

**Trends in Compliance Activities
Through Fiscal Year 2004**

March 2005

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 30, 2005

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through
Fiscal Year 2004 (Audit # 200530009)

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) 2004 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 2004 showed a continued increase and the number of Collection function field staff increased slightly. Most enforcement actions were higher in FY 2004 compared to those in FY 2003, but they have not returned to pre-1998 levels. Enforcement revenue collected increased substantially in FY 2004, but the total amount of uncollected liabilities also increased. However, the gap between new delinquent accounts and account closures decreased slightly.

The Collection function collected 10 percent more in FY 2004 than in FY 2003; however, the number of taxpayers and the amount owed on accounts in the Queue¹ increased. While this inventory is now a major source of work for Collection Field function employees, a significant amount may still never be worked. In addition, a significant number of accounts were shelved (removed) from collection inventory and may never be worked. The IRS received authority and will begin testing the use of contract staff to work some cases. It is too early to tell if the contract resources will be

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.

able to resolve a significant number of cases or whether they will continue to not be worked.

Examination function staffing increased during FY 2004, as did the percent of tax returns examined. The increase was mainly due to increases in correspondence examinations of tax returns for individuals, which are conducted by mailing notices to the taxpayer and are usually not as comprehensive as face-to-face examinations. While the number of examinations of individuals increased overall during FY 2004, a larger increase occurred in the coverage rate of individuals earning \$100,000 and over than for those earning under \$100,000. Correspondence examination accounted for 85 percent of the examinations of individuals with incomes under \$100,000 in FY 2004 and 64 percent for those with incomes \$100,000 and over. In addition, yield indicators for the Examination function continued to decrease in FY 2004 for individual income tax return examinations.

The number of examinations of corporate tax returns continued the decrease that started in FY 1997, decreasing a total of 75 percent since that time. The total number of tax returns examined decreased from 1 out of 52 returns filed in FY 1997 to 1 out of 245 returns filed in FY 2004.² This trend did turn around for examinations of larger corporations though. The number of examinations for corporate tax returns with assets \$10 million and greater increased 34 percent during FY 2004. Yield indicators also significantly increased in FY 2004. This improvement is mainly due to the combined effect of the increase in the number of examinations of large corporate tax returns (those with assets of \$10 million and greater) and the increase in the amount of the tax adjustment on those tax returns during FY 2004.

During the last few years, the IRS has been implementing reengineering suggestions aimed at increasing effectiveness of enforcement efforts. We have conducted several reviews of these initiatives; however, it is too early to evaluate the full impact of these changes. Despite efforts the IRS has taken to improve its enforcement efforts, the Government Accountability Office (GAO) continues to regard enforcement of tax laws as 1 of the 25 high-risk areas in the Federal Government in its January 2005 update.³ The President's proposed FY 2006 budget also addresses the issue by providing additional funds for enforcement resources.

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

² The IRS attributes part of this decrease since FY 2002 to examinations of individual income tax returns as part of the National Research Project.

³ *HIGH-RISK SERIES – An Update* (GAO-05-207, dated January 2005).

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Trends in Compliance Activities Through Fiscal Year 2004

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 December 2004 through February 2005 using national Management Information System reports. 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 prior TIGTA audit reports on compliance trends. See Appendix VI for a listing of these reports.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. 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 initial 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 approximately 22,200 at the beginning of Fiscal Year (FY) 1996 to 14,700 at the end of FY 2004, a 34 percent decrease. However, staffing increased by 5 percent during FY 2004, the first time that has occurred since prior to FY 1996. The President's FY 2005 proposed budget provided for an increase in enforcement staffing, but the Congress did not approve the additional funding and did not include an amount to cover increased salaries due to the cost of living adjustment. As a result, attrition may again outpace hiring. The President's proposed budget for FY 2006 again includes an increase for enforcement staffing.

For some time, the number of tax returns filed and the total dollars the IRS received increased annually with the growing economy. In the past 8 years, the number of tax returns filed grew by 12 percent, from 155 million in Calendar Year (CY) 1995 to 173 million in CY 2003. From FYs 1996 to 2001, the amount of revenue received by the

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IRS grew from \$1.49 to \$2.13 trillion, but then fell by a total of 8 percent during FYs 2002 and 2003, to \$1.95 trillion.¹ These were the first decreases in total revenue since FY 1983. In FY 2004 it rebounded to \$2.02 trillion.

The amount of enforcement revenue collected increased by 15 percent in FY 2004, to \$43.1 billion,² and the amount (not adjusted for inflation) is 14 percent higher than the FY 1996 level. The increase in FY 2004 is due to a 33 percent increase in the amount collected on business accounts, which was the top priority for the Collection Field function (CFf) during the year.

Starting in FY 2001, the IRS began to reverse some of the downward trends in compliance indicators that had occurred in prior years. In FY 2004, some of these indicators continued to increase while others fell slightly from the prior year. Despite work the IRS is doing to improve its enforcement efforts, the Government Accountability Office (GAO) continues to regard enforcement of tax laws as 1 of the 25 high-risk areas in all of Federal Government in its January 2005 update.³ The GAO noted, “The Commissioner of Internal Revenue has made strengthening enforcement a high priority, but [the] IRS has not yet materially reversed enforcement declines.” As this report points out, this is especially true within the Examination function.

Many Collection Function Compliance Indicators Improved in Fiscal Year 2004

The CFf Revenue Officer staffing levels increased slightly in FY 2004, with 3,789 field Revenue Officers as of the end of the fiscal year.⁴ However, Revenue Officer staffing is down by 36 percent from the start of FY 1996. Results from many Collection function operations showed improvement during FY 2004, while the results of other operations were not positive.

Many Collection function operations showed improvement

Many indicators showed positive results for Collection function compliance activity during FY 2004.

¹ See Appendix V, Figure 1.

² See Appendix V, Figure 3.

³ *HIGH-RISK SERIES – An Update* (GAO-05-207, dated January 2005).

⁴ See Appendix V, Figure 5.

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- Total dollars collected on Taxpayer Delinquent Accounts (TDA) by the Automated Collection System (ACS) and the CFf employees during FY 2004 was \$5.1 billion, an increase of 10 percent from FY 2003.⁵ The FY 2004 amount is up 40 percent from the 9-year low that occurred in FY 2000.
- The average amount collected per CFf staff year on TDAs increased by 66 percent to \$449,474 in FY 2004 from a low in FY 1999.⁶ The increase from FY 2003 to FY 2004 alone was \$33,024 (8 percent).
- The number of TDAs closed, excluding shelved accounts, and the number closed by full payment increased by 14 percent and 10 percent, respectively, from FY 2003 to FY 2004.⁷ The FY 2004 volumes are the highest levels since FY 1997.
- The number of Taxpayer Delinquency Investigations (TDI) closed by the ACS and the CFf with a tax return secured or a tax return posted increased by 16 percent from FY 2003 to FY 2004.

While there were still more TDA receipts than closures during FY 2004, the gap between TDA receipts and TDA closures narrowed again.⁸ The gap lowered to 862,355 accounts as of the end of the fiscal year, lower than at the end of any fiscal year since FY 1998.

Use of collection enforcement tools including levies and seizures increased substantially from lows experienced in FY 2000.⁹ However, the numbers are still substantially lower than their pre-1998 levels.

⁵ See Appendix V, Figure 9.

⁶ See Appendix V, Figure 8.

⁷ See Appendix V, Figures 14 and 15.

⁸ See Appendix V, Figure 12.

⁹ See Appendix V, Figures 17 and 18.

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Figure 1: Use of Collection Function Enforcement Tools

	Levies	Seizures
FY 96	3,108,926	10,449
FY 97	3,659,417	10,090
FY 98	2,503,409	2,307
FY 99	504,403	161
FY 00	219,778	74
FY 01	674,080	234
FY 02	1,283,742	296
FY 03	1,680,844	399
FY 04	2,029,613	440

Source: Collection Report 5000-23, Customer Service Activity Report, and IRS Manual Reconciliation of Seizure Logs.

Some of these positive changes may be attributed to management emphasis on the collection programs, including the implementation of the Small Business/Self-Employed (SB/SE) Division Collection Reengineering initiatives during the past few years. Some changes recommended by the Collection Reengineering initiatives and subsequent revisions to the recommendations could have impacted the collection compliance indicators. We have issued audit reports on some of these changes including the case prioritization, case selection process, and group manager involvement initiatives. See Appendix VI for a listing of these audit reports. 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.

The results were not positive for some Collection function operations

Some indicators showed negative results for Collection function compliance activity during FY 2004.

- The amount of gross accounts receivable increased by 2 percent during FY 2004.¹⁰ This occurred even though enforcement revenue showed a sharp increase.
- The number of liens issued by the CFf and the ACS decreased by 2 percent.¹¹ While the number issued by the ACS increased by 1 percent, the number

¹⁰ See Appendix V, Figure 3.

¹¹ See Appendix V, Figure 16.

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issued by the CFf decreased by 5 percent. However, the total number of liens issued in FY 2004 was still 218 percent higher than the low in FY 1999.

The inventory of unassigned collection cases is maintained in the Queue. Except for a couple of slight dips, the number of taxpayers with unpaid accounts in the Queue¹² and the amount owed on these accounts has steadily increased since FY 1996.¹³ During FY 2004 the number of accounts increased by 5 percent to 623,477. At the same time, the amount owed increased by 12 percent to \$21 billion. While the number of taxpayers with unfiled tax returns decreased by 13 percent to 838,090 in FY 2004, there was a large increase in the number of these accounts that were shelved or surveyed (removed from inventory) during the year.¹⁴ Although many of the cases in the Queue may be assigned to be worked, a significant amount may still 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 4 years. From FY 2001 through FY 2004, approximately 5.4 million TDAs¹⁵ with balance due amounts totaling more than \$22.9 billion were removed from Collection function inventory. During the same period, more than 12.9 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. If changes do not occur, a significant number of cases will continue to not be worked. This reinforces the need for additional resources to work the

¹² An inventory of unassigned collection cases is maintained in the Queue. Historically, the Queue was not a major source for active workload, but was the source for 49 percent of the CFf workload during FY 2004.

¹³ See Appendix V, Figure 13.

¹⁴ See Appendix V, Figure 10.

¹⁵ See Appendix V, Figure 11.

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Some Examination Function Compliance Indicators Improved; Others Continued to Decline in Fiscal Year 2004

cases. As noted previously, the FY 2005 budget proposal for increased tax law enforcement funding was not approved. However, the President's budget proposal for FY 2006 again requests additional funding for enforcement. In addition, legislation was passed allowing the IRS to use contract staff to work some cases. The IRS is working on procedures to implement the process and plans to start testing it later this fiscal year.

The Collection function should continue to monitor these indicators to ensure they show positive results as enforcement is emphasized.

Overall, the number of Examination function staff that conduct examinations of tax returns increased slightly in FY 2004. The number of Revenue Agents (RA) increased to 9,787, while the number of Tax Compliance Officers (TCO) (formerly referred to as Tax Auditors) declined slightly to 987 as of the end of FY 2004.¹⁶ However, there has been a 33 percent decrease in the number of examiners in field offices since the start of FY 1996.

Examinations of individual income tax returns increased in FY 2004 compared to FY 2003, but the number of corporate tax return examinations continued to decline. Additionally, examiners in the field offices are spending more time examining individual income tax returns, resulting in a decrease in the per hour yield.¹⁷ Examinations of other types of returns also showed an increase in time spent per tax return, but they showed a corresponding increase in the yield.¹⁸

The Examination function also implemented changes from the Examination Reengineering initiative. We have issued reports on some of these initiatives including the field examination reengineering pilot, office audit redesign pilot, and high income tax strategy. See Appendix VI for a listing of these audit reports. While initial results were mixed, it still may be too early to realize the full impact of the initiatives that were implemented to improve the Examination function's effectiveness.

¹⁶ See Appendix V, Figure 4.

¹⁷ See Appendix V, Figures 20 and 23.

¹⁸ See Appendix V, Figures 21 and 22.

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.

The overall percentage of tax returns examined¹⁹ increased by 16 percent from FY 2003 to FY 2004 and has increased by 29 percent since FY 2000. However, the rate is still 55 percent lower than it was in FY 1996. The 29 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 While Examination staffing increased slightly during FY 2004, the Congress did not approve the additional funds requested for tax law enforcement in the FY 2005 budget which could result in limited hiring and a decrease in staffing once attrition and retirements are taken into account. The IRS Oversight Board voiced concerns over the IRS' FY 2005 budget passed by the Congress saying that the lack of

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.

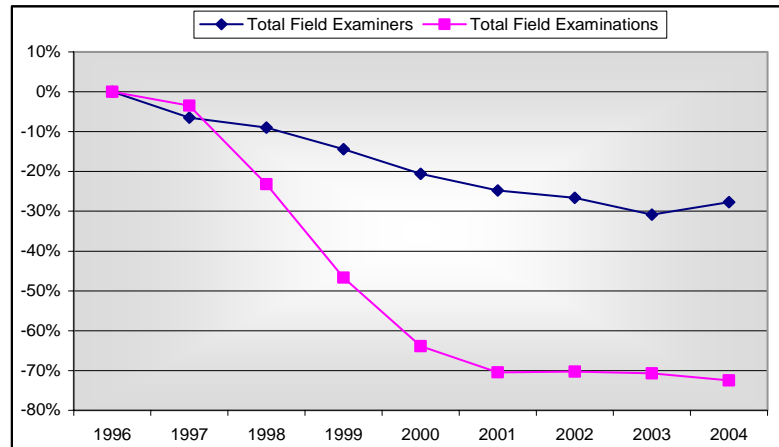
²⁰ *Report to Congress: IRS Tax Compliance Activities* (dated July 15, 2003).

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funding will cause the IRS to fall short of key goals and weaken the IRS.

Figure 2 below compares the change in field Examination function staffing to the change in examinations for all types of tax returns by field employees.

Figure 2: Percentage Change in Field Examiners and Examinations



Source: IRS Data Book and Examination Table 37.

Continued effort to increase the examination coverage is important to the effectiveness of the voluntary compliance system. Studies of taxpayer attitudes show 17 percent of taxpayers felt it was acceptable to cheat on their tax returns in CY 2003, compared to 11 percent 4 years earlier.²¹ Also, fear of examination is an increasing factor in influencing taxpayers to report taxes honestly. In CY 2002, 29 percent of taxpayers surveyed cited fear of examination as a factor that influenced their voluntary compliance. This increased to 37 percent in CY 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 from the prior years. During FY 2000, only 1 in 202 individual income tax returns were examined, this increased to 1 in 129 during FY 2004.

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

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- The number of individual income tax returns examined increased from 617,765 in FY 2000 to 1,007,874 in FY 2004,²² with 81 percent of those examined in FY 2004 done by correspondence.
- The number of examinations of individual income tax returns with income under \$100,000 increased from 518,218 (1 in 221 tax returns filed) in FY 2000 to 812,778 (1 in 144 tax returns filed) in FY 2004.²³ This increase was entirely due to an increase in the number of correspondence examinations which accounted for 85 percent of the examinations in this income category. The number of face-to-face examinations decreased by 29 percent. Only 1 in 1,129 individual income tax returns filed with income under \$100,000 receives a face-to-face examination.
- The number of examinations of individual income tax returns with income of \$100,000 and over increased from 99,547 (1 in 104 tax returns filed) in FY 2000 to 195,096 (1 in 68 tax returns filed) in FY 2004.²⁴ Most (91 percent) of this increase was due to an increase in the number of correspondence examinations which accounted for 64 percent of the examinations in this income category. Only 9 percent was due to the increase in the number of face-to-face examinations. Only 1 in 201 individual income tax returns filed with income of \$100,000 and over receives a face-to-face examination.

The Earned Income Tax Credit (EITC) issues made up a substantial portion of the individual income tax examination cases for FYs 2000 through 2004 in the lower income categories and accounted for about 44 percent of the examinations of individuals overall during FY 2004. Excluding examinations where EITC was an issue, the number of examinations of individuals with income under \$100,000 increased 50 percent from 250,248 in FY 2000 to 375,753 in FY 2004, and the number with income \$100,000

²² See Appendix V, Figure 24.

²³ See Appendix V, Figures 24 and 25.

²⁴ See Appendix V, Figures 24 and 25.

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and over increased 93 percent from 98,983 in FY 2000 to 190,929 in FY 2004.

Corporate Income Tax Examinations – The number of examinations of all corporation income tax returns decreased 23 percent in FY 2004 and has decreased continuously since FY 1997, decreasing a total of 75 percent since that time.²⁵ The total number of tax returns examined decreased from 93,548 (1 out of 52 returns filed) in FY 1997 to 23,499 (1 out of 245 returns filed) in FY 2004.²⁶ However, there was a 34 percent increase of examinations of corporate tax returns with assets of \$10 million and over during FY 2004. While this is a notable change, examinations of these returns is still down 27 percent since FY 1997.

Partnership Return Examinations – The number of partnership returns examined decreased 21 percent in FY 2004, but only decreased 5 percent since FY 2000.²⁷ The IRS is starting to plan a research project to study the compliance of entities such as partnerships where the income flows through to other entities. There is concern that the Examination function will not have sufficient resources to conduct a statistically valid sample of these returns, even if those selected for examination through normal processes are included in the results. This concern could grow if there are further drops in the number routinely selected for examination.

Other Tax Types Examinations (Fiduciary, Employment, Excise, Estate, and Gift Taxes) – The overall number of examinations in these 5 classes increased by 7 percent during FY 2004, but is down 10 percent since FY 2000. The number of examinations in each class except excise is below the FY 2000 level. However, from FY 2003 to FY 2004 there were increases in the number of examinations of employment, excise, and gift tax returns.²⁸

²⁵ The IRS attributes part of this decrease since FY 2002 to examinations of individual income tax returns as part of the National Research Project.

²⁶ See Appendix V, Figures 37 to 39 and Figure 50, for coverage by size of corporation.

²⁷ See Appendix V, Figures 40 and 50.

²⁸ See Appendix V, Figures 41 to 45 and 50.

