

April 2000

**TAX
ADMINISTRATION**

**Multiple Collection
Notices Sent to
Individual Taxpayers**





G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-284257

April 14, 2000

The Honorable Bill Archer
Chairman, Committee on Ways and Means
House of Representatives

The Honorable Amo Houghton
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Annually, the Internal Revenue Service (IRS) sends millions of collection notices to individual taxpayers to request payment of tax assessments and the related penalty and interest assessments. IRS is to send additional collection notices if payment has not been made. Some taxpayers have complained to Congress that IRS sends collection notices for the same tax assessment after the payment has been made. When IRS sends collection notices after payments are made, IRS incurs greater costs and taxpayers may incur greater burdens than necessary.

Because of your interest in minimizing unnecessary costs for IRS and burdens for individual taxpayers, you asked us to provide information about multiple collection notices. On the basis of discussions with your office, our objectives were to determine (1) how many individual taxpayers were sent multiple notices to collect the same tax assessment, particularly after IRS received full payment of the assessment and (2) IRS' reasons for sending collection notices after receiving full payment. To fulfill these objectives, we analyzed transcripts containing information from IRS' Individual Masterfile (IMF) for a representative random sample of taxpayers to whom IRS sent collection notices from January 1999 through November 1999. We also talked to responsible IRS officials to obtain their views.

Results in Brief

Of the 14.8 million individual taxpayers who were sent IMF collection notices from January 1999 through November 1999, about 5.8 million (39 percent) were sent multiple collection notices for the same assessment.¹ IRS sent multiple notices to about 5.5 million (95 percent) of these taxpayers because, according to IRS records, it had not received payment

¹The 95-percent confidence interval for this estimate ranges from 5.4 million to 6.3 million taxpayers and from 36.2 percent to 42.3 percent.

of the tax assessments in full.² According to IRS' records, the remainder of these taxpayers, about 270,000 (5 percent),³ were sent at least one notice after IRS had received full payment of the assessments.⁴

IRS provided three basic reasons to explain why it sent notices after full payments to the estimated 270,000 taxpayers. Some taxpayers paid too late to stop a subsequent notice. Others paid on time, but IRS did not record the payments soon enough to stop a subsequent notice. In addition, for some taxpayers, an error by IRS or the taxpayer, such as recording a payment in the wrong account or using the wrong Social Security Number, led to IRS' sending a notice after full payment. IRS has not identified the root causes for all of these errors.

Background

An assessment is a formal bookkeeping entry that IRS makes to record the amount of tax, penalty, or interest charged to a taxpayer's account. An assessment establishes the taxpayer's liability for the unpaid amount as well as IRS' right to collect. Taxpayers essentially assess their own tax liabilities when they file an original or amended tax return. Also, IRS may assess additional tax liabilities through various enforcement efforts, such as computerized checks or audits of tax returns.⁵

If taxpayers do not pay these tax assessments as well as any related penalty and interest assessments, IRS is to send collection notices to the taxpayers. The notice process starts shortly after IRS records the assessments with a collection notice, known as a balance-due notice. If taxpayers do not fully pay all assessed amounts after this balance-due notice is sent, IRS is to send up to three additional notices at 5-week intervals. If taxpayers have not fully paid the assessed amounts after these notices are sent, IRS may use other means to collect the unpaid assessments, such as phone calls and visits by IRS staff.

²The 95-percent confidence interval for this estimate ranges from 5.1 million to 6 million taxpayers and from 92.6 percent to 97.2 percent.

³Our estimate of 270,000 taxpayers who were sent at least one notice after IRS had received full payment is based on our analysis of a sample of taxpayers. In commenting on a draft of this report, IRS presented the possibility that notices were not sent to a few of these taxpayers; however, IRS acknowledged that it did not have the data available to show whether these notices were sent. (See our discussion of IRS' comments at the end of this letter.)

⁴The 95-percent confidence interval for this estimate ranges from 150,000 to almost 400,000 taxpayers and from 2.6 percent to 6.8 percent.

⁵Before it can formally record such an additional assessment, IRS is required to notify the taxpayer of the proposed additional assessment and give the taxpayer the opportunity to challenge the proposed assessment through IRS' Office of Appeals or the U.S. Tax Court.

