaisons:
 Deputy Commissioner Operations C:DO
 Assistant to the Deputy Commissioner Operations C:DO
 Assistant Commissioner (Customer Service) OP:C
 Assistant Commissioner (Forms and Submission Processing) OP:FS:S:Q:S
 Chief Operations Officer OP
 Director, Legislative Affairs CL:LA
 Office of the Chief Counsel CC
 National Taxpayer Advocate C:TA

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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 recommendations :

The Internal Revenue Service (IRS) incorrectly processed most gift tax payments and associated extensions to file (see page 4).

IRS Centers

The IRS allows its processing centers to choose from among several methods how they wish to process Applications for Extension of Time To File U. S. Individual Income Tax Returns (Form 4868) which involve gift tax returns and associated gift tax payments. The sections of the Internal Revenue Manual (IRM) involved are unclear and incomplete. As a result, gift tax payments are usually incorrectly applied to taxpayers' individual income tax accounts. Extensions to file are not processed to both the taxpayers' individual income tax and gift tax accounts but only to the individual income tax accounts.

The Assistant Commissioner (Forms and Submission Processing) should:

1. Require the review of all balance due notices generated for gift tax returns. Tax examiners should be instructed to review the taxpayers' corresponding individual income tax and gift tax accounts to determine if the taxpayers' gift tax payments and extensions to file were correctly processed.
2. Revise the IRS center processing guidelines for Form 4868 to ensure that gift tax payments and extensions are processed to the proper taxpayer accounts.
3. Explore the possibility of updating the Integrated Submission and Remittance Processing System to permit the posting of extensions to both the taxpayers' individual income and gift tax accounts.

Lockbox Sites:

For some situations, lockbox processing guidelines were clear but not followed. In other situations the guidelines were incomplete and/or unclear. The result was that gift tax payments and associated extensions were incorrectly processed. Established controls were ineffective in alerting management to lockbox processing problems.

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The Assistant Commissioner (Forms and Submission Processing) should:

4. Ensure that current lockbox guidelines for the processing of Forms 4868 with payments for both the individual income tax and gift tax accounts are followed.
5. Expand and clarify the current lockbox guidelines for Forms 4868 sent by taxpayers requesting extensions for both their individual income tax and gift tax accounts but with payments for only one of the accounts.
6. Clarify the current lockbox guidelines for the processing of payments and extensions submitted by taxpayers “for gift tax only.”
7. Determine whether payments and extensions submitted by taxpayers “for gift tax only” could be completely processed at lockbox sites.
8. Ensure that the Service Center Monthly Lockbox Performance Report used by the lockbox coordinators conforms to the exhibit in the IRM.
9. Instruct the lockbox coordinators and the quality reviewers assigned to review lockbox processing to determine whether payments and extensions were applied to the correct taxpayers’ accounts (individual and business) during their reviews of Forms 4868 when gift tax extensions and/or gift tax payments are involved.
10. Direct the lockbox coordinators to review correspondence both to and from taxpayers involving gift tax accounts as provided for in IRM 3.0.230.6(2)e.
11. Instruct the lockbox depository to perform a review of the Forms 4868 during the 2001 Filing Season.

Type of Outcome Measure :

Revenue Protection - Actual

Cost Savings - Funds put to better use - Actual

Taxpayer Burden – Actual

Value of the Benefit:

\$237,489,033 - Erroneous Refunds - Revenue Protection

18,357 - Incorrect Notices Sent to Taxpayers - Taxpayer Burden

\$270,582 - Cost to Handle Incorrect Notices - Cost Savings - Funds put to better use

\$8,056,580 - Interest Paid to Taxpayers for Delayed Refunds - Cost Savings - Funds put to better use

\$3,192,251 - Incorrect Penalties Charged by IRS - Taxpayer Burden

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Methodology Used to Measure the Reported Benefit:

Selection of Sample –

The Treasury Inspector General for Tax Administration Information Technology staff provided a database of all gift tax accounts for which gift tax returns were filed for Tax Years 1996, 1997, and 1998. We identified 724,379 gift tax returns, and 47,589 of these returns reported a tax liability. We matched these 47,589 gift tax accounts against their corresponding individual income tax accounts for the same tax periods. We determined if there were extensions to file posted in the gift tax accounts and/or the corresponding individual income tax accounts of the taxpayers and/or their spouses. We selected a statistically valid sample of 164 cases¹ from the 8,626 cases that met all of the following criteria:

- The individual income tax accounts reflected automatic extensions of time to file to August 15, but the gift tax accounts had either no extensions or reflected only Applications for Additional Extension of Time To File U. S. Individual Income Tax Return (Form 2688), extending the time to file to October 15.
- There was gift tax due.
- A gift tax return was submitted after the due date of the return.

We obtained extension documents and performed tax account research on the individual income and gift tax accounts. We determined from the extension documents (Forms 4868) what taxpayers requested and the gift tax payment amount(s) paid with the extension, if any. We determined whether gift tax payments and extensions were processed to the correct individual and gift tax accounts from our review of extension documents and Integrated Data Retrieval System (IDRS)² research.