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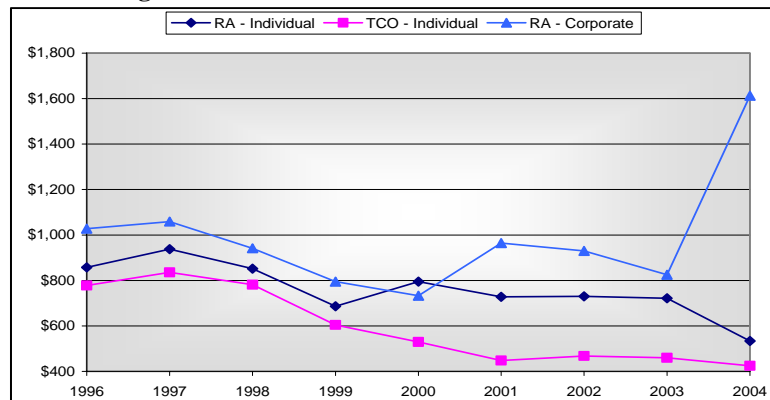
Examination function yield indicators

Yield indicators for the Examination function decreased from FY 1996 to FY 2004 for individual income tax return examinations.²⁹ While the dollar results from examinations per tax return examined fluctuated up and down 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.

However, as the result of a drastic change during FY 2004, the dollar result per hour spent examining corporate tax returns almost doubled and had a net effect of a 57 percent increase since FY 1996.³⁰ This occurred even though the average hours spent examining each return increased by 19 percent during FY 2004 and by 145 percent since FY 1996. The drastic improvement in dollar results is mainly due to the combined effect of the increase in the number of examinations of large corporate tax returns (those with assets of \$10 million and over) and the increase in the assessments on those tax returns during FY 2004.

Figure 3 shows the impact on the results per hour from FY 1996 to FY 2004 for RAs and TCOs on individual and corporate tax returns.

Figure 3: 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 since FY 2002. This could be partially attributed to the type of cases that were being worked. The

²⁹ See Appendix V, Figures 20 and 23.

³⁰ See Appendix V, Figure 21.

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SB/SE Division high-priority cases³¹ require in-depth probing in an attempt to identify unreported income and to determine reporting compliance. In addition, larger corporate tax return examinations are more complex and require more time to complete.

Compliance initiatives

Over the last few years the Examination function has been making changes to try to address taxpayer compliance more effectively and efficiently. The full impact of these changes may not yet be known.

The IRS should continue to monitor the outcome 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. As shown previously in this report, the Congress did not approve the large increase proposed for tax law enforcement for FY 2005, but the President's proposed budget for FY 2006 again includes an increase to the IRS' tax enforcement budget. Additional resources should help turn around the decreases in examination coverage that have occurred on almost every type of tax return since FY 1996.

³¹ 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.

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 productivity results for individual and business tax returns.
- Other activity resulting in improving the accuracy of filed tax returns and filing of delinquent returns.

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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 – 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 – United States 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 certain taxes such as those on transportation and fuel.

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

Gift Tax Return – United States 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.

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

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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 United States.

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 and expenses of domestic partnerships and the share distributed to the partners.

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 filed by qualifying small business corporations and includes amounts distributed to shareholders.

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.

Tax Period – The term tax period refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.

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 income 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

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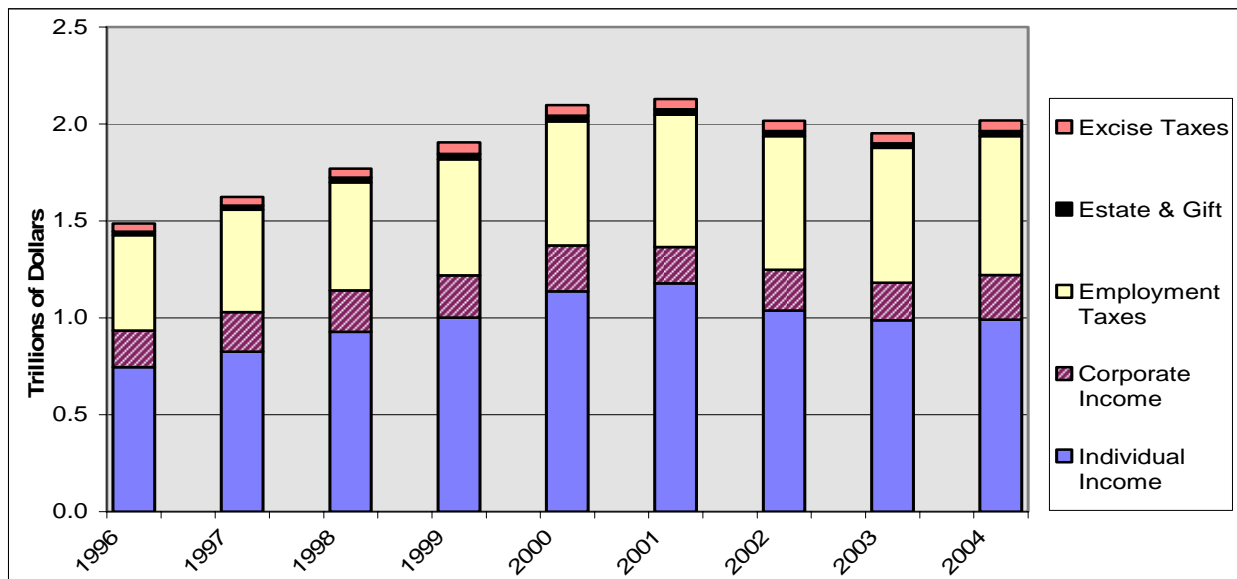
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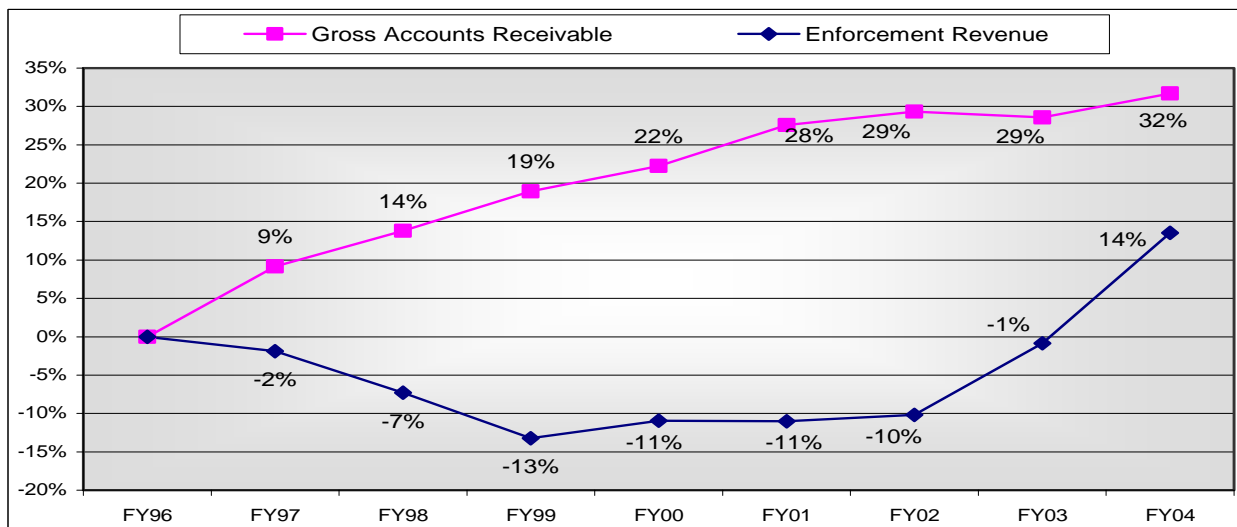
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Figure 1. Internal Revenue Service (IRS) Gross Collections by Type of Tax Since Fiscal Year (FY) 1996. Gross tax collections overall rose slightly in FY 2004, but decreased a total of 5 percent since FY 2001. Individual income tax collections decreased by 16 percent and employment tax collection increased by 5 percent from FY 2001 to FY 2004. Individual income 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.

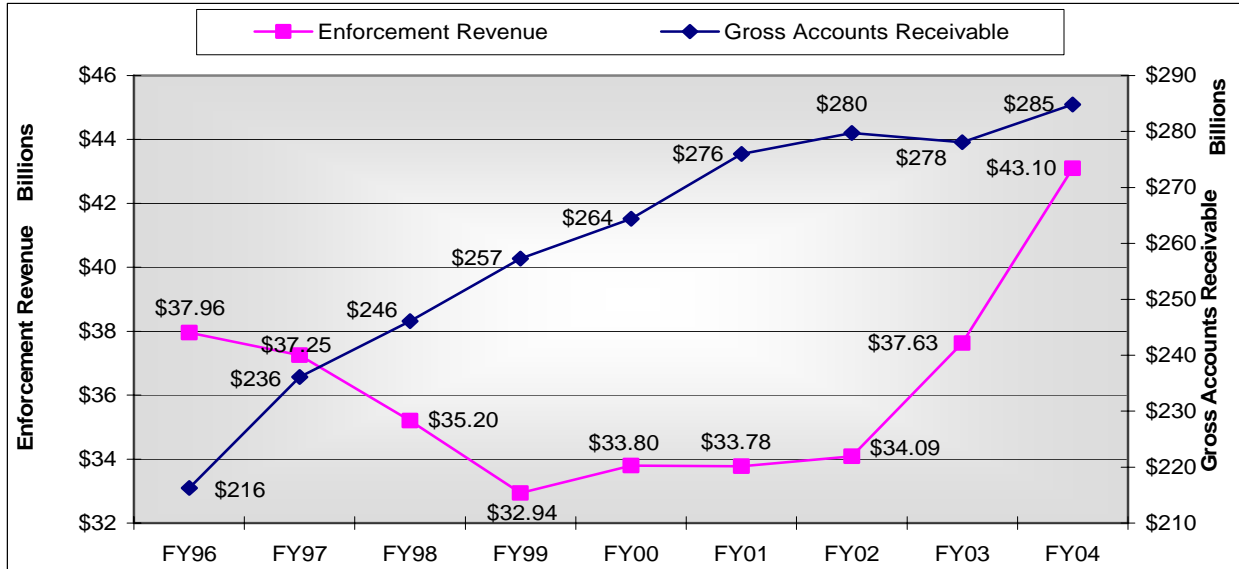
Figure 2. Change in Enforcement Revenue and Gross Accounts Receivable – Percentage Change From FY 1996. Enforcement revenue increased sharply in FY 2004 and surpassed the FY 1996 figure by 14 percent. Gross accounts receivable increased in FY 2004 and is up 32 percent since FY 1996.



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

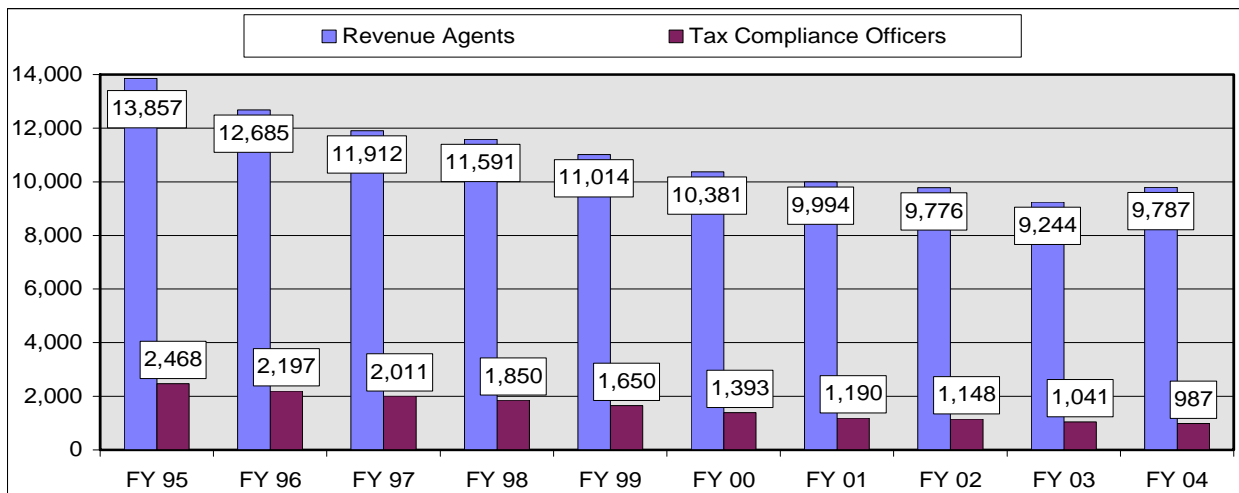
Trends in Compliance Activities Through Fiscal Year 2004

Figure 3. Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable. Enforcement revenue collected increased sharply during FY 2004, by 15 percent. Even so, gross accounts receivable still increased 2 percent in FY 2004.



Source: Enforcement Revenue Information System and CFO Financial Reports.

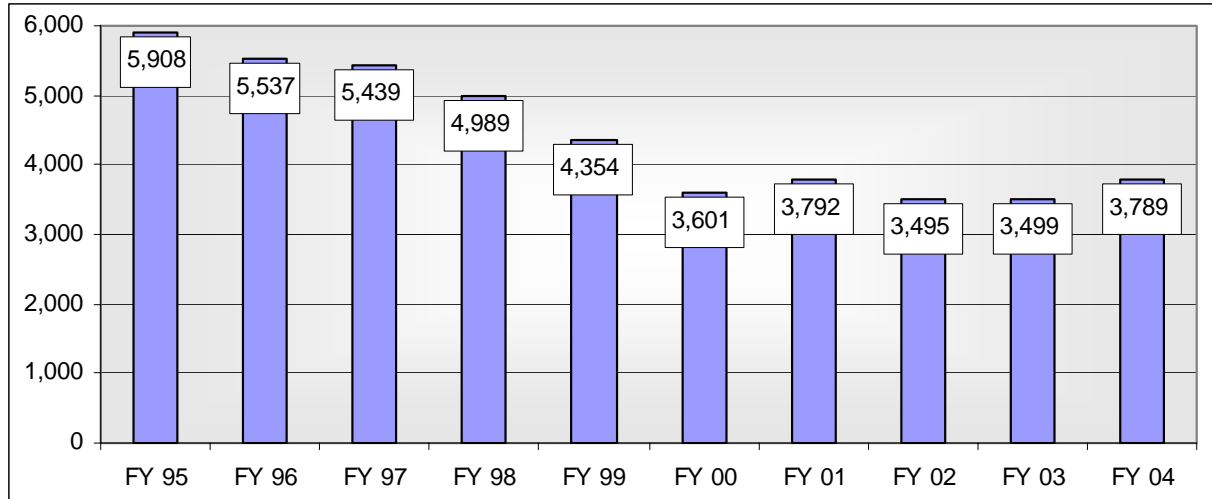
Figure 4. Examination Function Staffing at the End of Each Fiscal Year. The numbers in this chart represent the number of Examination function staff actually conducting examinations of tax returns. For the first time in many years, Revenue Agent staffing increased during FY 2004. However, Tax Compliance Officer (formerly referred to as Tax Auditor) staffing continued to decline.



Source: Examination Table 37.

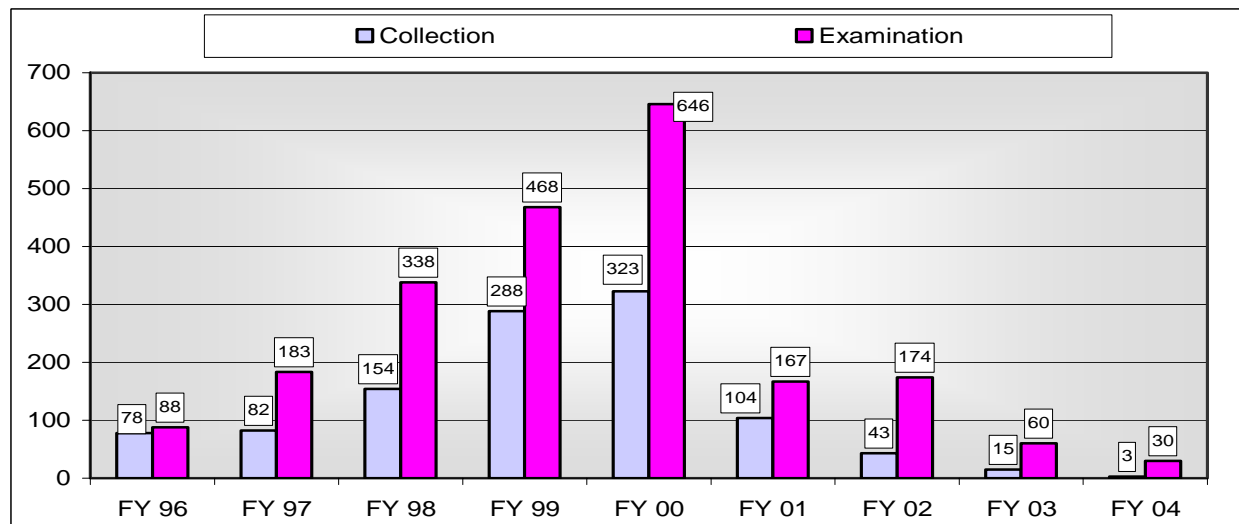
Trends in Compliance Activities Through Fiscal Year 2004

Figure 5. Collection Field function (CFf) Revenue Officer Staffing at the End of Each Fiscal Year. The number of Revenue Officers working delinquent accounts increased by 8 percent during FY 2004, but is still 36 percent fewer than at the start of FY 1996.



Source: Collection Report 5000-23.

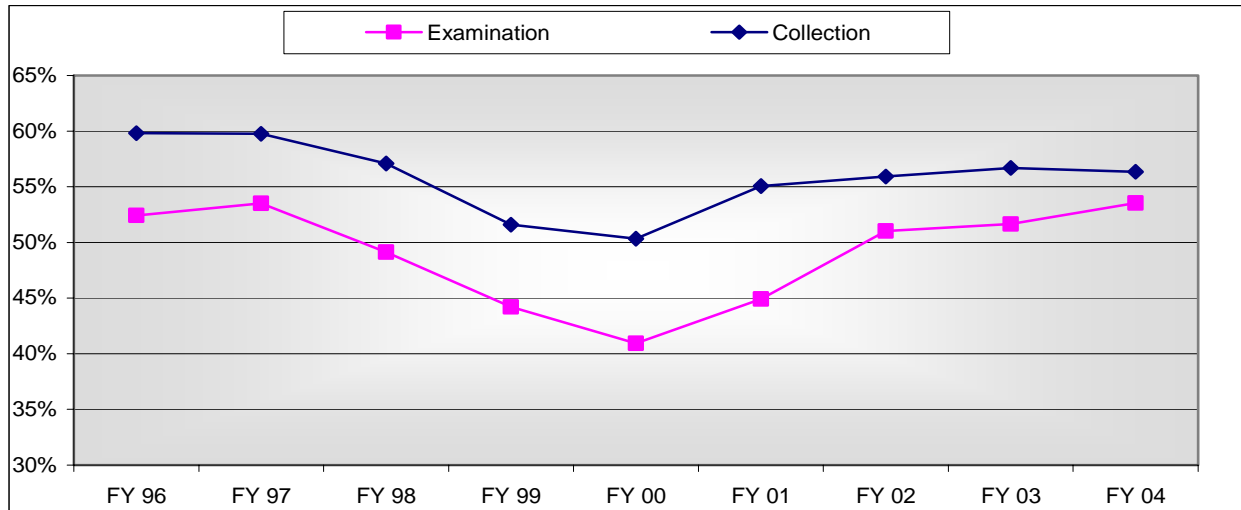
Figure 6. Staff Years Detailed to Customer Service. The number of staff years detailed to customer service dropped off again in FY 2004 and is lower than those detailed during FY 1996.



