

July 1999

TAX
ADMINISTRATION

IRS' Abatement
Process in Selected
Locations



General Government Division

B-282811

July 2, 1999

The Honorable Bill Archer
Chairman
The Honorable William V. Roth, Jr.
Vice Chairman
Joint Committee on Taxation

For fiscal years 1995 through 1998, the Internal Revenue Service (IRS) annually abated about \$30 billion in tax, penalty, and interest assessments in the tax accounts of individual and business taxpayers. Abatements reduce assessments and can occur for a variety of reasons, such as to correct errors made by IRS and taxpayers and to provide relief from penalties when taxpayers have reasonable cause for failing to comply with tax requirements. The process for making abatements is important for ensuring the equitable treatment of taxpayers across IRS' 10 service centers and 33 district offices.

In a letter dated February 2, 1999, you asked us to describe IRS' abatement process in order to help the Committee fulfill a requirement in the IRS Restructuring and Reform Act of 1998 to report on the administration of penalty and interest assessments by July 22, 1999.¹ On the basis of discussions with your office, our objectives were to describe (1) IRS' process for making abatements from initiation through final review in selected IRS locations and (2) IRS' efforts to improve the abatement process. As agreed with your office, the selected locations were the Kansas City Service Center, Fresno Service Center, Kansas City District Office, and Northern California District Office.

Results in Brief

An abatement may be initiated by a request from a taxpayer or by IRS. Once initiated, IRS' abatement process depends on the type, complexity, and source of the assessment being abated. According to IRS officials, these factors determine the IRS work group, such as those that audit tax returns or answer taxpayer inquiries, that makes the abatement decision.² The work group, in combination with the type and complexity of the assessment being abated, influence the type and grade level of staff making abatement decisions, the criteria and supervisory review used to guide decisions, and the quality review done after the decisions are made.

¹As also requested in this letter, we have reported the number and amount of abatements of tax, penalty, and interest assessments for individual and business taxpayers. See [Tax Administration: IRS' Abatement of Assessments in Fiscal Years 1995-98](#) (GAO/GGD-99-77, June 4, 1999).

²For this report, "work group" is a generic term for branches and other offices.

IRS does not have quantitative data on details of the abatement process. An abatement is just one type of adjustment that IRS can make to taxpayer accounts. For example, IRS staff also adjust accounts to reflect the dates and amounts of various types of assessments and payments. Although it has data on the number and amount of abatements, IRS cannot extract any quantitative data about the abatement process from data on all types of adjustments. Determining the costs and benefits of collecting data on just the abatement process is beyond the scope of this report.

IRS' recent efforts to improve the abatement process have generally involved task forces that have been studying various IRS concerns, including, for example, the administration of penalties and treatment of taxpayers. Although the studies have not focused on abatements, they have produced some proposals that would affect the abatement process, such as the documentation required to support abatements.

During 1993-94, concerns about the inventory of tax debts prompted IRS to study abatements at its 10 service centers. This study identified 259 problems and referred 158 to various IRS work groups for analysis and implementation of any needed changes. IRS never formally released a final study.

Background

According to IRS records from its master files on individual and business returns, IRS annually abated, on average, about 10 million tax, penalty, and interest assessments, totaling nearly \$30 billion, in fiscal years 1995 through 1998. In fiscal year 1998, IRS abated 11.3 million assessments—3.1 million tax, 4.7 million penalty, and 3.5 million interest assessments. These abatements totaled about \$22.2 billion in tax, \$4.8 billion in penalty, and \$2.1 billion in interest assessments.

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 not only the taxpayer's liability for amounts due and unpaid, but also IRS' right to collect. Taxpayers essentially assess their taxes owed when they file their tax returns.³ IRS may assess additional taxes owed, as well as penalty and interest amounts, through an enforcement program.⁴ Taxpayers also may file an amended return or

³IRS records the assessment as the amount of tax reported on these filed returns.

⁴Before assessing a tax deficiency, IRS is required to provide the taxpayer with a notice of the proposed assessment. Upon receiving the notice, the taxpayer has 90 days (150 days if outside the United States) to file a petition with the Tax Court for a redetermination of the deficiency. Upon expiration of the filing period, IRS may assess the proposed deficiency.

otherwise notify IRS of an error, which may lead to additional assessments.

Section 6404 of the Internal Revenue Code (as well as various other sections) authorizes IRS to abate an assessment under certain conditions. For example, IRS abates an erroneous assessment, which can be caused by either IRS or the taxpayer.⁵ A taxpayer may make an error on the original tax return, such as not claiming deductions. Or, IRS may assess incorrect tax amounts as a result of errors made when matching income reported by taxpayers with income reported by third parties (such as employers) on payments made to the taxpayers.

IRS abates a tax assessment of the correct amount for various reasons. For example, as a result of an audit, IRS may correctly assess an additional tax amount for one tax year, but a taxpayer can carry back net operating losses incurred in other tax years to reduce the additional tax liability in that prior tax year. Also, IRS abates an unpaid assessment that involved the correct amount of tax owed but that was made after the time period allowed for assessing additional tax liabilities. Further, IRS abates multiple assessments of the correct amount after that amount is paid. In these cases, IRS assesses multiple taxpayers (such as partners or officers in a business) for the amount owed by the business, knowing that the extra assessments are to be abated after full payment is received.

Whenever IRS abates a tax assessment, any related penalty or interest assessments are also abated. Further, IRS abates certain penalties when a taxpayer provides a reasonable cause for failing to meet a responsibility, such as not paying a tax assessment or not filing a return on time. Reasonable causes can include illness or other nonfinancial hardships and reliance on incorrect written advice from IRS on technical issues. IRS also abates certain interest assessments that accrue, for example, because of

- an unreasonable error or delay by IRS in assigning staff to the case, sending notices to taxpayers, transferring a case to another IRS office, or performing other procedural or managerial actions and
- delays in filing income tax returns and paying taxes because of a natural disaster for those living in a presidentially-declared disaster area.

IRS' interactions with taxpayers on abatements and other types of adjustments to taxpayers' accounts usually occur through IRS' 10 service centers or 33 district offices. Major activities at the service centers include

⁵IRS does not track the amounts abated because of IRS errors or taxpayer errors.

processing tax returns and related tax schedules from taxpayers and information returns from third parties that report payments, such as wages and interest. In addition, service centers provide services to taxpayers, such as responding to taxpayer inquiries, as well as perform enforcement functions, such as audits and collection, usually through correspondence or the telephone. District offices also offer services to taxpayers as well as perform enforcement functions. IRS staff at the district offices are more likely to interact with taxpayers through face-to-face meetings because the issues tend to be more complex or otherwise require more explanation.

Scope and Methodology

To describe IRS' process for making abatements from initiation through final review in selected IRS locations, we talked to IRS National Office work groups that could make abatements and the IRS office that administers penalties. We reviewed the Internal Revenue Manual sections and other IRS documents that govern the abatement process. Our visits to two service centers and two district offices, as discussed below, also helped us describe the process.

Specifically, we visited an IRS service center and district office in the Kansas-Missouri area and a service center and district office in California. We chose these four locations in consultation with your office. We were able to do more work in some of the four locations, depending on which ones we visited first, the availability of data, and the responsiveness of IRS staff within the time frame of our review.

