

**Trends in Compliance Activities
Through Fiscal Year 2003**

April 2004

Reference Number: 2004-30-083

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

April 23, 2004

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Trends in Compliance Activities Through
Fiscal Year 2003 (Audit # 200430011)

This report presents the results of our review of statistical information that reflects activities of the Collection and Examination functions. The overall objective of this review was to provide statistical information requested by the Internal Revenue Service (IRS) Oversight Board and provide trend analyses of that information.

In summary, the IRS' overall Fiscal Year (FY) 2003 compliance efforts and results were mixed but showed some continuing positive changes that started in FY 2001. Specifically, the level of compliance activities and the results obtained in many Collection function areas in FY 2003 showed a continuing increase while the number of Collection function field staff remained unchanged. Enforcement actions were higher in FY 2003 compared to those in FY 2002, but they have not returned to pre-1998 levels. Enforcement revenue collected increased substantially in FY 2003, while the total amount of uncollected liabilities and the gap between new delinquent accounts and account closures decreased slightly.

The amount owed on accounts in the Queue¹ decreased in FY 2003, but the number of accounts in inventory increased. While the inventory increased, it is important to recognize that the Queue is used differently today than it was in the past. It is now a major source of inventory for Collection Field function employees. In addition, a significant number of accounts were shelved (removed) from collection inventory and may never be worked. The President's proposed FY 2005 budget provides for additional Collection function staffing and legislation to allow some cases to be worked

¹ The Queue is a holding file for unassigned inventory. Some of the inventory is considered lower priority, but other inventory is placed in the file until it can be assigned as workload for Collection function employees.

by contract staff. If neither of these provisions is approved, a significant number of cases will continue to not be worked.

While Examination function staffing decreased during FY 2003, the percent of tax returns examined increased. The increase was mainly due to increases in correspondence examinations of tax returns for individuals, which are conducted by mailing notices to the taxpayer. While there were increases in the number of examinations of individuals overall during FY 2003, there was a larger increase in the coverage rate of individuals earning \$100,000 and over than for those earning under \$100,000. In addition, there was a significant increase in the number of partnership return examinations.

However, the number of examinations of corporate tax returns continued the decrease that started in FY 1997, decreasing a total of 67 percent since that time. The President's proposed FY 2005 budget also provides for additional Examination function staffing. The Commissioner has indicated that some of the increase would be allocated to corporate compliance.

The IRS is also taking actions to increase the levels of compliance activity. For example, the IRS is implementing reengineering suggestions aimed at increasing effectiveness. While it is too early to evaluate the full impact of these changes, they could make additional staff resources available to address noncompliant taxpayers.

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance.

Copies of this report are also being sent to the IRS managers affected by the report findings. Please contact me at (202) 622-6510 if you have questions or Parker F. Pearson, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (410) 962-9637.

Table of Contents

Background	Page 1
Overall Compliance Indicators Show Mixed Results	Page 1
Many Collection Function Compliance Indicators Improved in Fiscal Year 2003.....	Page 2
Some Examination Function Compliance Indicators Improved; Others Continued to Decline in Fiscal Year 2003.....	Page 6
Appendix I – Detailed Objective, Scope, and Methodology	Page 12
Appendix II – Major Contributors to This Report.....	Page 13
Appendix III – Report Distribution List	Page 14
Appendix IV – Glossary of Terms	Page 15
Appendix V – Detailed Charts of Statistical Information	Page 17

Trends in Compliance Activities Through Fiscal Year 2003

Background

We initiated this review of nationwide compliance statistics for examination and collection activities at the request of the Internal Revenue Service (IRS) Oversight Board. Our data analyses were performed in the Treasury Inspector General for Tax Administration (TIGTA) Chicago office during the period January through March 2004 using national reports prepared by the IRS Headquarters office. The audit was performed in accordance with *Government Auditing Standards*. However, we relied on information accumulated by the IRS in established reports and did not verify its accuracy.

Much of the data included in this report are a follow-up to TIGTA reports issued in May 2000,¹ September 2001,² September 2002,³ and March 2003.⁴

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to this report are listed in Appendix II. A glossary of terms used is included in Appendix IV. Detailed charts and tables referred to in the body of this report are included in Appendix V. Many of the calculations throughout the report and Appendix V are affected by rounding. All calculations were performed using the actual numbers rather than the rounded numbers that appear in the report.

Overall Compliance Indicators Show Mixed Results

The combined Collection and Examination functions enforcement staffing declined from 25,000 at the beginning of Fiscal Year (FY) 1996 to 16,000 at the end of FY 2003, a 36 percent decrease. While there has been hiring in recent years, it has not kept pace with attrition. The FY 2004 budget and the President's FY 2005 proposed budget provide for increases of 13 percent and 9 percent, respectively, for tax law enforcement. The Small Business/Self-Employed (SB/SE) Division hired

¹ *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (Reference Number 2000-30-075, dated May 2000).

² *Management Advisory Report: Tax Return Filing and Examination Statistics* (Reference Number 2001-30-175, dated September 2001).

³ *Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001* (Reference Number 2002-30-184, dated September 2002).

⁴ *Trends in Compliance Activities Through Fiscal Year 2002* (Reference Number 2003-30-078, dated March 2003).

Trends in Compliance Activities Through Fiscal Year 2003

800 enforcement personnel in October 2003 and plans to hire an additional 800 in August 2004. The Large and Mid-Size Business (LMSB) Division expects to hire 600 technical personnel in FY 2004. In addition, the Commissioner recently announced that savings from consolidation of support functions to fewer locations would be reallocated to enforcement positions.

For some time, the number of tax returns filed and the total dollars the IRS received increased annually with the growing economy. In 16 years, the number of tax returns filed grew by 23 percent, from 140 million in 1987 to 173 million in 2002. From FYs 1988 to 2001, the amount of revenue received by the IRS grew from \$935 billion to \$2.13 trillion, but then fell by a total of 8 percent during FYs 2002 and 2003, to \$1.95 trillion.⁵ These were the first decreases in total revenue since FY 1983.

However, the amount of enforcement revenue collected increased by 10 percent in FY 2003, to \$37.63 billion, after remaining fairly constant at around \$34 billion during the prior 3 years.⁶ The amount of enforcement revenue collected (not adjusted for inflation) is almost back to the FY 1996 level.

Starting in FY 2001, the IRS began to reverse some of the downward trends in compliance indicators that had occurred in prior years. In FYs 2002 and 2003, some of these indicators continued to increase while some fell slightly from the prior year. The reversal of the downward trend could continue under the current Commissioner's influence. He has stated that the IRS needs to improve compliance through increased enforcement emphasis, while at the same time provide effective customer service.

Many Collection Function Compliance Indicators Improved in Fiscal Year 2003

Collection function Revenue Officer staffing levels remained relatively unchanged in FY 2003, with 3,499 field Revenue Officers as of the end of the fiscal year.⁷ However, Revenue Officer staffing is down by 41 percent from the start of FY 1996. While Collection function Revenue Officer staffing remained relatively unchanged from FY 2002 to FY 2003, results from many Collection function

⁵ See Appendix V, Figure 1.

⁶ See Appendix V, Figure 3.

⁷ See Appendix V, Figure 5.

Trends in Compliance Activities Through Fiscal Year 2003

programs showed improvement during the year. However, the inventory level of the Queue increased during FY 2003.

Many Collection function programs showed improvement

Many indicators showed positive results for Collection function compliance activity during FY 2003.

- After steadily rising for 6 years, the amount of gross accounts receivable was reduced slightly (by \$1.67 billion) from FY 2002 to FY 2003.⁸
- Total dollars collected on Taxpayer Delinquent Accounts (TDA) by the Automated Collection System (ACS) and the Collection Field function (CFf) employees during FY 2003 was \$4.6 billion, an increase of 15 percent from FY 2002.⁹ The FY 2003 amount is up 28 percent from the 8-year low that occurred in FY 2000.
- The average amount collected per CFf staff year on TDAs increased by 54 percent to \$418,116 in FY 2003 from a low in FY 1999.¹⁰ The increase from FY 2002 to FY 2003 alone was \$56,000 (15 percent).
- The number of TDAs closed, excluding shelved accounts, and the number closed by full payment increased by 26 percent and 15 percent, respectively, from FY 2002 to FY 2003.¹¹ The FY 2003 volumes are the highest levels since FY 1998.
- The number of Taxpayer Delinquency Investigations (TDI) closed with a tax return secured or a tax return posted by the ACS and the CFf increased by 12 percent from FY 2002 to FY 2003.

While there were still more TDA receipts than closures during FY 2003, the gap between TDA receipts and TDA closures narrowed by 200,067 TDAs.¹² The gap at the end

⁸ See Appendix V, Figure 3.

⁹ See Appendix V, Figure 9.

¹⁰ See Appendix V, Figure 8.

¹¹ See Appendix V, Figures 14 and 15.

¹² See Appendix V, Figure 12.

Trends in Compliance Activities Through Fiscal Year 2003

of FY 2002 was a record high of 1,876,845 TDAs for the 8-year period we analyzed.

Use of collection enforcement tools including liens, levies, and seizures increased substantially from lows experienced in FY 1999 or FY 2000.¹³ The number of liens filed exceeded the FY 1997 level. However, the number of levies and seizures are still substantially lower than their pre-1998 levels.

Figure 1. Use of Collection Function Enforcement Tools

	Liens	Levies	Seizures
FY 1996	750,225	3,108,926	10,449
FY 1997	543,613	3,659,417	10,090
FY 1998	382,755	2,503,409	2,307
FY 1999	167,867	504,403	161
FY 2000	287,517	219,778	74
FY 2001	426,166	674,080	234
FY 2002	482,509	1,283,742	296
FY 2003	548,683	1,680,844	399

Source: Collection Report 5000-23, Automated Lien System (liens for FYs 2001 through 2003), Customer Service Activity Reports (levies for FYs 2001 through 2003), and IRS Manual Reconciliation of Seizure Logs.¹⁴

These changes might be attributed to management emphasis on the collection programs, including the implementation of the SB/SE Division Collection Reengineering initiatives during the past 2 years. Some changes recommended by the Collection Reengineering initiatives are still in the initial stages of implementation, and these could have additional impacts on the collection compliance indicators. While it appears these efforts have had a positive impact on collection statistics, the Collection function should continue to monitor impacts of the changes to ensure the positive trend continues.

¹³ See Appendix V, Figures 16 to 18.

¹⁴ The numbers of liens and levies were adjusted due to omissions in the automated reports that have occurred since the reorganization (FY 2001). The seizure numbers are based on a manual reconciliation the IRS performs to determine the actual number of seizures made rather than those on the automated reports, which show slightly higher numbers.

Trends in Compliance Activities Through Fiscal Year 2003

Unassigned Collection function inventory is increasing

The inventory of unassigned collection cases is maintained in the Queue. Historically, the Queue was not used as a major source for active workload. However, 48 percent of CFf workload came from the Queue during FY 2003, compared to just 9 percent during FY 1999.

The dollar amount of cases in the Queue decreased by 6 percent during FY 2003 to \$19.2 billion, after increasing each year since FY 1996. The number of accounts increased after 3 years of remaining relatively constant.¹⁵ During FY 2003, the number of taxpayers with unpaid tax liabilities in the Queue increased by 15 percent to 591,372, and the number of taxpayers with investigations of unfiled tax returns in the Queue increased by 25 percent to 959,075 taxpayers.¹⁶ Although many of these cases may be assigned to be worked, a significant amount may never be worked.

The Queue inventory figures do not include the millions of unpaid tax periods and unfiled return investigations shelved or surveyed (removed) from Collection function inventory during the last 3 years. From FY 2001 through FY 2003, a total of 4.4 million TDAs¹⁷ with balance due amounts totaling \$19.8 billion were removed from Collection function inventory. During the same period, a total of 10.7 million TDI tax periods were removed. These cases were removed from Collection function inventory because they were considered less productive and may never be worked.

The Collection function is not able to work all of the existing accounts in the Queue with current staffing, and, as noted in the preceding section, the number of TDA receipts is outpacing closures. This reinforces the need for additional resources to work the cases. The FY 2004 budget provided additional Collection function staffing, and the President's budget proposal for FY 2005 requests even more Collection function staffing, as well as legislation to allow some cases to be worked by contract staff. If neither of

¹⁵ See Appendix V, Figure 13.

¹⁶ See Appendix V, Figure 10.

¹⁷ See Appendix V, Figure 11.

Trends in Compliance Activities Through Fiscal Year 2003

Some Examination Function Compliance Indicators Improved; Others Continued to Decline in Fiscal Year 2003

these proposals is approved, a significant amount of cases will continue to not be worked.

Examination function staffing in FY 2003 continued to decline for both Revenue Agents (RA) and Tax Compliance Officers (TCO) (formerly referred to as Tax Auditors), with 11,234 RAs and 1,194 TCOs as of the end of the fiscal year.¹⁸ This is a 35 percent decrease of examiners in field offices since FY 1996. While there was limited hiring during FY 2003, attrition outpaced the hiring effort.

Examinations of individual income tax returns increased in FY 2003 compared to FY 2002, but the number of corporate tax return examinations continued to decline. Additionally, examiners in the field offices are spending more time examining tax returns, resulting in a decrease in the per hour yield. However, initiatives are being tested and implemented to improve the Examination function's effectiveness, but it is too early to evaluate the full impact of these changes.

Examination of tax returns

When analyzing examination coverage rates, it is important to recognize differences in the types of contacts that are counted in Examination function statistics. Examinations range from an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a full face-to-face interview and review of the taxpayer's records. Face-to-face examinations are generally more comprehensive and time-consuming for the IRS and the taxpayers, and they typically result in higher dollar adjustments to the tax amounts. Thus, caution should be used when combining statistics from the various Examination function programs and tax classes into overall examination rates. In addition, the IRS uses several computer-matching and automated error-checking routines in the computing centers to check the accuracy of tax returns. Many of these result in adjustments to tax liabilities but are not included in the traditional "audit rates" and are not generally reported separately as enforcement efforts.

¹⁸ See Appendix V, Figure 4.

Trends in Compliance Activities Through Fiscal Year 2003

The overall percentage of tax returns examined¹⁹ increased by 11 percent from FY 2002 to FY 2003 and has increased by 25 percent since FY 2000. However, the rate is still 57 percent lower than it was in FY 1988. The 25 percent increase in the examination rate from FY 2000 was primarily due to an increase in the number of examinations of income tax returns for individuals. Examinations of other types of tax returns did not change significantly or continued to decrease.

The IRS attributed the decreases in examinations in part to a decline in and a reallocation of resources.²⁰ As mentioned previously, considerable effort is planned to hire RAs and TCOs during FYs 2004 and 2005. However, the impact of these new hires will not be realized immediately. Not only do these new hires need to be trained, but experienced examiners are taken offline to help provide the training. Therefore, the volume of tax returns examined may not show much improvement for some time after the hiring occurs.

Continued effort to increase the examination coverage is important to the effectiveness of the voluntary compliance system. Studies of taxpayer attitudes show that 17 percent of taxpayers felt it was acceptable to cheat on their tax returns, compared to 11 percent in 1999.²¹ Also, fear of examination is an increasing factor in influencing taxpayers to report taxes honestly. In 2002, 29 percent of taxpayers surveyed cited fear of examination as a factor that influenced their voluntary compliance. This increased to 37 percent in 2003.

Individual Income Tax Examinations – Overall, the number of examinations of all types of individual income tax returns decreased from FY 1997 through FY 2000. However, the downward trend was reversed in FY 2001 when the number of examinations in most categories increased slightly from the prior years. In FY 2000 only 1 in 202 individual tax

¹⁹ Percentage of Examination coverage has traditionally been calculated by the IRS by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

²⁰ *Report to Congress: IRS Tax Compliance Activities* (dated July 15, 2003).

²¹ *2003 IRS Oversight Board Annual Survey on Taxpayer Attitudes* (dated September 2003).

Trends in Compliance Activities Through Fiscal Year 2003

returns were examined, while in FY 2003 this increased to 1 in 153.

- The number of individual income tax returns examined increased from 617,765 in FY 2000 to 849,296 in FY 2003,²² with 76 percent of those examined in FY 2003 done by correspondence.
- The number of examinations of individual tax returns with income under \$100,000 increased from 518,218 in FY 2000 to 709,917 in FY 2003.²³ This increase was entirely due to an increase in the number of correspondence examinations, as the number of face-to-face examinations decreased by 20 percent. Correspondence examinations accounted for 81 percent of the examinations of individuals with incomes under \$100,000 in FY 2003.
- The number of examinations of individual tax returns with income of \$100,000 and over increased from 99,547 in FY 2000 to 139,379 in FY 2003.²⁴ Most (86 percent) of this increase was due to an increase in the number of correspondence examinations; the number of face-to-face examinations increased by only 14 percent. Correspondence examinations accounted for 52 percent of the examinations of individuals with incomes \$100,000 and over in FY 2003.

The Earned Income Tax Credit (EITC) issues made up a substantial portion of the individual income tax examination cases for FYs 2000 through 2003 in the lower income categories and accounted for about 50 percent of the examinations of individuals overall. Excluding EITC examinations, the number of examinations of individuals with income under \$100,000 increased 16 percent from 250,248 in FY 2000 to 291,134 in FY 2003, and the number with income \$100,000 and over increased 38 percent from 98,983 in FY 2000 to 136,372 in FY 2003.

²² See Appendix V, Figure 24.

²³ See Appendix V, Figure 24.

²⁴ See Appendix V, Figure 24.

Trends in Compliance Activities Through Fiscal Year 2003

Corporate Income Tax Examinations – The number of examinations of all Corporation tax returns has decreased continuously since FY 1997, decreasing a total of 67 percent since that time. The total number of tax returns examined decreased from 93,548 (1 out of 52 returns filed) in FY 1997 to 30,700 (1 out of 182 returns filed) in FY 2003.²⁵ The exception to this downward trend was in the examinations of corporate tax returns filed with no balance sheets; the number of these examinations increased from 1,823 in FY 2000 to 3,682 in FY 2003. The President's budget proposal for FY 2005 includes increased Examination function staffing, and the Commissioner has indicated that some of the increase would be allocated to corporate compliance.

Partnership Return Examinations – The number of partnership returns examined increased during FYs 2002 and 2003. These 2 years of increases allowed for an overall increase in partnership examinations since FY 2000, from 6,539 in FY 2000 to 7,871 in FY 2003.²⁶

Other Tax Types Examinations (Fiduciary, Employment, Excise, Estate, and Gift Taxes) – The overall number of examinations in these 5 classes also continued to decline, falling from 47,807 in FY 2000 to 40,352 in FY 2003. While the number of examinations in each class is below the FY 2000 level, there were increases in FY 2003 in the number of examinations of excise and estate tax returns.²⁷

Examination function yield indicators

Yield indicators for the Examination function decreased from FY 1996 to FY 2003 for individual and corporate tax return examinations.²⁸ While the dollar results from examinations per tax return examined increased during the period, the number of hours used to examine each tax return increased substantially. The net effect is a decrease in dollar results per hour spent examining tax returns. Figure 2 shows the impact on the results per hour from FY 1996 to FY 2003 for RAs and TCOs.

²⁵ See Appendix V, Figures 37 to 39 and Figure 50, for coverage by size of corporation.