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

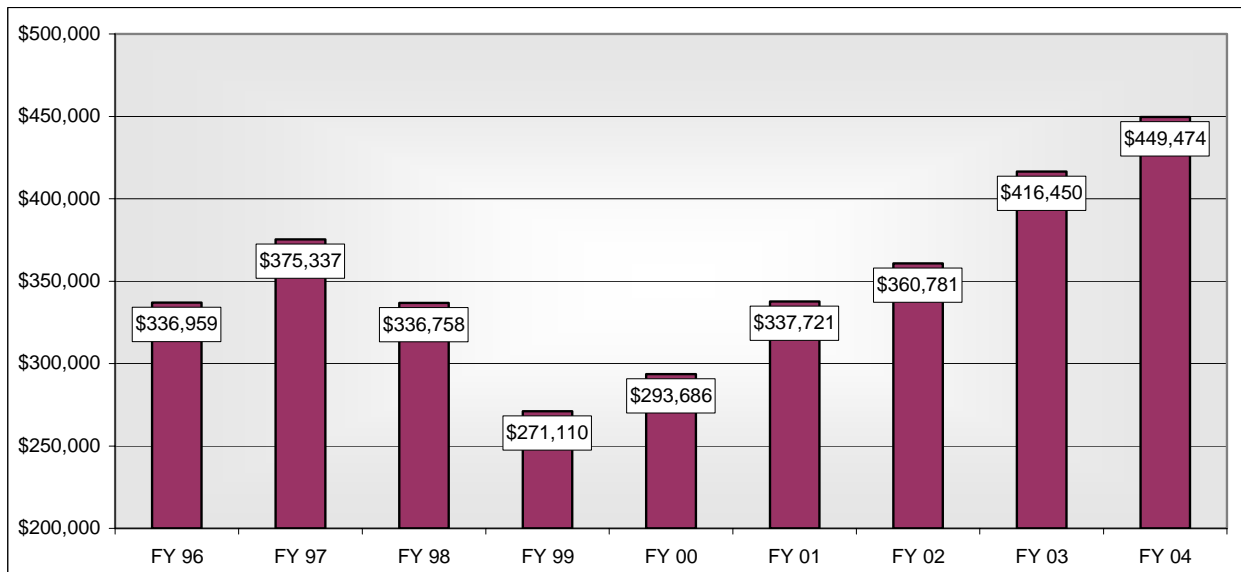
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Figure 7. Changes in Direct Time Percentages. The Collection and Examination functions both increased the percentage of overall time charged to their tax related responsibilities (collecting taxes, securing tax returns not timely filed, and examining tax returns) since FY 2000. The Examination and Collection functions changed what types of time they capture as direct and indirect in recent years, 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 so the data is consistent for the 9 years included in the chart.



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

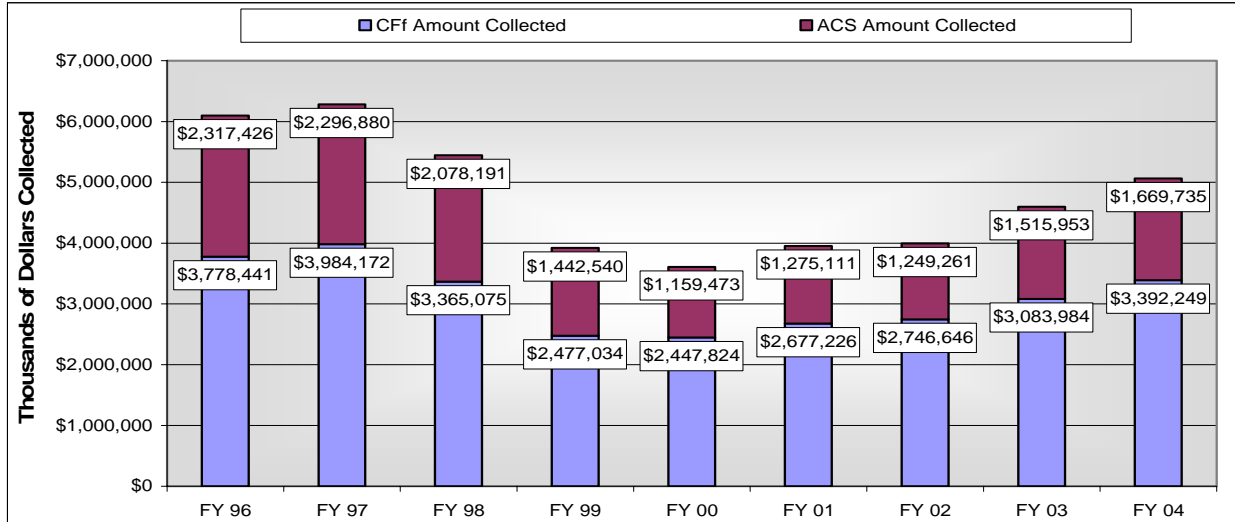
Figure 8. Average Dollars Collected per Staff Year on Taxpayer Delinquent Accounts (TDA) by the Cff. The average amount collected by the Cff for each staff year increased by 8 percent from FY 2003 to FY 2004 and a total of 66 percent since FY 1999.



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

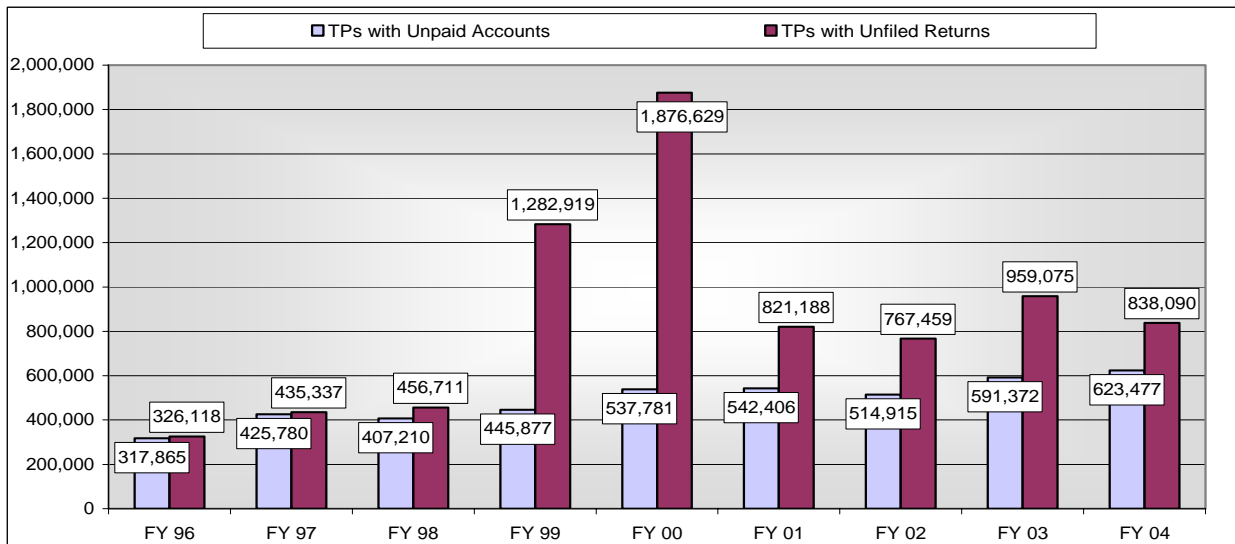
Trends in Compliance Activities Through Fiscal Year 2004

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 then, the ACS amount collected has increased by 44 percent, while the amount collected by the Cff has increased by 39 percent.



Source: Collection Report 5000-2.

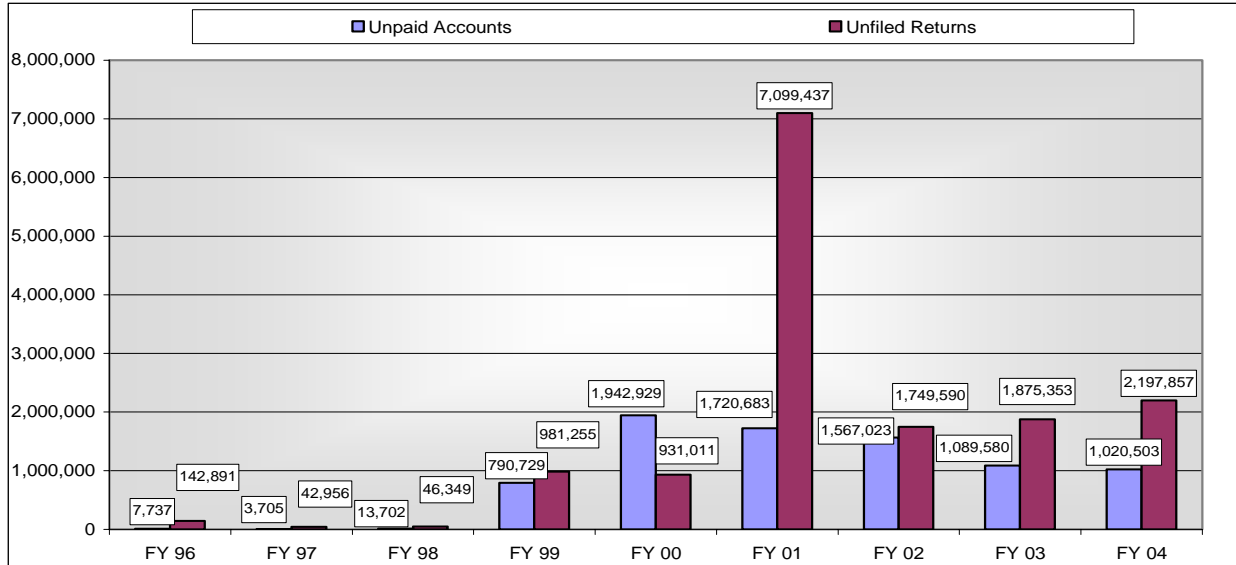
Figure 10. Delinquent Accounts in the Queue. The number of taxpayers with unpaid tax liabilities and investigations of unfiled tax returns in the Queue increased significantly from FY 1996 through FY 2000. There were large reductions from the inventory during FYs 2000 through 2004 because the IRS used a special closing code to remove potentially less productive cases from the Queue (see Figure 11).



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

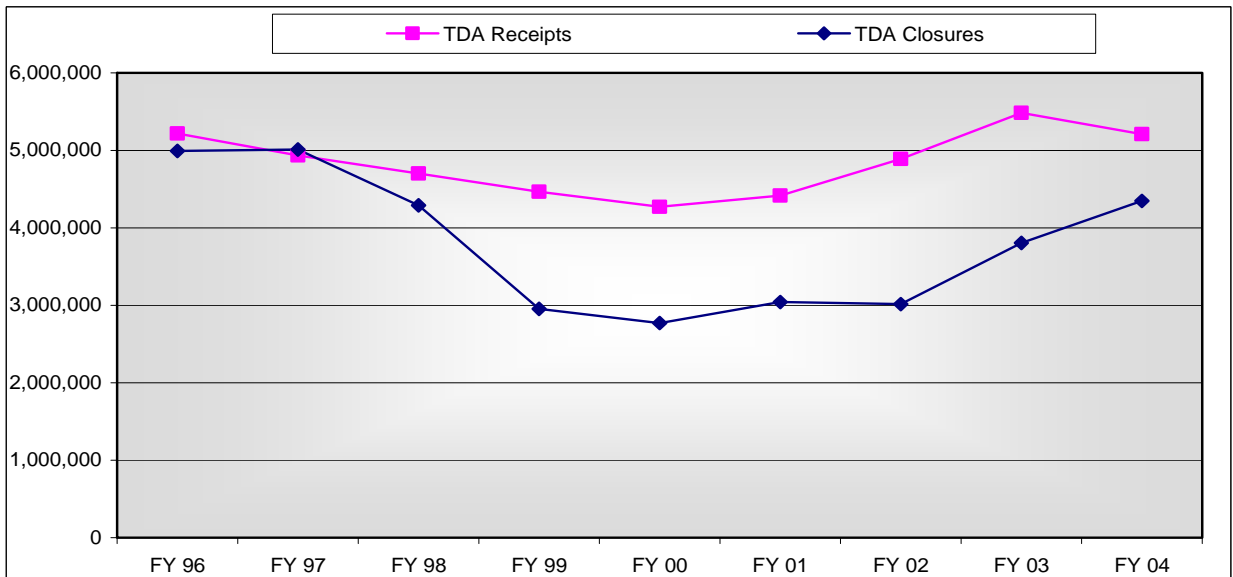
Trends in Compliance Activities Through Fiscal Year 2004

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.

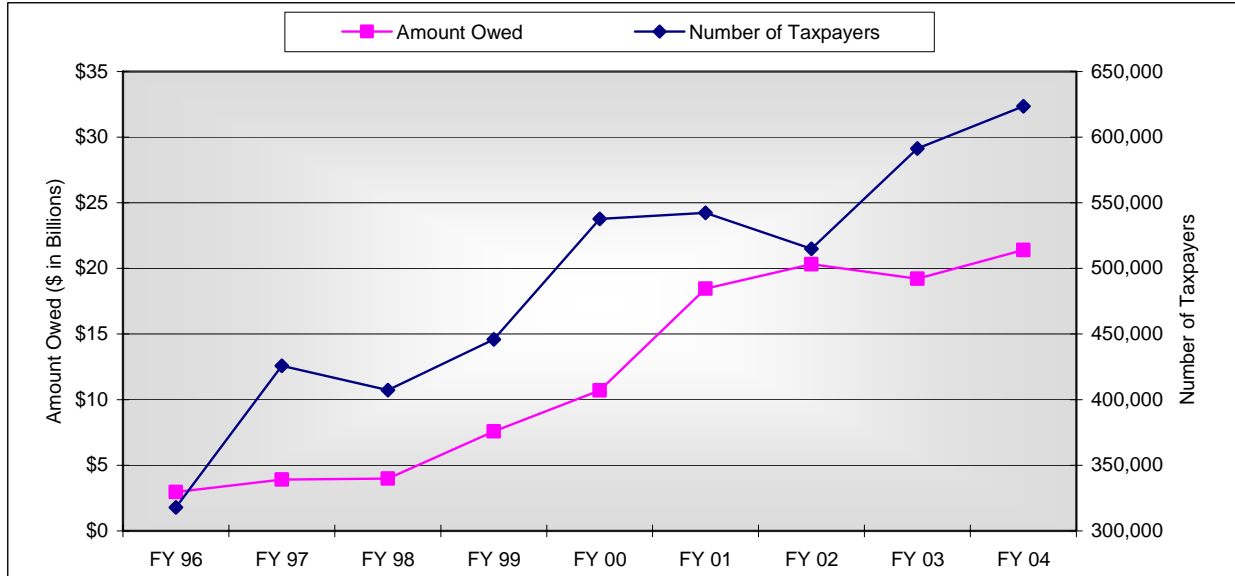
Figure 12. Gap Between New Delinquent Accounts and Account Closures. The gap between unpaid account receipts and closures decreased again for FY 2004, but the number of receipts has been greater than the number of closures each year since FY 1997. The closures included here do not include the unpaid accounts shelved, shown above in Figure 11.



Source: Collection Report 5000-2.

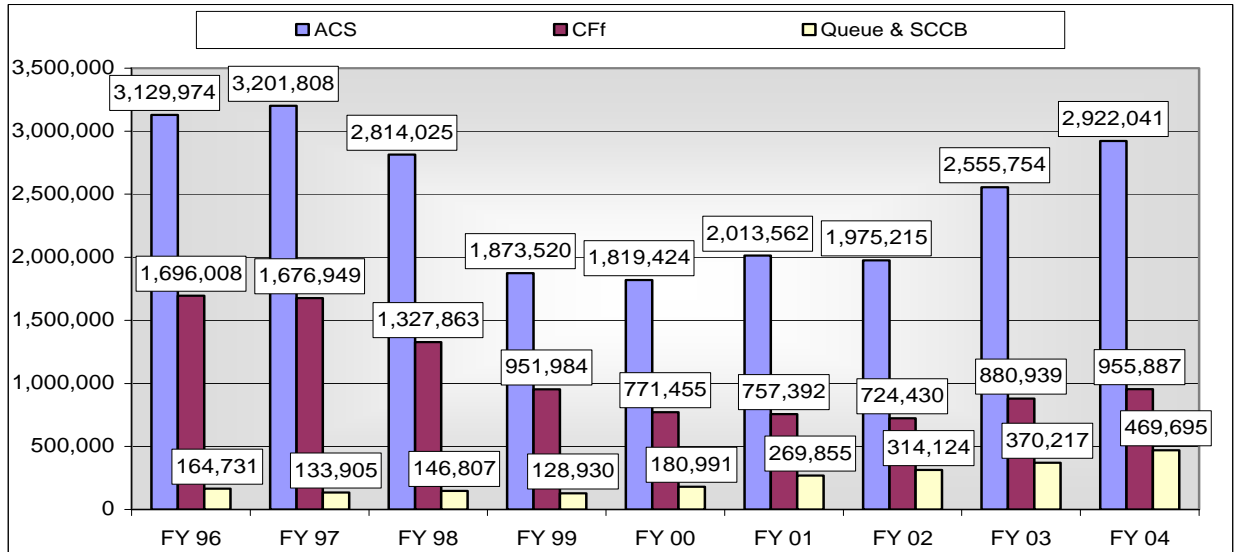
Trends in Compliance Activities Through Fiscal Year 2004

Figure 13. Number of Taxpayers and Amounts Owed in the Queue. The number of taxpayers with unpaid accounts in the Queue increased by 5 percent, while the average amount owed increased by 12 percent from FY 2003 to FY 2004.