Given time constraints, we did not visit more service centers or district offices. As a result, we do not know how similar or different the process was at the other 8 service centers and 31 district offices. Nor did we attempt to determine whether (1) any differences in the abatement process at the two service centers and two district offices produced significant effects, particularly for similarly situated taxpayers; (2) IRS staff followed the process and related criteria in making abatement decisions; (3) the process was appropriate and adequately controlled;⁶ or (4) IRS should be collecting more quantitative data on its abatement process.

During each visit, we interviewed officials from IRS work groups that made abatements. We identified these groups from information provided by IRS' National Office and the four locations we visited. To confirm our understanding of the abatement process, we wrote summaries for each

⁶We did not evaluate IRS' controls for the abatement process because of time constraints and because we have another study under way that is addressing IRS' controls, including those for the abatement process.

location and received comments on these summaries from officials at each location as well as IRS' National Office. The summaries incorporating IRS' comments can be found in appendixes I-IV.

To describe IRS' efforts to improve the abatement process, we interviewed officials in IRS' National Office as well as selected staff in field offices who had worked on a task force or study that addressed abatements in some way. We also collected any available studies. As with our work on the abatement process, we asked the responsible IRS officials to comment on our summary of these efforts.

We performed our audit at IRS headquarters offices in Washington, D.C.; the Kansas City Service Center in Kansas City, MO; the Fresno Service Center in Fresno, CA; the Kansas-Missouri District Office in St. Louis, MO; and the Northern California District Office in Oakland, CA. Our work was done between February and June 1999 in accordance with generally accepted government auditing standards.

On June 22, 1999, we met with representatives of the IRS Commissioner from the Customer Service and Examination Divisions as well as the Taxpayer Advocate and Legislative Affairs Offices to obtain their comments on a draft of this report, which are discussed near the end of this letter.

IRS' Abatement Process Varied

At the two service centers and two district offices we visited, IRS' abatement process depended on the type, complexity, and source of the assessment being abated. The process varied in terms of (1) how abatements are initiated, (2) which IRS work groups make abatement decisions, (3) what level of staff makes the decisions, (4) what tools guide the decisions, and (5) how IRS reviews quality. We did not attempt to evaluate whether any variations in the process affected abatement decisions. Nor do we know how similar or different the process is at the other 8 service centers and 31 district offices.

IRS did not have quantitative data on the details of the abatement process, even though IRS' master files have data on the overall number and amount of abatements. An abatement is just one type of adjustment made to taxpayer accounts. IRS staff also adjust accounts to reflect the dates and amounts of various types of assessments, payments, and refunds. IRS cannot extract quantitative data about the abatement process from data on all types of adjustments. For example, IRS did not have data on the number of abatements made by type of IRS group and staff or reviewed by

IRS supervisors. Determining the costs and benefits of collecting such data on the abatement process was beyond the scope of this report.

Taxpayers and IRS Staff May Initiate Abatements

The two service centers and two district offices we visited did not track how the abatements were initiated. IRS officials, however, identified three basic ways of initiating abatements.

First, taxpayers can initiate a request (also known as claim) for an abatement by filing an amended tax return (e.g., Form 1040-X for individuals and Form 1120-X for corporations); by filing an IRS Form 843, Claim for Refund and Request for Abatement; by writing a letter; or by making a phone call. Taxpayers would generally initiate these requests to correct errors on the original return they filed or to seek relief from penalties when they have reasonable cause for failing to comply with tax requirements.

Second, taxpayers can request an abatement of an additional assessment generated by an IRS enforcement program.⁷ In these cases, the taxpayer would be responding to a notice about the assessment, such as a collection notice. These taxes might have been assessed because the taxpayer had not responded adequately to notices about the recommended assessment of additional tax amounts. For example, an audit may recommend additional assessments that the taxpayer did not challenge when the audit closed. The taxpayer might later decide to challenge the assessment and ask IRS for an abatement.⁸ Similarly, after receiving a notice of additional assessments, taxpayers may claim a reasonable cause for not timely paying the correct tax amount and ask IRS to abate certain types of penalties.

Third, in some cases, IRS staff can initiate the abatement. For example, an IRS auditor might find evidence that a taxpayer overstated the tax liability on the original tax return. This evidence could lead to an abatement, depending on the results from the rest of the audit.

⁷Section 6404 (b) of the Internal Revenue Code states that a taxpayer may not file a request for abatement of income, estate, or gift tax. Rather, a taxpayer should dispute these tax assessments by paying the tax and filing a request for a refund. IRS does, however, reduce some of these tax assessments without payment when the taxpayer requests an abatement of an audit assessment and provides support for the abatement. These requests are known as audit reconsiderations.

⁸Before IRS assesses additional taxes that an auditor recommends, a taxpayer can challenge the recommended assessment in Examination or IRS' Office of Appeals. Also, upon receiving a notice of a proposed assessment, a taxpayer has 90 days (150 days if outside the United States) to file a petition with the Tax Court. Some taxpayers, for whatever reasons, bypass these options, which results in the recommended taxes being assessed, along with related penalty and interest assessments.

Various IRS Work Groups Make Abatement Decisions

Various IRS work groups at the two service centers and two district offices we visited had the authority to abate assessments. According to IRS officials, the type, complexity, and source of the assessment being abated determine which IRS work group makes the abatement decision. Using these factors as well as IRS routing criteria, a work group that initially receives a requested abatement is to determine whether it should make the abatement decision. If the determination is to route the abatement to another work group, the abatement process to be followed is to be guided by the general IRS criteria for the type of abatement being reviewed and the specific review process of that group.

Each work group can abate different types of tax, penalty, and interest issues. Table 1 shows examples of the most common types or sources of abatements made by work groups at the two service centers, as identified by IRS officials.⁹

Table 1: Examples of Abatements Made in the Kansas City and Fresno Service Centers, as of April 1999

Work group	Examples of abatements at two service centers	
	Kansas City	Fresno
Adjustments Branch	Amended returns	Amended returns
Collection Branch	Substitute for return ^a	Substitute for return ^a
Customer Service Branch	Penalties	Penalties
Examination Branch	Category A claims, ^b audit reconsiderations ^c	Audit reconsiderations ^c
Joint Compliance Branch	Does not exist ^d	Category A claims ^o
Underreporter Branch	Does not exist ^e	Apparent overreported income
Automated Collection Branch	Penalties, erroneous substitute for return ^f	Does not exist ^g
Document Perfection Branch	Simple claims on amended returns	Not applicable ^h

^aReturns filed by IRS on the basis of information returns that reported income paid to a taxpayer who did not file a tax return.

^bCategory A claims involve issues that are complex or sensitive, or prone to noncompliance.

^cAudit reconsiderations occur when taxpayers ask IRS to reconsider assessments made in prior audits.

^dIn Kansas City, this work is done through the Examination Branch.

^eKansas City's underreporter cases are handled at the Austin or Ogden Service Centers.

^fErroneous substitute for returns involve those sent to taxpayers who had filed their returns before receiving the SFR filed by IRS.

^gIn Fresno, this work is done as part of the Collection Branch.

^hAlthough Fresno has a Document Perfection Branch, it usually handles simple requests on amended returns in its Adjustments Branch.

Source: GAO interviews and documents collected at each service center.

⁹Each service center had other work groups that made abatements, such as groups that deal with criminal investigations, quality assurance, and account services. We do not discuss these groups here because IRS officials told us these groups made few abatements.