IRS sends many types of notices other than collection notices. For example, IRS sends inquiry letters requesting information from taxpayers, notices proposing changes to the tax assessment reported on the tax return, notices reminding taxpayers of an agreement to pay their assessments in installments, and overpayment notices telling taxpayers that they paid too much. These other types of notices were not included in the scope of our work because IRS maintains only limited information on them.

Scope and Methodology

To determine how many individual taxpayers were sent multiple notices to collect the same tax assessment, and how many were sent a collection notice after IRS received full payment,⁶ we analyzed information on a national representative random sample of 975 taxpayers from 14.8 million individual taxpayers who were sent at least one IMF collection notice from January through November 1999. For each taxpayer in our sample, we reviewed IMF transcripts to determine when and how often IRS sent collection notices for the same tax assessment and the taxpayer's payment history.

Because the estimates we developed are from a sample, they are approximate, and we have provided the confidence intervals. Appendix I further describes our sampling approach and the limitations of our methodology. Appendix II lists the types of IMF collection notices that we included in our sample.

To determine IRS' reasons for sending collection notices to individual taxpayers who had paid their tax assessments in full, we used the notice dates and payment histories from the IMF transcripts for the taxpayers in our sample who had been sent multiple notices. When we identified taxpayers who did not have a balance due for an assessment for which a collection notice was sent, we asked IRS officials to explain why IRS continued to send them collection notices. IRS has not identified the root causes for all of these errors.

We did our work at IRS' National Office in Washington, D.C., and New Carrollton, MD, and at IRS' Kansas City Service Center. Our work was done from November 1999 through February 2000 in accordance with generally accepted government auditing standards.

⁶We did not include taxpayers who received a notice after full payment of penalty or interest assessments only.

On April 4, 2000, we received written comments from IRS on a draft of this report. IRS' comments are discussed at the end of this letter and are reprinted in appendix III.

Multiple Collection Notices for the Same Tax Assessment

IRS sent at least one IMF collection notice to 14.8 million individual taxpayers from January through November 1999. We estimate that IRS sent multiple collection notices to 5.8 million (39 percent) of these taxpayers. An estimated 5.5 million (95 percent) of the 5.8 million taxpayers were sent multiple collection notices for the same assessment because, according to IRS records, IRS had not received payment of the tax assessments in full. According to IRS' records, the remaining estimated 270,000 taxpayers (5 percent) were sent at least one collection notice after IRS had received full payment of the tax assessments.

Table 1 shows the estimated number and percentage of individual taxpayers who were sent multiple IMF collection notices for the same tax assessment from January through November 1999, by payment history.

Table 1: Taxpayers Sent Multiple Collection Notices for the Same Assessment

Tax assessment payment history	Estimated ^a	
	Number	Percent
Made no payment or partial payment ^b	5,540,000 ^c	95.3
Made full payment ^d	270,000	4.7
Total	5,810,000	100.0

Note: From January through November 1999.

^aThese estimates were developed from a sample; thus, they are approximate and are surrounded by confidence intervals that have been provided.

^bBefore IRS sent a multiple collection notice, taxpayers had not made any payments or had only made partial payments on the tax assessment in question. Partial payments include tax amounts withheld, transferred payments from another tax year, and payments that were less than the full amount of the assessment.

^cWe cannot separately report the estimated numbers for no payments and partial payments because some taxpayers received a collection notice after making no payment as well as after making a subsequent partial payment.

^dBefore IRS sent a collection notice, taxpayers had fully paid the assessment.

Source: GAO analysis of IRS transcripts from its IMF.

IRS' Reasons for Sending Collection Notices After Receiving Full Payment

Our review of IRS transcripts for taxpayers in our sample and our discussions with IRS officials identified three basic reasons for sending one or more collection notices to the estimated 270,000 taxpayers after they had paid their tax assessments in full:

- Taxpayers sent their payments too late to stop a subsequent notice.
- IRS received the payments on time, but did not record them soon enough to stop a subsequent notice.

-
- IRS or taxpayers made errors, such as recording a payment in the wrong account or using the wrong Social Security Number.