Source: Collection Report 5000-2.

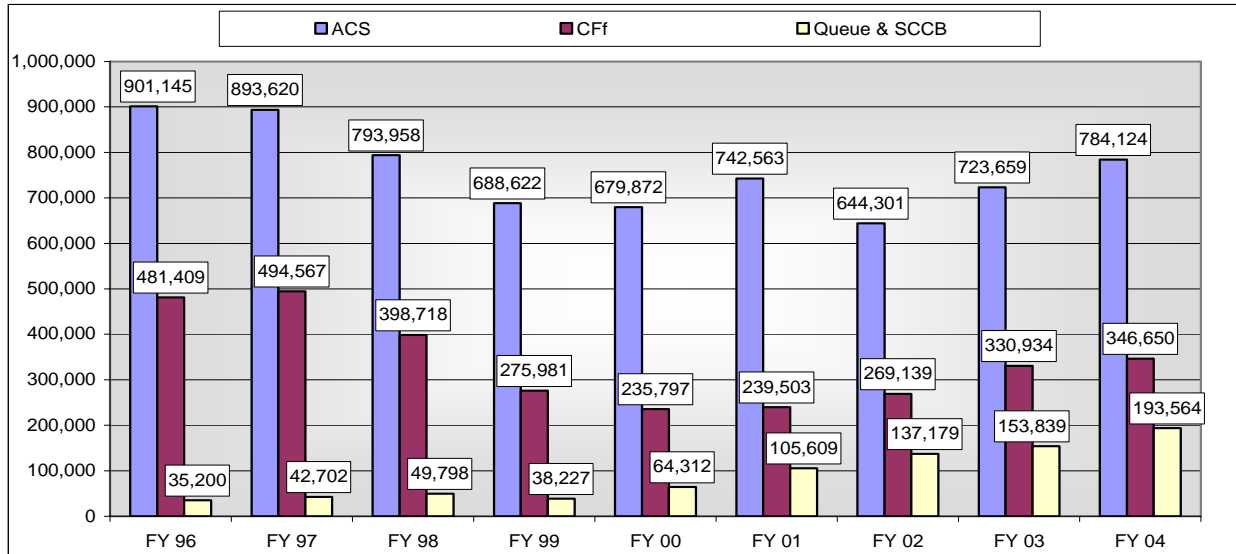
Figure 14. Number of Delinquent Accounts Closed Each Year, Excluding Shelved Accounts. The number of delinquent unpaid accounts closed by the ACS and CFf showed significant increases in FY 2004. In addition, as more accounts are left in the Queue, there are more closed after voluntary action by taxpayers while in that unassigned status.



Source: Collection Report 5000-2.

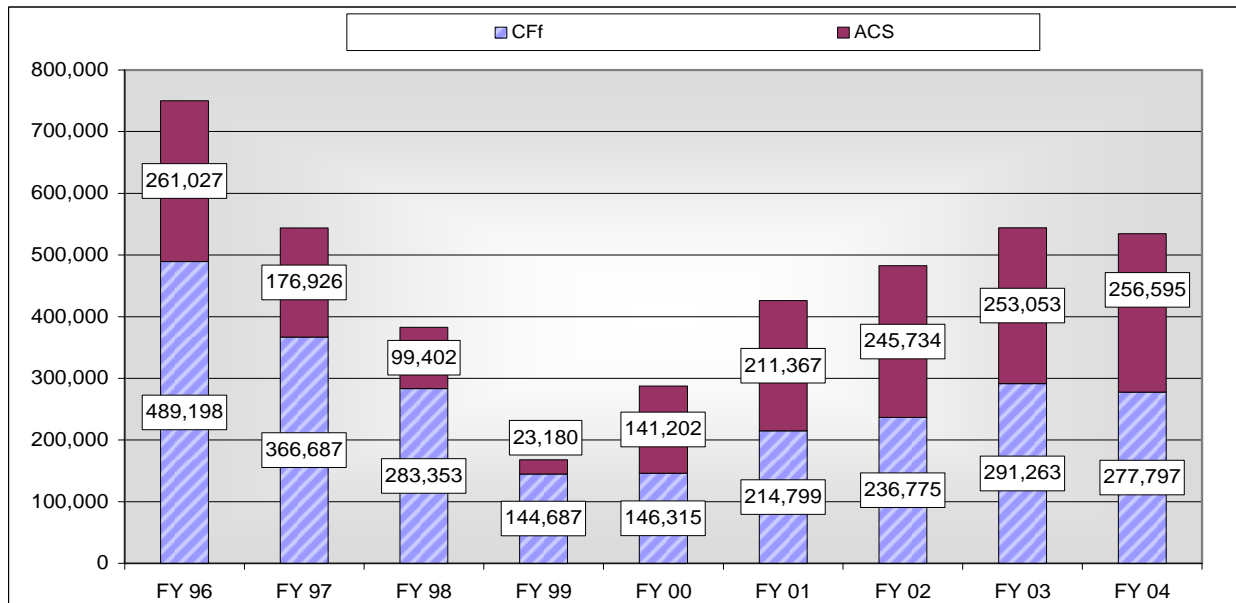
Trends in Compliance Activities Through Fiscal Year 2004

Figure 15. Number of Delinquent Accounts Closed by Full Payment. The number of accounts closed by full payment increased in FY 2004. There has been a steady increase since FY 2000 for the CFf and the Queue. The ACS number dropped in FY 2002, but has increased substantially during the last 2 years.



Source: Collection Report 5000-2.

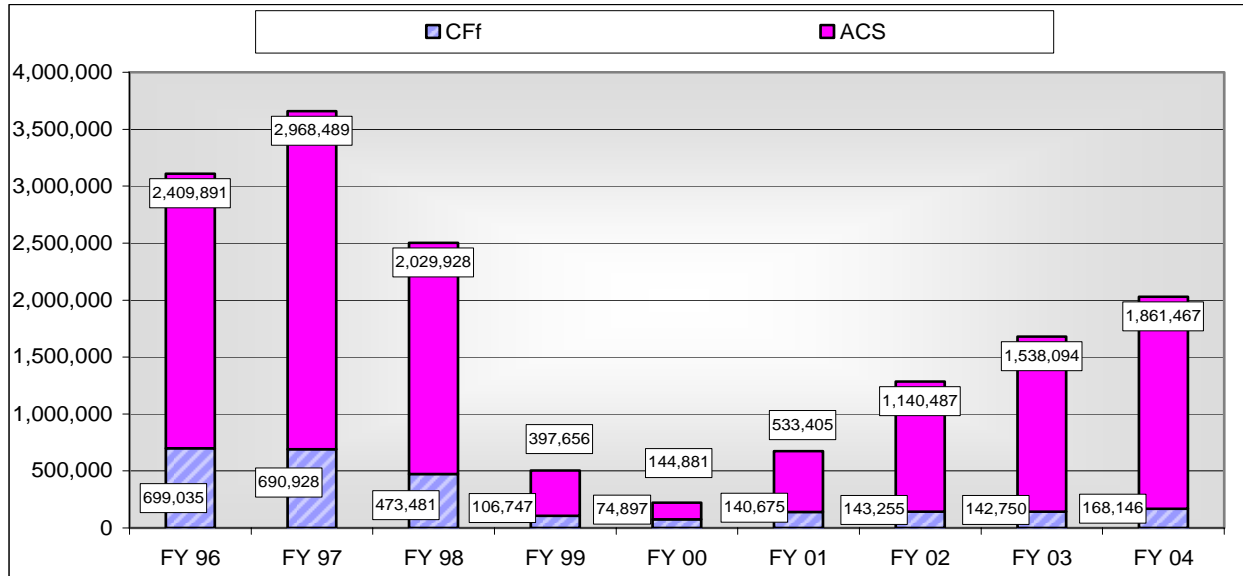
Figure 16. Liens Filed by the CFf and ACS. After rising steadily since FY 1999, the total number of liens filed in FY 2004 decreased by 2 percent due to a 5 percent decrease in liens filed by the CFf.



Source: Collection Report 5000-23 and the Automated Lien System.

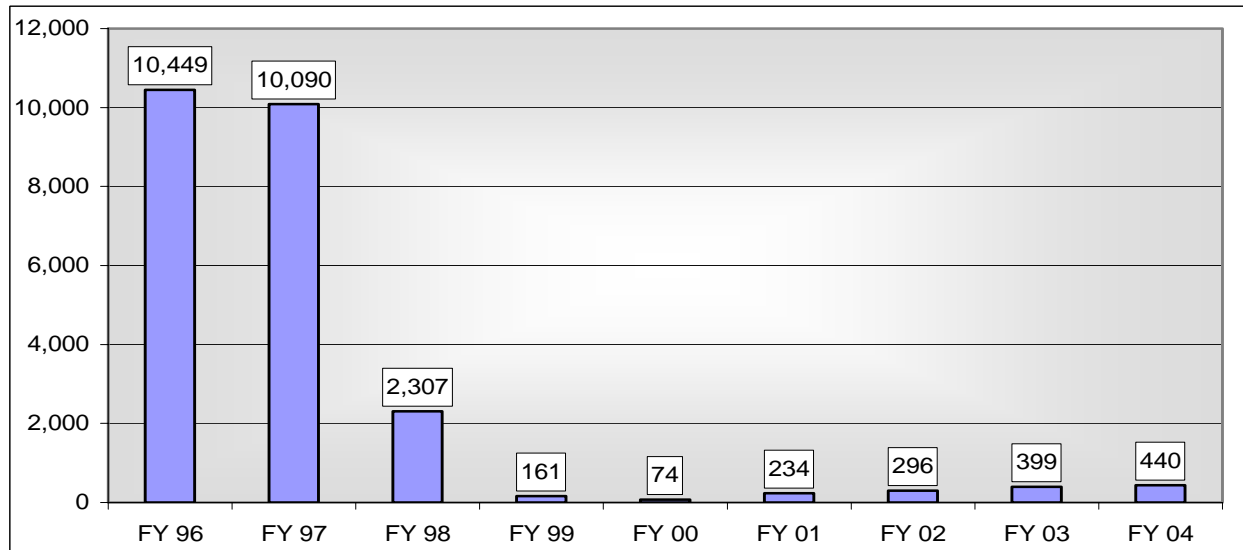
Trends in Compliance Activities Through Fiscal Year 2004

Figure 17. Levies Issued by the CFf and ACS. The overall trend is that an increasing number of levies have been issued by the ACS and the CFf since FY 2000.



Source: Collection Report 5000-23 and Customer Service Activity Report.

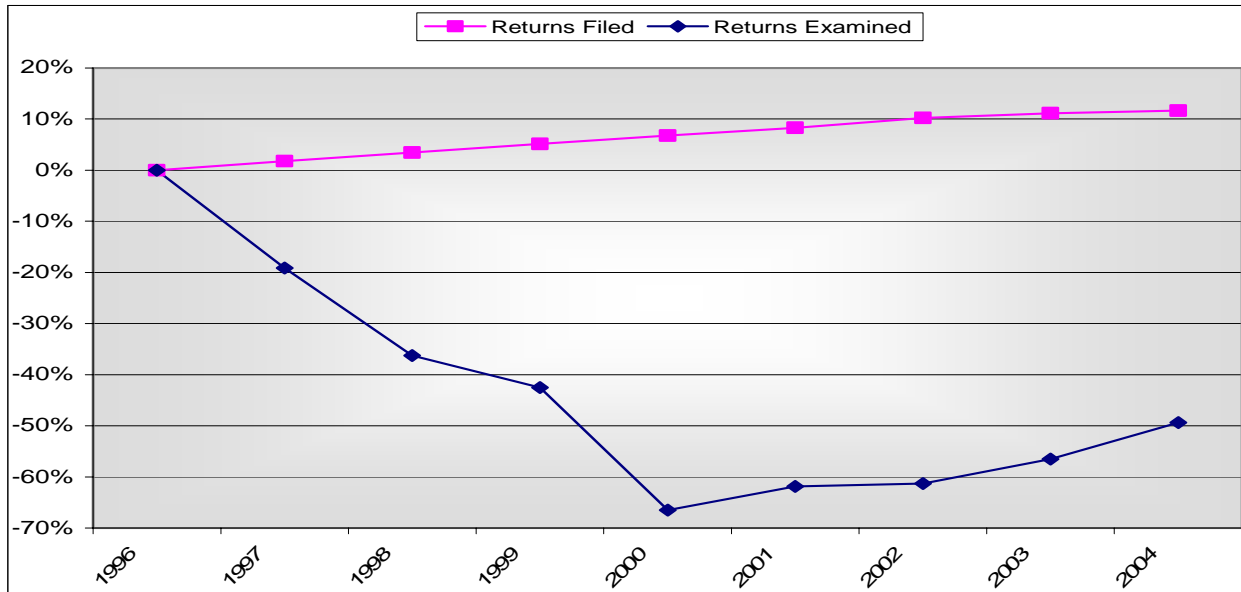
Figure 18. Number of Seizures Made Each Fiscal Year. The number of seizures made in FY 2004 continued the upward trend since FY 2000 but is still only about 4 percent of the seizures made in FY 1996.



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

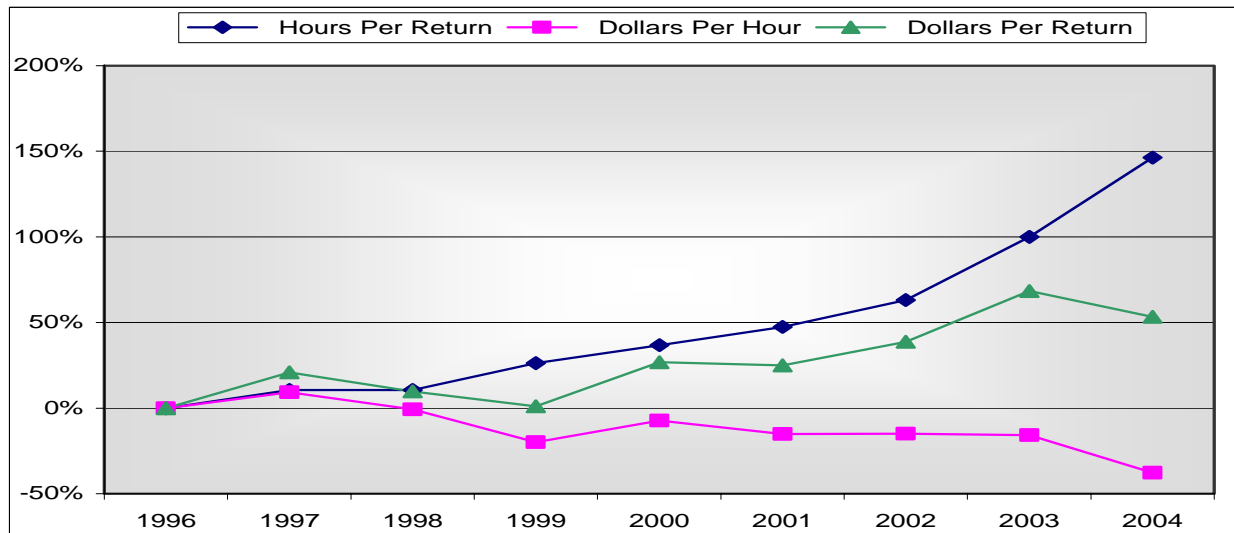
Trends in Compliance Activities Through Fiscal Year 2004

Figure 19. Examination Coverage of All Tax Returns – Percentage Change From FY 1996. While the examination coverage of tax returns is still below the level in FY 1999, the growth in examination coverage again outpaced the growth in returns filed during FY 2004.



Source: TIGTA Analysis of IRS Data Book Information.

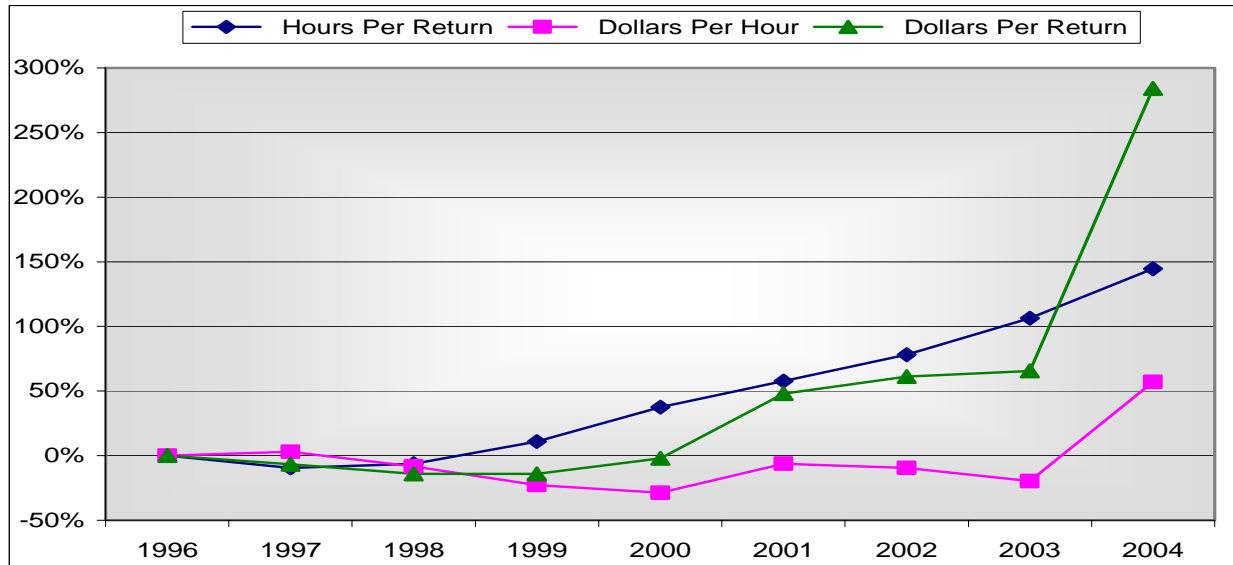
Figure 20. Revenue Agent Results on U.S. Individual Income Tax Returns (Forms 1040), Excluding Training Returns – Percentage Change From FY 1996. The hours per return increased and dollars per return decreased during FY 2004, resulting in a combined effect of decreased dollars per hour during FY 2004.



Source: TIGTA Analysis of Examination Table 37.