As table 1 shows, each service center organized itself somewhat differently. As a result, each service center had branches that the other center did not have. For example, Fresno had a Joint Compliance Branch that did not exist in Kansas City. This branch dealt with, among other things, abatement requests (known as category A claims) that were complex, sensitive, or involved types of taxpayers prone to noncompliance. Kansas City usually handled category A requests in its Examination Branch. Also, Kansas City allowed clerical staff in its Document Perfection Branch to abate simple requests made on amended returns. Fresno usually handled this type of request in its Adjustments Branch.

The two district offices generally relied on three divisions to abate assessments. Table 2 shows examples of the types or sources of abatements made by the divisions, as identified by officials at the district offices.

Table 2: Examples of Abatements Made in the Kansas-Missouri and Northern California District Offices, as of April 1999

Division	Examples of abatements at two district offices	
	Kansas-Missouri	Northern California
Collection	Various uncollectibles, such as bankruptcies; various penalties	Various uncollectibles, such as bankruptcies; various penalties
Customer Service	Federal tax deposit penalty	Various types of penalties
Examination	Audit reconsiderations, ^a claims	Audit reconsiderations, ^a claims

^aAudit reconsiderations occur when taxpayers ask IRS to reconsider assessments made in prior audits

Source: GAO interviews and documents collected at each district office.

As table 2 shows, each of the three divisions at both districts made similar types of abatements. Although none of the divisions tracked the number of abatements, IRS officials indicated that the Collection and Customer Service Divisions made the most abatement decisions, many of which involved penalties. The officials said that in the Examination Division, the abatements usually involved tax assessments related to a prior audit, which could also involve penalties, or some form of taxpayer claim.

In addition, at the two service centers and two district offices, the Office of the Taxpayer Advocate had authority to make certain types of abatements.¹⁰ However, officials at most locations we visited said that the Advocate’s Office usually referred requests for abatements to other work groups (such as the Collection Division) and then tracked actions taken to

¹⁰The Office of the Taxpayer Advocate is to represent the interests of taxpayers. For abatements, the Advocate would get involved if taxpayers had difficulty solving their tax problems through IRS’ regular channels or if they had major hardships in meeting their tax responsibilities.

help ensure the proper and timely resolution of a taxpayer's problem. Because these work groups usually made any related abatements, the Office of the Taxpayer Advocate would make few abatements compared to the other work groups.

Both Lower and Higher Graded Staff Can Make Abatement Decisions

Various types and grades of IRS staff, ranging from clerks to mid-level staff, can make abatement decisions, depending on the type, complexity, and source of the assessment being abated. Along with other duties, these IRS staff handled many types of adjustments to taxpayers' accounts other than abatements. None of the work groups tracked how many of these adjustments involved abatements.

Both service centers had a wide range of graded staff who made abatement decisions. The staff ranged from federal pay grades GS-3 to GS-9 in one service center and GS-4 to GS-12 in the other.¹¹ According to officials at the two service centers, staff known as customer service representatives and tax examiner assistants made most abatement decisions. In one service center, grades of customer service representatives ranged from GS-5 to GS-8 and tax examiner assistants ranged from GS-4 to GS-8. In the other service center, the grades were GS-6 to GS-9 and GS-6 to GS-7, respectively.

The two district offices also had various staff make abatement decisions in the three divisions. These staff ranged from federal pay grades GS-5 to GS-13.¹² According to officials at the two district offices, staff known as customer service representatives (GS-5 to GS-9) and revenue officers (GS-7 to GS-12) made the majority of the abatements. The two districts we visited did not differ very much in who made abatement decisions.¹³

Various Tools Can Guide Abatement Decisions

According to information provided by officials at both service centers and both district offices, staff making abatement decisions are to be guided by such tools as training, information provided by the taxpayer or IRS' computers, criteria in IRS manuals, and supervisory involvement. Descriptions of these four tools follow.

¹¹The GS, or General Schedule, system ranges from GS-1 to GS-15. Excluding locality or other special pay adjustments, the 1999 pay for GS-3 to GS-12 ranges from about \$16,000 to about \$59,000.

¹²Excluding locality or other special pay adjustments, the 1999 pay for GS-5 to GS-13 ranges from about \$21,000 to about \$70,000.

¹³Even so, when we asked about staff that made abatements, officials at the Kansas-Missouri District Office were more likely to identify various types of specialists who were to assist such staff.

-
- IRS is to provide training on the various duties, including abatements, assigned to staff. The training can include such things as basic tax laws, IRS forms, adjustments in general, amended returns, and other generic tax issues. Training also can cover specific types of adjustments, including abatements to be made to taxpayer accounts. The training is to include classroom and on-the-job instruction.
 - Staff can use various types of information provided by taxpayers or through IRS computers to help make abatement decisions. For example, taxpayers can provide additional information that they did not provide during an audit when they ask IRS to abate assessments made in that audit. Or, staff can use information in taxpayers' accounts to confirm taxpayer actions, such as the date a return was filed or a payment was made. To the extent that the computerized information is sufficient, IRS staff could use it to verify oral justifications from taxpayers for making the abatement. If the information is not sufficient, IRS may need to request additional support from the taxpayer.
 - Criteria for making abatement decisions vary with the type and amount of the abatement and complexity of the issues. For example, the criteria for decisions about whether to abate a tax assessment would depend on the tax laws and regulations governing the specific tax issue (such as a dependency exemption) and the justification provided by the taxpayer in requesting the abatement. Also, for each type of penalty, IRS has various dollar tolerances that dictate the type of justification needed from the taxpayer to grant the abatement and whether that justification needs to be documented by the taxpayer rather than be provided orally. Because IRS labels the criteria and dollar tolerances as "official use only," which means the information is sensitive, we cannot disclose the specific criteria or tolerances.
 - Dollar tolerances also can affect whether supervisors are to review proposed decisions by staff to abate assessments.¹⁴ IRS did not have data on how many of the 11.3 million abatements in fiscal year 1998 had been reviewed by supervisors before the decision was finalized. However, supervisors are only required to review a few types of abatement decisions before they are finalized, such as those on certain types of penalty and interest abatements as well as on large-dollar abatements. Also, officials at some of the locations we visited said that few abatement decisions would be reviewed by supervisors before being finalized because of the large number of adjustments, including abatements, to be processed.

¹⁴According to service center officials, supervisors also reviewed a small percentage of all adjustments after they were made in order to evaluate the performance of the staff. Although these reviews of closed cases did not influence the original abatement decisions, supervisors are required to tell staff to correct any errors that these reviews uncover.

IRS Review Programs Do Not Track the Quality of Abatement Decisions

The two service centers and two district offices each have a separate staff to review the quality of decisions, including those on abatements, after they are made. None of the locations we visited tracked the number of abatement decisions reviewed for quality as either a percentage of all adjustments reviewed or of all abatement decisions made. The officials we interviewed at all locations could not say what percentage of abatements might be subjected to such quality reviews.

IRS had multiple review programs because each work group has a different set of quality standards. Each program is to use the quality standards established for the types of adjustments made in a specific work group. For example, standards for a collection work group would differ from standards for an examination group. As a result, in both service centers, the Service Center Collection Quality System is to be used to review the quality of the work in the Collection Branch. Across the two district offices, IRS also had a review program for each division (such as the Examination Division).

Officials at both service centers and both district offices also told us that these programs usually are to select cases for review on the basis of random sampling, and the results are to be used to identify systemic quality problems in an IRS work group. Due to our time constraints, we did not evaluate these IRS quality review programs.

