



## Treasury Inspector General for Tax Administration

### TAX EXAMINERS DID NOT ALWAYS RESOLVE RETURN DELINQUENCY CASES, AND COMPUTER CHECKS DID NOT IDENTIFY UNFILED RETURNS

Issued on December 20, 2007

## Highlights

Highlights of Report Number: 2008-30-027 to the Internal Revenue Service Commissioner for Small Business/Self-Employed Division.

### IMPACT ON TAXPAYERS

In Calendar Year 2006, the Internal Revenue Service (IRS) reported it issued more than 1.6 million Return Delinquency notices to business taxpayers that had not filed required tax returns by the return due date. Some of the Return Delinquency cases reviewed were not resolved accurately and timely, and the IRS needs to improve its computer program to identify business taxpayers that may be liable for employment taxes. Accurate and timely case resolution actions reduce taxpayer burden and redefined return delinquency identification criteria increase revenue.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS' Compliance Services Collection Operations administered the Return Delinquency Program in a manner that ensured accurate and timely resolution on Return Delinquency notice responses. TIGTA performed the audit in two IRS campuses. This audit was part of TIGTA's Fiscal Year 2007 Annual Audit Plan.

### WHAT TIGTA FOUND

TIGTA determined some operational internal controls were effectively established. Managers systemically assigned Return Delinquency cases to tax examiners, managers received proper training, and managers at one Campus conducted required operational and workload reviews.

However, our review determined that tax examiners' actions on 36 (24 percent) of 150 cases reviewed were incorrect, incomplete, or not timely. In 23 cases, the tax examiners did not make the correct case resolution decision, inappropriately eliminated future inquiries for missing returns, or did not complete internal processing requirements. The remaining 13 case actions were not completed within the IRS' 45-day time standard.

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

Our review also identified a serious weakness where the Return Delinquency computer program did not identify an unfiled Employer's Quarterly Federal Tax Return (Form 941) when an Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940) was filed. As a result, a significant amount of dollars may not be collected on accounts without corresponding Forms 941.

TIGTA identified 28,933 taxpayers on IRS computer records that filed a 2005 Form 940 and reported more than \$3 billion in taxable Federal Unemployment Tax Act [26 U.S.C. § 3311 (2005)] wages, but these taxpayers had not filed Form 941 for any quarter of 2005. Since the Federal Unemployment Tax Act tax is imposed on only the first \$7,000 in wages paid to each employee during the calendar year, the potential amount of unreported wages paid subject to Federal income tax withholding, Social Security, and Medicare taxes could significantly exceed the taxable Federal Unemployment Tax Act wages, and the related unpaid tax could be significant.

### WHAT TIGTA RECOMMENDED

TIGTA recommended a Campus Compliance Services Collection Operations manager ensure reviews that assess team managers' practices in performing technical case reviews are completed quarterly. The Director, Campus Filing and Payment Compliance, Small Business/Self-Employed Division, should modify the Return Delinquency case creation criteria to ensure delinquency inquiries are made of related tax period Forms 941 and Form 940 and should revise procedures to require full compliance checks for delinquent employment tax returns of "in business" employers.

The Commissioner, Small Business/Self-Employed Division, agreed with our recommendations. The IRS has implemented review requirements for managers and has revised procedures to require full compliance checks. The IRS also plans to revamp delinquent case creation criteria.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200830027fr.pdf>.

Phone Number: 202-622-6500