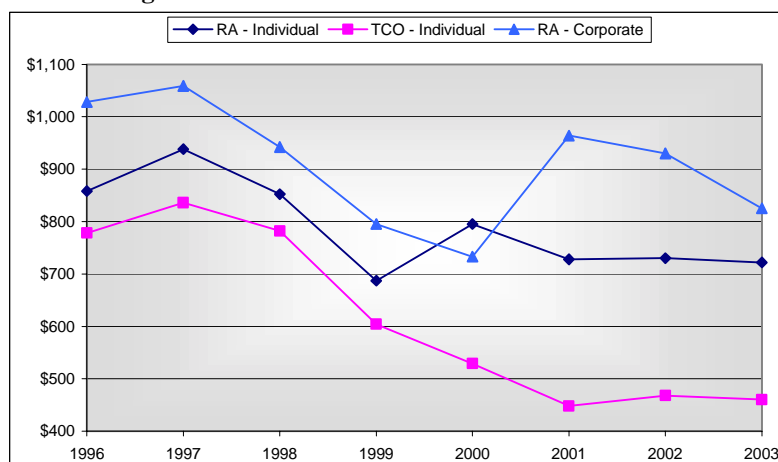
²⁶ See Appendix V, Figure 40.

²⁷ See Appendix V, Figures 41 to 45.

²⁸ See Appendix V, Figures 20 to 23.

Trends in Compliance Activities Through Fiscal Year 2003

Figure 2. Examination Function Yield Per Hour



Source: TIGTA Analysis of Examination Table 37.

A large portion of the increase in hours spent examining tax returns occurred from FY 2002 to FY 2003. This could be partially attributed to the type of cases that were being worked during the year. The SB/SE Division high-priority cases²⁹ require in-depth probing in an attempt to identify unreported income and to determine reporting compliance.

Compliance initiatives

The Examination function has been making changes to try to address taxpayer compliance more effectively and efficiently. Some of the changes were implemented during FY 2003 and others are in the very early stages of implementation.

- The SB/SE Division is implementing changes recommended by the Examination Reengineering teams. Results reported in our review of the office redesign³⁰ and preliminary indications in our review of the field redesign³¹ have been mixed. At the time of our reviews, neither redesign had met the initial goals of reducing hours per return or length of time

²⁹ These priorities include offshore credit card users; high-risk, high-income taxpayers; abusive schemes and promoter investigations; high-income nonfilers; unreported income; and the National Research Program.

³⁰ *The Office Audit Redesign Pilot Was Effective in Meeting Its Goals, but Its Implementation Needs to Be Monitored* (Reference Number 2004-30-033, dated January 2004).

³¹ Audit Number 200330024, Field Examination Redesign Review.

Trends in Compliance Activities Through Fiscal Year 2003

the case was open. However, both redesigns showed improvements in examination quality and other measures.

- The IRS started publicizing revised priorities (as described in footnote 29) in late FY 2002 and has shown commitment to them by not dropping any since they were established. These priorities were designed to address what the SB/SE Division believes are areas of high noncompliance. The SB/SE Division has been providing refresher training to address technical skills needed to accomplish the examinations included in the revised priorities.
- The LMSB Division is implementing a new approach to limit the number of issues addressed in examinations of large corporate tax returns. It expects this to provide improved efficiency and help increase examination coverage.

The IRS should continue to monitor the results of these initiatives to ensure they result in more effective and efficient operations. If measures show decreases in effectiveness or efficiency, management needs to reassess the strategies and make changes where necessary.

In addition to the efficiency increases projected by the initiatives mentioned above, the Commissioner has indicated his commitment to improving compliance while also maintaining a high level of customer service. This includes a recent announcement that savings from consolidating processing functions will be used to provide additional compliance staffing. Also, as shown previously in this report, the Congress increased the IRS' tax enforcement budget for FY 2004. This will equate to a considerable amount of hiring in compliance functions.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide statistical information requested by the Internal Revenue Service (IRS) Oversight Board and provide trend analyses of that information.

To accomplish our objective, we analyzed the IRS' management information reports to determine the trends and changes in the major areas of compliance. We relied on information accumulated by the IRS in established reports and did not verify its accuracy. The major issues we focused on included:

- Enforcement Revenue and Gross Accounts Receivable.
- Collection and Examination functions staffing.
- Collection and Examination functions direct time.
- Collection function delinquent account inventories and unfiled return investigations.
- Collection function enforcement actions (liens, levies, and seizures).
- Examination function coverage of individual and business tax returns compared to the number of returns filed in each category.
- Examination function results for individual and business tax returns.
- Other activity resulting in improving the accuracy of filed tax returns and filing of delinquent returns.

Major Contributors to This Report

Parker F. Pearson, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Amy L. Coleman, Audit Manager

Joseph F. Cooney, Senior Auditor

Joseph P. Snyder, Senior Auditor

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Large and Mid-Size Business Division SE:LM
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W
Deputy Commissioner, Large and Mid-Size Business Division SE:LM
Acting Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Acting Director, Compliance, Small Business/Self-Employed Division SE:S:C
Director, Compliance, Wage and Investment Division SE:W:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:A:M
Audit Liaisons:
 Commissioner, Large and Mid-Size Business Division SE:LM
 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W

Glossary of Terms

Automated Collection System (ACS) – A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Automated Substitute for Return (ASFR) system – Designed to assess taxes on wage earners who fail to file tax returns. It analyzes information submitted to the Internal Revenue Service (IRS) and historical tax returns information.

Balance Sheet – A statement of the financial assets and liabilities of a business at a given date filed with a corporate income tax return; used by the IRS to group businesses by the size of their assets.

Collection Field function (Cff) – The unit in the Area Offices consisting of Revenue Officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled tax returns.

Corporate Income Tax Returns – United States (U.S.) Corporation Income Tax Returns (Form 1120) are returns used by corporations to report the corporate income tax.

Earned Income Tax Credit (EITC) – A tax credit for certain people who work and have income under established limits.

Employment Tax Returns – Various Form 940 return series (primarily Form 940 and Form 941) filed by businesses to report things such as Employer's Federal Unemployment Taxes and Federal Taxes Withheld.

Enforcement revenue – This is any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

Estate Tax Return – U.S. Estate (and Generation-Skipping Transfer) Tax Return (Form 706) is the form to be filed on certain estates of deceased persons.

Examination (Face-to-Face) – Field examinations of individuals, partnerships, and corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.

Excise Tax Return – Quarterly Federal Excise Tax Return (Form 720) is used to report and pay excise taxes on a quarterly basis.

Fiduciary Income Tax Return – Income tax returns filed for estates and trusts.

Filing Season – The period from January through mid-April when most individual income tax returns are filed.

Gift Tax Return – U.S. Gift (and Generation-Skipping Transfer) Tax Return (Form 709) is used to report transfers subject to the Federal gift taxes and to figure the tax due on those transfers.

Trends in Compliance Activities Through Fiscal Year 2003

Gross accounts receivable – Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.

Individual Income Tax Returns – U.S. Individual Income Tax Returns (Form 1040 series) are annual income tax returns filed by citizens or residents of the U.S.

Math Error – A program with which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in a tax change.

Partnership Returns – U.S. Return of Partnership Income (Form 1065) is used to report the income of domestic partnerships.

Queue – An automated holding file for unassigned inventory of lower priority delinquent cases that the Collection function does not have enough resources to immediately assign for contact.

Revenue Agent – Employees in the Examination function that conduct face-to-face examinations of more complex tax returns such as businesses, partnerships, corporations, and specialty taxes, e.g., excise tax returns.

Revenue Officer – Employees in the CFF who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.

S Corporation Tax Return – U.S. Income Tax Return for an S Corporation (Form 1120S) is a return filed by a qualifying small business corporation.

Service Center Collection Branch (SCCB) – Mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence.

Shelved or surveyed cases – These are delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of Collection function inventory because they are lower priority.

Tax Compliance Officer/Tax Auditor – Employees in the Examination function that conduct mostly examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 from Tax Auditor to Tax Compliance Officer.

Taxpayer Delinquent Account (TDA) – A balance due account of a taxpayer.

Taxpayer Delinquency Investigation (TDI) – An unfiled tax return for a taxpayer.

Total Gross Receipts (TGR) – The categories used for Individual Income Tax Returns with Profit or Loss From Business (Schedule C) or Profit or Loss From Farming (Schedule F) income based on the total receipts reported.

Underreporter – The Underreporter Program matches items reported on individual tax returns to information supplied to the IRS from outside sources (such as from employers, banks, and credit unions) to determine if the taxpayer's tax return reflected the correct amounts, ensuring that the taxpayer's tax amount is correct.

Detailed Charts of Statistical Information

Figure 1 – Internal Revenue Service (IRS) Gross Collections, by Type of Tax for Each Fiscal Year (FY) Page 20

Figure 2 – Change in Enforcement Revenue and Gross Accounts Receivable – Percentage Change From FY 1996 Page 20

Figure 3 – Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable..... Page 21

Figure 4 – Examination Function Staffing at the End of Each FY..... Page 21

Figure 5 – Collection Function Revenue Officer Staffing at the End of Each FY Page 22

Figure 6 – Staff Years Detailed to Customer Service Page 22

Figure 7 – Changes in Direct Time Percentages Page 23

Figure 8 – Average Dollars Collected per Staff Year on Taxpayer Delinquent Accounts (TDA) by the Collection Field function (CFf) Page 23

Figure 9 – Total Dollars Collected on TDAs by the CFf and the Automated Collection System (ACS)..... Page 24

Figure 10 – Delinquent Accounts in the Queue Page 24

Figure 11 – Delinquent Accounts and Unfiled Return Investigations Shelved or Surveyed Each Year Page 25

Figure 12 – Gap Between New Delinquent Accounts and Account Closures Page 25

Figure 13 – Number of Taxpayers and Amounts Owed in the Queue..... Page 26

Figure 14 – Number of Delinquent Accounts Closed Each Year, Not Including Shelved Accounts Page 26

Figure 15 – Number of Delinquent Accounts Closed by Full Payment..... Page 27

Figure 16 – Liens Filed by the CFf and ACS Page 27

Figure 17 – Levies Issued by the CFf and ACS..... Page 28

Figure 18 – Number of Seizures Made Each FY Page 28

Figure 19 – Examination Coverage of All Tax Returns – Percentage Change From FY 1988..... Page 29

Figure 20 – Revenue Agent Results on Individual Income Tax Returns (Form 1040) – Percentage Change From FY 1996 Page 29

Figure 21 – Revenue Agent Results on Corporate Income Tax Returns – Percentage Change From FY 1996 Page 30

Trends in Compliance Activities Through Fiscal Year 2003

Figure 22 – Revenue Agent Results on Other Types of Tax Returns – Percentage Change From FY 1996	Page 30
Figure 23 – Tax Compliance Officer Results on Forms 1040 – Percentage Change From FY 1996	Page 31
Figure 24 – Number of Forms 1040 Examined Face-to-Face or Through Correspondence.....	Page 31
Figure 25 – Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence	Page 32
Figure 26 – Number of Forms 1040 Examined by Compliance Center Correspondence.....	Page 32
Figure 27 – Number of Forms 1040 Examined by Field Offices.....	Page 33
Figure 28 – Percentage of Forms 1040 Examined	Page 33
Figure 29 – Percentage Examined – Forms 1040 With No Business or Farm Income	Page 34
Figure 30 – Examination Coverage of Non-business Forms 1040 – Under \$100,000	Page 34
Figure 31 – Examination Coverage of Non-business Forms 1040 – \$100,000 and Over	Page 35
Figure 32 – Examination Coverage of Forms 1040 With Business Income (Excluding Farms).....	Page 35
Figure 33 – Examination Coverage of Forms 1040 With Farm Income.....	Page 36
Figure 34 – Examination Coverage of All Corporate Income Tax Returns – Percentage Change From FY 1988 to FY 2003	Page 36
Figure 35 – Percentage of Corporate Income Tax Returns Examined – Corporations With Assets Under \$10 Million	Page 37
Figure 36 – Percentage of Corporate Income Tax Returns Examined – Corporations With Assets \$10 Million and Over	Page 37
Figure 37 – Examination Coverage of Corporations With Assets Under \$10 Million	Page 38
Figure 38 – Examination Coverage of Corporations With Assets \$10 Million and Over ..	Page 38
Figure 39 – Examination Coverage of S Corporations (Forms 1120S)	Page 39
Figure 40 – Examination Coverage of Partnership Income Tax Returns	Page 39
Figure 41 – Examination Coverage of Fiduciary Income Tax Returns	Page 40
Figure 42 – Examination Coverage of Employment Tax Returns.....	Page 40
Figure 43 – Examination Coverage of Excise Tax Returns	Page 41
Figure 44 – Examination Coverage of Estate Tax Returns	Page 41
Figure 45 – Examination Coverage of Gift Tax Returns	Page 42
Figure 46 – Other Compliance Contacts on Forms 1040	Page 42

Trends in Compliance Activities Through Fiscal Year 2003

Figure 47 – Other Compliance Contacts – Percentage of Coverage on Forms 1040..... Page 43

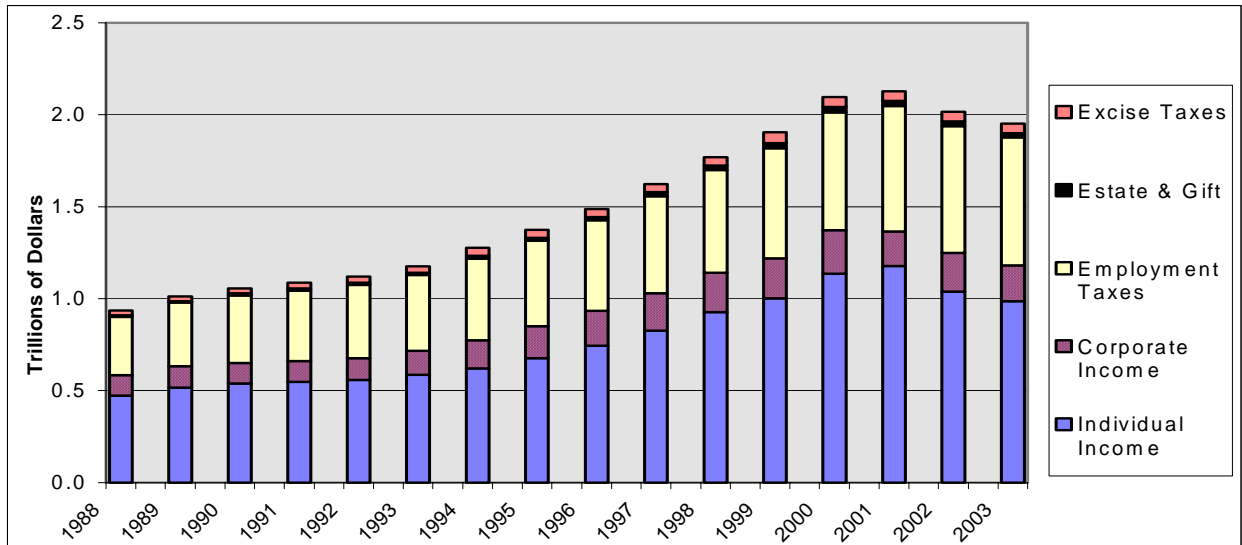
Figure 48 – Numbers and Percentages of Other Compliance Contacts
on Forms 1040..... Page 43

Figure 49 – Numbers and Percentages of Examinations on Forms 1040..... Page 44

Figure 50 – Numbers and Percentages of Examinations on Business Tax Returns..... Page 45

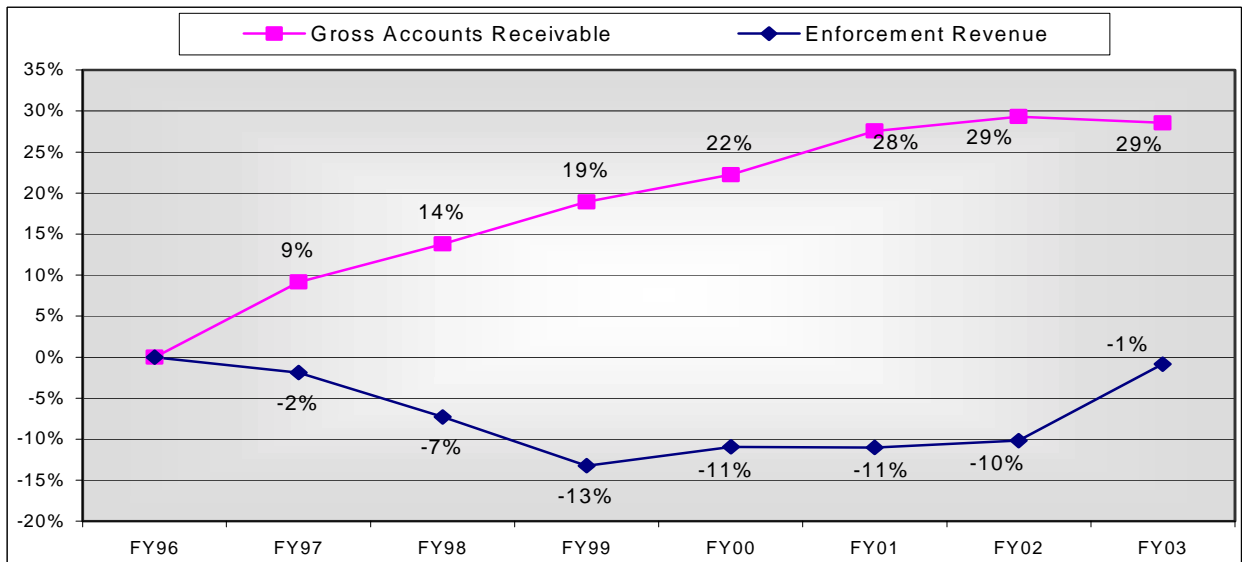
Trends in Compliance Activities Through Fiscal Year 2003

Figure 1. Internal Revenue Service (IRS) Gross Collections, by Type of Tax for Each Fiscal Year (FY). Gross tax collections fell again in FY 2003, for a total decrease of 8 percent since FY 2001. Individual tax collections decreased by 16 percent and employment tax collection increased by 2 percent from FY 2001 to FY 2003. Individual taxes make up about one-half of the total collections, while employment taxes account for about one-third.



Source: Treasury Inspector General for Tax Administration (TIGTA) Analysis of IRS Data Book Information.

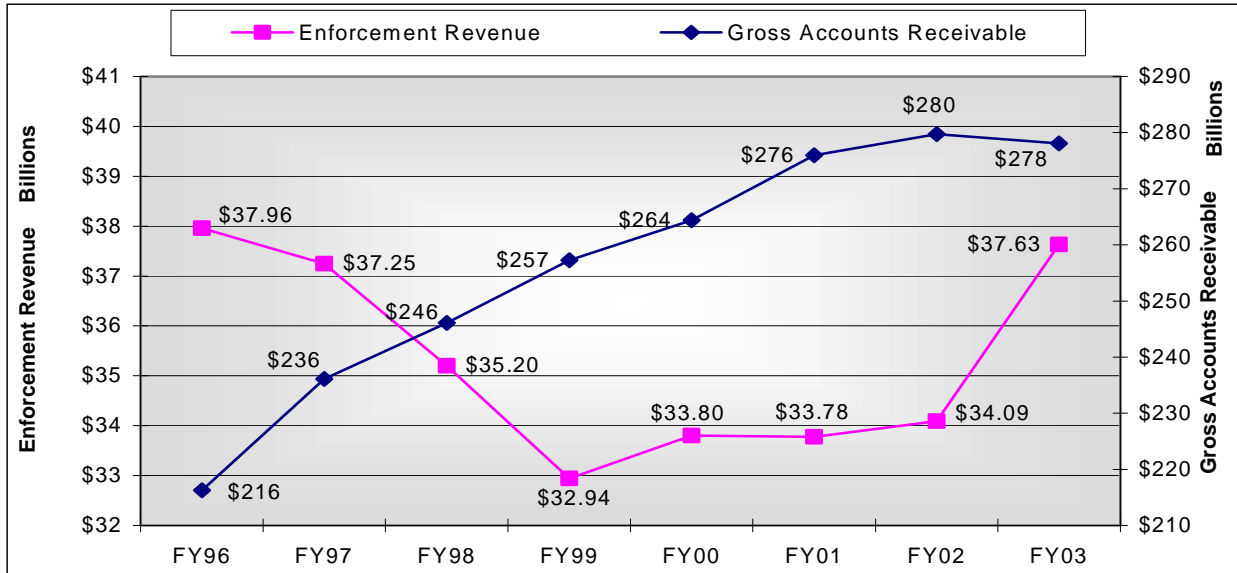
Figure 2. Change in Enforcement Revenue and Gross Accounts Receivable – Percentage Change From FY 1996. Enforcement revenue increased sharply in FY 2003, almost returning to the FY 1996 level, while gross accounts receivable decreased slightly.