IRS' Efforts to Improve the Abatement Process

IRS' efforts to improve the abatement process have involved task force studies that IRS initiated in response to specific concerns. For example, since 1997, task forces have studied issues, such as penalty administration and taxpayer treatment, because of concerns about taxpayer burden and equity. Although they did not focus on abatements, the studies have produced some proposals that would affect the abatement process, such as the documentation required to support abatements.

IRS officials said they initiated these task forces because a 1997 report on reinventing service at IRS called for IRS to, among other things, promote fair and consistent treatment of taxpayers in penalty administration. The report also called for IRS to comprehensively review all penalties and report to Congress on its findings as well as needed legislative changes. The report further recommended that the overall process for handling penalties be streamlined. For example, the report mentioned that one way to streamline would be for IRS employees to have expanded authority to abate certain types of penalties on the basis of oral requests from taxpayers. If done, this action could reduce the burden on taxpayers by requiring less documentation or supervisory approval.

In September 1998, IRS released a study by its penalty task force, as recommended in the 1997 report. IRS reported that for fiscal year 1996, 34 million penalties totaling \$13.2 billion were assessed, of which 12 percent and 43 percent, respectively, were abated. Several recommendations focused on the need for (1) consistent treatment of taxpayers; (2) viable management of information systems; (3) clearer penalty policy; and (4) improved penalty administration to allow, among other things, IRS telephone assistants to make abatements for larger amounts on the basis of oral testimony from taxpayers. IRS officials said that legislative changes would be necessary to implement some of the recommendations. These officials also said they are considering the first three recommendations and are planning to expand authority for abating certain penalties for reasonable cause on the basis of oral testimony from taxpayers.

Another task force on taxpayer equity has been studying various IRS programs and issues and had finished several reports as of June 1999. These programs and issues, for example, address taxpayers that do not file required tax returns, make estimated tax payments on a quarterly basis, or make required federal tax deposits. Also included are studies of taxpayers that ask IRS to reconsider an assessment made in a previous audit.

At least three of this task force's reports have made proposals that could affect abatements. These proposals involve (1) easing interest abatement criteria through legislative change, (2) encouraging oral agreements on abatements between IRS and taxpayers over the phone to minimize documentation, and (3) clarifying a penalty abatement policy statement.

As for other efforts, an IRS study of an automated program to create substitute returns for apparent nonfilers has suggested several steps to deal with unproductive or erroneous assessments that create additional work later, including abating these assessments. Further, IRS is testing an automated system to help make abatement decisions related to reasonable cause. IRS is also developing ways to help small business taxpayers meet their federal tax deposit requirements, which could reduce the need for abatements that are associated with these deposits. Finally, IRS' Collection Division officials said they had a team working on redesigning the collection process, but the team was not focusing on abatements.

Before initiating these task forces and efforts, IRS undertook a major study during 1993-94 of the causes of abatements. According to the director of the study, IRS used about 150 employees across its 10 service centers. IRS did this study because of concerns about the inventory of tax debts—about 25 percent of IRS' accounts receivable were being abated.

The study identified problems in various IRS processes that resulted in IRS and taxpayer errors that had to be corrected through abatements. Some examples of IRS errors included miscalculated interest, incorrect posting to accounts, and overlooked support for taxpayers' reasonable cause claims. Examples of taxpayer errors included using the wrong form or coupon, omitting or misstating taxpayer identification numbers, and making math mistakes.

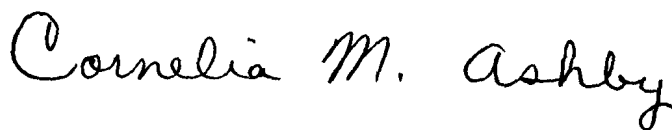
The study identified 259 potential problems, of which 158 were referred to the responsible IRS functions for further analysis and implementation of changes, if necessary, to solve a problem. The study team determined that the other 101 problems did not merit such a referral because analysts at the service centers could address the problem or no further changes were needed. IRS never formally released a final report on the study results.

Agency Comments

On June 22, 1999, we met with representatives of the IRS Commissioner from the Customer Service and Examination Divisions as well as the Taxpayer Advocate and Legislative Affairs Offices. These representatives said that our report provided good information and appropriately described the abatement process at selected organizations in the district offices and service centers.

We are sending copies of this report to Representative Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means, and Senator Daniel P. Moynihan, Ranking Minority Member, Senate Committee on Finance. We are also sending copies to the Honorable Robert E. Rubin, Secretary of the Treasury; the Honorable Charles O. Rossotti, Commissioner of Internal Revenue; the Honorable Jacob Lew, Director, Office of Management and Budget; and other interested parties. We will also send copies to those who request them.

If you or your staff have any questions concerning this report, please contact me or Tom Short on (202) 512-9110, or Royce Baker on (913) 384-3222. Other major contributors are acknowledged in appendix V.



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

Contents

Letter		1
Appendix I		16
Abatement Processes	Kansas City Groups That Make Abatements	16
at the Kansas City	Staffing	20
Service Center	Abatement Training	21
	Supervisory and Quality Reviews	22
Appendix II		25
Abatement Processes	Fresno Groups That Make Abatements	25
at the Fresno Service	Staffing	30
Center	Abatement Training	30
	Supervisory Review	31
	Quality Review	32
Appendix III		33
Abatement Processes	Kansas-Missouri Groups That Make Abatements	33
at the Kansas-Missouri	Staffing	35
District Office	Abatement Training	36
	Supervisory Review	37
	Quality Review	38
Appendix IV		39
Abatement Processes	Northern California Groups That Make Abatements	39
at the Northern	Staffing	42
California District	Abatement Training	42
Office	Supervisory Review	43
	Quality Review	44
Appendix V		45
GAO Contacts and		
Staff		
Acknowledgments		
Tables	Table 1: Examples of Abatements Made in the Kansas City and Fresno Service Centers, as of April 1999	7

Table 2: Examples of Abatements Made in the Kansas-Missouri and Northern California District Offices, as of April 1999	8
Table I.1: Examples of Abatements at the Kansas City Service Center	17
Table I.2: Peak Staffing Levels at Kansas City by Branch and Type and Grade Level of Staff, March 1999	21
Table I.3: KCSC Closed Cases, Cases Reviewed for Quality, and Requirements for Supervisory Review in 1998	24
Table II.1: Examples of Abatements at Fresno Service Center	26
Table II.2: Peak Staffing Levels at Fresno by Type of Staff and Grade Level, April 1999	30
Table III.1: Examples of Abatements at Kansas-Missouri District Office	33
Table III.2: Staffing Levels at Kansas-Missouri by Type of Staff and Grade Level, April 1999	36
Table IV.1: Examples of Abatements at Northern California District Office	39
Table IV.2: Staffing Levels by Type of Staff and Grade Level, May 1999	42

Abbreviations

EIC	Earned income credit
FSC	Fresno Service Center
GS	General Schedule
IRS	Internal Revenue Service
KCSC	Kansas City Service Center
KMDO	Kansas-Missouri District Office
NCDO	Northern California District Office
PRP	Problem Resolution Program
SFR	Substitute for return

Abatement Processes at the Kansas City Service Center

IRS' Kansas City Service Center (KCSC) processes individual and business tax returns, payments, and taxpayer inquiries from Illinois, Iowa, Minnesota, Missouri, and Wisconsin. The service center also responds to taxpayer inquiries nationwide through toll-free numbers. In addition, KCSC conducts compliance activities, such as doing audits, securing delinquent returns, and collecting unpaid taxes.