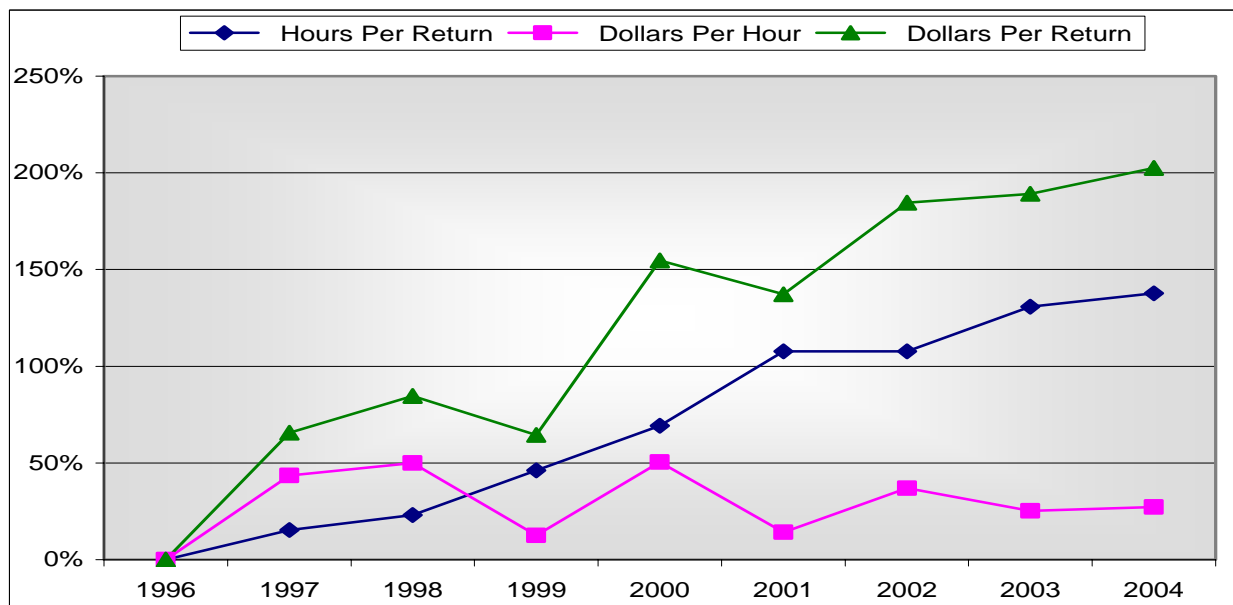
Trends in Compliance Activities Through Fiscal Year 2004

Figure 21. Revenue Agent Results on Corporate Income Tax Returns, Excluding Training Returns – Percentage Change From FY 1996. The hours per return and dollars per return increased during FY 2004. The combined effect is that dollars per hour also increased during FY 2004.



Source: TIGTA Analysis of Examination Table 37.

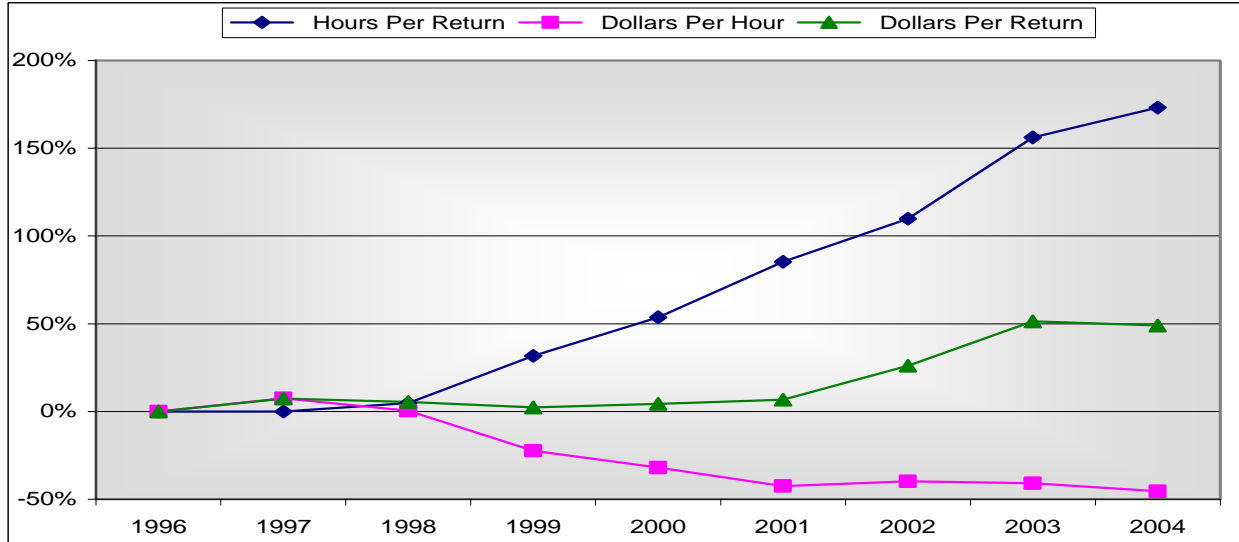
Figure 22. Revenue Agent Results on Other Types of Tax Returns, Excluding Training Returns – Percentage Change From FY 1996. The hours per return and dollars per return increased during FY 2004. The combined effect is that dollars per hour also increased during FY 2004.



Source: TIGTA Analysis of Examination Table 37.

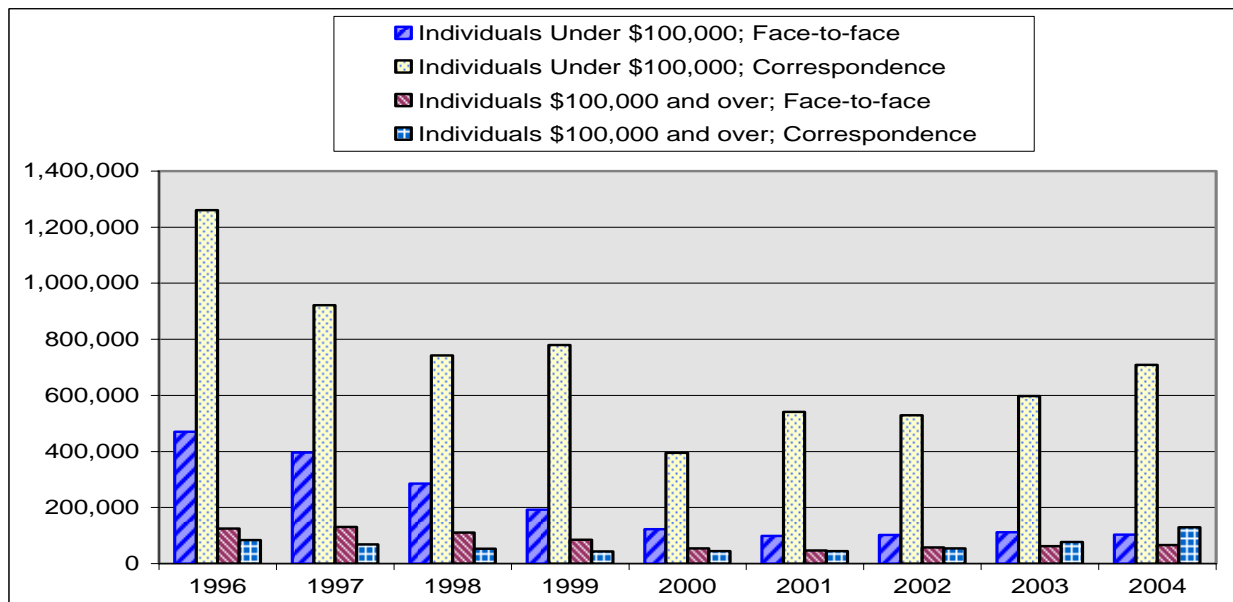
Trends in Compliance Activities Through Fiscal Year 2004

Figure 23. Tax Compliance Officer Results on Forms 1040, Excluding Training Returns – Percentage Change From FY 1996. The hours per return increased and dollars per return decreased during FY 2004. The combined effect is that dollars per hour decreased during FY 2004.



Source: TIGTA Analysis of Examination Table 37.

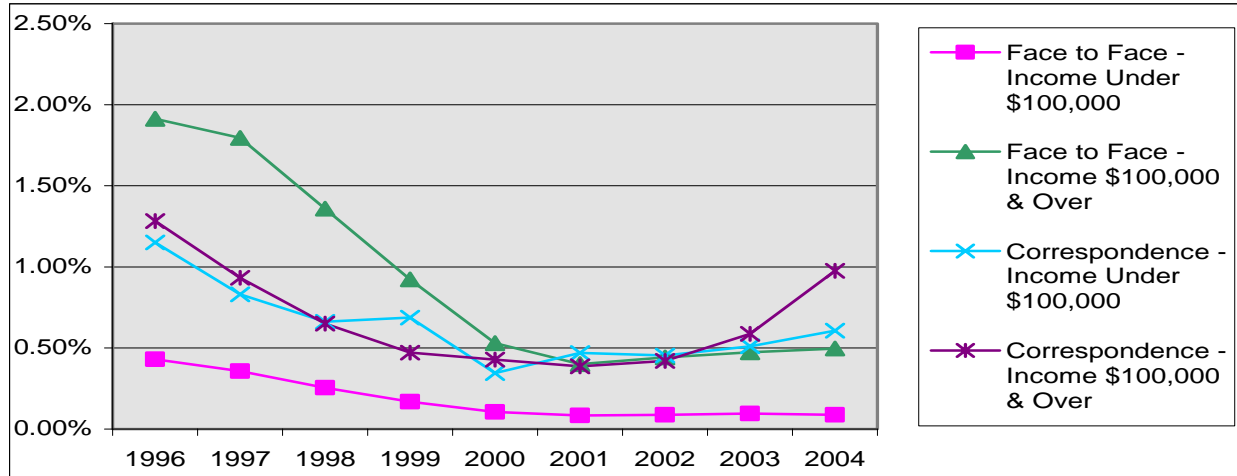
Figure 24. Number of Forms 1040 Examined Face-to-Face or Through Correspondence. The total number of face-to-face examinations of individuals decreased by 3 percent and those conducted through correspondence increased by 24 percent in FY 2004. However, greater emphasis is being placed on examinations of individuals with income of \$100,000 and over, and those increased by 6 percent for face-to-face and by 67 percent for correspondence.



Source: TIGTA Analysis of Examination Table 37.

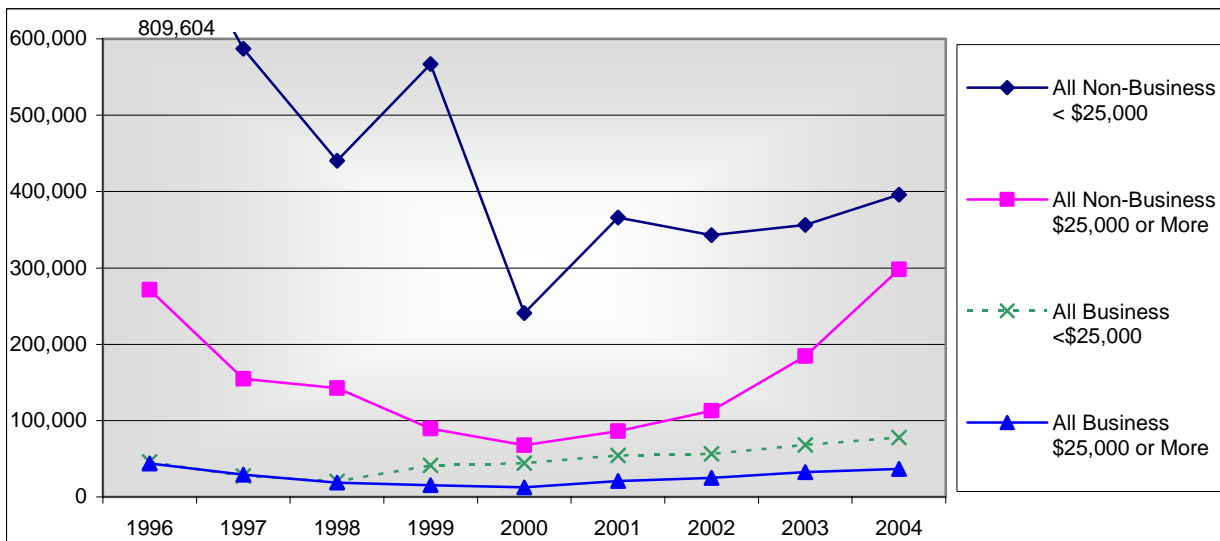
Trends in Compliance Activities Through Fiscal Year 2004

Figure 25. Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence. During FY 2004, the coverage rate for face-to-face examinations of non-business individual income tax returns went down for all types of forms and income categories. Business individual income tax returns had higher coverage for all income categories, but especially for those with income of \$100,000 and over. The coverage rate for correspondence examinations of individual income tax returns went up for all categories except for the simple Form 1040A.



Source: TIGTA Analysis of Examination Table 37.

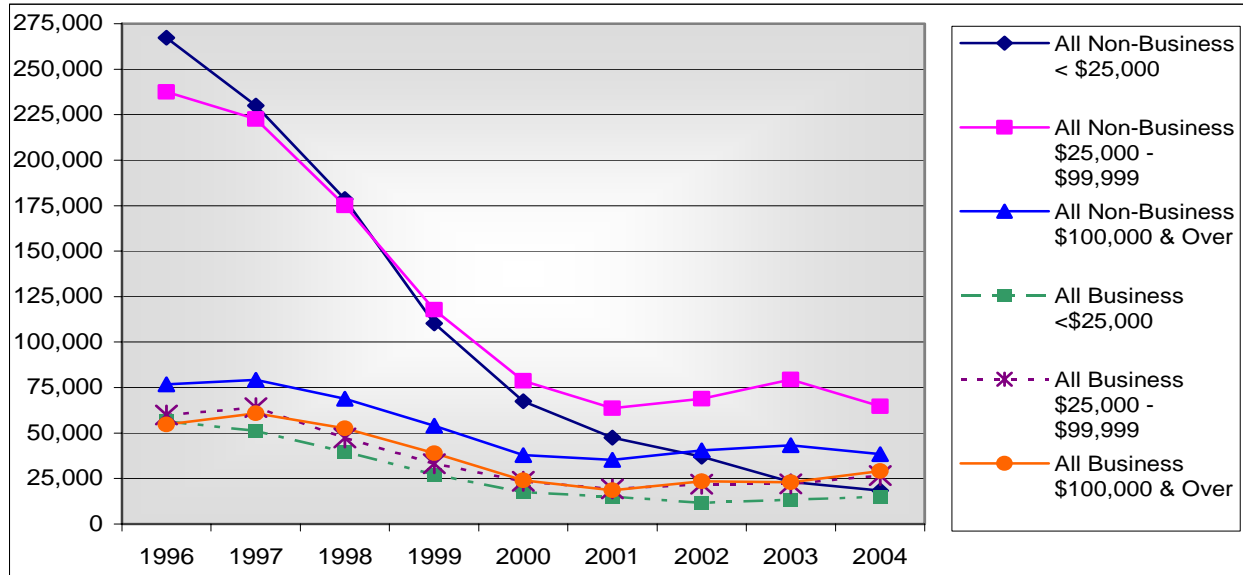
Figure 26. Number of Forms 1040 Examined by Compliance Center Correspondence. During FY 2004, the number of examinations that Compliance Centers conducted by correspondence increased for all categories of tax returns. The fluctuation for examinations of non-business tax returns with income under \$25,000 was largely based on the number of Earned Income Tax Credit examinations.



Source: TIGTA Analysis of IRS Data Book Information.

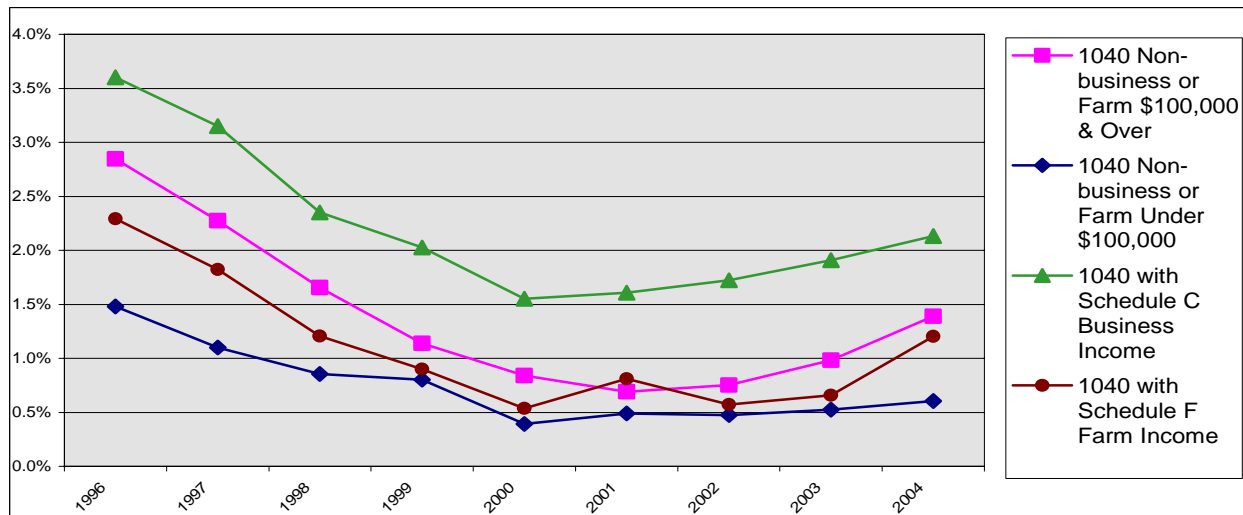
Trends in Compliance Activities Through Fiscal Year 2004

Figure 27. Number of Forms 1040 Examined by Field Offices. During FY 2004, the number of examinations conducted by field offices decreased for tax returns with non-business income and increased for tax returns with business income. Examinations of business tax returns with income \$100,000 and over increased by 27 percent during FY 2004.



Source: TIGTA Analysis of IRS Data Book Information.