Source: TIGTA Analysis of Enforcement Revenue Information System and Chief Financial Officer (CFO) Financial Report.

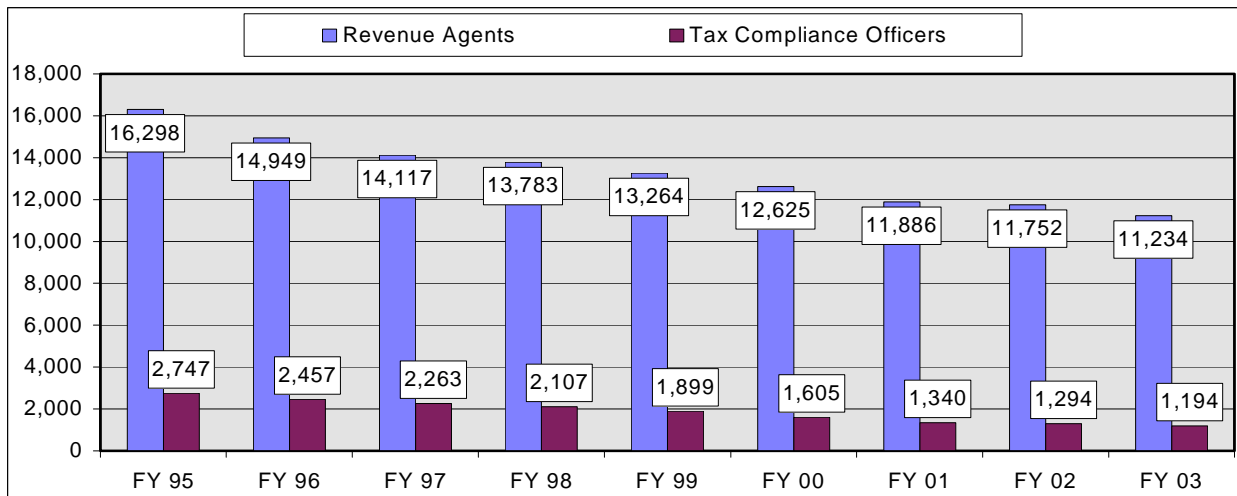
Trends in Compliance Activities Through Fiscal Year 2003

Figure 3. Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable. For the first time since FY 1996, the gross accounts receivable dropped off slightly in FY 2003. This could be partially due to the 10 percent increase in enforcement revenue collected during FY 2003.



Source: Enforcement Revenue Information System and CFO Financial Reports.

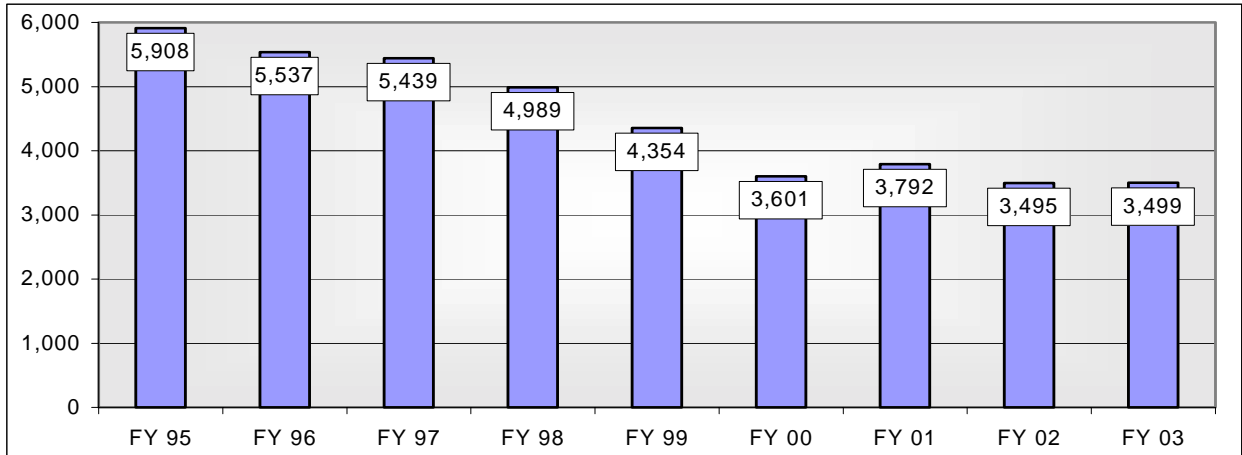
Figure 4. Examination Function Staffing at the End of Each FY. While there was limited hiring of Revenue Agents and Tax Compliance Officers (formerly referred to as Tax Auditors) during FY 2003, staffing in both categories continued to decline due to retirements and other types of attrition.



Source: Examination Table 37.

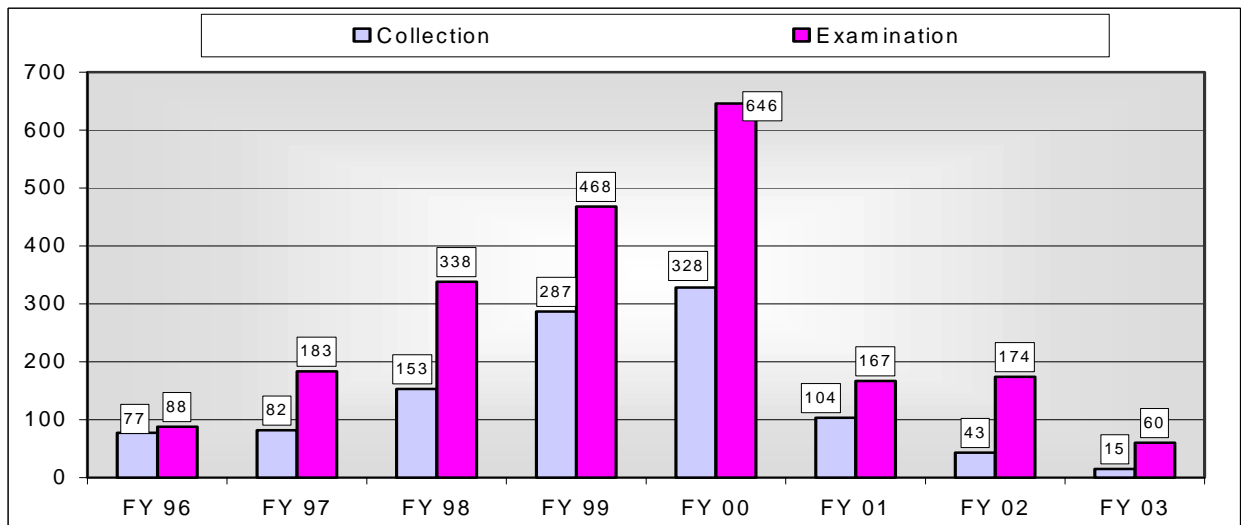
Trends in Compliance Activities Through Fiscal Year 2003

Figure 5. Collection Function Revenue Officer Staffing at the End of Each FY. The number of Revenue Officers working delinquent accounts was unchanged in FY 2003 from FY 2002.



Source: Collection Report 5000-23.

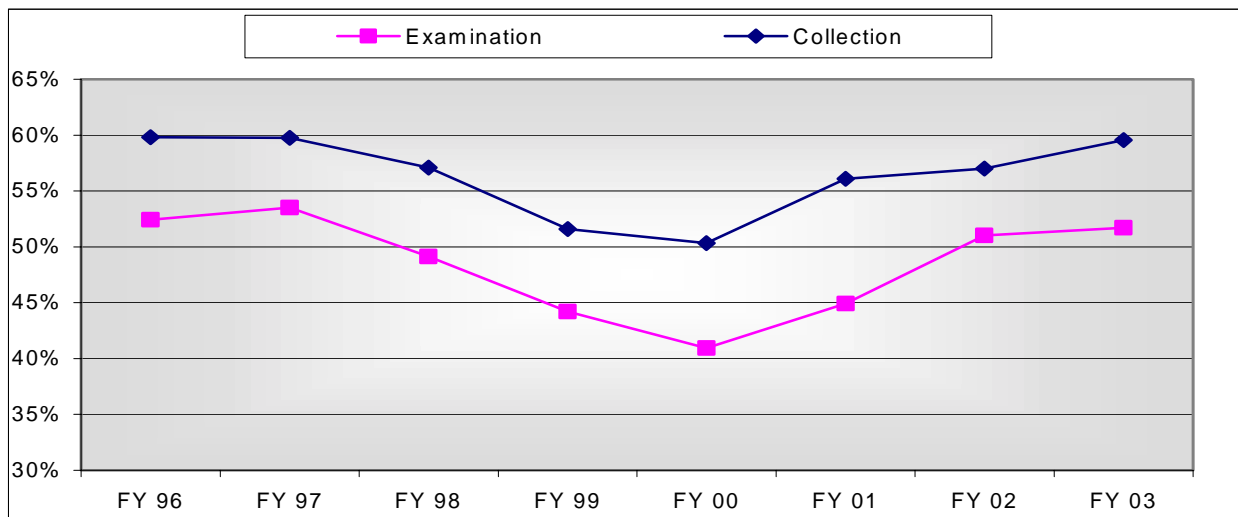
Figure 6. Staff Years Detailed to Customer Service. The number of staff years detailed to customer service dropped off again in FY 2003 and is now lower than that detailed during FY 1996.



Source: Collection Report 5000-23 and Examination Table 37.

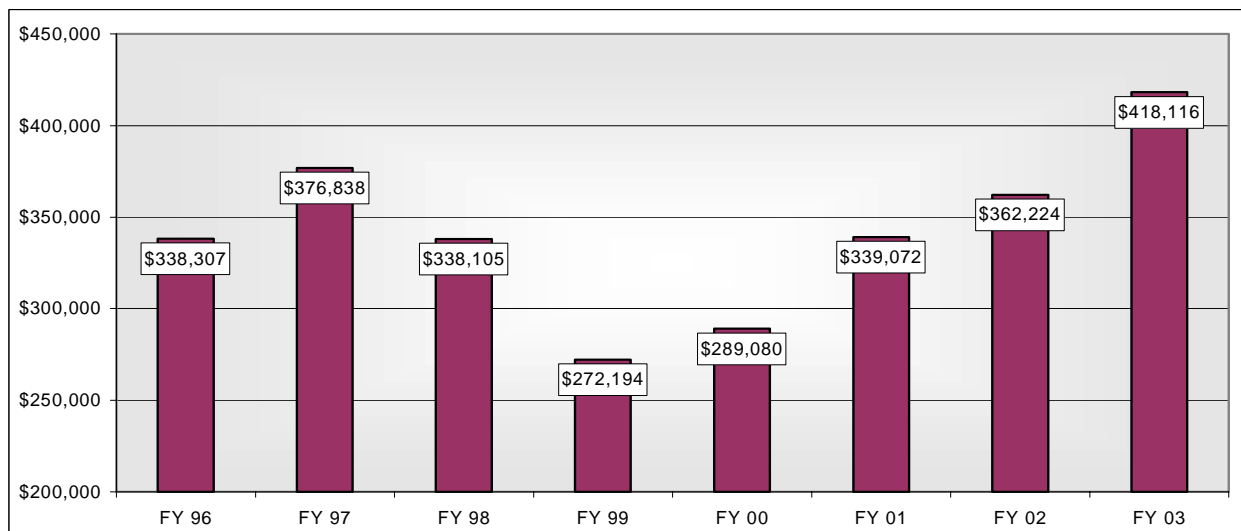
Trends in Compliance Activities Through Fiscal Year 2003

Figure 7. Changes in Direct Time Percentages. The Collection and Examination functions both increased the percentage of overall time spent collecting taxes and examining tax returns, respectively, since FY 2000. The Small Business/Self-Employed Division Examination function changed what types of time it captures as direct and indirect in FY 2003, including capturing some of the previous indirect time as direct. The graph below depicts our recalculation of direct time based on direct time categories from prior years.



Source: TIGTA Analysis of Collection Report 5000-23 and Examination Table 37.

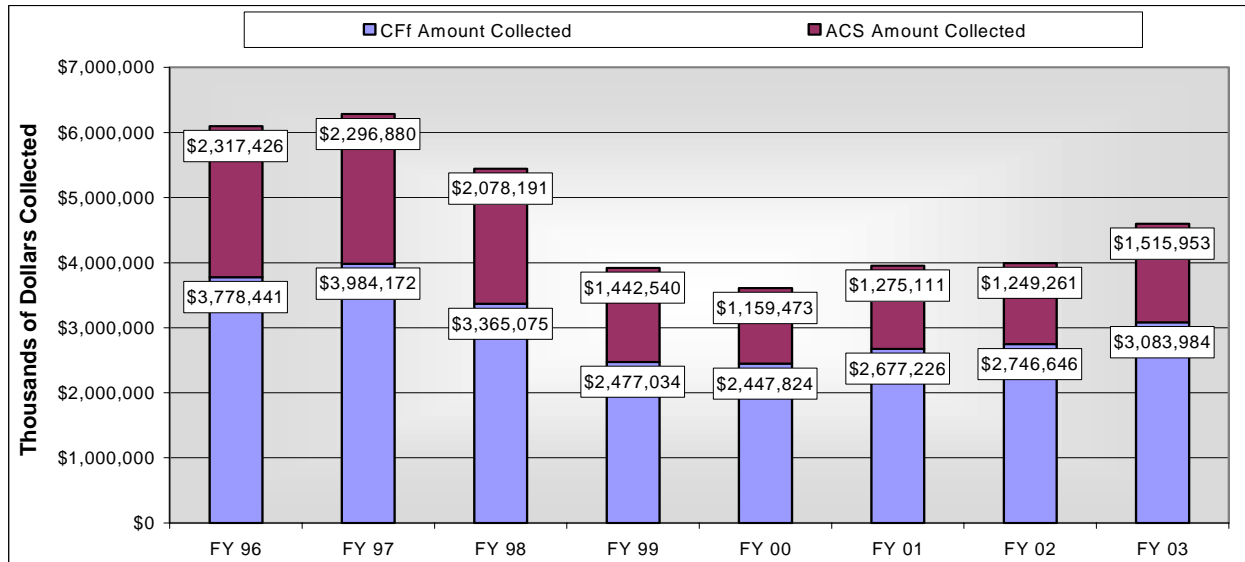
Figure 8. Average Dollars Collected per Staff Year on Taxpayer Delinquent Accounts (TDA) by the Collection Field function (CFf). The average amount collected by the CFf for each staff year has increased a total of 54 percent since FY 1999. The amount increased by 15 percent from FY 2002 to FY 2003 alone.



Source: TIGTA Analysis of Collection Reports 5000-2 and 5000-23.

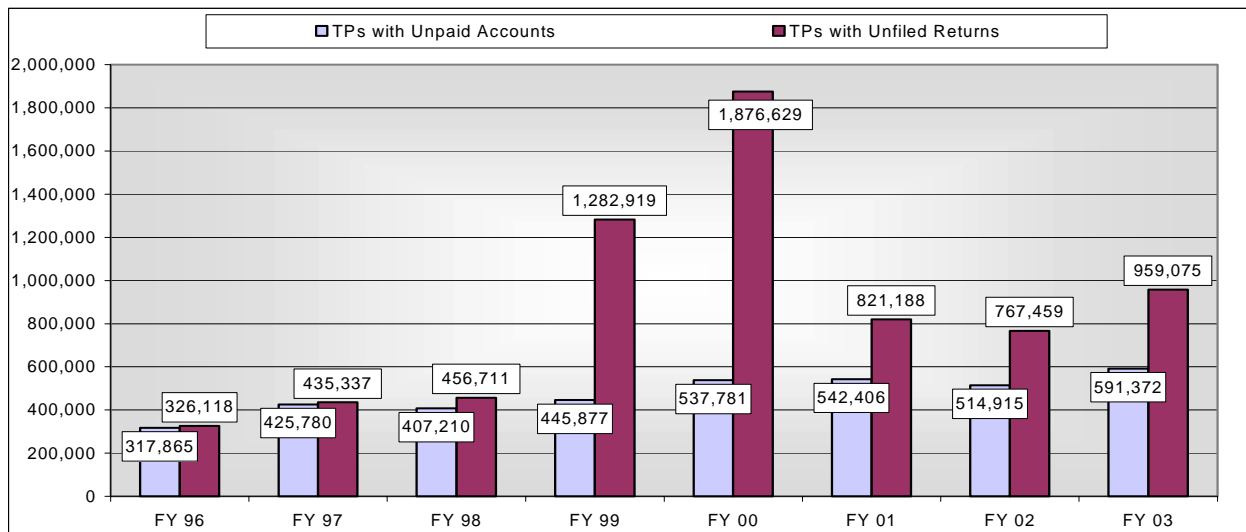
Trends in Compliance Activities Through Fiscal Year 2003

Figure 9. Total Dollars Collected on TDAs by the CFf and the Automated Collection System (ACS). Except for FY 2002 when the amount collected by the ACS dropped back slightly, the amounts collected by the ACS and CFf have grown constantly since FY 2000. Since FY 2000, the ACS amount collected has increased by 31 percent, while the amount collected by the CFf has increased by 26 percent.



Source: Collection Report 5000-2.

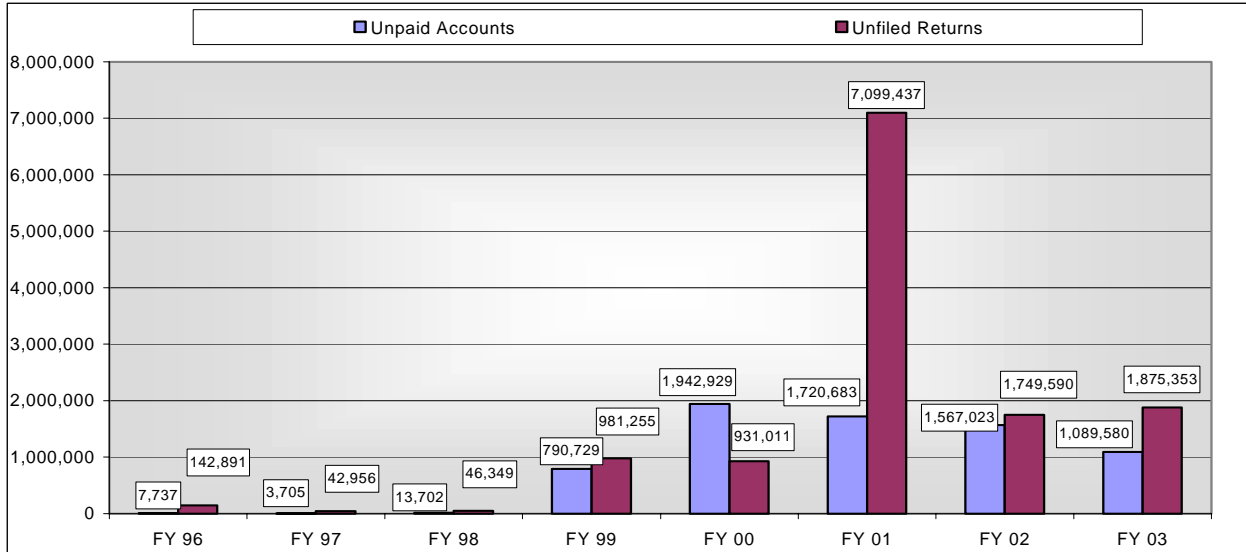
Figure 10. Delinquent Accounts in the Queue. The number of taxpayers with unpaid tax liabilities and investigations of unfiled tax returns in the Queue increased significantly from FY 1996 through FY 2000. There were large reductions from the inventory during FYs 2000 through 2003 because the IRS used a special closing code to remove potentially less productive cases from the Queue (see Figure 11).