Sample Results -

We secured the extension documents for the 164 accounts and found that the IRS centers and lockbox sites incorrectly applied \$26 million in gift tax payments to taxpayers' individual income tax accounts and sent taxpayers \$4.5 million in erroneous refunds and 349 incorrect notices, including 53 Notices of Intent to Levy, at a cost of approximately

¹ The sample size of 164 was selected using The Survey System at its web site. At a 95 percent confidence level and a confidence interval of 8, with a population of 8,627 (actual 8,626), the sample size needed was 148. We used the Random Number Table to get the starting case and selected number 7. Starting with case number 7, we selected every 58th case until we had 148 cases. Because we were requesting the retrieval of paper documents from files and wanted to ensure having a complete sample, we selected an additional 32 cases. We selected every 264th case to reach that number. In total, we secured documents for 164 cases, 10 percent more than the 148 cases originally planned.

² The IRS computer system capable of retrieving or updating stored information; works in conjunction with a taxpayers' account records.

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\$5,144. In addition, the IRS charged taxpayers \$60,692 for penalties which they paid but did not owe and paid over \$153,000 in interest to taxpayers for delayed refunds.

Projection of Sample Results -

\$237,489,033 - Erroneous Refunds - In our sample of 164 cases, we found that there were \$4,515,210 in erroneous refunds. Using the same amount and percentage of occurrence, we estimated that there was a total of \$237,489,033 in erroneous refunds in our database.

18,357 - Incorrect Notices Sent to Taxpayers - We found 349 incorrect notices in our sample of 164. Using the same percentage of occurrence, we estimated that there were 18,357 incorrect notices in our database attributed to the processing of payments and extensions at IRS centers and lockbox sites.

\$270,582 - Cost to Handle Incorrect Notices - We estimated the cost by multiplying the estimated 18,357 incorrect notices attributed to the processing of payments and extensions at IRS centers and lockbox sites by the estimated cost of \$14.74³ to handle them.

\$8,056,580 - Interest Paid to Taxpayers for Delayed Refunds - We found that \$153,174 in interest was paid to taxpayers whose refunds were delayed in our sample of 164. Using the same amount and percentage of occurrence, we estimated that in our database there was a total of \$8,056,580 in interest paid to taxpayers for delayed refunds attributed to the processing of payments and extensions at IRS centers and lockbox sites.

\$3,192,251 - Incorrect Penalties Charged by IRS - We found that taxpayers were charged \$60,692 for penalties that they did not owe in our sample of 164. Using the same amount and percentage of occurrence, we estimated that there were \$3,192,251 in such penalties in our database.

³ We used figures contained in *IRS' Low-Dollar Notices Sent to Individual Taxpayers* (GAO/GGD-00-84, dated April 2000) to calculate the IRS' cost to prepare notices and ensuing costs to handle taxpayer inquiries related to the notices. This report stated that "IRS estimates that in most cases it costs about \$0.42 to prepare and send a notice, an amount that includes labor, supplies, and postage. This cost reflects the fact that, for the most part, the IRS' process to prepare and send notices is computerized. The notices are automatically printed and sent to taxpayers. When the receipt of the original notice by the taxpayer generates further correspondence between the taxpayer and the IRS, an IRS staff member generally responds directly to the taxpayer regarding the correspondence or the information provided. The IRS estimates that if it needs to respond to a taxpayer inquiry as a result of the notice, the cost rises by another \$14.32...because of the additional amount of labor required."

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

Appendix V

Memorandum: Processing Extensions for Gift Tax Returns



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 18, 2000

Response date: February 2, 2000

MEMORANDUM FOR ASSISTANT COMMISSIONER (FORMS AND SUBMISSION
PROCESSING)

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Associate Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Processing Extensions for Gift Tax Returns

This memorandum contains conditions we identified during our audit of the Processing of United States (U.S.) Estate and Gift Tax Returns by the Internal Revenue Service (IRS). We discussed an advanced draft of this memorandum with your staff. This issue will be included in an audit report later this year.

Our audit team has been reviewing the Balance Due Notices (CP 161) being generated at the Brookhaven Service Center for issuance to taxpayers who filed U. S. Gift Tax Returns (Form 709) for Tax Year 1998. Our preliminary research indicates that some payments made by taxpayers when filing Application for Automatic Extension of Time to File U. S. Individual Income Tax Return (Form 4868) are being misapplied. Form 4868 is also used to extend the time to file gift tax returns.

Payments designated by taxpayers as gift tax are not always posted correctly to their gift tax account and/or the gift tax account of their spouse. Instead, some payments are posted incorrectly to the taxpayers' Individual Master File (IMF) accounts. Furthermore, the Extension to File is not always properly posted to the account(s) designated by the taxpayers.