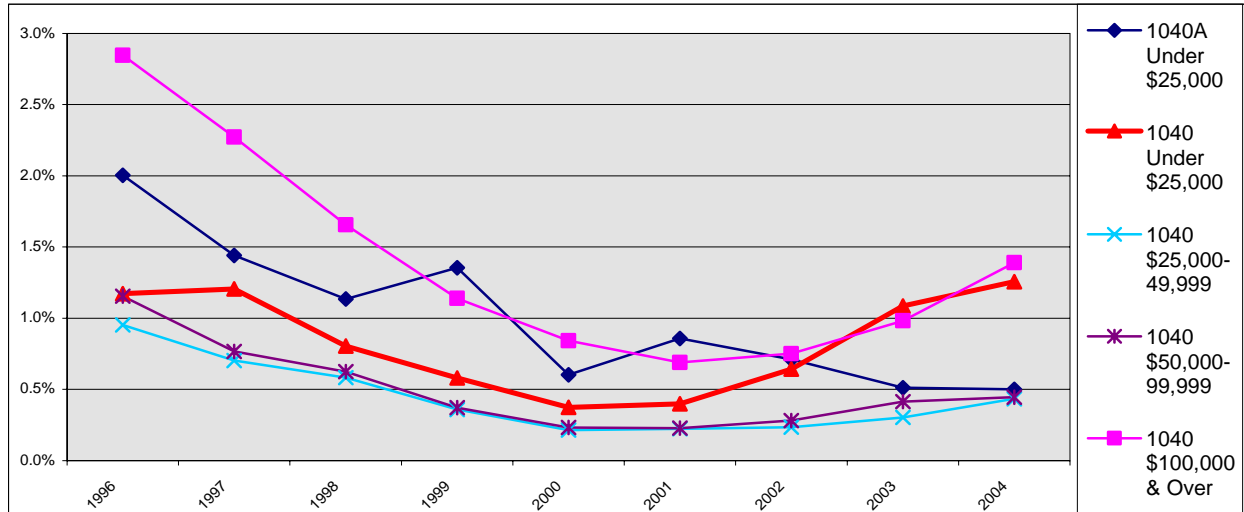
Figure 28. Percentage of Forms 1040 Examined. This shows the comparison in examination rates (total correspondence and face-to-face) for tax returns with business or farm income and those under \$100,000 and \$100,000 and over without any business or farm income. The percentage examined for all of the categories increased during FY 2004.



Source: TIGTA Analysis of IRS Data Book Information.

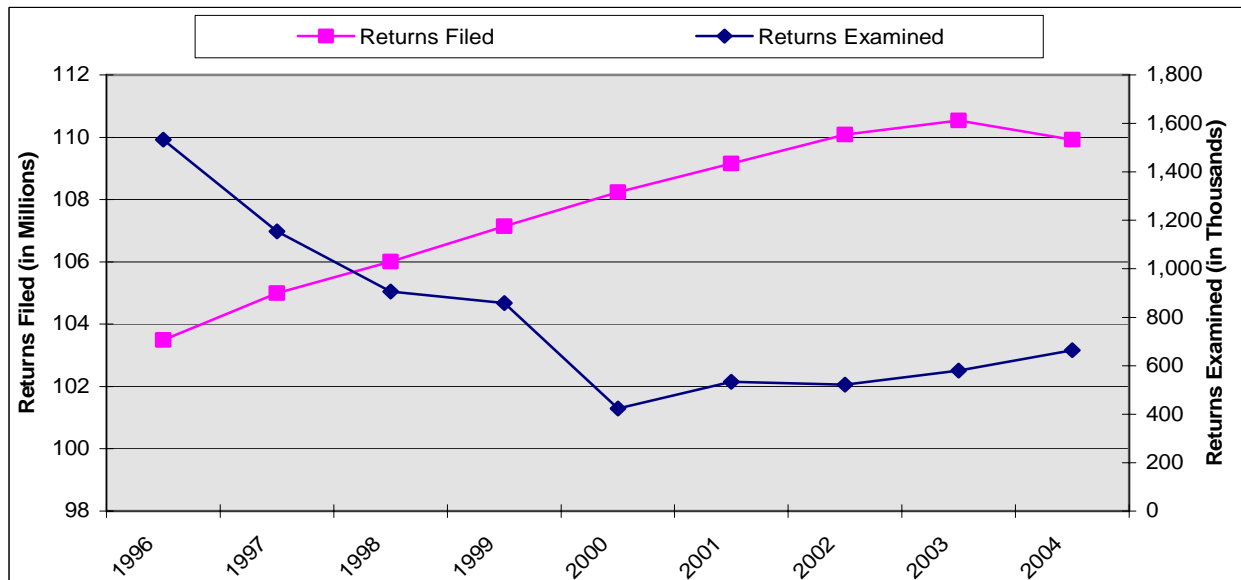
Trends in Compliance Activities Through Fiscal Year 2004

Figure 29. Percentage Examined – Forms 1040 With No Business or Farm Income. The percentage of Forms 1040 examined increased during FY 2004 for all categories except Forms 1040A. Most of the increases were due to large increases in the number of examinations conducted by Compliance Center employees.



Source: TIGTA Analysis of IRS Data Book Information.

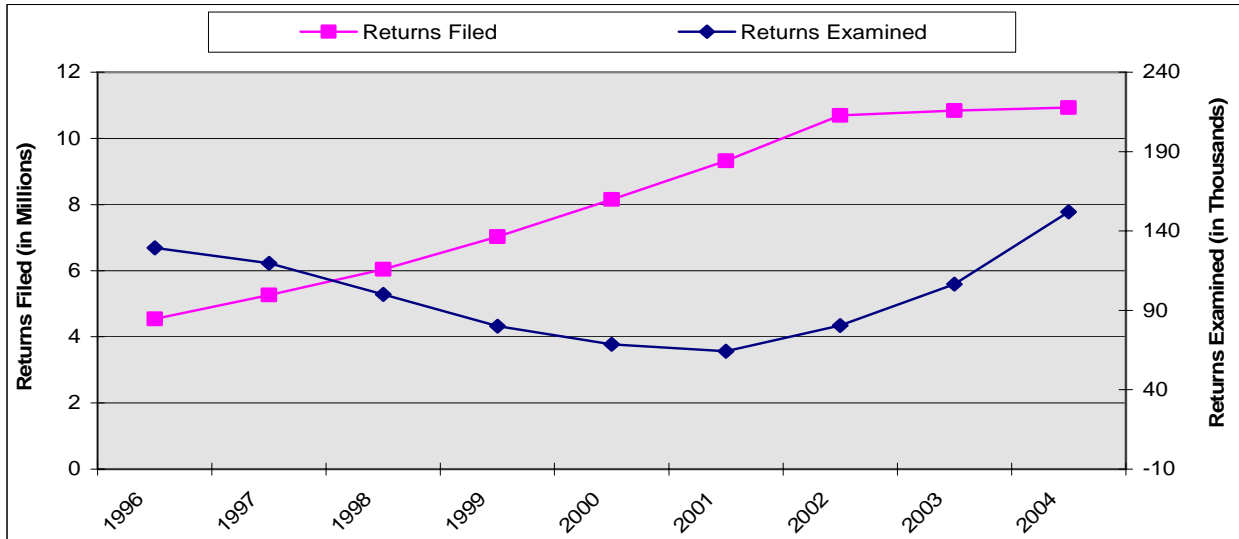
Figure 30. Examination Coverage of Non-business Forms 1040 – Under \$100,000. The number of non-business tax returns filed with income under \$100,000 dropped off slightly in FY 2004 after steadily increasing since FY 1996. During FY 2004 the examination coverage rate for these returns increased by 14 percent due to a large increase in the number of examinations conducted by Compliance Center employees.



Source: TIGTA Analysis of IRS Data Book Information.

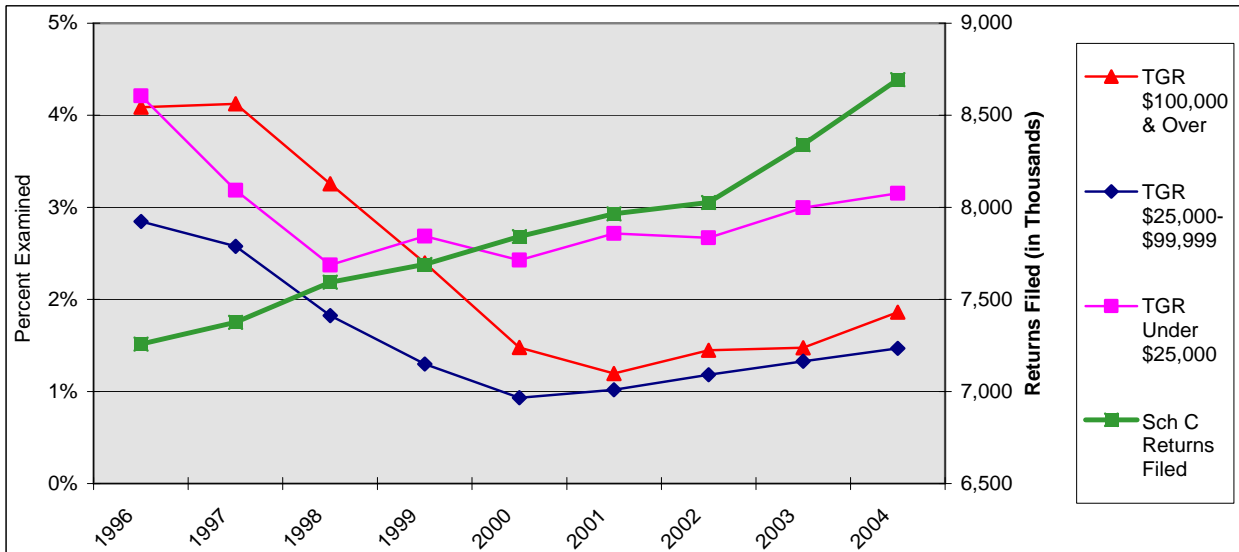
Trends in Compliance Activities Through Fiscal Year 2004

Figure 31. Examination Coverage of Non-business Forms 1040 – \$100,000 and Over. The number of non-business tax returns filed with income \$100,000 and over has been relatively constant since FY 2002. During FY 2004 the examination coverage rate for these returns increased by 43 percent due to a large increase in the number of examinations conducted by Compliance Center employees.



Source: TIGTA Analysis of IRS Data Book Information.

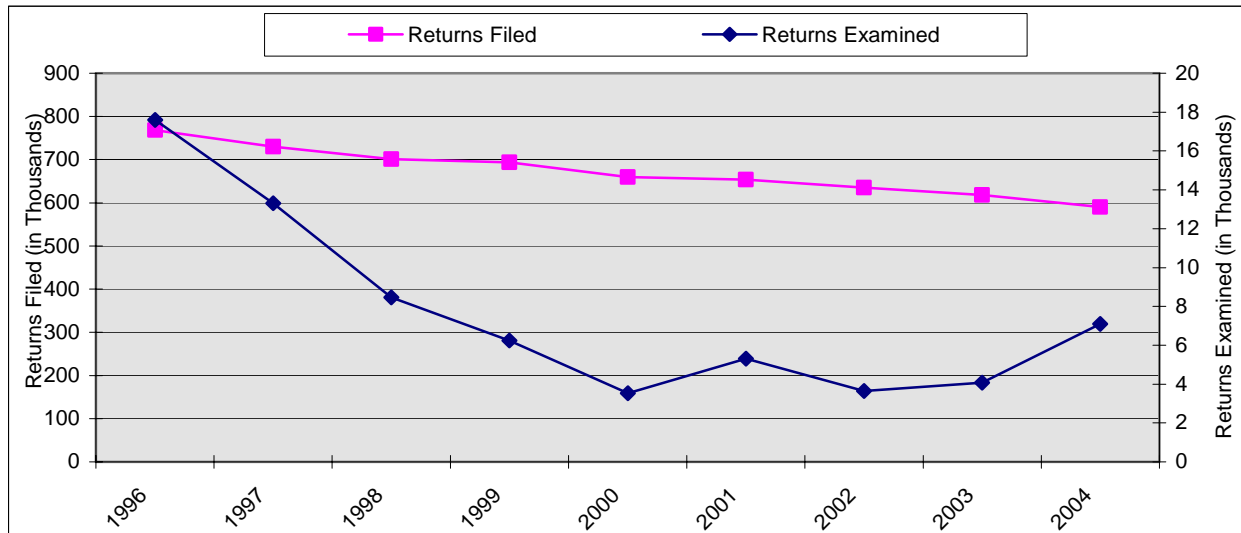
Figure 32. Examination Coverage of Forms 1040 With Business Income (Excluding Farms). During FY 2004, the total number of individual income tax returns filed with business income increased as did the percent examined in each of the categories. These examination coverage increases were largely due to increases in the number of examinations conducted by **field** examination employees, especially those tax returns showing higher incomes.



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

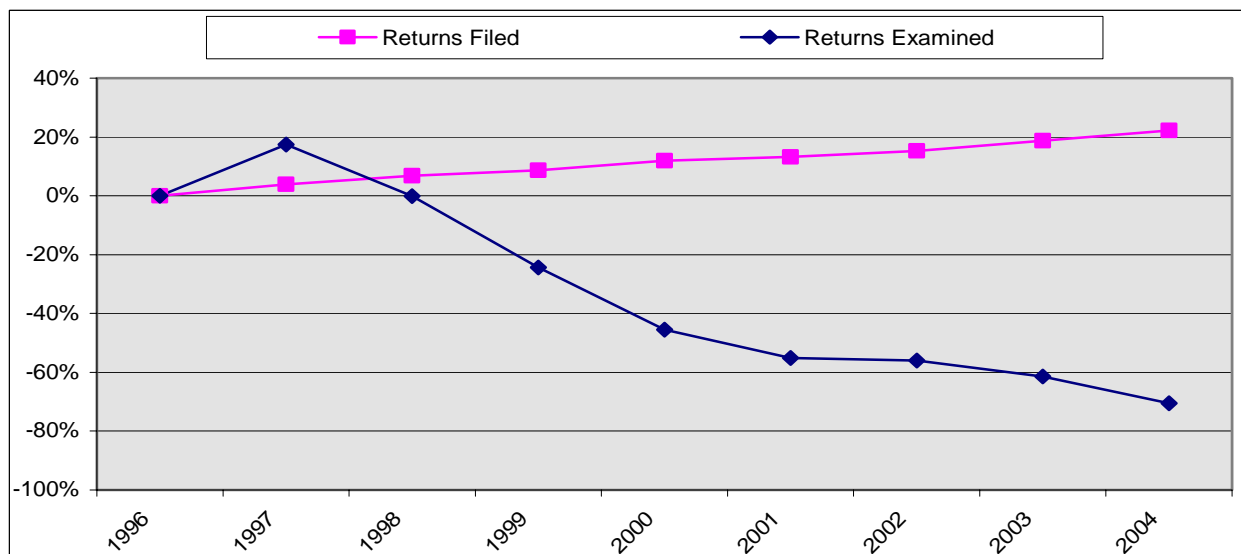
Trends in Compliance Activities Through Fiscal Year 2004

Figure 33. Examination Coverage of Forms 1040 With Farm Income. The number of Forms 1040 filed with farm income continued to decrease in FY 2004. There was an 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.

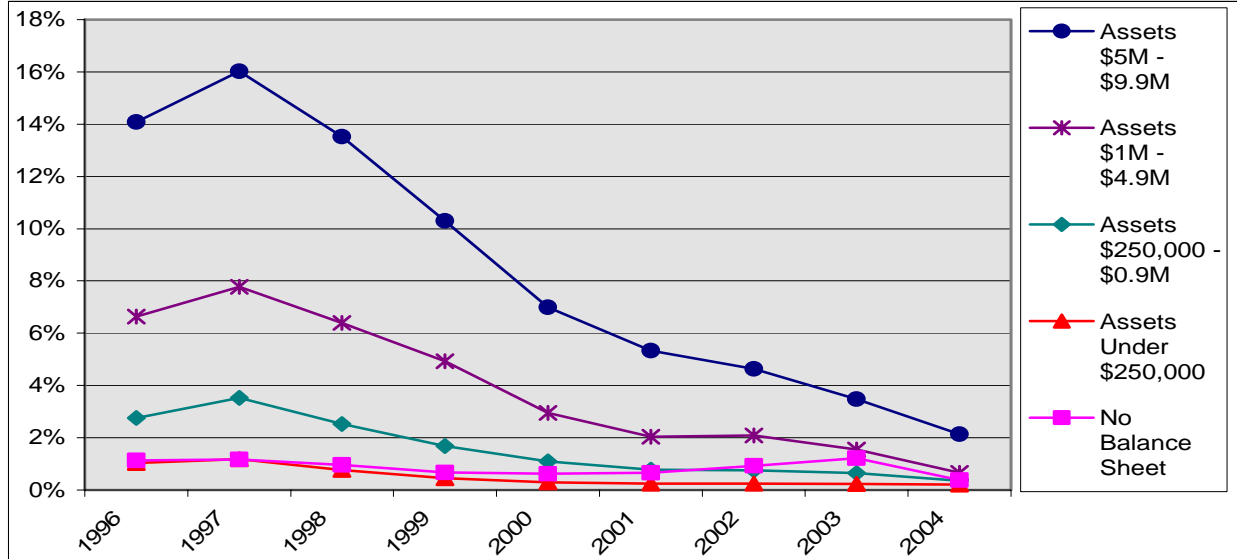
Figure 34. Examination Coverage of All Corporate Income Tax Returns – Percentage Change From FY 1996. The number of corporate tax returns filed continued the steady increase during FY 2004. The number of returns examined decreased for all corporate tax return categories except for those filed with assets of \$10 million and over. Overall, 1 in 182 corporate tax returns was examined in FY 2003; this decreased to 1 in 245 in FY 2004.



Source: TIGTA Analysis of IRS Data Book Information.