Kansas City Groups That Make Abatements

Different IRS work groups make abatements at the Kansas City Service Center.¹ According to KCSC officials, three divisions—Compliance, Customer Service, and Processing—routinely make abatements. Each division has at least one work group that makes abatement decisions. Additionally, the Taxpayer Advocate's Office can make abatements. According to IRS officials, the Quality Assurance Management Support Division has abatement authority, but due to the nature of its workload it rarely makes abatements. As a result, we did not summarize the division's processes.

Each of the work groups is responsible for making abatements of different types. Table I.1 shows these groups as well as examples of the types of abatements made by each.

¹An abatement occurs when IRS reduces the assessment of tax, penalty, or interest against taxpayers for various reasons (e.g., an incorrect assessment or taxpayer had a reasonable cause for not complying with filing or payment requirements). An abatement may be initiated by a request from a taxpayer, by a taxpayer in response to IRS actions, or solely by IRS. For example, a taxpayer may file an amended return to claim changes to the original return. Factors such as the type, complexity, and source of the abatement determine which IRS group makes the abatement.

Appendix I
Abatement Processes at the Kansas City Service Center

Table I.1: Examples of Abatements at the Kansas City Service Center

Division or office	Work group	Type of abatement
Compliance	Collection Branch	Substitute for return (SFR) ^a
	Examination Branch	Claims, including category A claims, ^b SFR, and audit reconsiderations ^c
Customer Service	Automated Collection Systems Branch	Erroneous SFR cases, ^d penalties abated for reasonable cause
	Adjustments/Correspondence Branch	Claims on amended returns, various types of penalties
	Customer Service Branch	Various types of penalties
	Taxpayer Relations Branch	Taxpayer inquiries about assessments
Processing	Document Perfection Branch	Simpler claims made by individuals
Taxpayer Advocate Office	Problem Resolution Program (PRP)	Selected cases that meet PRP criteria (e.g., not resolved elsewhere in IRS)

^aIRS files a substitute for return when a taxpayer has not filed a tax return but IRS receives third-party information that shows enough income to file a tax return.

^bCategory A claims involve issues that are complex, sensitive, or prone to noncompliance.

^cAudit reconsiderations occur when taxpayers ask IRS to reconsider assessments made in past audits.

^dErroneous SFRs involve those sent to taxpayers who had filed their returns before receiving the SFR filed by IRS.

Source: Information provided by IRS officials.

In the following, we briefly describe the types of abatements made at each of the work groups. We also identify the workload at each work group for all types of adjustments to taxpayers' accounts, including abatements. None of the groups, however, had data on the portion of their workload that involved abatements. We did not independently verify the accuracy of workload data provided by IRS.

Compliance Division

According to IRS officials, the Compliance Division has two branches that routinely make abatements, as summarized below.

Collection Branch

The Collection Branch is responsible for collecting taxes from individuals who have filed but have not paid the total amount due or who have not filed their tax return. For these nonfilers, according to branch officials, a common abatement comes from substitute for return (SFR) cases. Taxpayers receiving an SFR may choose to file a return in order to reduce their tax liability. When the return is filed and accepted by IRS, the branch is to abate the difference between the taxes assessed on the SFR and the taxpayer's return. If the taxpayer's return meets certain criteria, such as a large difference between the taxpayer's and SFR's assessments, classification staff from the Examination Branch are to review the return and determine whether to audit it. For fiscal year 1998, Collection Branch officials reported that the branch closed 1.2 million nonfiler and late payment cases, but it did not track how many of them involved abatements.

Examination Branch

The Classification Section in the Examination Branch is the only section in the branch that routinely makes abatements in the course of its operations, according to Examination officials. The Classification Section is responsible for screening questionable claims, SFR returns, and requests for audit reconsideration.

The Classification Section is to receive category A claims from the Adjustments/Correspondence Branch (also referred to as the Adjustments Branch) for acceptance or selection for audit. Category A claims are more complex, sensitive, or prone to noncompliance than other claims. For calendar year 1998, Classification Section officials reported that the section screened more than 26,000 claims, but it did not track the number that resulted in abatements.

Further, the Classification Section is to review questionable returns filed by taxpayers to replace SFRs and requests for audit reconsiderations. When reviewing SFR cases and audit reconsiderations, Classification is to accept the data provided by the taxpayer in support of an abatement, or select the case for audit.² If a case is selected, staff in the Examination Branch or a district office are to decide on any abatements. For calendar year 1998, Classification Section officials reported that the section received nearly 11,000 SFR, audit reconsideration, and other cases. These officials did not track how much of this work resulted in abatements.

Customer Service Division

The Customer Service Division has the following branches that can make abatements.

Automated Collection Systems Branch

The Automated Collection Systems Branch operates an automated call system, which is used to collect taxes from taxpayers that have delinquent accounts and to secure delinquent returns. Abatements can arise when IRS staff talk over the telephone with taxpayers who have had levies placed on their assets because of delinquent taxes or have received a notice that IRS has no record of their return.

In particular, the branch is supposed to make abatements in erroneous SFR cases—cases in which IRS erroneously believes that a taxpayer failed to file a required tax return, but the taxpayer had, in fact, filed. The branch also can abate penalties if the taxpayer has a reasonable cause for not complying originally. For calendar year 1998, IRS officials said that the

²In reviewing audit reconsiderations, the staff typically review the adequacy of documentation provided by the taxpayer to counter the additional assessments made after the past audit.

Automated Collection Systems Branch worked more than 119,000 cases, but it did not track how many of them involved abatements.

Adjustments/Correspondence Branch

The Adjustments/Correspondence Branch receives inquiries from taxpayers by phone or correspondence. According to branch officials, most taxpayer contacts are in response to penalty notices. The officials stated that the branch often abates failure-to-file penalties for reasonable cause. The branch is also supposed to process claims that require additional information from the taxpayer or from IRS databases. For fiscal year 1998, the branch reported closing over 989,000 cases, but it did not track how many of them involved abatements.

Customer Service Branch

The Customer Service Branch receives telephone inquiries from taxpayers about their assessments. According to IRS officials, taxpayers usually call to resolve issues on their tax accounts after receiving an IRS notice. These officials stated that late payment and failure-to-file penalties are their most common abatement cases. For fiscal year 1998, the toll-free telephone site answered over 1.2 million telephone calls. Branch officials did not track how many of these calls involved abatements.

Taxpayer Relations Branch

Taxpayer Relations is to help taxpayers resolve a wide variety of problem cases. In addition to the taxpayers, the branch receives referrals from other IRS offices, congressional offices, and the White House. According to IRS officials, typical abatements involve penalties and incorrect tax assessments. For calendar year 1998, IRS officials reported that the branch worked nearly 100,000 cases, but it did not track how many of these cases involved abatements.

Processing Division

Document Perfection Branch

Within the division, only the Document Perfection Branch made abatements. The Document Perfection Branch is to screen amended returns from individual taxpayers and identify those with issues that require additional information from a taxpayer or IRS computer systems. If additional information is not required, Document Perfection is to process the return, along with any resulting abatement. Returns that require information and amended returns from business taxpayers are forwarded to the Adjustments/Correspondence Branch. Document Perfection officials reported that the branch screened about 262,000 amended returns in calendar year 1998. The officials also reported that Document Perfection processed about 95,000 of these cases and routed the rest to other functions for processing. Branch officials did not track how many of these cases resulted in abatements.