We identified 18 taxpayers in our sample to whom IRS sent a notice after they had paid their tax assessments in full.⁷ Nine of these taxpayers did not send their payments to IRS on time to stop the subsequent collection notices. For seven of the nine taxpayers, the transcripts indicated that the taxpayers missed the deadline set forth in their notice by a week or less.

For 2 of the 18 taxpayers, IRS received the payments on time but did not record them in the IMF soon enough to prevent another collection notice from being sent. IRS officials said that outdated, poorly linked IRS computers could create up to a 2-week delay between receiving a payment and recording it on the IMF. Recording the payment on the IMF is necessary to stop issuance of another collection notice. Knowing of this delay, IRS has built a 2-week time lag into the 5-week period between notices.

Our analysis of the time period between the date a payment was received by IRS and the date of the next collection notice indicated that this 2-week time lag seemed to be sufficient in almost all cases. According to IRS officials, for cases in which this lag is not sufficient, IRS uses its Notice Review System to stop notices from being sent when payments have been received but not recorded. IRS does not have available records after these accounts have been paid in full to identify those notices that were reviewed and stopped.

IRS is developing a new system with the capability to eliminate this recording delay by replacing two IRS systems that deal with the receipt of payments. However, this new system will not be available for another 5 to 7 years, as part of IRS' major, long-term effort to modernize all of its computer systems.

Finally, for 7 of the 18 taxpayers, IRS or taxpayers caused some type of error in processing or recording the payments on the IMF. IRS has not identified the root causes of these errors. However, our discussions with

⁷These 18 taxpayers in our sample are the basis for our estimate of the 270,000 taxpayers who were sent a notice after they had paid their assessments in full from the population of individual taxpayers who were sent IMF collection notices from January 1999 through November 1999. We have not given estimates of the percentage of taxpayers who received a collection notice after full payment for each of the three reasons because of the small number of cases in our sample.

IRS officials about the transcripts for these cases indicated that IRS probably caused the errors in four of these cases by

- recording a payment months after its receipt, or
- incorrectly reversing a payment entry that had been properly recorded in a taxpayer's account.

These IRS officials said that taxpayers or IRS could have caused the errors for the other three taxpayers. The officials said that, in these cases, a payment was posted to the wrong account when either the taxpayers provided or IRS employees entered the wrong Social Security Number.

Agency Comments and Our Evaluation

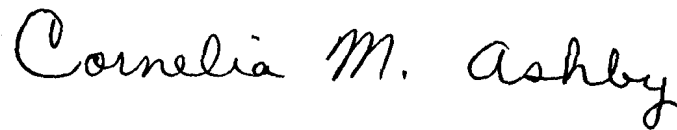
In a letter dated April 4, 2000 (see app. III), IRS said that our report mirrored IRS' concerns about the burdens on taxpayers and the costs to IRS from sending unnecessary notices. IRS also acknowledged our report's discussion of its efforts to develop a new system dealing with the receipt of payments. IRS said that it is committed to sending notices that provide accurate information and that clearly and concisely tell taxpayers what is expected of them.

IRS also commented that its Notice Review System was to identify pending notices when IRS received payments on time but did not record the payments soon enough to stop a subsequent notice from being generated. Of the 18 multiple collection notices we identified as being mailed, two of them met this condition. IRS believes its system, which relies on reviews by IRS employees, could have stopped these notices from being mailed. However, IRS acknowledged that once the accounts are paid in full, it does not have historical data available to support this belief and show those notices that were reviewed and stopped.

We are sending copies of this report to Representative Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means; Representative William J. Coyne, Ranking Minority Member, Subcommittee on Oversight, House Committee on Ways and Means; and Senator William V. Roth, Jr., Chairman, and Senator Daniel P. Moynihan, Ranking Minority Member, Senate Committee on Finance. We are also sending copies to the Honorable Lawrence H. Summers, Secretary of the Treasury; the Honorable Charles O. Rossotti, Commissioner of Internal Revenue; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. Copies of this report will be made available to others upon request.

If you have any questions regarding this letter, please contact me or Tom Short at (202) 512-9110. Key contributors to this assignment are acknowledged in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Cornelia M. Ashby". The signature is written in a cursive style with a large initial 'C' and a long, sweeping tail on the 'y'.