Source: Collection Reports 5000-2 and 5000-4.

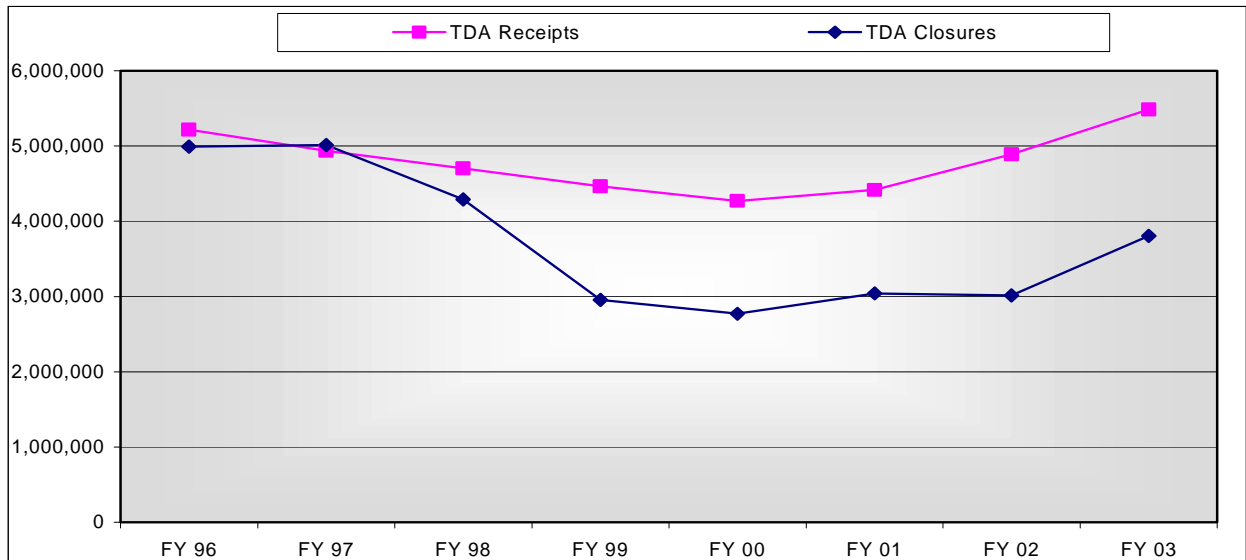
Trends in Compliance Activities Through Fiscal Year 2003

Figure 11. Delinquent Accounts and Unfiled Return Investigations Shelved or Surveyed Each Year. Since FY 1999, the IRS has used special closing codes to remove millions of unpaid tax periods and unfiled return investigations from the Queue.



Source: Collection Reports 5000-2 and 5000-4.

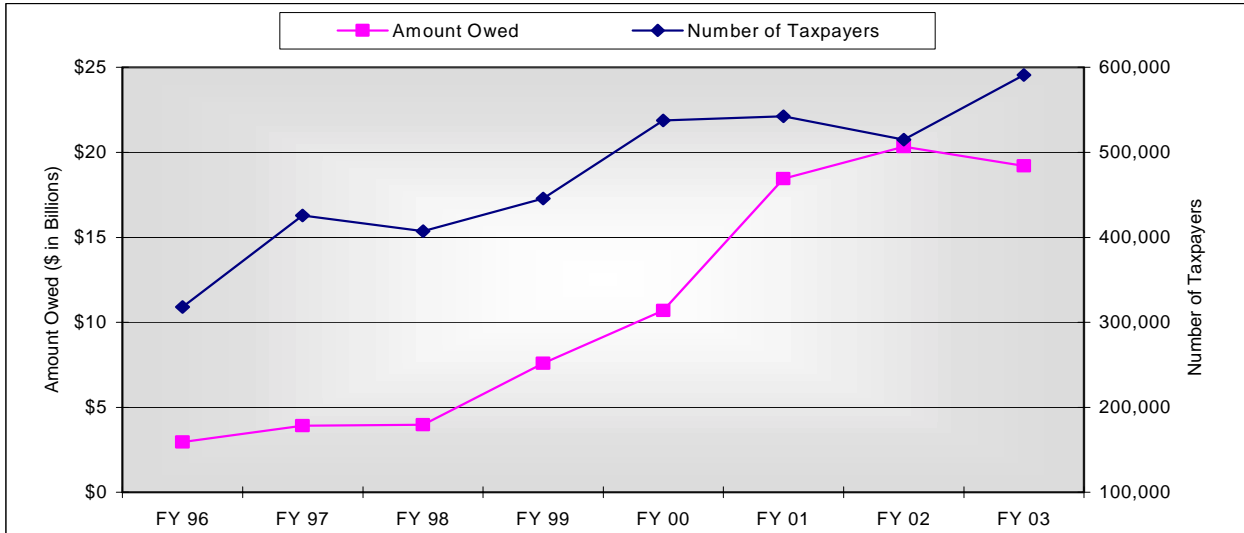
Figure 12. Gap Between New Delinquent Accounts and Account Closures. The gap between unpaid account receipts and closures decreased for FY 2003, but the number of receipts has been greater than the number of closures each year since FY 1997. The closures included here do not include the unpaid accounts shelved, shown above in Figure 11.



Source: Collection Report 5000-2.

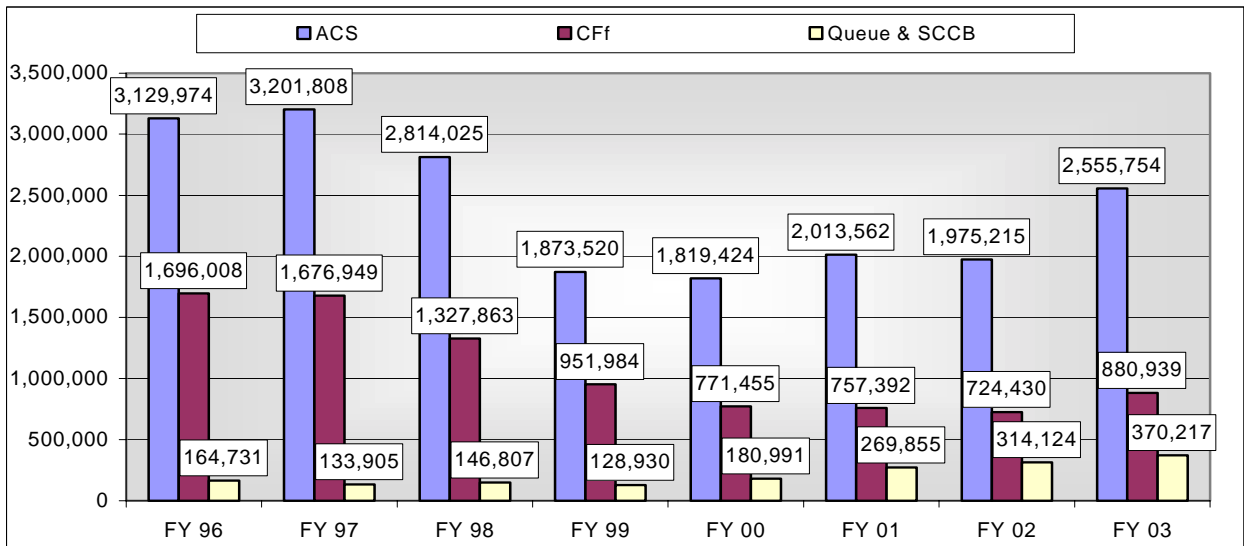
Trends in Compliance Activities Through Fiscal Year 2003

Figure 13. Number of Taxpayers and Amounts Owed in the Queue. While the number of taxpayers with unpaid accounts in the Queue increased during FY 2003, the average amount owed decreased from \$39,500 in FY 2002 to \$32,500 in FY 2003.



Source: Collection Report 5000-2.

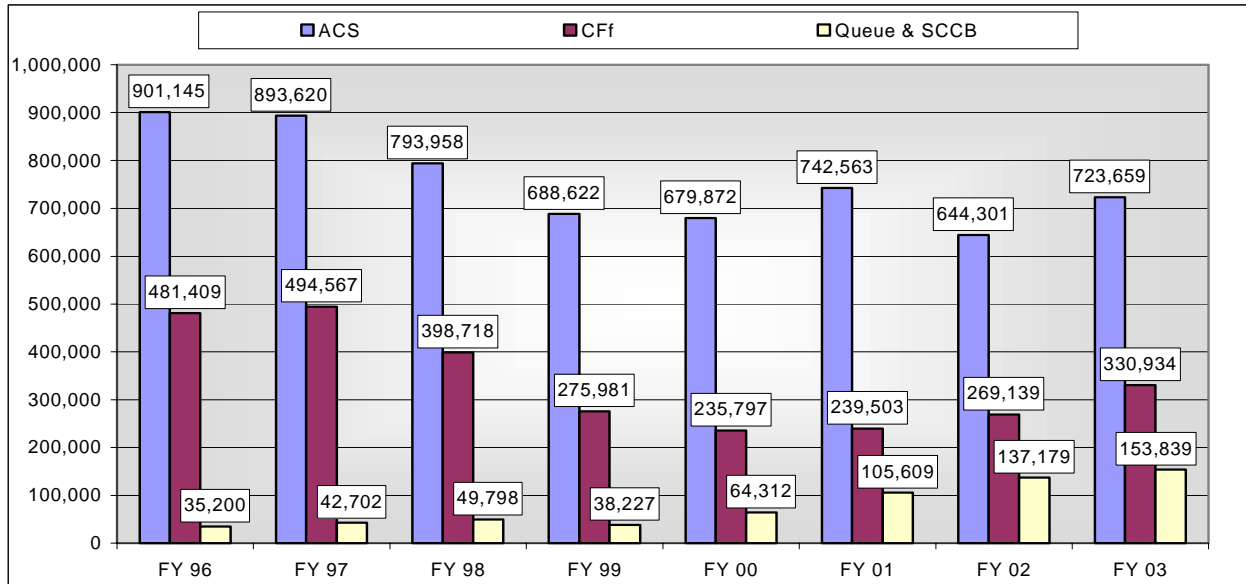
Figure 14. Number of Delinquent Accounts Closed Each Year, Not Including Shelved Accounts. The number of delinquent unpaid accounts closed by the ACS and CFf showed substantial increases in FY 2003. In addition, as more accounts are left in the Queue, there are more closed after voluntary action by taxpayers while in that unassigned status.



Source: Collection Report 5000-2.

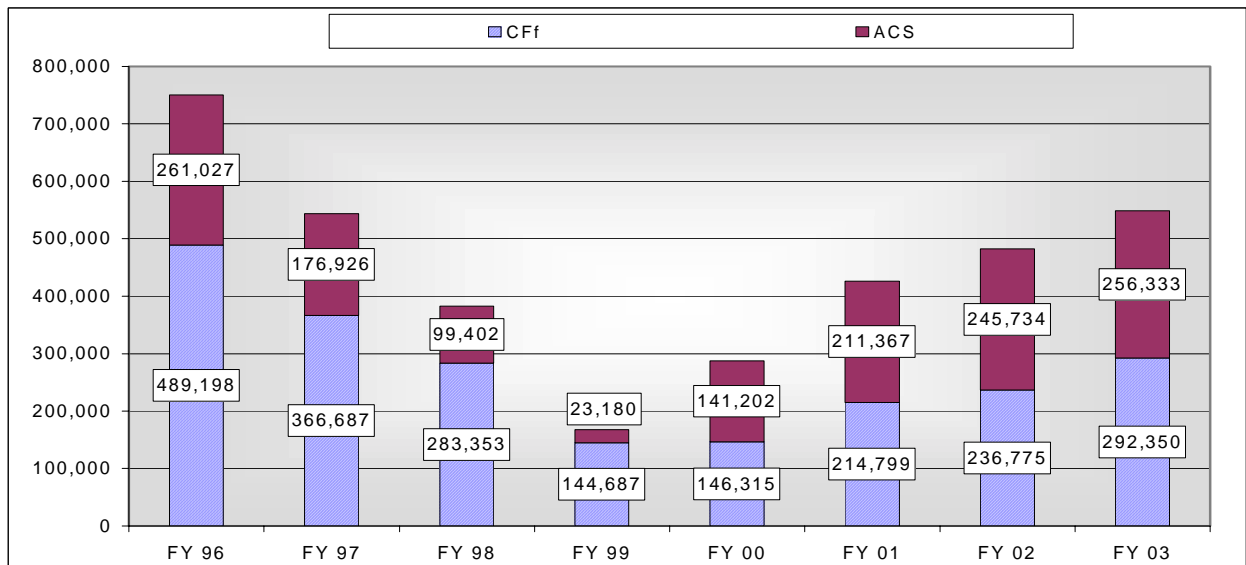
Trends in Compliance Activities Through Fiscal Year 2003

Figure 15. Number of Delinquent Accounts Closed by Full Payment. The number of accounts closed by full payment increased in FY 2003. There has been a steady increase since FY 2000 for the CFf and the Queue. The ACS number dropped in FY 2002; it recovered in FY 2003 but not back to the FY 2001 level.



Source: Collection Report 5000-2.

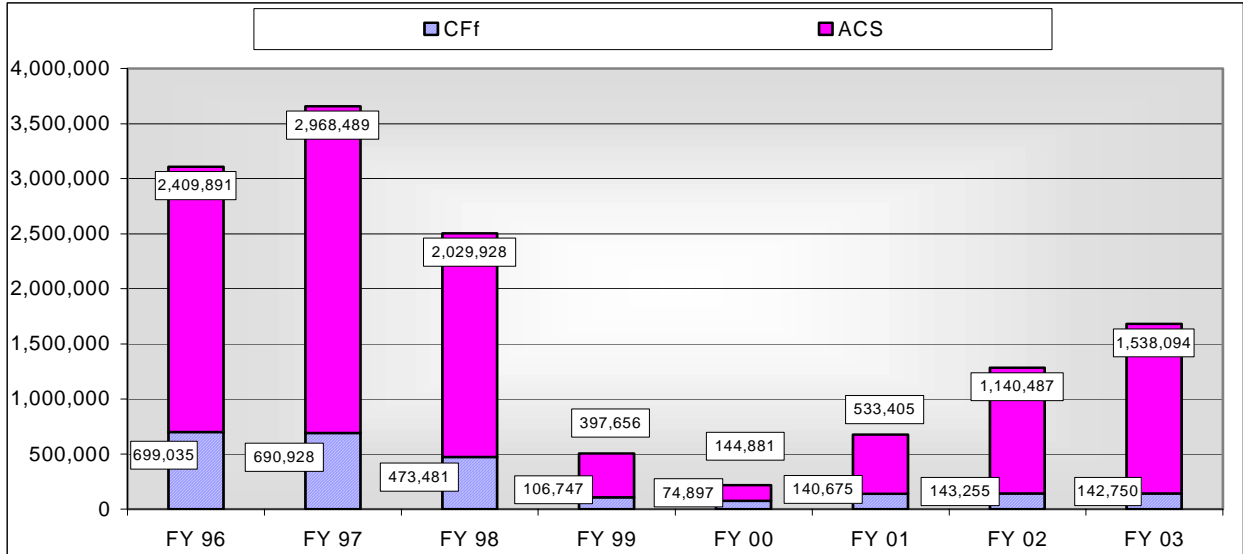
Figure 16. Liens Filed by the CFf and ACS. The total number of liens filed has increased by 227 percent since FY 1999.



Source: Collection Report 5000-23 for FYs 2000 and prior and the Automated Lien System for FYs after 2000.

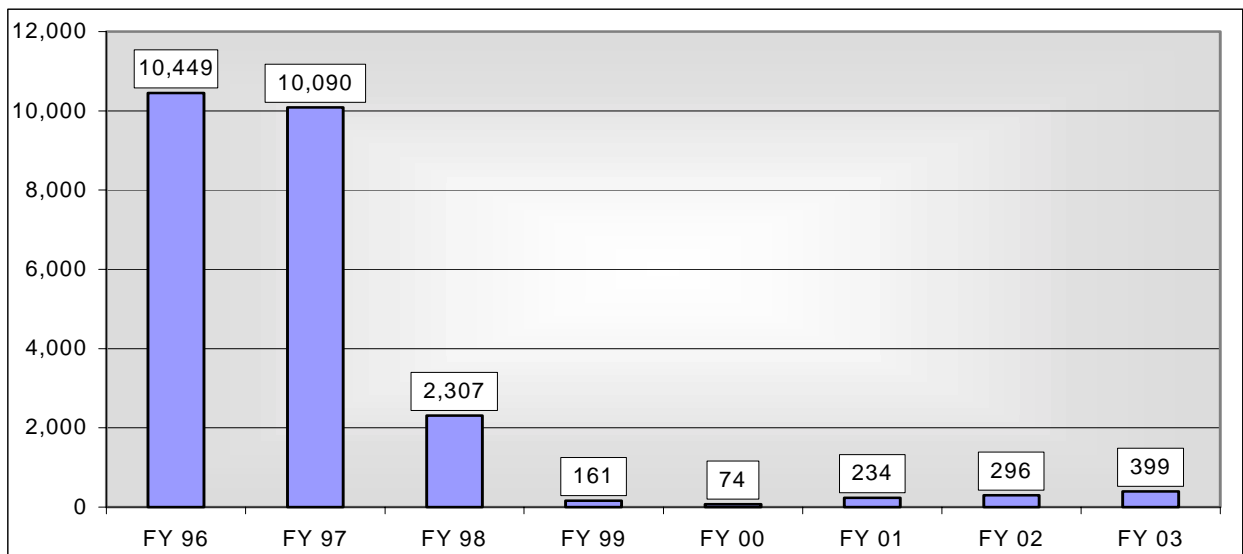
Trends in Compliance Activities Through Fiscal Year 2003

Figure 17. Levies Issued by the Cff and ACS. The total number of levies issued has continuously increased since FY 2000. However, the number of levies issued by the Cff dropped off slightly. This could be due to the increased emphasis on working trust fund cases.



Source: Collection Report 5000-23 and Customer Service Activity Reports for FYs after 2000.

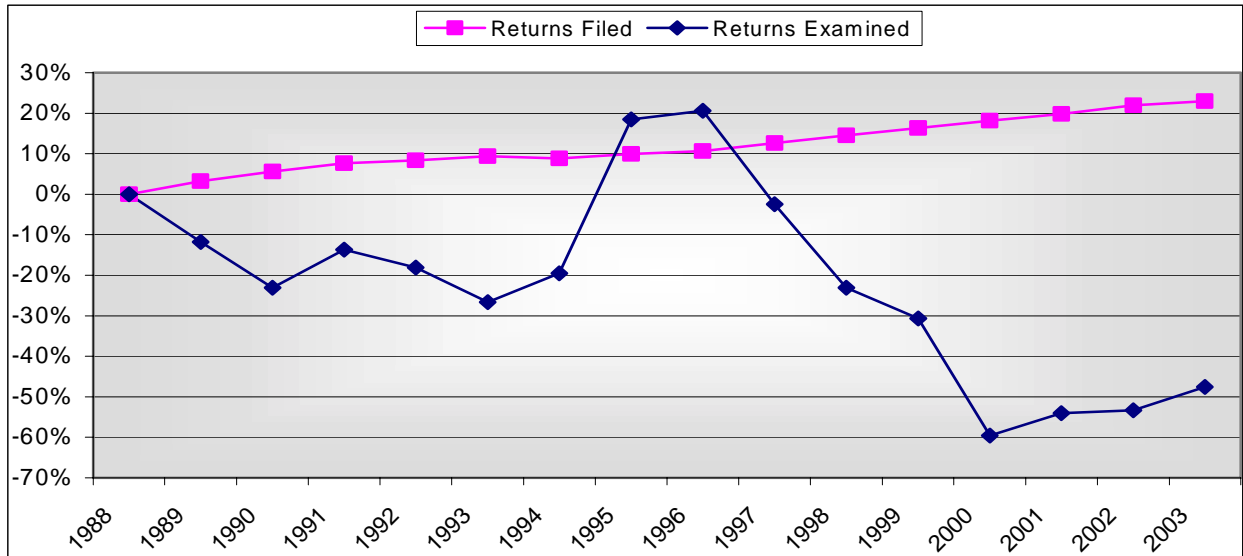
Figure 18. Number of Seizures Made Each FY. The number of seizures made in FY 2003 is up 439 percent from FY 2000 but is still only about 4 percent of the seizures made in FY 1996.