Taxpayer Advocate's Office

The Taxpayer Advocate's Office was created to help taxpayers who have been unsuccessful in resolving their problems through normal channels of assistance. The office ultimately reports to the National Taxpayer Advocate. Its involvement with abatements can arise from two taxpayer assistance programs—hardship relief requests and the Problem Resolution Program (PRP), which assists taxpayers in resolving persistent problems.

Taxpayers may submit Form 911 asking for hardship relief under the Application for Taxpayer Assistance Order, according to IRS officials. The Advocate's staff makes a determination on these requests. PRP exists to help taxpayers that have been unsuccessful in resolving their tax problems through regular channels. The Kansas City Taxpayer Advocate has a small staff; thus, for most PRP cases, it relies on staff in the divisions, such as those in Customer Service, to try to resolve the problem. The Taxpayer Advocate monitors the progress of the cases until they are resolved.

Staffing

Staffing for some of the branches varies with the time of year, according to IRS officials. During peak periods (usually during the months when taxpayers are filing returns), staffing levels may temporarily increase, and the staff may sometimes be temporarily assigned to Customer Service to answer taxpayer inquiries about tax law or filing requirements. Table I.2 shows the peak staffing level by the type and grade (GS) level of staff who make abatement decisions for those work groups that make most of the abatements, according to IRS officials.

Most service center staff making abatements were tax examining assistants, customer service representatives, or tax examining clerks, according to IRS officials. Tax examining assistants are responsible for obtaining returns and other taxpayer information necessary to adjust taxpayer accounts and examining selected tax issues on income tax returns. Customer service representatives provide assistance to individuals and businesses through telephone contact. Tax examining clerks have duties that are less complex. They review IRS documents and tax returns, prepare coded entries to amend records, and refer questionable returns and documents for review.

Appendix I
Abatement Processes at the Kansas City Service Center

Table I.2: Peak Staffing Levels at Kansas City by Branch and Type and Grade Level of Staff, March 1999

Division	Branch	Tax examining assistant (GS-4 to GS-8)	Tax examining clerk (GS-3 to GS-5)	Correspondence examination technician (GS-5 to GS-7)	Customer service representative (GS-5 to GS-8)	Tax auditor (GS-9)	Total
Compliance	Collection	185	0	0	0	0	185
	Examination	49 ^a	13 ^b	96 ^c	0	12	170
Customer Service	Automated Collection Systems	174	0	0	0	0	174
	Adjustments	0	0	0	264 ^d	0	264
	Customer Service	0	0	0	108 ^e	0	108
	Taxpayer Relations	58	0	0	0	0	58
Processing	Document Perfection	64 ^f	266 ^g	0	0	0	330
Total^h		530	279	96	372	12	1,289

Note 1: Staffing levels do not include managerial and support staff.

Note 2: Branches with a consistent level of staffing will not have a nonpeak staffing level.

^aNonpeak staff of 45

^bNonpeak staff of 11.

^cNonpeak staff of 70.

^dNonpeak staff of 108.

^eNonpeak staff of 99.

^fNonpeak staff of 31.

^gNonpeak staff of 0.

^hDoes not include 5 staff from the Taxpayer Advocate's Office.

Source: IRS officials.

Abatement Training

In general, training to be given in the work groups that made abatements did not focus on abatements; rather, it focused on the range of duties for the various types of staff. Through our interviews and reviews of documents at KCSC, we learned the following about the training that each work group should provide.

Collection Branch

Before working on a program they have not worked before (such as SFR cases), tax examining assistants are to receive between 3 and 10 days of classroom training on that program. After completing the training, they are to be assigned on-the-job instructors to provide additional guidance on working cases.

Examination Branch

Staff doing abatements are to receive training on the basic types of adjustments associated with the income tax laws. They also are to receive on-the-job instruction as they do audits.

Automated Collection Systems Branch

New customer service representatives are to receive about 3 months of classroom training. The initial training is to address basic skills, such as entering data into IRS' computer system. Afterward, the customer service representatives are to take classes on each of the programs handled in the

branch. After a class on a particular program, the customer service representatives are to work that program for a few weeks to reinforce what they have learned. Then, they are to take a class on another program.

Adjustments/
Correspondence Branch

Training is to cover the abatement of tax and penalties in some form. Customer service representatives responsible for business returns initially are to receive a 5-week training class on the Business Master File and employment tax forms. Later, they are to receive training on IRS forms and notices. Then, they are to receive several weeks of on-the-job training. Customer service representatives responsible for individual tax returns are to receive training on the Individual Master File as well as on amended returns, penalty abatements, and refunds for individuals. The training for abating selected types of interest assessments requires on-the-job coaching for several months.

Customer Service Branch

Before taking phone calls in which the taxpayer is asking for penalty abatements, a new staff member is to receive courses on determining penalty abatements. A staff member working on Business Master File cases is also supposed to attend courses on computing and abating penalties associated with the deposit of federal taxes.

Taxpayer Relations Branch

All staff working abatement cases are to receive training on comprehending computer transcripts, using IRS' computer system, and adjusting accounts on the Individual and Business Master Files, including making abatements. In addition, staff are to receive specific training on programs such as Problem Resolution and Penalty Appeals, which can result in abatements.

Document Perfection
Branch

New hires are to receive a 10-day class on the Form 1040. Staff that have prior IRS experience are to receive between 4 and 9 days of training, depending on their duties. A class on editing amended returns is required for staff that review such returns and determine abatements and assessments.

Supervisory and
Quality Reviews

Staff making the abatement decision usually adjust the taxpayer's account, according to IRS officials. The exceptions are in the Examination and Document Perfection Branches. Staff in these branches recommend abatements and forward the case to other staff who are responsible for adjusting a taxpayer's account.

IRS officials described two types of supervisory review of the abatement decisions made by staff: one occurring before the decision is made, and

one after. The latter supervisory review of closed decisions is done to evaluate employee performance.

IRS officials also described various types of quality review programs. Reviewers in these programs were to review cases closed in the work group to measure adherence to specific quality standards, which varied with each work group and type of case. According to staff we interviewed, the closed cases for review were to be selected using random sampling.³

Neither the supervisory nor quality reviews solely addressed abatements; rather, they covered all types of adjustments, including assessments and abatements. As a result, KCSC officials did not have data on the percentage of abatement decisions that were reviewed.

IRS officials said that other than for a few specific types of cases, the first type of supervisory review, which would occur before the abatement decision, was usually not required. Exceptions were abatements that involved certain types of civil penalties over a specific dollar amount, certain types of Examination assessments, and a selected type of interest assessment. Specific criteria associated with these types of abatements are considered to be sensitive information and may not be disclosed.

The work groups we visited had some data on the review of various types of closed cases by supervisors or quality review staff. Table I.3 shows the number of cases closed and reviewed for quality and the requirements for supervisory review for purposes of evaluating staff performance.

