



Treasury Inspector General for Tax Administration

THE INTERNAL REVENUE SERVICE NEEDS TO EMPHASIZE LIMITED USE OF A COLLECTION SUSPENSION CODE THAT CAN ALLOW INAPPROPRIATE REFUNDS

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Highlights

Highlights of Report Number: 2008-30-060 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Issuing refunds to taxpayers who still owe taxes for other tax years ultimately delays the collection of the taxes owed. As accounts in the Internal Revenue Service's (IRS) inventory of accounts receivable get older, the likelihood of their being collected decreases, and the nation's tax gap increases.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the extent of a potential problem with use of an IRS computer code.

WHAT TIGTA FOUND

While the problem does not appear to be widespread, TIGTA believes the specific collection suspension code is not always used correctly, which has resulted in refunds being sent to other taxpayers when they still owed taxes for other tax years. The instances of refunds sent to taxpayers were few. However, there is the potential for more refunds to be sent to taxpayers who still owe taxes. Our research of IRS data showed 3,930 taxpayer accounts with balances due contained this code, and the taxpayers owed a total of \$96.2 million. The suspension code was used incorrectly in 69 of the 232 transactions reviewed, and its use was questionable for another 137 cases. TIGTA also found the IRS released eight refunds to taxpayers who still had unresolved balances due.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Small Business/Self-Employed Division, reemphasize the importance of selecting the proper collection suspension code and add to the Internal Revenue Manual cautions that advise employees of the potential for issuance of inappropriate refunds when the incorrect code is used.

In their response to the report, IRS officials agreed with the recommendation. The IRS plans to issue a memorandum to personnel and to revise the Internal Revenue Manual to advise employees of the potential for issuance of inappropriate refunds when the incorrect codes are used.

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/200830060fr.pdf>.

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