Source: Collection Report 5000-23 and IRS Manual Reconciliation of Seizure Logs.

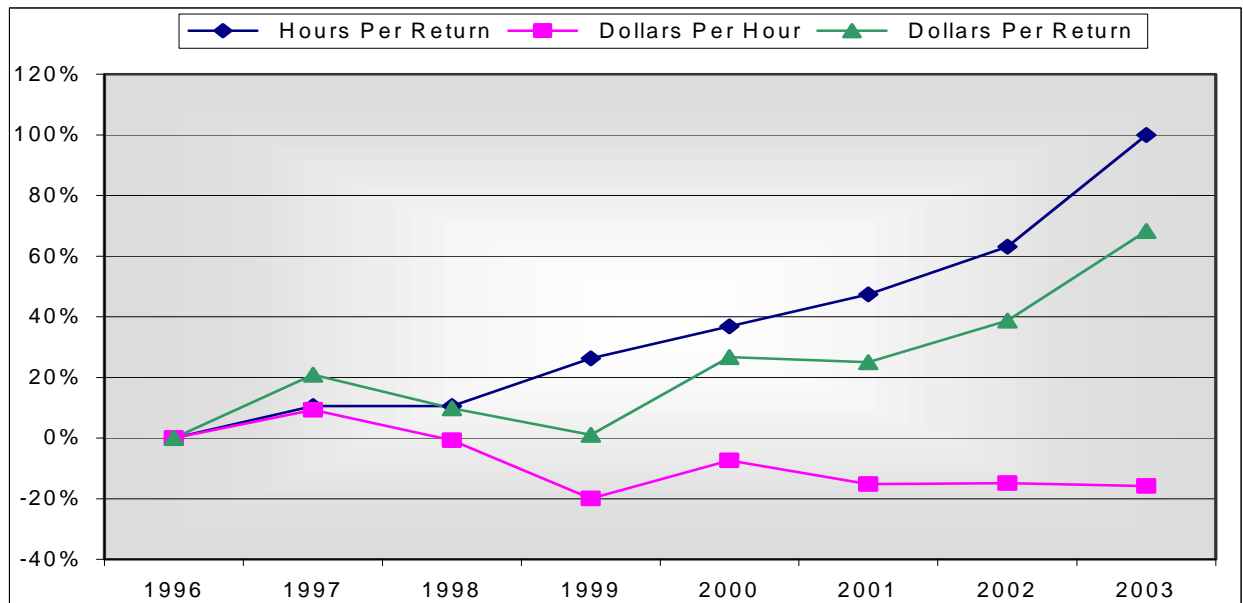
Trends in Compliance Activities Through Fiscal Year 2003

Figure 19. Examination Coverage of All Tax Returns – Percentage Change From FY 1988. While the examination coverage of tax returns is still far below the level in FY 1999, the growth in examination coverage outpaced the growth in returns filed during FY 2003.



Source: TIGTA Analysis of IRS Data Book Information.

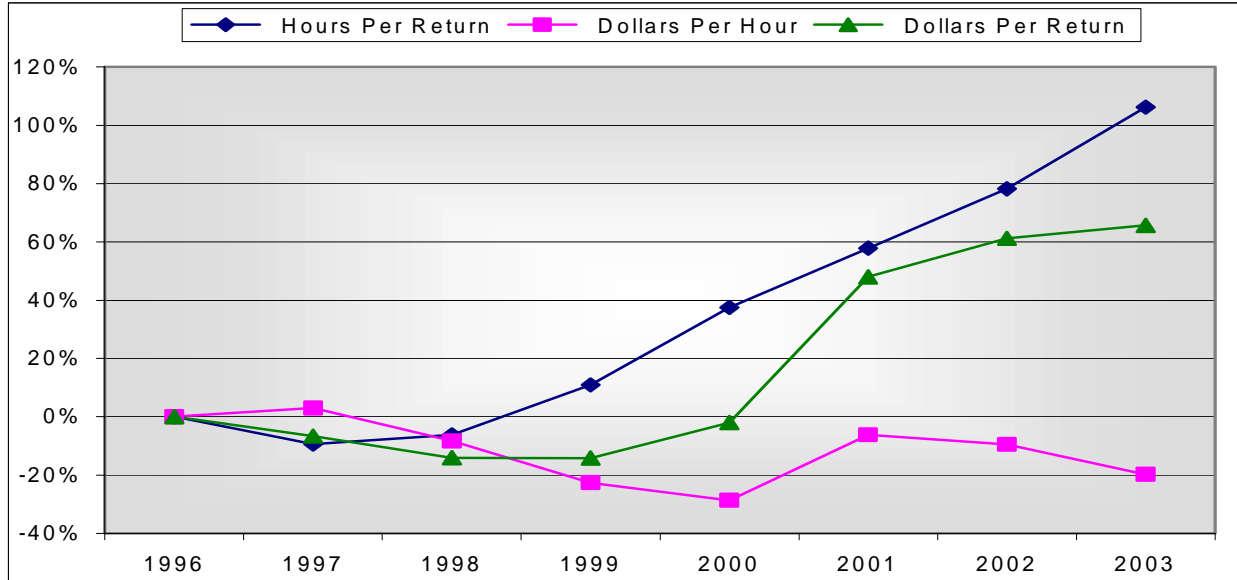
Figure 20. Revenue Agent Results on Individual Income Tax Returns (Forms 1040) – Percentage Change From FY 1996. The hours per return and dollars per return increased 23 percent and 21 percent, respectively, for FY 2003. The combined effect is that dollars per hour decreased 1 percent.



Source: TIGTA Analysis of Examination Table 37.

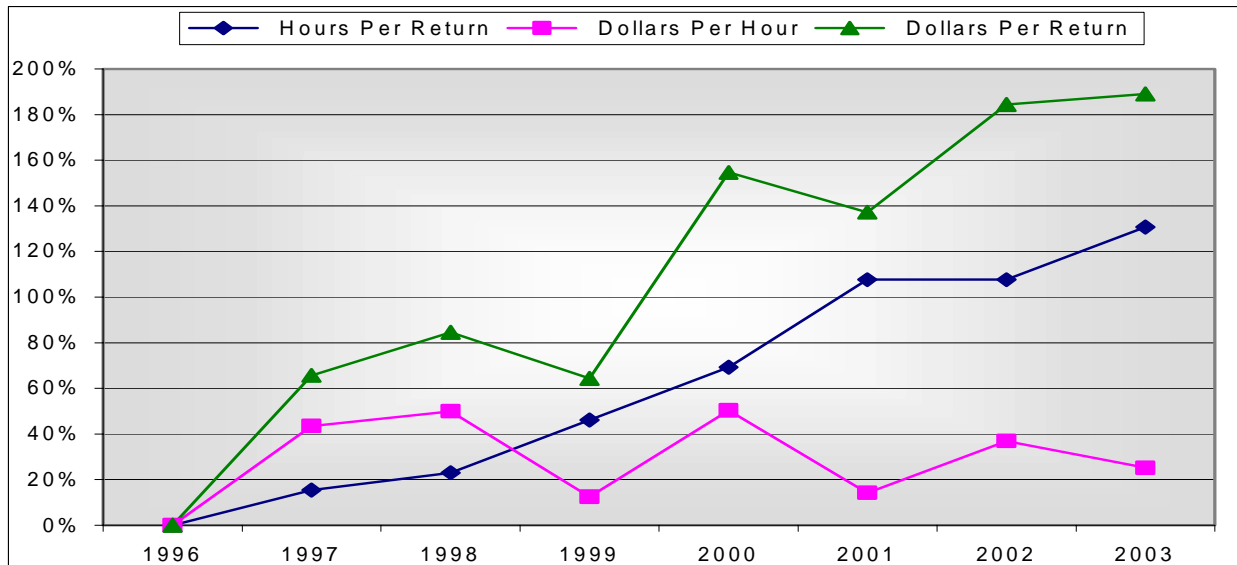
Trends in Compliance Activities Through Fiscal Year 2003

Figure 21. Revenue Agent Results on Corporate Income Tax Returns – Percentage Change From FY 1996. The hours per return and dollars per return increased 16 percent and 3 percent, respectively, for FY 2003. The combined effect is that dollars per hour decreased 11 percent.



Source: TIGTA Analysis of Examination Table 37.

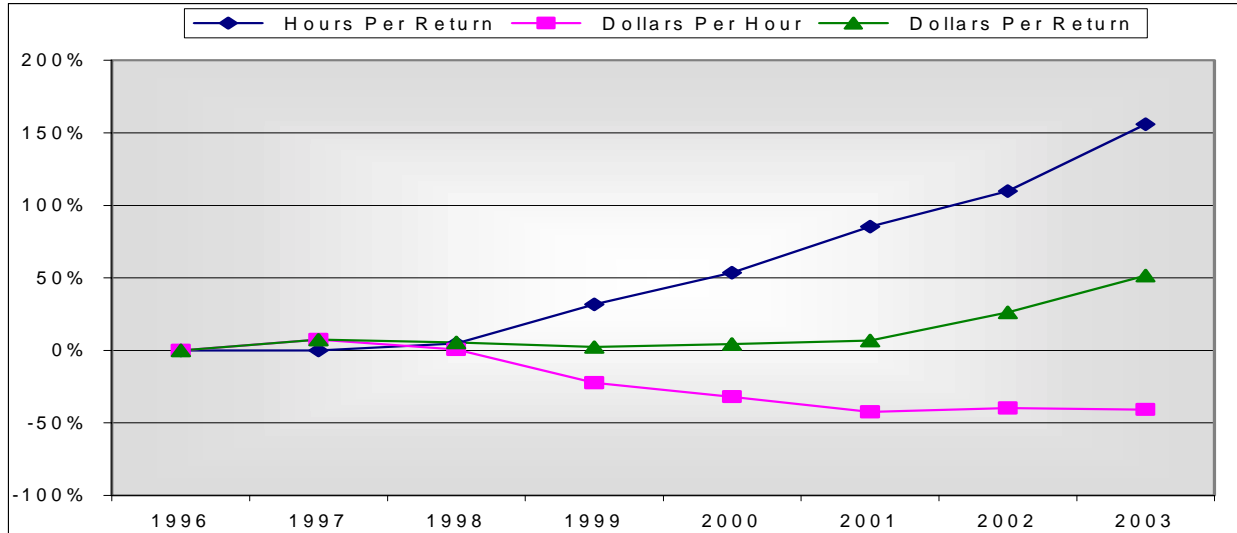
Figure 22. Revenue Agent Results on Other Types of Tax Returns – Percentage Change From FY 1996. The hours per return and dollars per return increased 11 percent and 2 percent, respectively, for FY 2003. The combined effect is that dollars per hour decreased 9 percent.



Source: TIGTA Analysis of Examination Table 37.

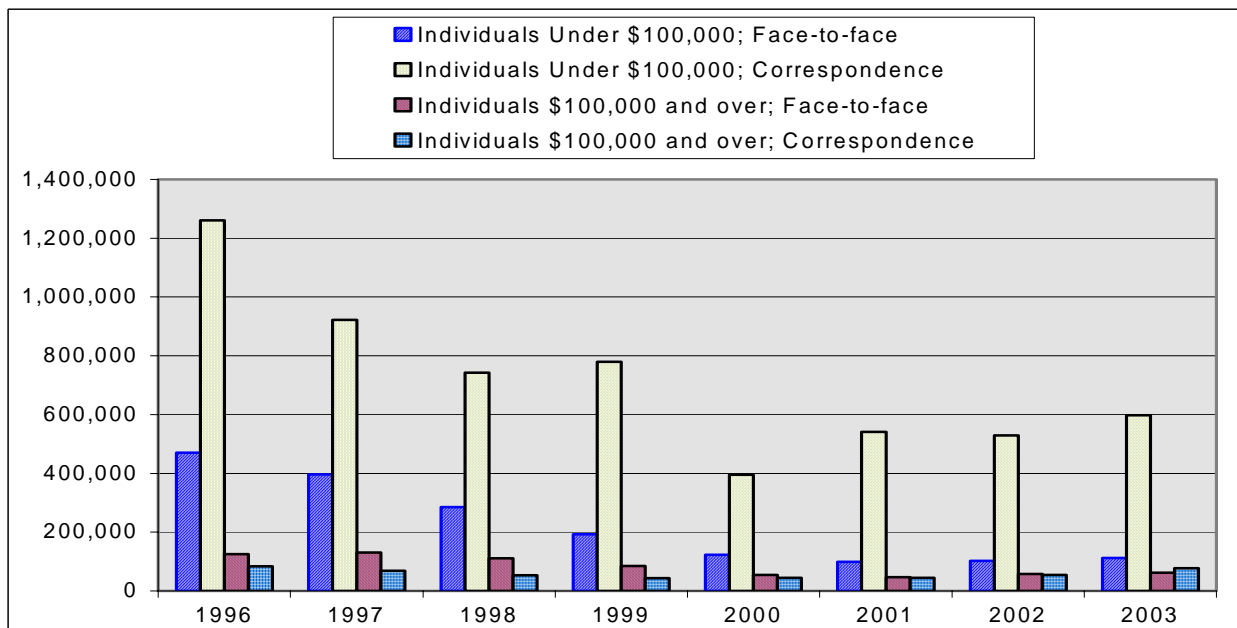
Trends in Compliance Activities Through Fiscal Year 2003

Figure 23. Tax Compliance Officer Results on Forms 1040 – Percentage Change From FY 1996. The hours per return and dollars per return increased 22 percent and 20 percent, respectively, for FY 2003. The combined effect is that dollars per hour decreased 2 percent.



Source: TIGTA Analysis of Examination Table 37.

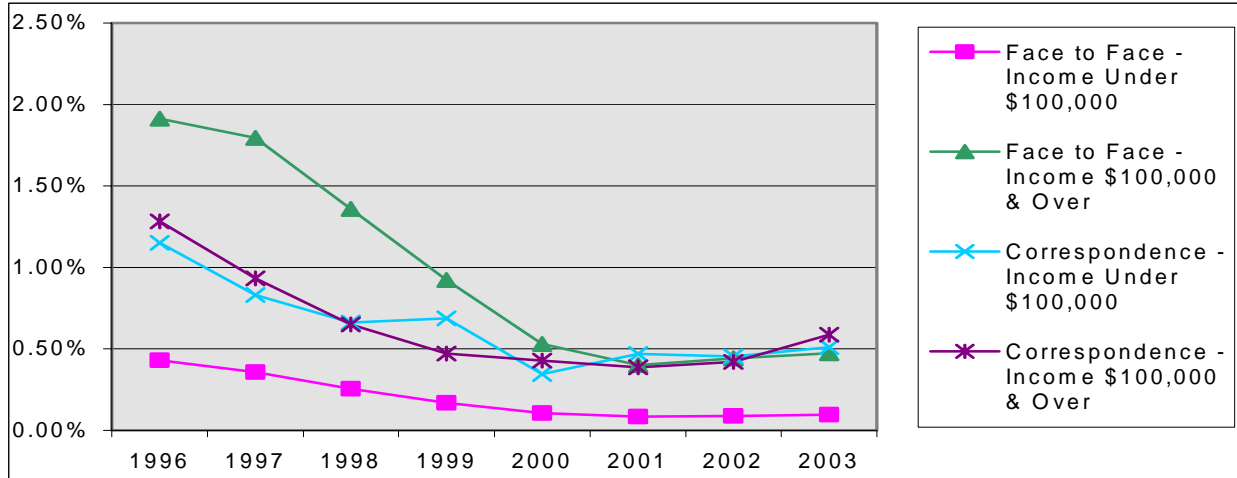
Figure 24. Number of Forms 1040 Examined Face-to-Face or Through Correspondence. The total number of face-to-face and correspondence examinations increased during FY 2003 for individuals with income under \$100,000 and for those with income of \$100,000 and over.



Source: TIGTA Analysis of Examination Table 37.

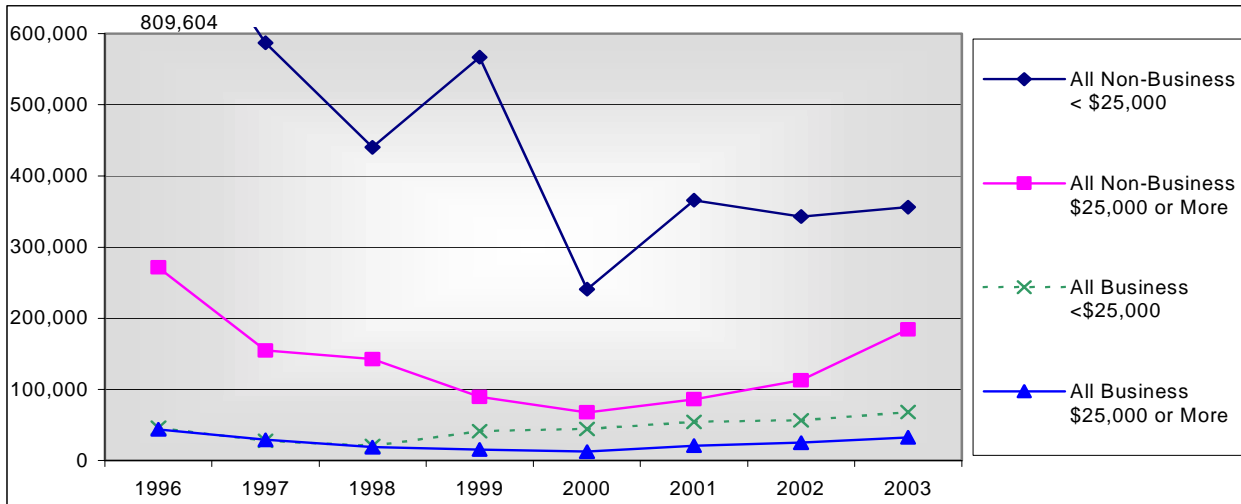
Trends in Compliance Activities Through Fiscal Year 2003

Figure 25. Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence. During FY 2003, the coverage rate for face-to-face examinations of non-business individual tax returns went up for all categories of income under \$100,000, except for those with incomes under \$25,000. Business individual tax returns had higher coverage except for Schedule C businesses with income of \$100,000 and over. The coverage rate for correspondence examinations of individual tax returns went up except for the simple Forms 1040A and 1040 with farm income over \$100,000.



Source: TIGTA Analysis of Examination Table 37.

