

Internal Revenue Service High Risk Enforcement of Tax Laws

Why area is High Risk:

Internal Revenue Service (IRS) enforcement of tax laws is vital to promote compliance by giving taxpayers confidence that others are paying their fair share. Included in the high risk are the following critical components; unpaid taxes known to the IRS, unpaid taxes IRS has not detected, and the risks associated with the Earned Income Tax Credit (EITC), a refundable tax credit available to certain low-income working taxpayers.

The need for better enforcement of tax laws stems from the need to reduce the tax gap. While the overall compliance rate achieved under the U.S. revenue system remains high with more than 86 percent of tax liability being collected timely. Nevertheless, an unacceptably large amount of the tax that should be paid every year is not, forcing compliant taxpayers to bear a disproportionate share of the revenue burden, and giving rise to the “tax gap”. The Department of Treasury and the IRS have a joint strategy that is designed to guide efforts to improve compliance through a set of basic principles:

- Unintentional taxpayer errors and intentional taxpayer evasion should be addressed;
- Sources of non compliance and the need for enforcement should be targeted with specificity;
- Enforcement activities should be combined with a commitment to taxpayer service; and
- Policies and proposals for change should be sensitive to taxpayer rights and maintain the necessary balance between enforcement activities and imposing taxpayer burden.

While not all inclusive, over the next several years the IRS plans the following improvement actions:

Reduce Opportunities for Evasion through Legislative Changes – legislation is necessary as a supplement to actions by the IRS in order to effectively address the high risk area of enforcement of tax laws. Thus, the IRS in conjunction with the Department of Treasury will continue to pursue legislation designed to reduce evasion similar to the proposals outlined in the FY 2009 President’s Budget which address the expansion of information reporting, the improvement of compliance by businesses, and the strengthening and improving tax administration.

Reduce Opportunities for Evasion through Published Guidance – published guidance in the form of regulations, revenue rulings, revenue procedures, notices

and announcements is a critical element in the IRS' efforts to reduce tax avoidance, improve taxpayer compliance, and close the tax gap. Published guidance can resolve many difficult issues and remove impediments to voluntary compliance by interpreting the tax laws interprets the tax law and articulates how it applies in different circumstances, thus helping taxpayers determine how to comply with their tax obligations.

- By July of each year, the IRS will develop/update a two year Priority Guidance Plan (PGP) in conjunction with its stakeholders.
- For FY 2008, the IRS will release guidance addressing more than 80% of the items appearing on the PGP.
- For FY 2009, the IRS will release guidance addressing more than 85% of the items appearing on the PGP.

Make a Multi-Year Commitment to Research – research enables the IRS to develop strategies to target specific areas of noncompliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap. Complaint taxpayers benefit when the IRS uses the most up-to-date research to improve workload selection formulas, because this reduces the burden of unnecessary taxpayer contacts and because it enables the IRS to collect more with a given level of resources. Specifically, the IRS will:

- Undertake additional compliance studies, including S corporations and individuals
 - For FY 2008, the IRS will begin a reporting compliance study for TY 2006 individual income tax returns, and complete an S corporation compliance study
 - For FY 2009, the IRS will begin a reporting compliance study for TY 2007 individual income tax returns
- Undertake tax gap estimates using new and existing data
 - For FY 2008, the IRS will release its S corporation reporting compliance study tabulations and update the payment compliance estimates of the tax gap
 - For FY 2009, the IRS will update both the payment and filing compliance estimates of the tax gap
- Research the effect of service on taxpayer compliance
 - For FY 2008, the IRS will undertake at least three significant research projects to link service to compliance including one studying the relationship between taxpayer attitudes and compliance
 - For FY 2009, the IRS will undertake at least three additional research projects linking service to compliance including a study of the affect of service delivery on individual compliance
- Research the relationship between complexity, burden, and compliance
 - For FY 2009, the IRS will undertake a survey of taxpayers to improve its burden estimates, and begin at least three research projects that focus on the relationship between complexity, burden, and compliance

Continue Improvements in Information Technology to Improve Compliance Activities – information technology modernization is critical to ensuring the most productive use of both taxpayer service and compliance resources. A current and future investment in technology allows for better identification of cases to be worked, more appropriate routing of cases, and the employment of cost effective technology analytics to better manage cases once they reach the right workstream. The IRS is taking the following actions to improve its technology associated with its compliance activities:

- In FY 2008 and 2009 the IRS will reengineer its document matching process (match information documents to information on a tax return) and implement improved case scoring and selection
- Develop enhancements in two phases (one in FY 2008 and second in FY 2009) to the data storage facility used to store data used for analysis and process improvement (Compliance Data Warehouse) to improve the workload identification and prioritization algorithms
- By FY 2009, fully deploy automated lien delivery, recordation and release processes with state and local jurisdictions
- Through FY 2009, develop new and improve existing analytics that identify issues and select cases for all types of audits
- Build and implement electronic transmission capability for additional tax forms on the MeF (Modernized electronic filing) platform by FY 2009
- By 2009, enhance the IRS' ability to identify and address tax schemes of individuals and businesses using the Broker Compliance Initiative pilot.

Coordinate with Partners and Stakeholders

- In FY 2008, finalize development and begin the implementation of a servicewide preparer strategy and, initiate a research study of preparer compliance.
- Update the preparer strategy in FY 2009 based on findings from the research study