



## Treasury Inspector General for Tax Administration Office of Audit

### THE FEDERAL PAYMENT LEVY PROGRAM NEEDS TO REDUCE TAXPAYER BURDEN AND MAXIMIZE REVENUE

Issued on February 20, 2009

## Highlights

Highlights of Report Number: 2009-40-031 to the Internal Revenue Service Commissioner for Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) uses the Federal Payment Levy Program (FPLP) to impose systemic levies against certain types of Federal Government payments issued to taxpayers and contractors with outstanding tax debts. In some cases, these systemic levies have caused hardships for taxpayers. In addition, some Federal Government payments that should have been levied on were not identified for levy, and some levy fees paid by the IRS were excessive. These conditions increase taxpayer burden, reduce the amount of tax revenue collected, and increase operating costs for the IRS.

### WHY TIGTA DID THE AUDIT

Congress expressed concern that some Federal Government contractors, vendors, and employees who received Federal Government payments were delinquent in meeting their tax obligations. Congress amended the tax code and authorized the IRS to continuously levy against specified Federal Government payments through the FPLP. This audit was initiated to determine the effectiveness of the FPLP in collecting delinquent taxes and whether the Program adequately protects taxpayers' rights.

### WHAT TIGTA FOUND

Some low-income Social Security beneficiaries are experiencing hardship due to the FPLP. Initially, the IRS had an income threshold in place. If a taxpayer's overall income amount as reported on the most recently filed tax return was less than this threshold, the taxpayer was excluded from the Program. However, starting in July 2005, the income threshold began to be phased out. It was first reduced by one-half; 6 months later, it was completely removed. Since then, the Taxpayer Advocate Service has experienced a large increase in the number of Social Security beneficiaries claiming hardship due to the issuance of FPLP automated levies.

Although the previous income threshold criteria were flawed in some respects, some method of screening is needed.

In addition, the FPLP did not identify for levy Federal Government payments made to 163 taxpayers with taxes due. The IRS did not take adequate steps to ensure that all available Federal Government payment sources were included in the FPLP, such as researching available data to isolate unidentified payment sources. As a result, available levy sources went unidentified.

Finally, levy fees for low-dollar cases are excessive. The IRS paid per-transaction fees totaling \$12,809 (51 percent) to collect \$25,113 in delinquent taxes owed for 1,468 low-dollar levies for 923 taxpayers. Under the IRS' Interagency Agreement with the Financial Management Service, the IRS should not be reimbursing the Financial Management Service for low-dollar levies under a specified debt threshold unless those levies are collecting a tax debt balance that, at one time, was larger.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, 1) establish specific criteria to identify and exclude from the FPLP those Social Security beneficiaries for whom a levy would create a hardship situation, 2) implement a process to periodically match Federal Government payment documents with available levy source lists from the IRS, and 3) ensure that the IRS does not pay the per-transaction levy fee for those levies not covered by the FPLP Interagency Agreement and ensure that the cost of collection on a per-transaction basis is reasonable and does not exceed the cost of alternative IRS collection methods.

IRS management partially agreed with two of our three recommendations and disagreed with one recommendation. The IRS disagreed with the recommendation to match taxpayers against Federal Government payment documents received by the IRS. IRS management partially agreed that FPLP levies create hardships but is unsure if its model to screen low-income taxpayers will work. The IRS is aware that it is receiving payments less than the payment threshold and will encourage adjustments to payment thresholds to exclude low-dollar payments.

TIGTA acknowledges the IRS' efforts but believes that more needs to be done to prevent the hardship on low-income taxpayers. The IRS also needs to take additional action to ensure that it identifies all payment sources to include in the FPLP.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200940031fr.pdf>.

Email Address: [inquiries@tigta.treas.gov](mailto:inquiries@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500