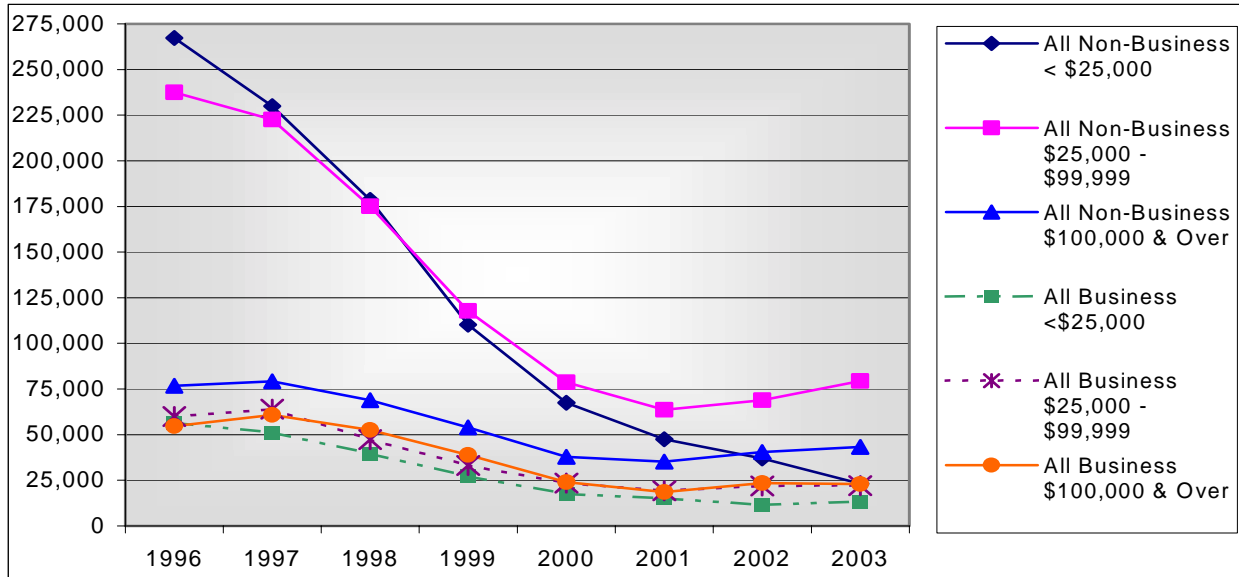
Figure 26. Number of Forms 1040 Examined by Compliance Center Correspondence. During FY 2003, the number of examinations that Compliance Centers conducted by correspondence increased for all categories of tax returns. The fluctuation for examinations of non-business tax returns with income under \$25,000 was largely based on the number of Earned Income Tax Credit examinations.



Source: TIGTA Analysis of IRS Data Book Information.

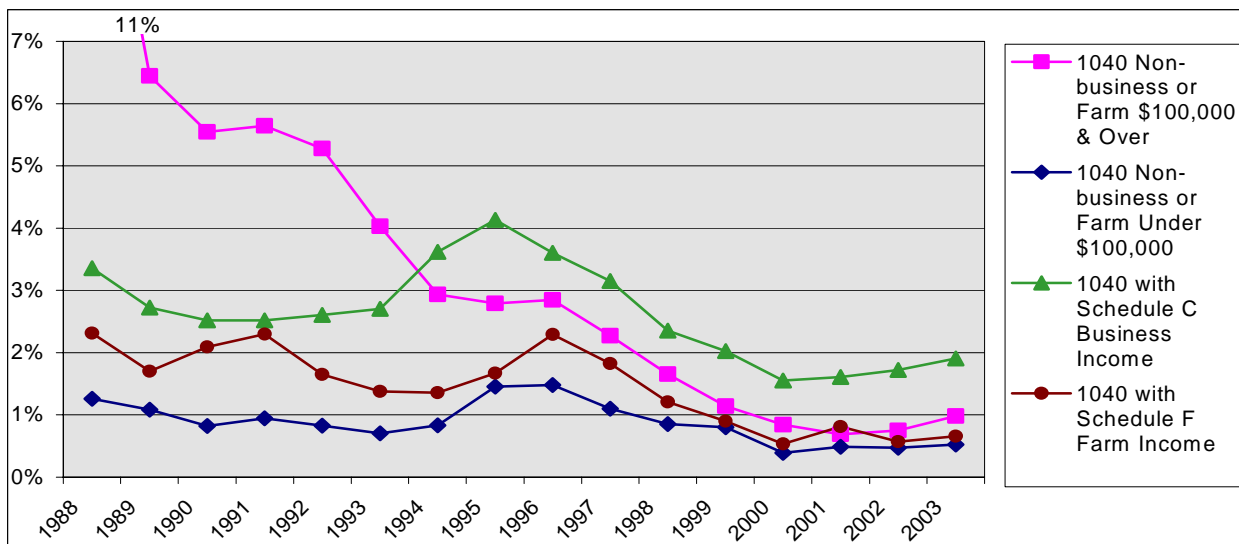
Trends in Compliance Activities Through Fiscal Year 2003

Figure 27. Number of Forms 1040 Examined by Field Offices. During FY 2003, the number of examinations conducted by field offices increased for most categories of tax returns. The number of examinations of non-business tax returns with income under \$25,000 was down, and the number was down slightly for business tax returns with income \$100,000 and over.



Source: TIGTA Analysis of IRS Data Book Information.

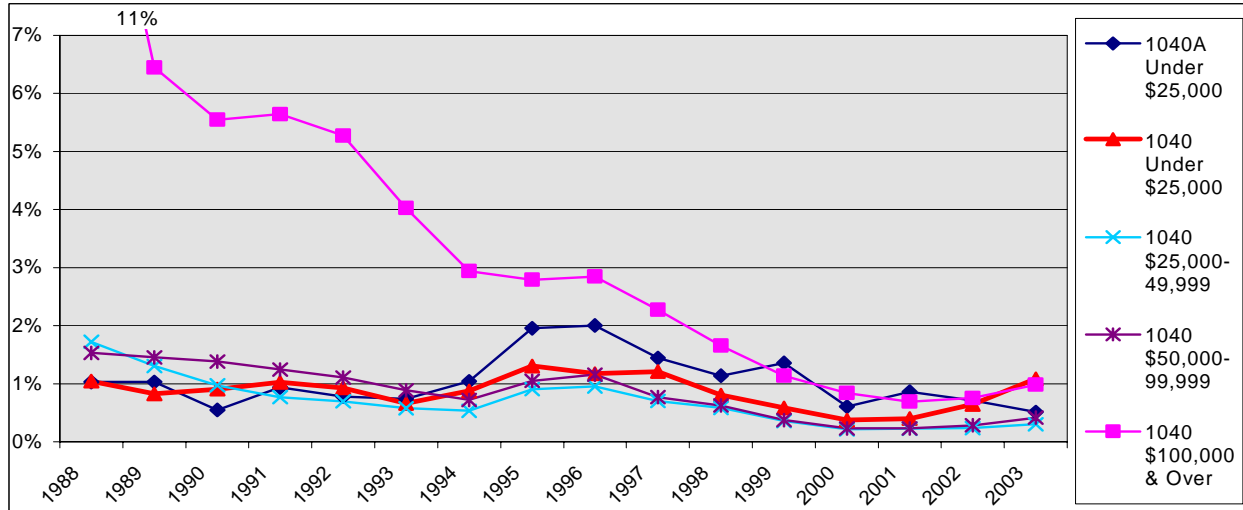
Figure 28. Percentage of Forms 1040 Examined. This shows the comparison in examination rates (total correspondence and face-to-face) for tax returns with business or farm income and those over or under \$100,000 without any business or farm income. The percentage examined for all of the categories increased during FY 2003.



Source: TIGTA Analysis of IRS Data Book Information.

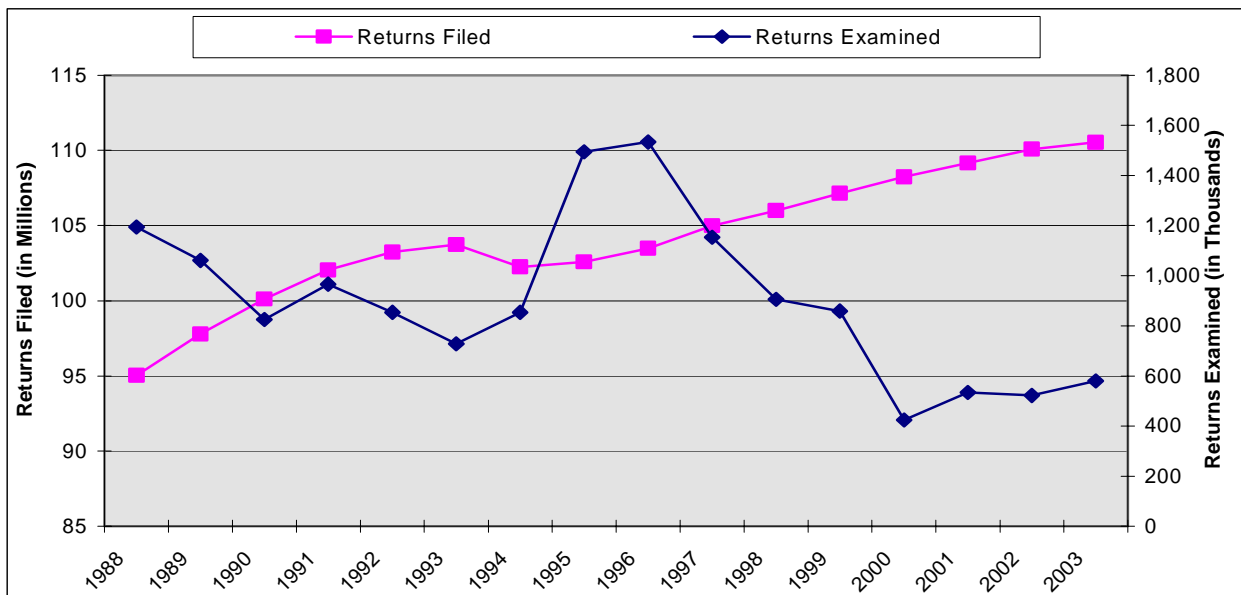
Trends in Compliance Activities Through Fiscal Year 2003

Figure 29. Percentage Examined – Forms 1040 With No Business or Farm Income. The percentage of Forms 1040 examined increased during FY 2003 for all categories except Forms 1040A. Most of the increase was due to large increases in the number of examinations conducted by Compliance Centers.



Source: TIGTA Analysis of IRS Data Book Information.

Figure 30. Examination Coverage of Non-business Forms 1040 – Under \$100,000. The number of non-business tax returns filed with income under \$100,000 has continued to steadily increase since FY 1994. During FY 2003, the examination coverage rate for these returns increased by 11 percent, mainly due to large increases in the number of examinations conducted by Compliance Centers.

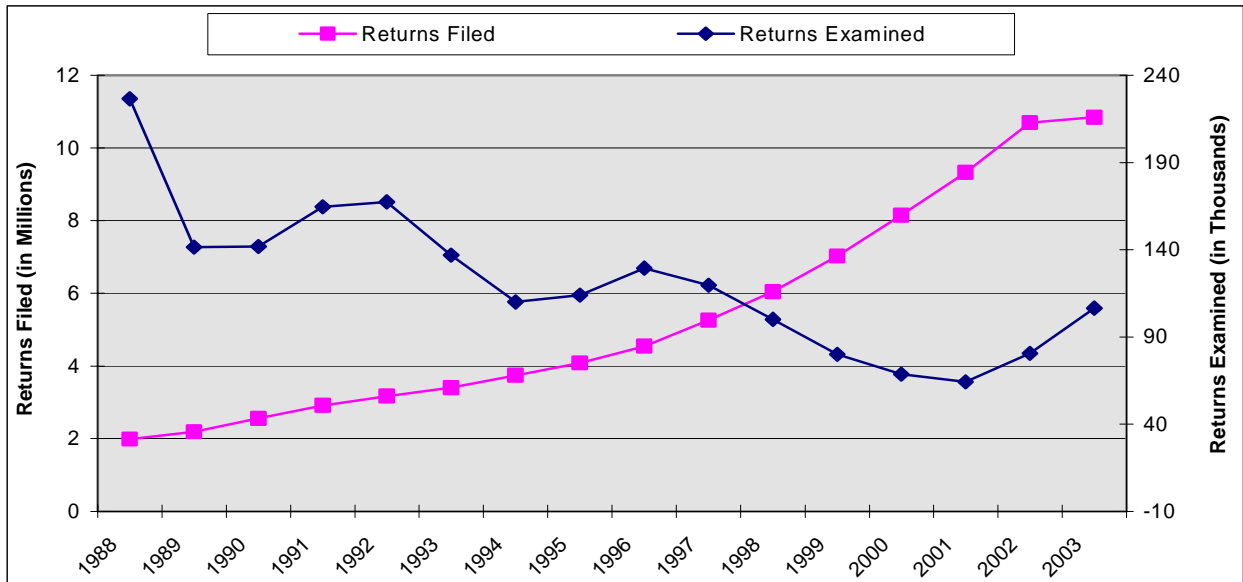


Source: TIGTA Analysis of IRS Data Book Information.

Trends in Compliance Activities Through Fiscal Year 2003

Figure 31. Examination Coverage of Non-business Forms 1040 – \$100,000 and Over.

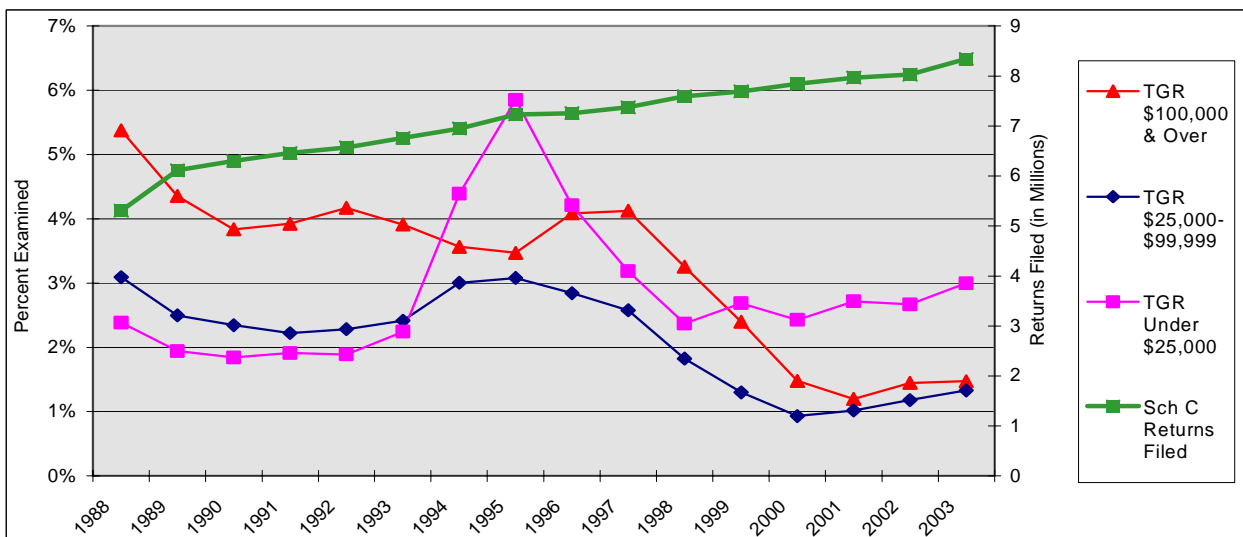
While the number of non-business tax returns filed with income over \$100,000 increased during FY 2003, the rate of increase was not as great as those in prior years. During FY 2003, the examination coverage rate for these returns increased by 31 percent, mainly due to a large increase in the number of examinations conducted by Compliance Centers.



Source: TIGTA Analysis of IRS Data Book Information.

Figure 32. Examination Coverage of Forms 1040 With Business Income (Excluding Farms).

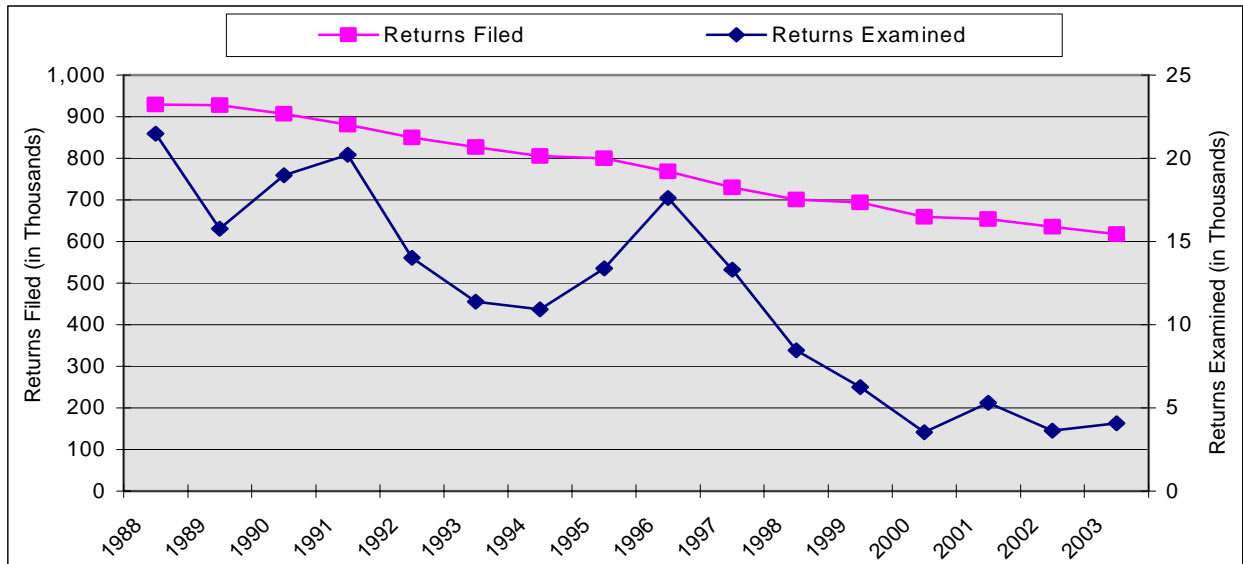
During FY 2003, the total number of individual tax returns filed with business income increased as did the percent examined in each of the categories. The examination coverage increases were mainly due, once again, to large increases in the number of examinations conducted by Compliance Centers.



Source: TIGTA Analysis of IRS Data Book Information. TGR = Total Gross Receipts.

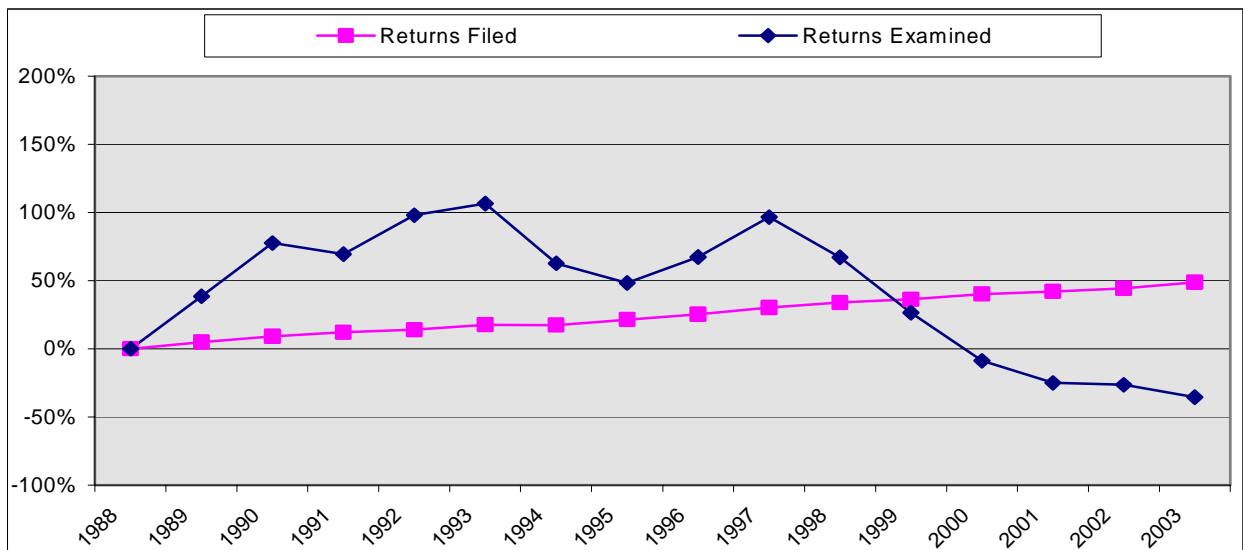
Trends in Compliance Activities Through Fiscal Year 2003

Figure 33. Examination Coverage of Forms 1040 With Farm Income. The number of Forms 1040 with farm income continued to decrease in FY 2003. There was a slight increase in examination coverage due to increases in the number of Revenue Agent examinations of these tax returns.