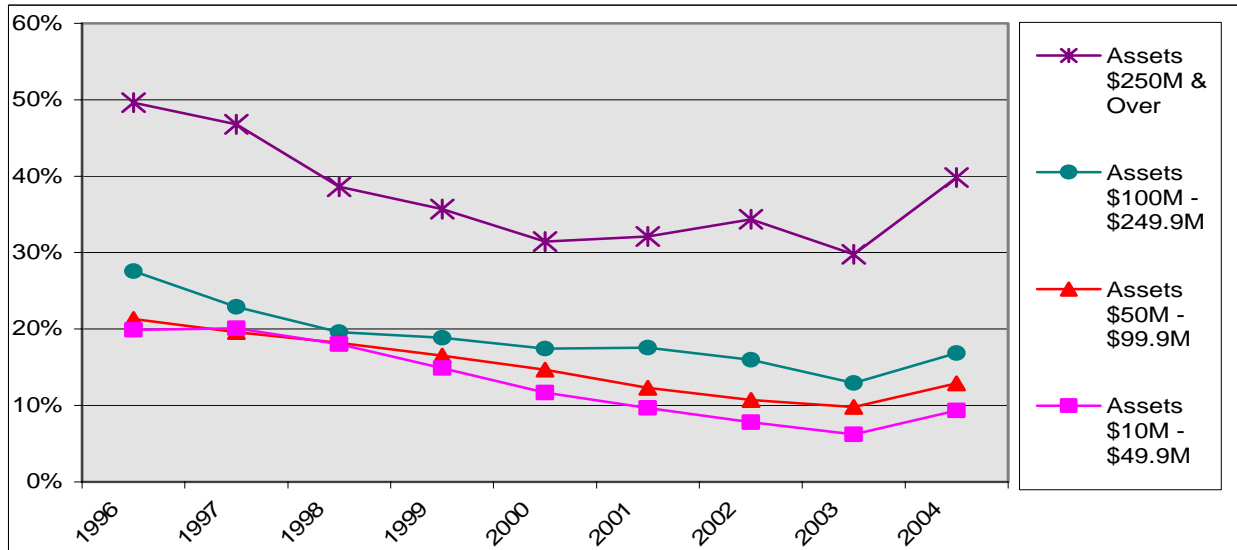
Trends in Compliance Activities Through Fiscal Year 2004

Figure 35. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets Under \$10 Million. During FY 2004, the percentage of corporate tax returns with no balance sheet or assets under \$10 million that were examined decreased.



Source: TIGTA Analysis of IRS Data Book Information.

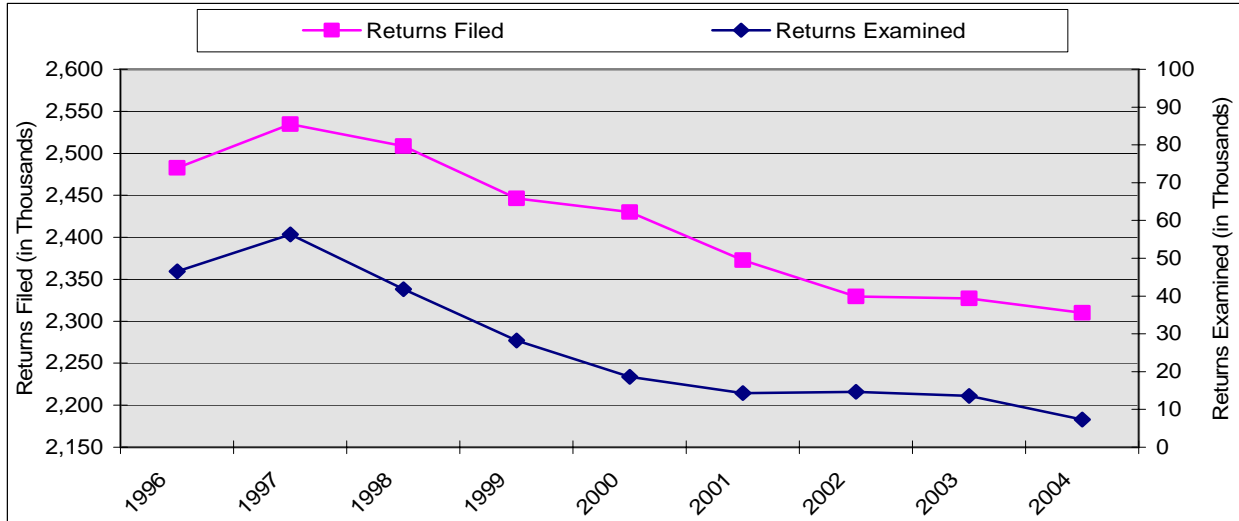
Figure 36. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets \$10 Million and Over. During FY 2004, the percentage of corporate tax returns examined in the asset classes \$10 million and over increased between 3 and 10 percent.



Source: TIGTA Analysis of IRS Data Book Information.

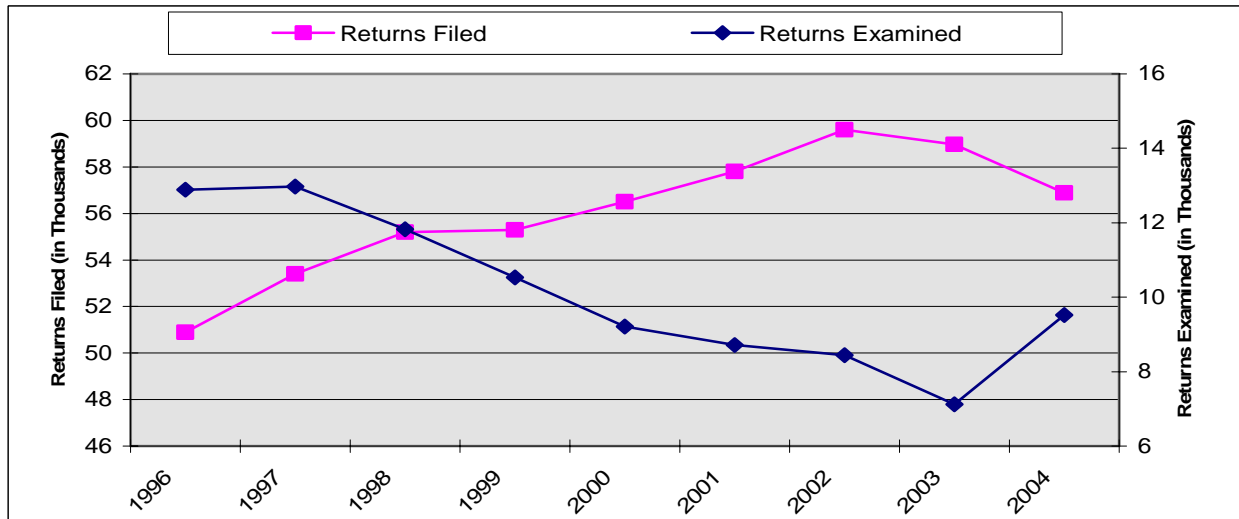
Trends in Compliance Activities Through Fiscal Year 2004

Figure 37. Examination Coverage of Corporations With Assets Under \$10 Million. The number of corporate tax returns filed with assets under \$10 million dropped less than 1 percent during FY 2004, but the number of tax returns examined decreased by 46 percent.



Source: TIGTA Analysis of IRS Data Book Information.

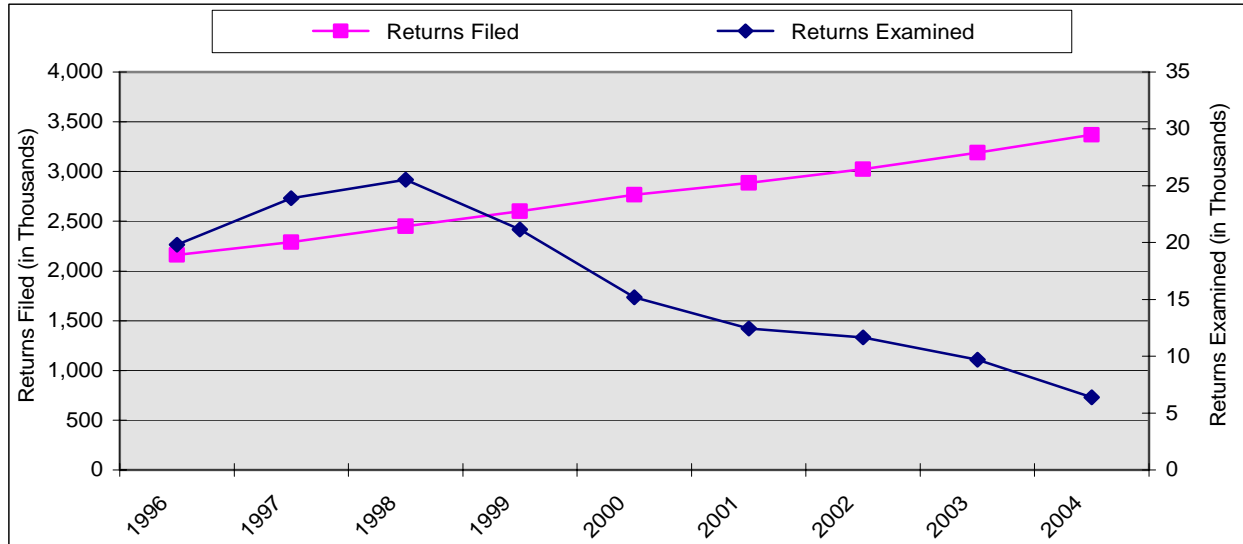
Figure 38. Examination Coverage of Corporations With Assets \$10 Million and Over. During FY 2004, the number of corporate tax returns filed with assets \$10 million and over decreased 4 percent while the number of returns examined **increased** 34 percent.



Source: TIGTA Analysis of IRS Data Book Information.

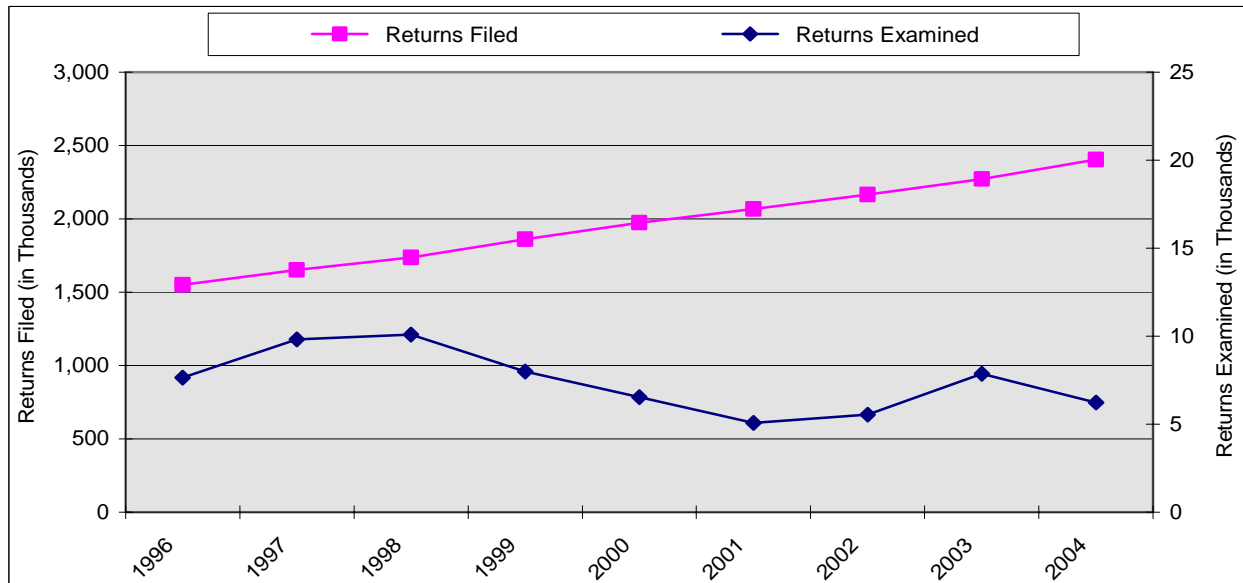
Trends in Compliance Activities Through Fiscal Year 2004

Figure 39. Examination Coverage of U.S. Income Tax Return for an S Corporation (Forms 1120S). The upward trend in the number of Forms 1120S filed continued in FY 2004, with a 6 percent increase from FY 2003. During the same time period, the number of examinations decreased by 34 percent.



Source: TIGTA Analysis of IRS Data Book Information.

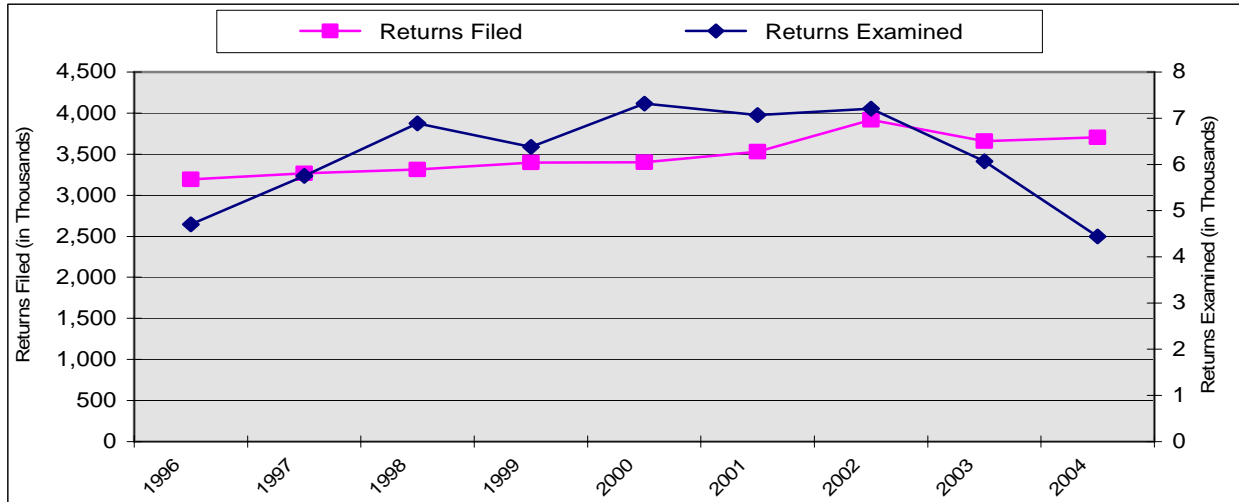
Figure 40. Examination Coverage of Partnership Income Tax Returns. The number of partnership tax returns filed continued to increase at the rate of about 100,000 per year since FY 1996 to 2.4 million in FY 2004. During FY 2004, the number of returns examined decreased 21 percent, only 1 out of every 386 partnership returns is examined.



Source: TIGTA Analysis of IRS Data Book Information.

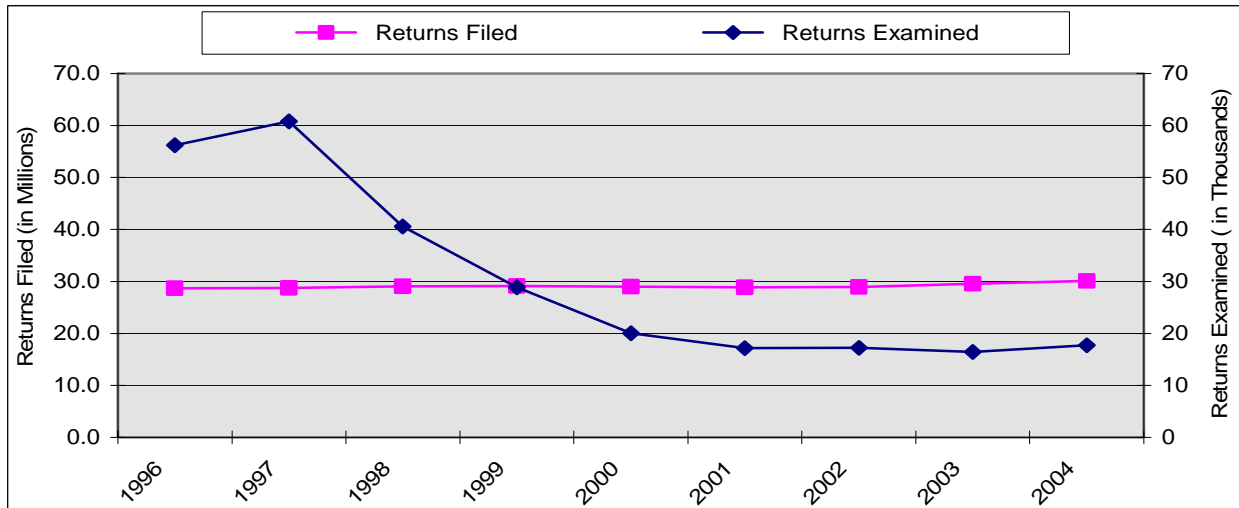
Trends in Compliance Activities Through Fiscal Year 2004

Figure 41. Examination Coverage of Fiduciary Income Tax Returns. During FY 2004, the number of income tax returns filed by estates and trusts increased slightly, but the number of tax returns examined decreased by 27 percent. As a result, only 1 out of every 835 fiduciary income tax returns is examined.



Source: TIGTA Analysis of IRS Data Book Information.

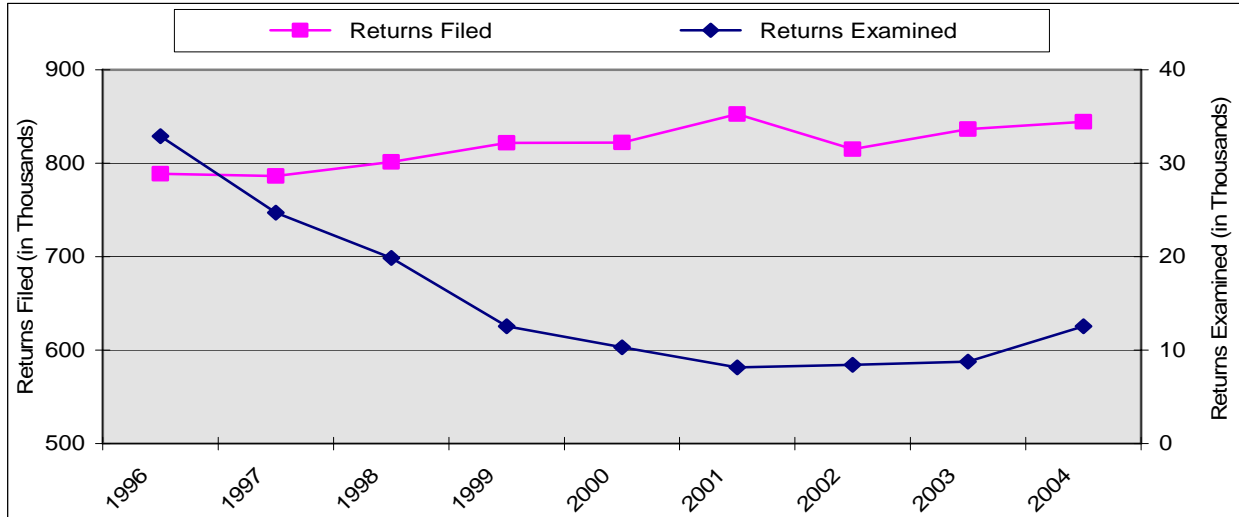
Figure 42. Examination Coverage of Employment Tax Returns. During FY 2004, the number of employment tax returns filed increased by 2 percent and the number of tax returns examined increased by 8 percent. However, examination coverage is only 0.06 percent.