As noted in table I.3, the number of closed cases subjected to supervisory review for performance evaluation purposes differed in each branch. For example, Customer Service required its supervisors to review eight telephone calls and four paper cases per month. According to officials in all the branches, these requirements meant that only a small percentage of all cases would be reviewed. For example, a supervisor would be likely to review about 1 percent of the phone calls that customer service representatives answer in a month. About 10-15 percent of Taxpayer Relations' completed cases would be reviewed, according to branch officials. If supervisors were to find a performance deficiency, they should tell the staff member to correct any errors, and they might choose to review all cases closed by that staff member.

³The scope and time frame for our work did not allow us to verify whether these closed cases were selected through random sampling or to analyze the results of the various types of quality reviews.

Appendix I
Abatement Processes at the Kansas City Service Center

Table I.3: KCSC Closed Cases, Cases Reviewed for Quality, and Requirements for Supervisory Review in 1998

KCSC branch	Total closed cases	Fiscal or calendar year 1998	Number reviewed for quality	Supervisory review requirements
Collection	1,225,171	Fiscal	8,403	8 per month per employee
Examination	37,168	Calendar	427	Quarterly review of workload of each employee.
Adjustments/Correspondence	989,118	Fiscal	461	5 per week per employee
Customer Service	Calls: 1,211,273 Paper 20,798	Fiscal	Calls: 1,457 Paper: 435	8 calls and 4 paper cases per month per employee
Automated Collection Systems	Calls: 90,597 Paper: 28,456	Calendar	Calls: 579 Paper: 1,681	3-5 calls and 5 paper cases per month per employee
Taxpayer Relations	99,542	Calendar	406	10-15 per employee per week
Document Perfection	Screened: 261,664 Adjusted: 94,525	Calendar	440	30-47 per employee per week

Note: All numbers include both abatement and assessment cases because IRS does not track abatement cases separately.

Source: Developed from interviews with IRS officials.

Separate offices in the service center managed the quality review programs. For example:

- The Quality Assurance Branch was to do quality reviews of cases closed in the Adjustments/Correspondence, Customer Service, Taxpayer Relations, and Document Perfection Branches. This review program is called the Program Analysis System.
- Collection Branch correspondence cases are to be reviewed under the Service Center Collection Quality System.
- The Automated Collection Systems Branch has two review systems. Toll-free calls are to be reviewed under the Quality Management Information System. Correspondence cases are to be reviewed under the Written Products Data Collection Instrument program.
- Examination Branch closed cases are to be reviewed by Quality Measure Support staff.
- Taxpayer Advocate cases are to be reviewed at the Brookhaven Service Center Centralized Quality Location in New York.

Quality review officials told us that they do not correct defective cases. Instead, they are to report any errors they find to the appropriate official in the branch where the case originated. The branch official then is to work with the employee who made the error to correct the mistake.

Abatement Processes at the Fresno Service Center

The Fresno Service Center (FSC) processes various types of tax returns, conducts audits through correspondence, and responds to taxpayer inquiries from Hawaii and parts of California. FSC also responds to taxpayer inquiries nationwide through IRS' toll-free numbers. In addition to auditing, FSC operates compliance programs that use third-party information reporting to identify taxpayers who do not file tax returns or who file returns but understate their tax liability.¹

Fresno Groups That Make Abatements

Different IRS work groups make abatements at the Fresno Service Center.² Three divisions, including Compliance, Customer Service, and Quality Assurance and Management Support, can make abatements. Each division also has at least one branch that makes abatement decisions. Additionally, the Taxpayer Advocate's Office can make abatements.

These work groups are responsible for making different types of abatements. Table II.1 shows the work groups as well as examples of the type of abatements made by each.

¹In this Information Reporting Program, IRS computers match information reported by third parties, such as banks and employers, to information reported on tax returns. If this match indicates that a taxpayer did not report all income or file a tax return, staff at the service center are to contact the taxpayer to resolve the discrepancy.

²An abatement occurs when IRS reduces the assessment of tax, penalty, or interest against taxpayers for various reasons (e.g., an incorrect assessment or taxpayer had a reasonable cause for not complying with filing or payment requirements). An abatement may be initiated by a request from a taxpayer, by a taxpayer in response to IRS actions, or solely by IRS. For example, a taxpayer may file an amended return to claim changes to the original return. Factors such as the type, complexity, and source of the abatement determine which IRS group makes the abatement.

Appendix II
Abatement Processes at the Fresno Service Center

Table II.1: Examples of Abatements at Fresno Service Center

Division or office	Work group	Type of abatement
Compliance	Examination Branch	Audit reconsideration ^a and audits
	Criminal Investigation Branch	Overstated income from false W-2s (Statement of Earnings)
	Joint Compliance Branch	Category A claims ^b and interest claims, substitute for return, ^c offer-in-compromise, audit reconsideration
Customer Service	Underreporter Branch	Responses to IRS underreporter notices
	Customer Service Branch	Taxpayer inquiries about assessments
	Adjustments Branch	Claims on amended returns filed by taxpayers
Quality Assurance and Management Support	Collection Branch	Substitute for return
	Accounting Branch	Credits on masterfile accounts
Taxpayer Advocate Office	Quality and Management Support Branch	Various types of abatements based on reviews of notices sent to taxpayers
	Problem Resolution Program and Taxpayer Advocate	Various types of taxpayer claims that meet set criteria (e.g., problems not satisfactorily handled by other IRS groups)

^aAudit reconsideration occurs when taxpayers ask IRS to reconsider assessments made in past audits.

^bCategory A claims involve issues that are complex, sensitive, or prone to noncompliance.

^cIRS files a substitute for return when a taxpayer has not filed a tax return but IRS receives third-party information that shows enough income to file a tax return.

Source: Information provided by IRS officials.

In the following, we briefly describe the types of abatements made at each of the work groups. We also identify the case workload at each group for all types of adjustments, including abatements, to a taxpayer's account. However, none of these groups had data on the portion of the workload that involved abatements.

Compliance Division

The Compliance Division has four branches that can make abatements, as summarized below.

Examination Branch

The Examination Branch is responsible for conducting correspondence audits at the service center. Abatements can occur when taxpayers ask IRS to reconsider (or reaudit) assessments made in past audits. According to IRS officials, in these audits, the taxpayer typically finds documentation that counters the additional assessments. If IRS accepts the taxpayer's documentation, the additional assessments are to be abated.

The Examination Branch may also make various types of abatements in cases referred by the Criminal Investigation Branch or by the National Office. The branch also may abate assessments arising from the computer matching that IRS does to identify math and other errors.

During fiscal year 1998, the branch processed nearly 132,000 cases. Additionally, it processed about 285,000 amended returns (1040X).

Examination officials did not track which cases had abatements; however, branch officials said that the branch abates few assessments.

Criminal Investigation Branch

The Criminal Investigation Branch is responsible for investigating all kinds of criminal activity related to the tax system. A typical abatement case involves a taxpayer filing a false Form W-2, Statement of Earnings, claiming excessive income and withheld tax. In these cases, the taxpayer claims excessive income in order to claim an excessive earned income credit (EIC). The taxpayer claims but never pays the excessive withheld tax in order to get a tax refund. Upon identifying these fraudulent schemes, the branch is to abate the excess tax liability that was claimed (but not paid) and to stop the erroneous refund or collect the overpaid EIC and refund.

Joint Compliance Branch

The Joint Compliance Branch has three sections that process abatement cases.