Source: TIGTA Analysis of IRS Data Book Information.

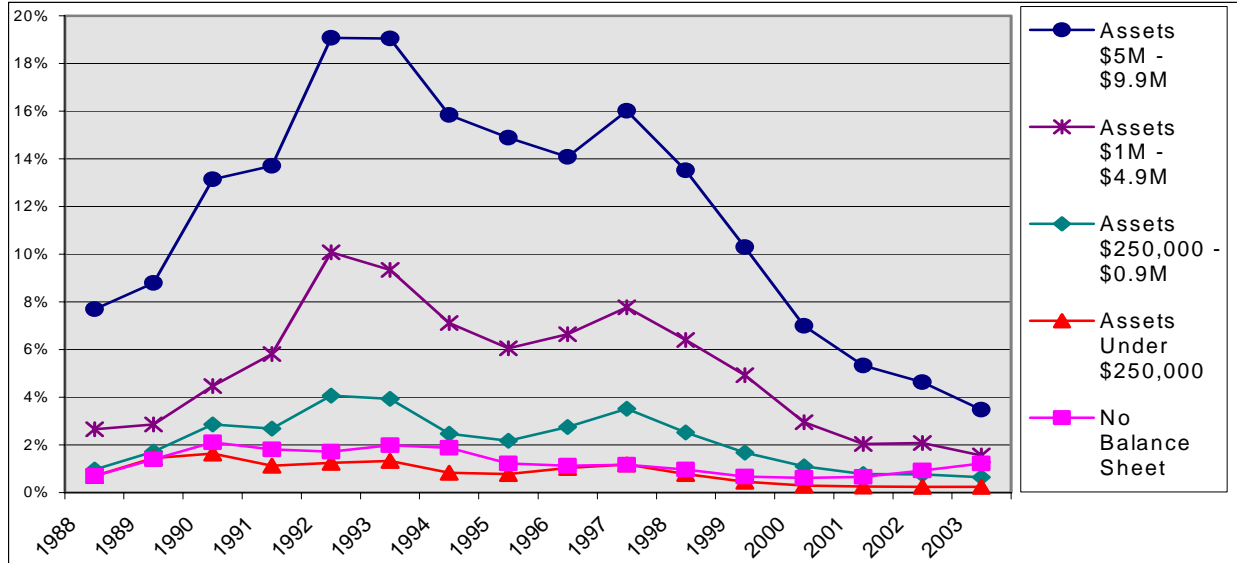
Figure 34. Examination Coverage of All Corporate Income Tax Returns – Percentage Change From FY 1988 to FY 2003. The number of corporate tax returns filed continued the steady increase during FY 2003. The number of returns examined decreased for all corporate tax return categories except for those filed with no balance sheet. Overall, 1 in 155 corporate tax returns were examined in FY 2002; this decreased to 1 in 182 in FY 2003.



Source: TIGTA Analysis of IRS Data Book Information.

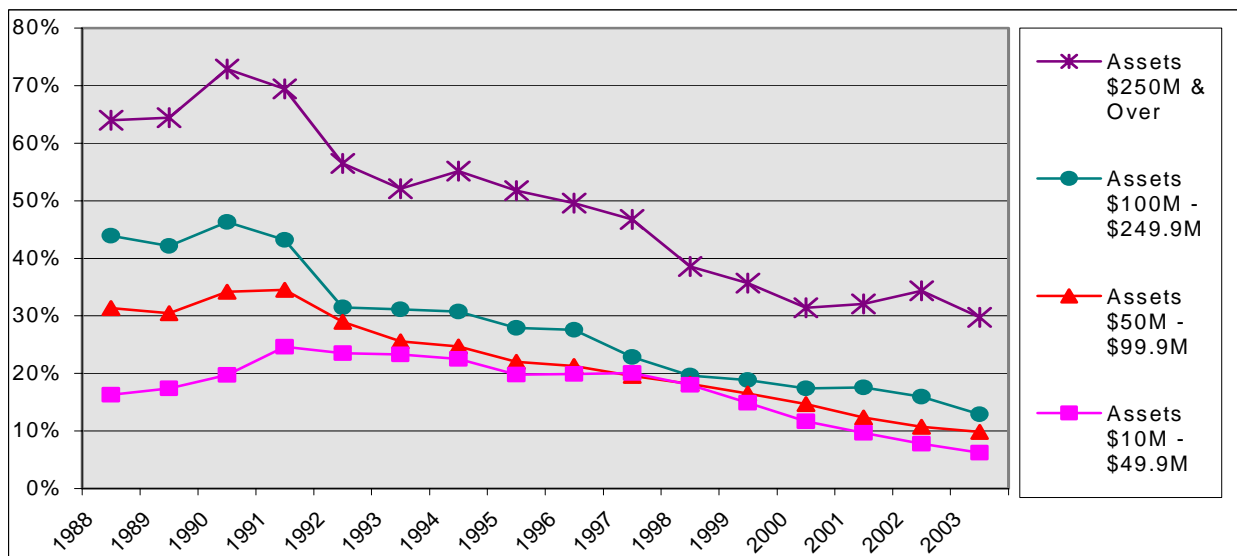
Trends in Compliance Activities Through Fiscal Year 2003

Figure 35. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets Under \$10 Million. During FY 2003, the percentage of corporate tax returns with no balance sheet that were examined increased; with assets under \$250,000 remained unchanged; and with assets between \$250,000 and \$10 million decreased.



Source: TIGTA Analysis of IRS Data Book Information.

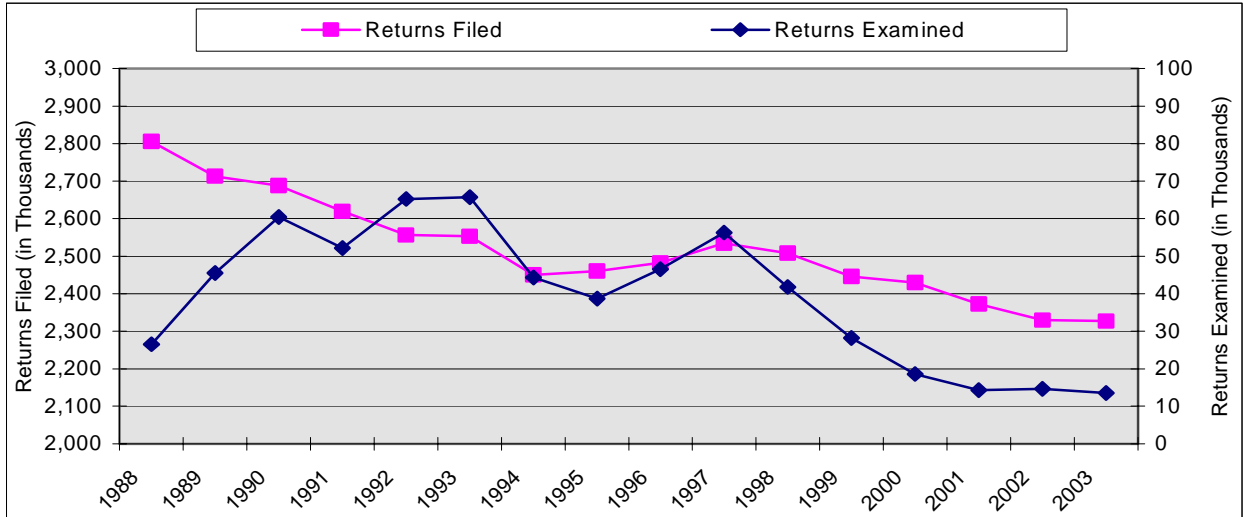
Figure 36. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets \$10 Million and Over. During FY 2003, the percentage of corporate tax returns examined in the asset classes over \$10 million decreased.



Source: TIGTA Analysis of IRS Data Book Information.

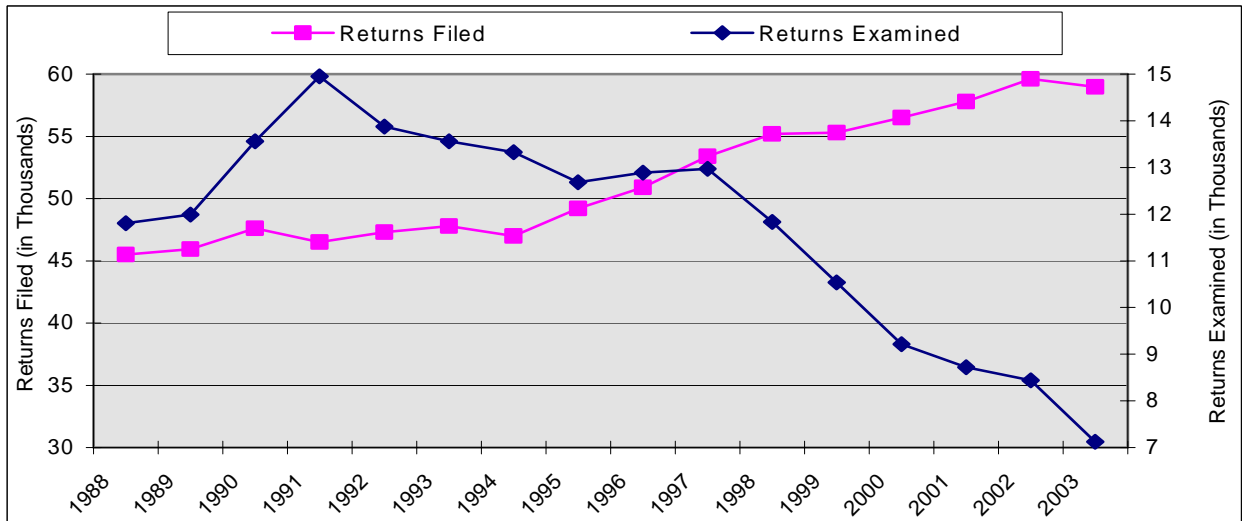
Trends in Compliance Activities Through Fiscal Year 2003

Figure 37. Examination Coverage of Corporations With Assets Under \$10 Million. The number of corporate tax returns filed with assets under \$10 million was unchanged during FY 2003, but the number of tax returns examined decreased by 7 percent.



Source: TIGTA Analysis of IRS Data Book Information.

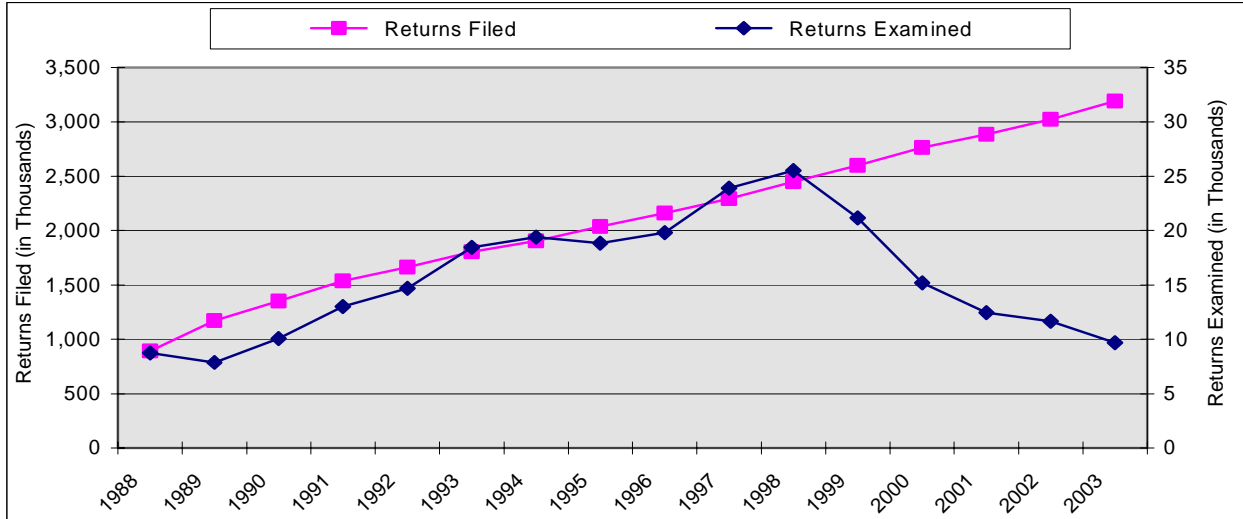
Figure 38. Examination Coverage of Corporations With Assets \$10 Million and Over. During FY 2003, the number of corporate tax returns filed with assets over \$10 million decreased 1 percent while the number of returns examined decreased 16 percent.



Source: TIGTA Analysis of IRS Data Book Information.

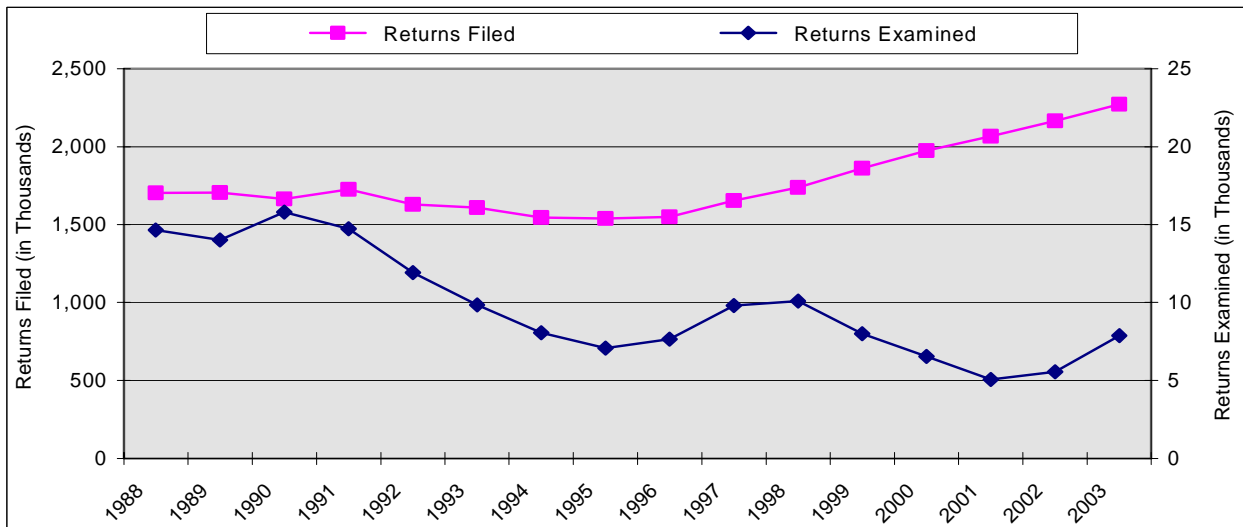
Trends in Compliance Activities Through Fiscal Year 2003

Figure 39. Examination Coverage of S Corporations (Form 1120S). The upward trend in the number of Forms 1120S filed continued in FY 2003, with a 6 percent increase from FY 2002. During the same time period, the number of examinations decreased by 17 percent.



Source: TIGTA Analysis of IRS Data Book Information.

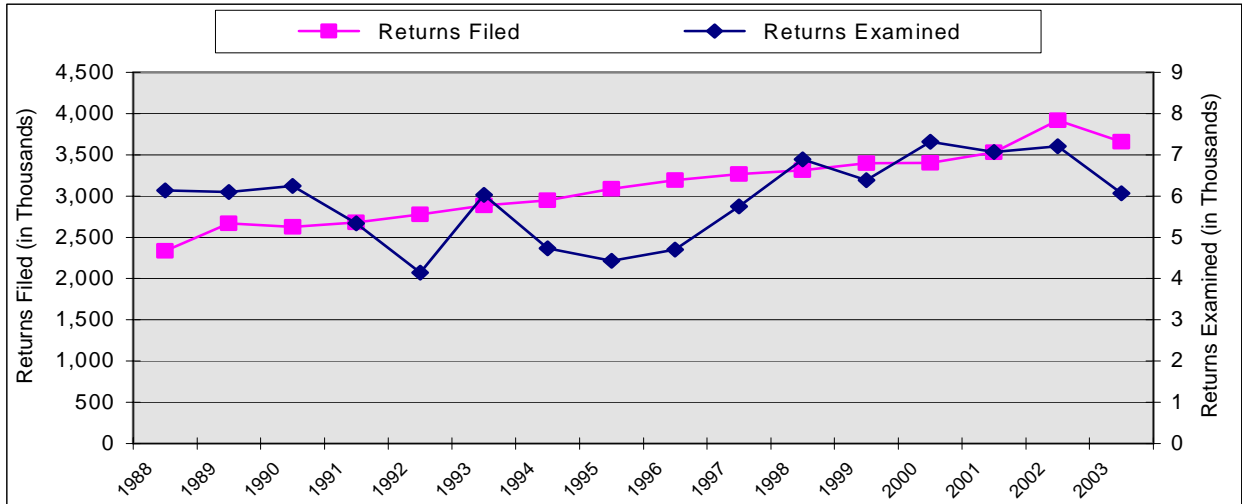
Figure 40. Examination Coverage of Partnership Income Tax Returns. The number of partnership tax returns filed continued to increase at the rate of about 100,000 per year since FY 1996, to 2.3 million in FY 2003. During FY 2003, the number of returns examined increased 42 percent, but only 1 out of every 289 partnership returns is examined.



Source: TIGTA Analysis of IRS Data Book Information.

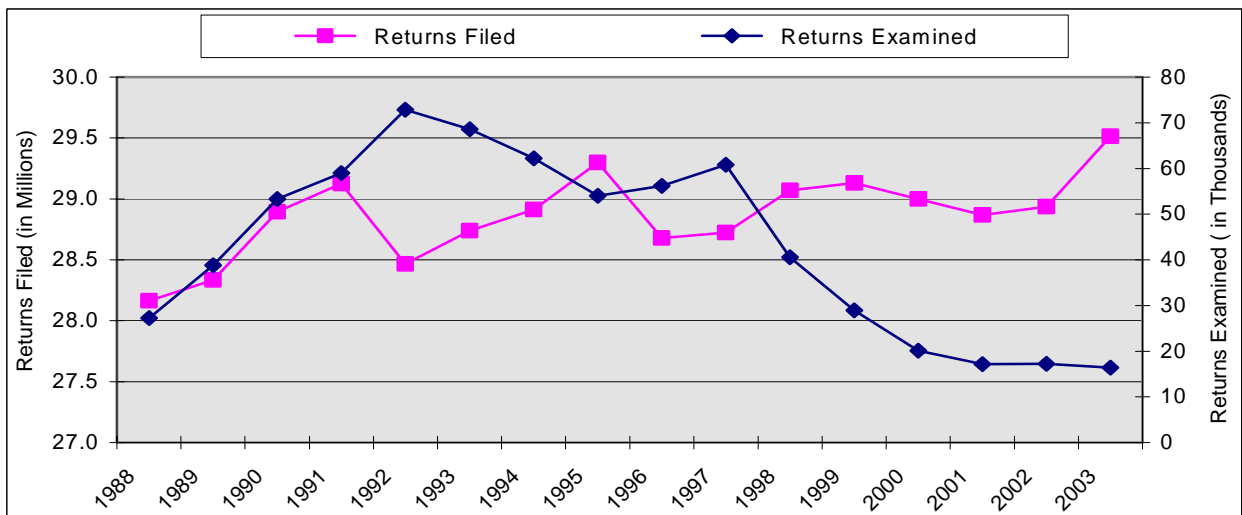
Trends in Compliance Activities Through Fiscal Year 2003

Figure 41. Examination Coverage of Fiduciary Income Tax Returns. During FY 2003, the number of income tax returns filed by estates and trusts dropped by 7 percent and the number of tax returns examined decreased by 16 percent. As a result, examination coverage decreased by 10 percent.