Preliminary research indicates that the conditions we have identified exist nationwide, regardless of how the payments are processed, i.e., service centers, lockbox, etc. We are in the process of determining the root causes of the conditions described above. However, the Office of the Inspector General for Tax Administration feels that certain actions need to be taken immediately because:

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

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- Incorrect notices are being sent to taxpayers billing them not only for gift tax that has already been paid, but for interest and penalties, including failure to file timely and failure to pay. In some instances, taxpayers are being sent a Notice of Intent to Levy.
- Erroneous refunds are being sent to taxpayers, occasionally at the same time that the incorrect balance due notices are being sent.
- Taxpayer burden is increased as taxpayers are confused and respond either in writing or by telephone to incorrect notices and/or refunds.
- IRS resources are being used to generate and mail incorrect notices and eventually resolve the misapplication of payments through numerous adjustments to taxpayer accounts, and in some instances issuance of manual refunds.
- Risk of lost revenue is increased.

We recommend that the Review and Assistance Function at all service centers make the review of all CP 161 Notices (Balance Due) being generated for a Form 709 a priority. Tax examiners should be instructed to review the taxpayer's corresponding IMF and gift tax accounts to determine if the taxpayer's gift tax payment and Extension to File were posted correctly.

Please advise us within 15 calendar days of any actions taken to alleviate these conditions. If you have any questions, please call me at (202) 622-3837, or your staff may contact Richard J. Dagliolo, Director of Audit, Submission Processing at (516) 654-6028, or Robert K. Irish, Audit Manager, at (516) 447-4976.

Significant Improvements Are Needed in Processing Gift Tax Payments and Associated Extensions to File

Appendix VI

Management's Response to Memorandum



ASSISTANT COMMISSIONER
(FORMS AND SUBMISSION
PROCESSING)

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

MAY 9 2000

MEMORANDUM FOR ASSOCIATE INSPECTOR GENERAL FOR AUDIT
(SMALL BUSINESS AND CORPORATE PROGRAMS)

FROM:

Sheldon D. Schwartz 
Acting Assistant Commissioner
(Forms and Submission Processing)

SUBJECT:

Processing Extensions for Gift Tax Returns

I am writing in response to your memorandum outlining concerns about the processing of gift tax return payments received with Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. I apologize for the delay in providing a written response to your memorandum. I understand that your staff has discussed the concerns and possible solutions with National Office staff.

We are implementing the following actions in response to the concerns that you raised (and we share) about the incorrect posting of payments. We are working with our counterparts in Customer Service to determine if we can implement your suggestion that we conduct a 100% review of all CP 161 notices issued on gift tax accounts.

We will also prepare a Request for Information Services to effect an automated solution. When an underpayment is present on a gift tax account, we will request that the related Individual Income Tax Account be searched for an equivalent payment. If one is found, it will be automatically transferred to the gift tax account.

We hope and anticipate that these changes will result in vast improvements in the quality and accuracy of notices issued on gift tax accounts. I would also like to note that in an effort to make it easier for taxpayers to accurately identify the account for which an extension is being requested, the Form 4868 was revised for tax year 1999. We hope that these changes will result in fewer errors and are interested in hearing if you identify such a trend.

If you have any questions, you may call me on (202) 622-9686 or members of your staff may call Sharon Patton on (202) 622-7055.

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Appendix VII

Hypothetical Case Example

Form 4868		Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	OMB No. 1545-0146
Department of the Treasury Internal Revenue Service		For calendar year 1998, or other tax year beginning1998, ending79	1998
Part I Identification		Part III Individual Income Tax	
1 Your name(s) (see instructions) Mr. & Mrs. Taxpayer A		4 Total tax liability on your income tax return for 1998 \$ <u>11,000,000.00</u>	
Address (see instructions)		5 Total 1998 payments <u>9,000,000.00</u>	
City, town or post office, state, and ZIP code		6 Balance. Subtract 5 from 4 <u>2,000,000.00</u>	
2 Your social security number XXX : XX XXXX	3 Spouse's social security no. XXX : XX : XXXX	Part IV Gift/GST Tax—If you are not filing a gift or GST tax return, go to Part V now. See the instructions.	
Part II Complete ONLY if Filing Gift/GST Tax Return		7 Your gift or GST tax payment . . . \$ <u>50,000.00</u>	
This form also extends the time for filing a gift or generation-skipping transfer (GST) tax return if you file a calendar (not fiscal) year income tax return. Check below only if requesting a gift or GST tax return extension, and enter your tax payment(s) in Part IV:		8 Your spouse's gift/GST tax payment . . . <u>50,000.00</u>	
Yourself <input checked="" type="checkbox"/> Spouse <input checked="" type="checkbox"/>		Part V Total	
		9 Total liability. Add lines 6, 7, and 8 \$ <u>2,100,000.00</u>	
		10 Amount you are paying. <u>2,100,000.00</u>	
		If line 10 is less than line 9, you may be liable for interest and penalties. See page 3.	