Source: TIGTA Analysis of IRS Data Book Information.

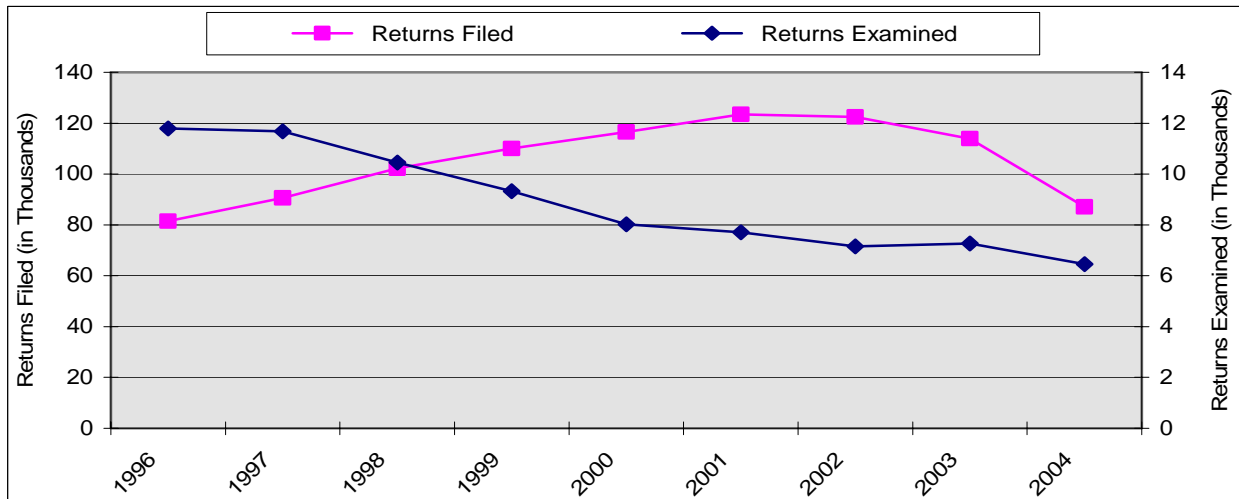
Trends in Compliance Activities Through Fiscal Year 2004

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 43 percent during FY 2004.



Source: TIGTA Analysis of IRS Data Book Information.

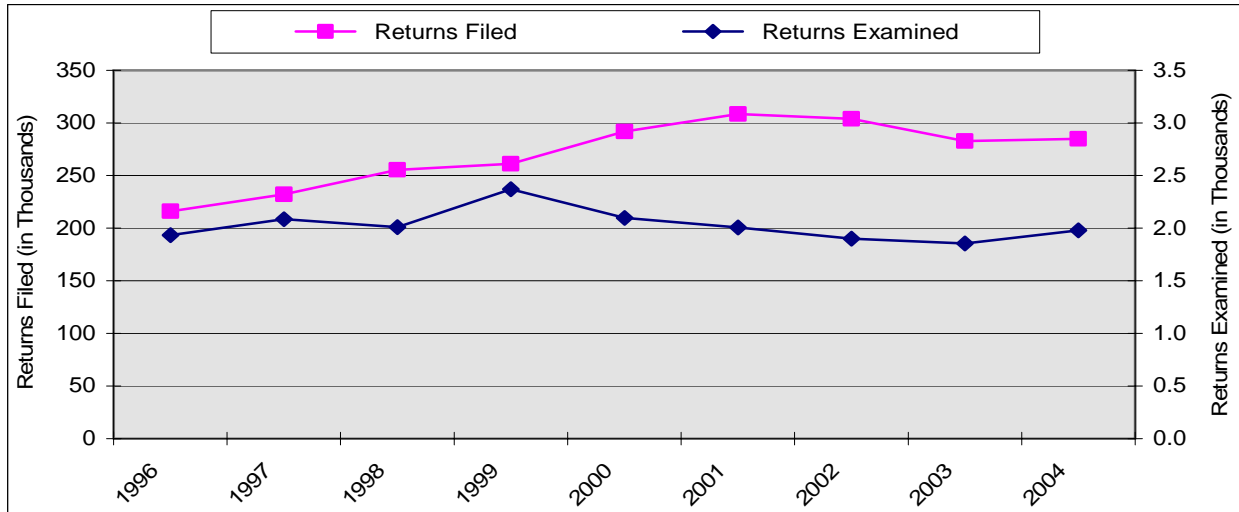
Figure 44. Examination Coverage of Estate Tax Returns. During FY 2004, the number of estate tax returns filed decreased by 24 percent and the number of returns examined decreased by 11 percent. As a result, the percentage of Estate Tax Returns examined increased by 1 percent.



Source: TIGTA Analysis of IRS Data Book Information.

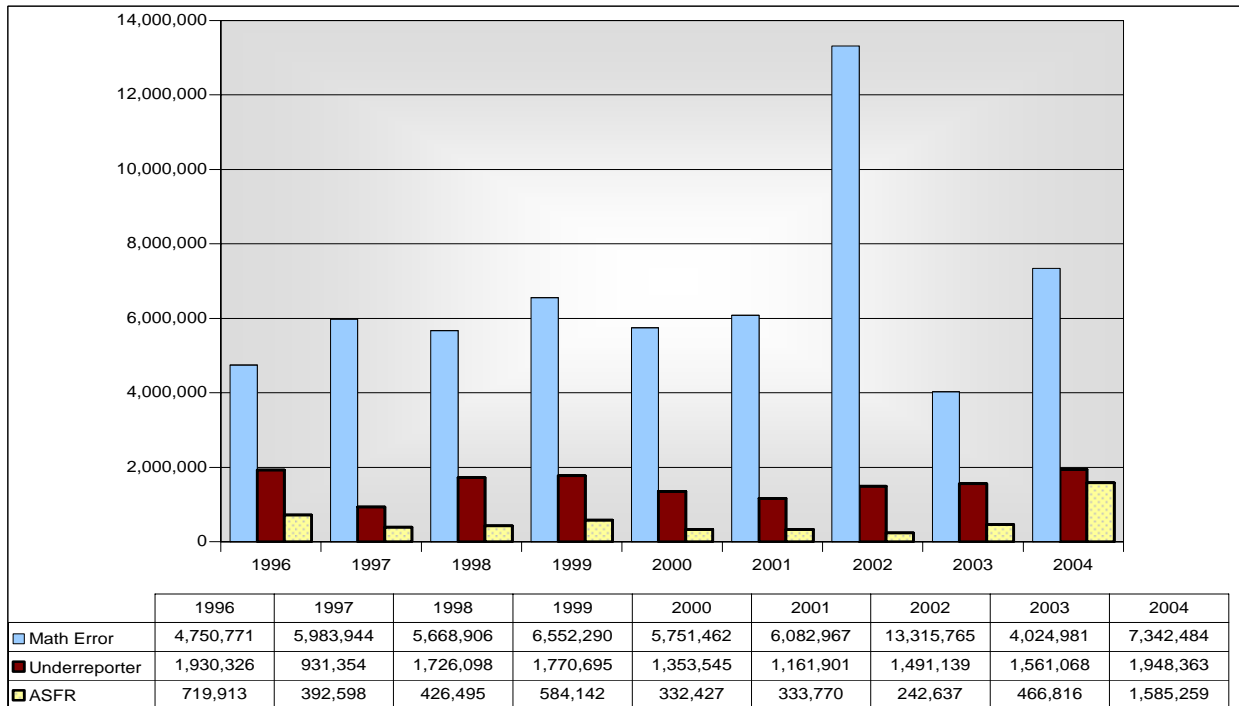
Trends in Compliance Activities Through Fiscal Year 2004

Figure 45. Examination Coverage of Gift Tax Returns. In FY 2004, the number of gift tax returns filed increased slightly, but the number of returns examined increased by 7 percent.



Source: TIGTA Analysis of IRS Data Book Information.

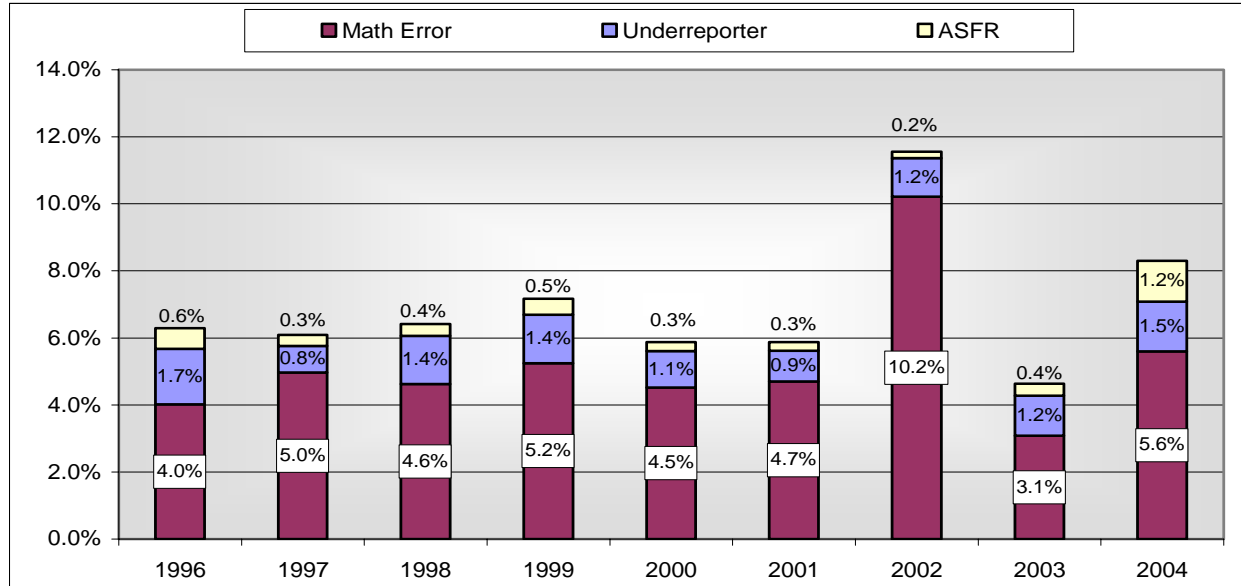
Figure 46. Other Compliance Contacts on Forms 1040. The number of contacts increased for all types of other compliance contacts during FY 2004. The spike in Math Error cases for FY 2002 was the result of taxpayer confusion over the Rate Reduction Credit. Over half of the Math Error cases during FY 2004 were due to child tax credit issues.



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

Trends in Compliance Activities Through Fiscal Year 2004

Figure 47. Other Compliance Contacts – Percentage of Coverage on Forms 1040. The levels of coverage increased for all three types of other compliance contacts for FY 2004. The Math Error aberration in FY 2002 was explained in Figure 46.



Source: TIGTA Analysis of “Report to Congress: IRS Tax Compliance Activities” (dated July 15, 2003) and IRS Data Book Information for data after FY 2002.

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	FY 2004
Math Error	4,750,771	5,983,944	5,668,906	6,552,290	5,751,462	6,082,967	13,315,765	4,024,981	7,342,484
Coverage Rate	4.01%	4.97%	4.63%	5.25%	4.53%	4.70%	10.22%	3.08%	5.59%
Underreporter	1,930,326	931,354	1,726,098	1,770,695	1,353,545	1,161,901	1,491,139	1,561,068	1,948,363
Coverage Rate	1.66%	0.79%	1.43%	1.44%	1.08%	0.91%	1.15%	1.20%	1.49%
ASFR	719,913	392,598	426,495	584,142	332,427	333,770	242,637	466,816	1,585,259
Coverage Rate	0.62%	0.33%	0.35%	0.48%	0.27%	0.26%	0.19%	0.36%	1.21%

Source: TIGTA Analysis of “Report to Congress: IRS Tax Compliance Activities” (dated July 15, 2003) and IRS Data Book Information for data after FY 2002.

Trends in Compliance Activities Through Fiscal Year 2004

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	FY 2004
Forms 1040A <\$25,000									
Returns Examined	921,820	659,094	515,015	600,949	256,650	357,954	289,136	182,222	168,887
Coverage Rate	2.00%	1.44%	1.14%	1.36%	0.60%	0.86%	0.71%	0.51%	0.50%
Forms 1040 - Non-Business									
Returns Examined < \$25,000	155,125	157,978	104,050	76,215	51,567	55,624	90,781	197,005	245,470
Coverage Rate	1.17%	1.21%	0.81%	0.58%	0.37%	0.40%	0.64%	1.09%	1.26%
Returns Examined \$25,000 & < \$50,000	259,794	196,489	165,168	103,340	63,742	67,109	71,966	94,825	135,041
Coverage Rate	0.95%	0.70%	0.58%	0.36%	0.21%	0.22%	0.23%	0.30%	0.43%
Returns Examined \$50,000 & < \$100,000	196,582	140,330	121,384	77,698	51,954	53,433	69,620	105,400	113,944
Coverage Rate	1.16%	0.77%	0.62%	0.37%	0.23%	0.23%	0.28%	0.41%	0.44%
Returns Examined \$100,000 and over	129,320	119,575	100,079	80,038	68,616	64,259	80,483	106,565	151,969
Coverage Rate	2.85%	2.27%	1.66%	1.14%	0.84%	0.69%	0.75%	0.98%	1.39%
Forms 1040 - Schedule C									
Returns Examined < \$25,000	102,558	78,553	60,023	68,450	61,695	69,332	67,876	81,541	92,855
Coverage Rate	4.21%	3.19%	2.37%	2.69%	2.43%	2.72%	2.67%	3.00%	3.15%
Returns Examined \$25,000 & < \$100,000	87,691	80,861	58,877	42,391	31,226	34,650	40,530	46,927	53,477
Coverage Rate	2.85%	2.57%	1.82%	1.30%	0.93%	1.02%	1.18%	1.33%	1.47%
Returns Examined \$100,000 and over	71,050	73,049	59,728	44,945	28,781	24,080	29,848	30,738	39,124
Coverage Rate	4.09%	4.13%	3.25%	2.40%	1.48%	1.20%	1.45%	1.47%	1.86%
Forms 1040 - Schedule F									
Returns Examined < \$100,000	7,944	5,868	3,949	2,832	1,384	2,104	1,709	1,997	3,104
Coverage Rate	1.59%	1.28%	0.93%	0.68%	0.35%	0.55%	0.47%	0.57%	0.91%
Returns Examined \$100,000 and over	9,662	7,446	4,507	3,415	2,150	3,211	1,932	2,076	4,003
Coverage Rate	3.61%	2.75%	1.63%	1.23%	0.80%	1.18%	0.72%	0.78%	1.61%

Source: TIGTA Analysis of IRS Data Book Information.

Trends in Compliance Activities Through Fiscal Year 2004

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

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Corporations < \$10 Million	46,568	56,323	41,818	28,268	18,623	14,332	14,655	13,608	7,294
Coverage Rate	1.88%	2.22%	1.67%	1.16%	0.77%	0.60%	0.63%	0.58%	0.32%
Corporations \$10 Million and Over	12,891	12,972	11,830	10,537	9,212	8,718	8,443	7,125	9,523
Coverage Rate	25.33%	24.29%	21.43%	19.05%	16.30%	15.08%	14.17%	12.08%	16.74%
1120S	19,490	23,898	25,522	21,169	15,200	12,437	11,646	9,695	6,402
Coverage Rate	0.92%	1.04%	1.04%	0.81%	0.55%	0.43%	0.39%	0.30%	0.19%
Partnerships	7,636	9,811	10,082	7,991	6,539	5,070	5,543	7,871	6,226
Coverage Rate	0.49%	0.59%	0.58%	0.43%	0.33%	0.25%	0.26%	0.35%	0.26%
Fiduciaries	4,701	5,753	6,890	6,382	7,318	7,070	7,206	6,068	4,438
Coverage Rate	0.15%	0.18%	0.21%	0.19%	0.22%	0.20%	0.18%	0.17%	0.12%
Employment	56,195	60,799	40,595	28,898	20,074	17,163	17,252	16,408	17,698
Coverage Rate	0.20%	0.21%	0.14%	0.10%	0.07%	0.06%	0.06%	0.06%	0.06%
Excise	32,900	24,701	19,858	12,562	10,294	8,169	8,426	8,756	12,560
Coverage Rate	4.17%	3.14%	2.48%	1.53%	1.25%	0.96%	1.03%	1.05%	1.49%
Estates	11,794	11,686	10,451	9,319	8,024	7,707	7,151	7,265	6,455
Coverage Rate	14.47%	12.90%	10.22%	8.46%	6.89%	6.24%	5.84%	6.38%	7.41%
Gift	1,934	2,085	2,010	2,369	2,097	2,005	1,899	1,855	1,979
Coverage Rate	0.89%	0.90%	0.79%	0.91%	0.72%	0.65%	0.63%	0.66%	0.69%

Source: TIGTA Analysis of IRS Data Book Information.

**Related Treasury Inspector General for Tax Administration
Audit Reports**

Prior Compliance Trends Reports:

- *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (Reference Number 2000-30-075, dated May 2000).
- *Management Advisory Report: Tax Return Filing and Examination Statistics* (Reference Number 2001-30-175, dated September 2001).
- *Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001* (Reference Number 2002-30-184, dated September 2002).
- *Trends in Compliance Activities Through Fiscal Year 2002* (Reference Number 2003-30-078, dated March 2003).
- *Trends in Compliance Activities Through Fiscal Year 2003* (Reference Number 2004-30-083, dated April 2004).

Collection Reengineering Reports:

- *The New Risk-Based Collection Initiative Has the Potential to Increase Revenue and Improve Future Collection Design Enhancements* (Reference Number 2004-30-165, dated September 2004).
- *The Revised Collection Case Selection Criteria That Expedites Trust Fund Workload to the Field Appears Effective* (Reference Number 2004-30-173, dated September 2004).
- *Implementation of the Collection Field Function Consultation Initiative Was Carefully Coordinated, but Some Aspects Could Be Enhanced* (Reference Number 2005-30-011, dated November 2004).

Examination Reengineering Reports:

- *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).
- *Many Aspects of the Field Examination Reengineering Pilot Were Effectively Implemented; However, Continued Monitoring Is Needed During the Nationwide Rollout* (Reference Number 2004-30-116, dated June 2004).
- *The High Income Taxpayer Strategy Was Effectively Implemented, Although Its Success Still Needs to Be Determined* (Reference Number 2005-30-012, dated November 2004).