Source: TIGTA Analysis of IRS Data Book Information.

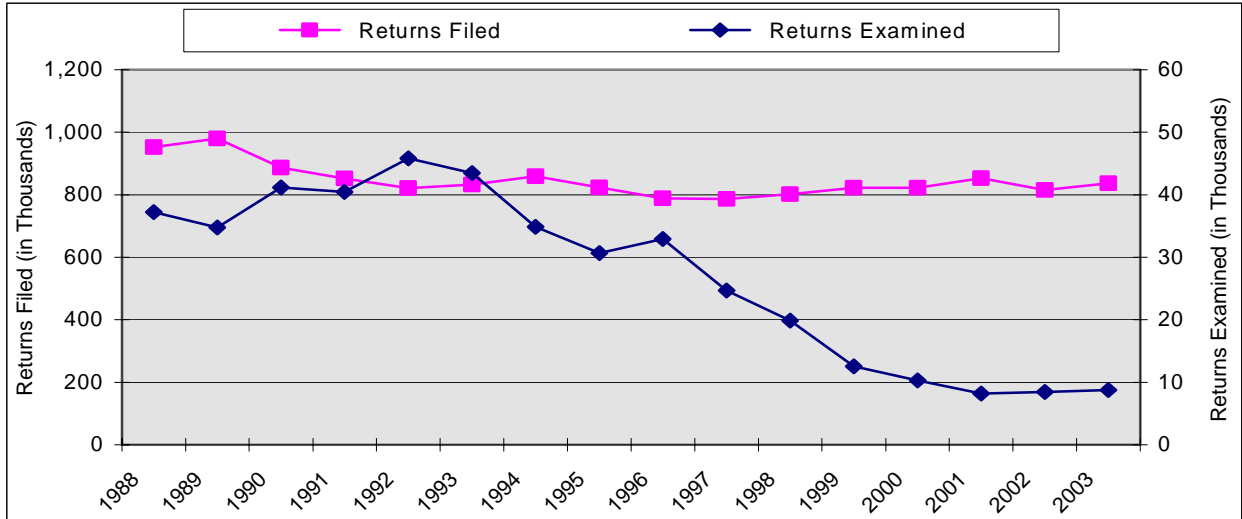
Figure 42. Examination Coverage of Employment Tax Returns. During FY 2003, the number of employment tax returns increased by 2 percent and the number of tax returns examined decreased by 5 percent. As a result, examination coverage dropped by 7 percent.



Source: TIGTA Analysis of IRS Data Book Information.

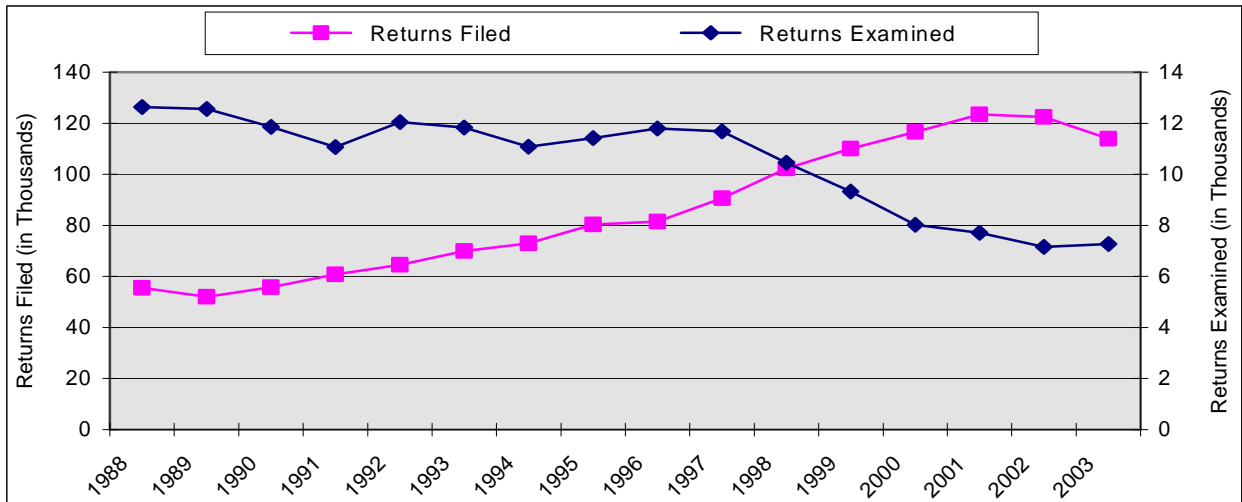
Trends in Compliance Activities Through Fiscal Year 2003

Figure 43. Examination Coverage of Excise Tax Returns. The number of excise tax returns filed remained relatively steady, but the number of returns examined increased by 4 percent during FY 2003.



Source: TIGTA Analysis of IRS Data Book Information.

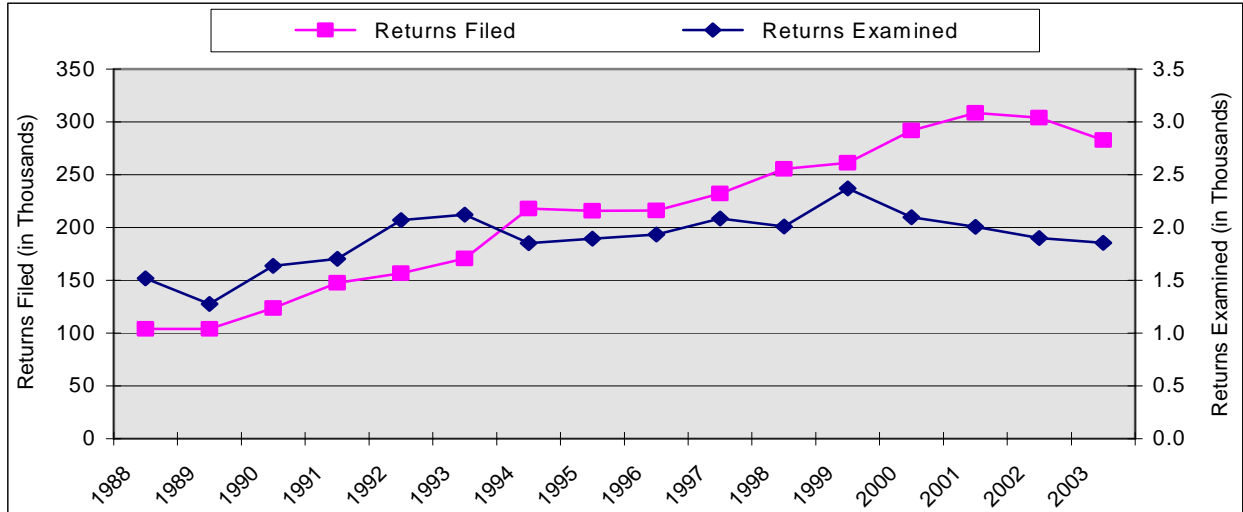
Figure 44. Examination Coverage of Estate Tax Returns. During FY 2003, the number of estate tax returns filed decreased by 7 percent and the number of returns examined increased by 2 percent, resulting in an increase in examination coverage of 9 percent.



Source: TIGTA Analysis of IRS Data Book Information.

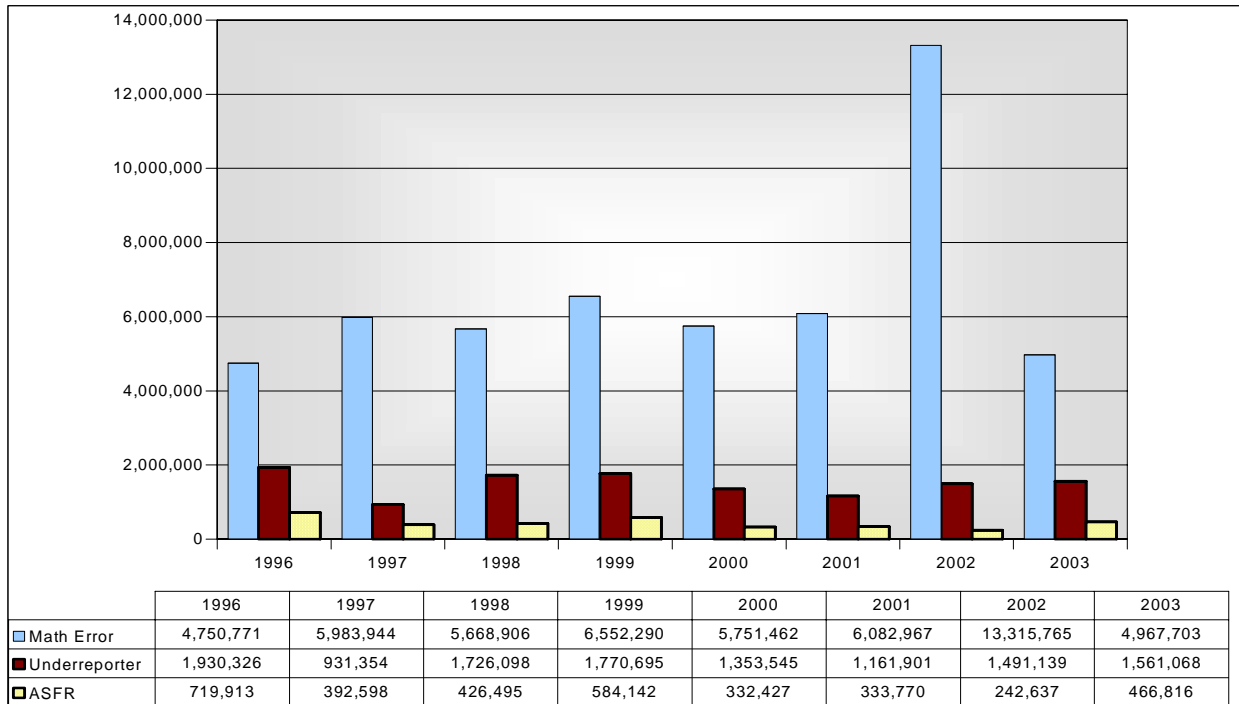
Trends in Compliance Activities Through Fiscal Year 2003

Figure 45. Examination Coverage of Gift Tax Returns. In FY 2003, the number of gift tax returns filed decreased 7 percent, but the number of returns examined remained relatively constant. As a result, examination coverage increased by 5 percent in FY 2003.



Source: TIGTA Analysis of IRS Data Book Information.

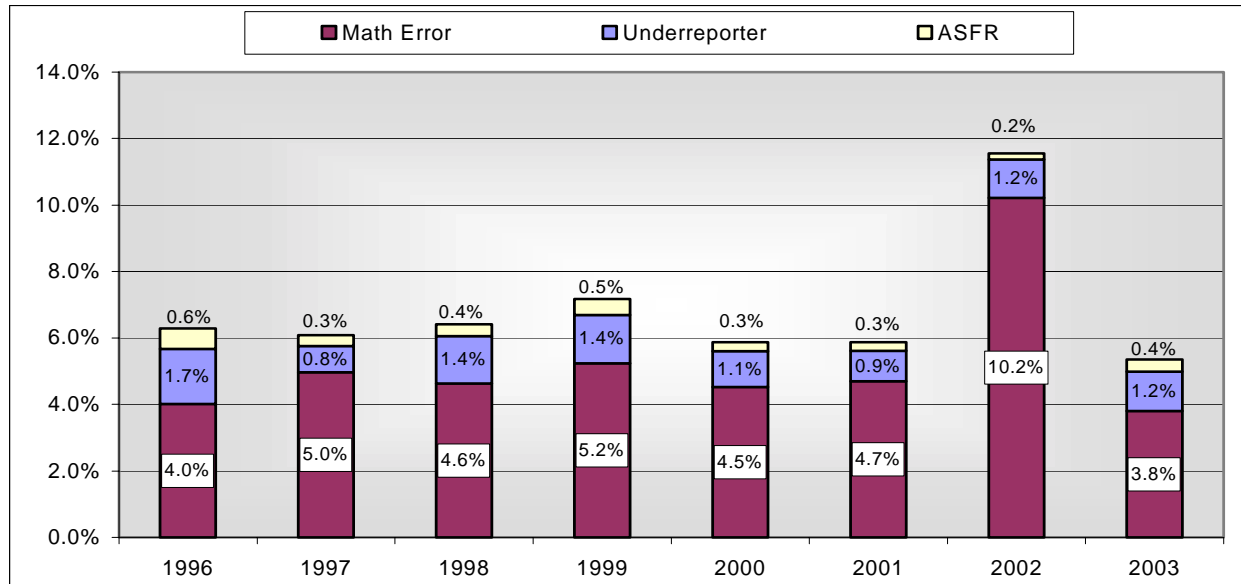
Figure 46. Other Compliance Contacts on Forms 1040. The number of contacts remained relatively constant for the years reviewed except for FY 2002. The large increase in FY 2002 for Math Error cases was the result of taxpayer confusion over the Rate Reduction Credit.



Source: TIGTA Analysis of "Report to Congress: IRS Tax Compliance Activities" (dated July 15, 2003) and IRS Data Book Information for FY 2003 data.

Trends in Compliance Activities Through Fiscal Year 2003

Figure 47. Other Compliance Contacts – Percentage of Coverage on Forms 1040. The levels of coverage remained relatively constant for the years reviewed, except for the aberration in FY 2002 as noted in Figure 46.



Source: TIGTA Analysis of “Report to Congress: IRS Tax Compliance Activities”(dated July 15, 2003) and IRS Data Book Information for FY 2003 data.

Figure 48. Numbers and Percentages of Other Compliance Contacts on Forms 1040. This chart shows the actual numbers and percentages of other compliance contacts on individual types of tax returns. The FY 2002 Math Error aberration was explained in Figure 46 comments.

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Math Error	4,750,771	5,983,944	5,668,906	6,552,290	5,751,462	6,082,967	13,315,765	4,967,703
Coverage Rate	4.01%	4.97%	4.63%	5.25%	4.53%	4.70%	10.22%	3.80%
Underreporter	1,930,326	931,354	1,726,098	1,770,695	1,353,545	1,161,901	1,491,139	1,561,068
Coverage Rate	1.66%	0.79%	1.43%	1.44%	1.08%	0.91%	1.15%	1.20%
ASFR	719,913	392,598	426,495	584,142	332,427	333,770	242,637	466,816
Coverage Rate	0.62%	0.33%	0.35%	0.48%	0.27%	0.26%	0.19%	0.36%

Source: TIGTA Analysis of “Report to Congress: IRS Tax Compliance Activities”(dated July 15, 2003) and IRS Data Book Information for FY 2003 data.

Trends in Compliance Activities Through Fiscal Year 2003

Figure 49. Numbers and Percentages of Examinations on Forms 1040. This chart shows the actual numbers and percentages of examination coverage for these individual types of tax returns.

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Forms 1040A <\$25,000								
Returns Examined	921,820	659,094	515,015	600,949	256,650	357,954	289,136	182,222
Coverage Rate	2.00%	1.44%	1.14%	1.36%	0.60%	0.86%	0.71%	0.51%
Forms 1040 – Non-business								
Returns Examined < \$25,000	155,125	157,978	104,050	76,215	51,567	55,624	90,781	197,005
Coverage Rate	1.17%	1.21%	0.81%	0.58%	0.37%	0.40%	0.64%	1.09%
Returns Examined \$25,000 & < \$50,000	259,794	196,489	165,168	103,340	63,742	67,109	71,966	94,825
Coverage Rate	0.95%	0.70%	0.58%	0.36%	0.21%	0.22%	0.23%	0.30%
Returns Examined \$50,000 & < \$100,000	196,582	140,330	121,384	77,698	51,954	53,433	69,620	105,400
Coverage Rate	1.16%	0.77%	0.62%	0.37%	0.23%	0.23%	0.28%	0.41%
Returns Examined \$100,000 and over	129,320	119,575	100,079	80,038	68,616	64,259	80,483	106,565
Coverage Rate	2.85%	2.27%	1.66%	1.14%	0.84%	0.69%	0.75%	0.98%
Forms 1040 - Schedule C								
Returns Examined < \$25,000	102,558	78,553	60,023	68,450	61,695	69,332	67,876	81,541
Coverage Rate	4.21%	3.19%	2.37%	2.69%	2.43%	2.72%	2.67%	3.00%
Returns Examined \$25,000 & < \$100,000	87,691	80,861	58,877	42,391	31,226	34,650	40,530	46,927
Coverage Rate	2.85%	2.57%	1.82%	1.30%	0.93%	1.02%	1.18%	1.33%
Returns Examined \$100,000 and over	71,050	73,049	59,728	44,945	28,781	24,080	29,848	30,738
Coverage Rate	4.09%	4.13%	3.25%	2.40%	1.48%	1.20%	1.45%	1.47%
Forms 1040 - Schedule F								
Returns Examined < \$100,000	7,944	5,868	3,949	2,832	1,384	2,104	1,709	1,997
Coverage Rate	1.59%	1.28%	0.93%	0.68%	0.35%	0.55%	0.47%	0.57%
Returns Examined \$100,000 and over	9,662	7,446	4,507	3,415	2,150	3,211	1,932	2,076
Coverage Rate	3.61%	2.75%	1.63%	1.23%	0.80%	1.18%	0.72%	0.78%

Source: TIGTA Analysis of IRS Data Book Information.

Trends in Compliance Activities Through Fiscal Year 2003

Figure 50. Numbers and Percentages of Examinations on Business Tax Returns. This chart shows the actual numbers and percentages of examination coverage for these nonindividual types of tax returns.

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Corporations < \$10 Million	46,568	56,323	41,818	28,268	18,623	14,332	14,655	13,608
Coverage Rate	1.88%	2.22%	1.67%	1.16%	0.77%	0.60%	0.63%	0.58%
Corporations \$10 Million and Over	12,891	12,972	11,830	10,537	9,212	8,718	8,443	7,125
Coverage Rate	25.33%	24.29%	21.43%	19.05%	16.30%	15.08%	14.17%	12.08%
1120S	19,490	23,898	25,522	21,169	15,200	12,437	11,646	9,695
Coverage Rate	0.92%	1.04%	1.04%	0.81%	0.55%	0.43%	0.39%	0.30%
Partnerships	7,636	9,811	10,082	7,991	6,539	5,070	5,543	7,871
Coverage Rate	0.49%	0.59%	0.58%	0.43%	0.33%	0.25%	0.26%	0.35%
Fiduciaries	4,701	5,753	6,890	6,382	7,318	7,070	7,206	6,068
Coverage Rate	0.15%	0.18%	0.21%	0.19%	0.22%	0.20%	0.18%	0.17%
Employment	56,195	60,799	40,595	28,898	20,074	17,163	17,252	16,408
Coverage Rate	0.20%	0.21%	0.14%	0.10%	0.07%	0.06%	0.06%	0.06%
Excise	32,900	24,701	19,858	12,562	10,294	8,169	8,426	8,756
Coverage Rate	4.17%	3.14%	2.48%	1.53%	1.25%	0.96%	1.03%	1.05%
Estates	11,794	11,686	10,451	9,319	8,024	7,707	7,151	7,265
Coverage Rate	14.47%	12.90%	10.22%	8.46%	6.89%	6.24%	5.84%	6.38%
Gift	1,934	2,085	2,010	2,369	2,097	2,005	1,899	1,855
Coverage Rate	0.89%	0.90%	0.79%	0.91%	0.72%	0.65%	0.63%	0.66%

Source: TIGTA Analysis of "Report to Congress: IRS Tax Compliance Activities" (dated July 15, 2003) and IRS Data Book Information for FYs 2002 and 2003.