Cornelia M. Ashby
Associate Director, Tax Policy and
Administration Issues

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	Table 1: Taxpayers Sent Multiple Collection Notices for the Same Assessment

Abbreviations

IDRS	Integrated Data Retrieval System
IMF	Individual Masterfile
IRS	Internal Revenue Service

Scope and Methodology

To identify individual taxpayers who were sent multiple notices to collect the same tax assessment, particularly after IRS received full payment of the assessment, we identified 14,792,622 taxpayers who were sent at least one Individual Masterfile (IMF) collection notice¹ during the first 49 weeks of 1999.² These taxpayers had accounts that (1) were fully paid or otherwise resolved, such as through abatements, or (2) still owed a balance due (i.e., the taxpayers had not paid all assessments and were to be sent notices to collect the unpaid amounts). The IMF showed these taxpayers were sent 19,447,076 collection notices; thus, some of them were sent more than one such notice about the same tax assessment.³

To obtain more complete information on the number of collection notices sent about the same tax assessment, we examined transcripts of information from the IMF for a nationally representative sample of individual taxpayers. We drew a simple random sample of 1,000 taxpayers from the 14,792,622 taxpayers. IRS was able to locate transcripts for 975 of these taxpayers.

We reviewed the IMF transcripts to determine (1) how often IRS sent multiple collection notices on the same tax assessment and (2) the payment history of the taxpayers. This history can range from no payment of the tax and related assessments to full payment of the assessments. Knowing the payment history of taxpayers provides an indicator of whether the multiple notices were necessary and helps to identify the reasons for multiple notices.

The transcripts for the 975 taxpayers showed that 383 taxpayers had been sent more than one notice about the same tax assessment. Of the 383 taxpayers, the transcripts showed 18 taxpayers had been sent at least one IMF collection notice after the relevant tax assessment had been fully paid. Based on this finding of 18 sampled taxpayers, we estimate that during the 49-week period, approximately 270,000 taxpayers across the nation were sent an IMF collection notice after full payment. The 18 taxpayers do not include those who were sent a notice after full payment for only penalty or interest assessments.

¹IRS provided us with a list of all IMF notices sent during the first 49 weeks of 1999. We identified 22 types as collection notices. These types of notices are listed in app. II.

²We used 49 weeks because of our reporting commitment. A later check of the types of notices issued for the other 3 weeks indicated that the 49-week period included 98 percent of the collection notices sent for the 22 types during the 52 weeks of 1999.

³We also found that some of the 14,792,622 taxpayers were sent collection notices during January–November 1999 about tax assessments from more than one tax year. A total of 18,085,471 tax returns were associated with all the tax years.

As the study is based on a sample, this and other estimates are subject to sampling errors that arise from the normal random variation that is expected among samples of the same type. For this estimate of about 270,000 taxpayers, we are 95-percent confident that between approximately 150,000 to 400,000 taxpayers were sent such notices. The 95-percent confidence interval for the 39-percent estimate of notified taxpayers sent multiple notices about the same tax assessment extends from about 36.2 to 42.3 percent. The 95-percent confidence interval for the 5-percent estimate of these taxpayers sent a collection notice after full payment extends from about 2.8 to 7.4 percent.

Our study's information about the number of taxpayers sent multiple collection notices is limited in two ways. First, IRS' computer data do not include all types of collection notices. As a result, we could not identify taxpayers that only received collection notices from the Integrated Data Retrieval System (IDRS), which is used to access and research computerized account data and to issue certain types of notices. IRS does not maintain computer data on all IDRS collection notices sent to taxpayers. However, IMF transcripts record certain IDRS notices sent. As a result, taxpayers who were sent only IDRS collection notices in 1999 were not included in our study.

Second, the number of individual taxpayers who were sent multiple collection notices, regardless of when they were sent, would be larger than our estimate for at least two reasons.

- Our timeframe was limited to 49 weeks of notices sent in 1999. A small proportion of taxpayers (less than 305,000 of about 15 million for all of 1999) had their first collection notice transactions posted to the IMF in the remaining 3 weeks of 1999.
- Some of our study population's taxpayers, especially those sent their first notice at the end of our study period, could have been sent notices after this period. Although about 62 percent of the sample had been sent their first IMF collection notice six or more months before the end of our study period, about 19 percent were sent their first notice less than 15 weeks before the closing date of the transcripts that we examined. This is not sufficient time for the standard set of three notices that IRS is to send at 5-week intervals when taxpayers do not pay their assessments.

We did not extend our period of data collection to identify more possible notice postings because of our reporting commitment. We did not adopt the alternative of studying taxpayers who were sent 1998 notices because such a study would have provided less current information.

Types of IMF Collection Notices Included in Our Sample

Notice number	Description of the notice
11	Computation error on return
11A	Computation error on return because earned income credit was disallowed due to issues with a Social Security Number or taxpayer identification number
14	Balance due, no math error
14E	Variation of 14
18	Portion of refund is being retained due to an unallowable item on the return
21	Examination and data processing adjustment notices for accounts in which taxpayer has not paid an amount due
21A	Variation of 21
21E	Variation of 21
22	Examination and data processing adjustment notices for accounts in which taxpayer has no unpaid amounts
22A	Variation of 22
22E	Variation of 22
23	Estimated tax credits claimed on return do not agree with IRS records
51	IRS computation of tax on Forms 1040EZ, 1040, and 1040A in absence of taxpayer computation
60	Credit reversal adjustment on account
71	Remind taxpayer of a balance of tax due
71A	Variation of 71
71C	Variation of 71
71D	Variation of 71
711	Spanish variation of notice number 11
714	Spanish variation of notice number 14
721	Spanish variation of notice number 21
722	Spanish variation of notice number 22

Source: IRS IMF.

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

April 4, 2000

Ms. Cornelia M. Ashby
Associate Director, Tax Policy and
Administration Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ashby:

Thank you for the opportunity to review and comment on General Accounting Office's (GAO) draft report entitled "Tax Administration: Multiple Collection Notices Sent to Individual Taxpayers" (Job Code 268900). The report mirrors our concerns for minimizing the burdens placed on our taxpayers and the costs of sending unnecessary notices to them. I am pleased you noted our modernization effort to develop a system that will replace the current Internal Revenue Service (IRS) systems dealing with receipt of payments.

I would like to make an additional comment about our Notice Review System and its limitations. Our system identifies notices where IRS received the payments on time, but did not record the payments soon enough to stop a subsequent notice. We identify notices from accounts with pending transactions using a Pending Transactions Register. Field employees determine whether the subsequent notice should be mailed. If the employee determines the notice should not be mailed, the employee makes a note in the "History Section" of each taxpayer's individual account on the IRS computer system and then destroys the notice. This notation lists the notice number and states "Notice Voided." Once an account is paid in full, the "History Section" is no longer available to view. The accounts presented to us by GAO were paid in full, and we could not view the "History Section." It is impossible to determine the cause of the error without requesting information from the taxpayer and thereby placing an additional burden on them. However, we believe these notices were not mailed.

We are continually placing emphasis on quality throughout all levels of our organization. We are implementing procedures for our employees to make their jobs easier, while ensuring accuracy in their work. As part of our balanced measurement system, we stress the importance of the quality of our work and work processes. We are committed to sending clear and concise notices to taxpayers detailing what is expected of them, while ensuring accuracy in the information contained in our notices.

Appendix III
Comments From the Internal Revenue Service

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Thank you for allowing me to comment on your draft report. If you have any questions, or require any additional information, please contact me or your staff may contact Robert C. Wilkerson, Assistant Commissioner (Customer Service), at (202) 622-5044.

Sincerely,


for *Bob Wilkerson*
Charles O. Rossotti

GAO Contacts and Staff Acknowledgments

GAO Contacts

Cornelia M. Ashby (202) 512-9110
Tom Short (202) 512-9110

Acknowledgments

In addition to those named above, Stephen Pruitt, James Slaterbeck, Thomas Venezia, Rodney Hobbs, James Fields, Anne Rhodes-Kline, James Ungvarsky, Samuel Scrutchins, Rose Dorlac, and Margarita Vallazza made contributions to this report.

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