Classification and Research. This section processes category A claims referred from the Adjustments Branch as well as interest abatement cases. Category A consists of claims and amended returns that are more complex, sensitive, or prone to noncompliance than other claims. Selected category A claims are referred to field offices for further examination and possible abatement decisions. The abatement decisions for nonselected category A claims are made in Joint Compliance. During fiscal year 1998, about 18,300 category A claims were processed, and about 2,000 were sent to field offices. The section also processed about 400 claims for interest abatement.

Automated Substitute for Return. This section processes abatements for the amounts overassessed on a substitute for return (SFR). These abatements are necessary when the taxpayer files a delinquent return that reports a lower tax liability than that assessed on the substitute return prepared by IRS. During fiscal year 1998, the section chief estimated that the branch had made between 500 and 1,000 such abatements at Fresno.

Miscellaneous Balance Due. This section processes offers-in-compromise for wage earners with income under \$10,000,³ and trust fund recovery

³By agreeing to an offer-in-compromise with a taxpayer, IRS accepts a lower dollar amount to settle a balance due. FSC is planning a prototype for making offer-in-compromise abatements for wage earners and schedule C and F returns of up to \$50,000.

cases.⁴ Branch officials did not track how much of the workload involved abatements.

Underreporter Branch

The Underreporter Branch is to process cases involving the amount of income reported on tax returns. These cases are generated in IRS' Martinsburg Computing Center by comparing income amounts reported on information returns and on the tax return. Overall, the typical case involves a taxpayer underreporting income on the tax return. However, in the typical abatement case, the taxpayer overstates some type of income on the tax return, thus overstating the tax liability. To get this overstated tax liability abated, the taxpayer must file an amended return. The Underreporter Branch at FSC processed about 11,400 cases that potentially required abatements. Branch officials, however, did not track how many actual abatements were made.

Customer Service Division

The Customer Service Division has the following branches that can make abatements. None of the branches had information on the number of abatements made.

Customer Service Branch

The Customer Service Branch receives taxpayer inquiries about assessments by phone or correspondence. These inquiries are usually in response to notices or correspondence sent by IRS about various types of possible errors on a tax return. An abatement may occur when a taxpayer requests that IRS abate a failure-to-file penalty due to reasonable cause.

Adjustments Branch

The Adjustments Branch also may process abatements initiated through telephone contacts with taxpayers about their assessments. Further, the branch is responsible for processing claims on amended returns. However, as noted earlier, category A claims are to be referred to the Joint Compliance Branch and some non category A claims may be handled by the Examination Branch.

Collection Branch

The Collection Branch is responsible for call sites at which abatements may arise when taxpayers telephone IRS staff about various types of assessments. Branch officials said the primary source of abatements is the SFR program, in which taxpayers have received a substitute return and IRS has taken action to collect the tax shown on it. If the taxpayer then files a return showing a lower tax that is accepted by IRS, the branch is to abate the difference between the tax amounts assessed on the substitute

⁴Trust fund recovery involves the abatement of trust fund penalties assessed against one or more taxpayers when the balance due to the Social Security Trust Fund is received from one of these taxpayers (usually an officer of the business that owed trust fund taxes).

return and taxpayer's return. During fiscal year 1998, the branch had about 383,000 phone contacts and 2.8 million pieces of correspondence. However, the branch did not track the number of contacts that involved abatements.

Quality Assurance and
Management Support
Division

The following branches in the Quality Assurance and Management Support Division process abatements.

Accounting Branch

Accounts Services is the only section that makes abatement decisions in the Accounting Branch. Its workload is generated by the Martinsburg Computing Center and consists of tax returns with unsettled credit balances. These credit balances may have resulted from SFRs, audits, math errors, and other transactions. During fiscal year 1998, Accounts Services processed nearly 113,000 adjustment cases, but it did not track how many involved abatements.

Quality and Management
Support Branch

The Quality and Management Support Branch is responsible for measuring the quality of actions in other branches by reviewing closed cases. Its Output Review Section is to review notices to be sent to taxpayers and is to make abatements if errors are found. Errors that are found in other quality reviews are to be referred to the initiating branch for correction. During fiscal year 1998, the Output Review Section reviewed about 37,000 individual notices and nearly 24,000 business notices. IRS officials did not have information on how many of these reviews involved abatements.

Taxpayer Advocate's Office

The Taxpayer Advocate's Office reports to the Executive Office of Service Center Operations that, in turn, reports to the National Taxpayer Advocate. The office is responsible for the Problem Resolution Program, which is to help those who meet certain criteria, such as taxpayers that have any contact

- indicating that IRS' systems have not resolved the taxpayer's problems,
- indicating that the taxpayer has not received an IRS response by the date promised, or
- involving the same issue at least 30 days after an initial inquiry or complaint, or 60 days for an original or amended return.

During fiscal year 1998, Fresno's Taxpayer Advocate's Office closed over 20,000 cases, but it did not track how many of them included abatements.

Staffing

Staffing for some work groups varies with the time of year and the function of the group. During peak periods (usually during the months that taxpayers are filing returns), staffing levels may temporarily increase, and the staff may sometimes be used for work other than making adjustments, such as answering taxpayer inquiries about the tax law or filing requirements. Table II.2 shows the peak staffing level by the type and grade (GS) level of staff who make abatement decisions for those work groups that make most of the abatements, according to IRS officials.

Table II.2: Peak Staffing Levels at Fresno by Type of Staff and Grade Level, April 1999

Division or office	Work group	Tax examiner assistant (GS-6 to GS-7)	Revenue agent/ tax auditor (GS-9 to GS-12)	Account technicians (GS-4 to GS-7)	Customer service representative (GS-6 to GS-9)	Total
Compliance	Examination	333 ^a	0	0	0	333
	Criminal Investigation	56	0	0	0	56
	Joint Compliance	124	20	0	0	144
	Underreporter	206 ^b	0	0	0	206
Customer Service	Customer Service	0	0	0	354	354
	Adjustments	0	0	0	365	365
	Collections	316	0	0	0	316
Quality Assurance and Management Support	Accounting	176	0	104 ^c	0	280
	Quality and Management Support	175 ^d	0	0	0	175
Taxpayer Advocate's Office	Problem Resolution and Taxpayer Advocate	73	0	0	0	73
Total		1,459	20	104	719	2,302

Note: Branches with a consistent level of staffing will not have a nonpeak staffing level.

^aNonpeak staff of 258

^bNonpeak staff of 136.

^cNonpeak staff of 265.

^dNonpeak staff of 135.

Source: IRS officials.

For the most part, those making abatements were tax examiner assistants and customer service representatives. These staff had varying duties, including reviewing notices and interest computations, responding to customer inquiries, processing correspondence, reviewing tax returns to detect fraud, and resolving taxpayer problems.

Abatement Training

In general, training to be given in the work groups that made abatements did not focus on abatements. Rather, the training focused on the range of duties for the various types of staff. Based on our discussions at Fresno, the following briefly describes the training to be provided.

Examination Branch

Tax examiners assistants are to receive 40 hours of initial classroom training, plus 40 hours of on-the-job training; 80 hours of classroom

training on basic income tax; 80 hours of classroom training, plus 120 hours of on-the-job training on amended returns; 40 hours of classroom training on EIC, plus 40 hours of on-the-job training; and 40 hours of classroom training as a refresher each year.

Criminal Investigation Branch

Newly hired staff are to receive 2 weeks of training followed by 2-4 months of on-the-job training. All staff are to attend a 2-week refresher class each year.

Joint Compliance Branch

Joint Compliance staff are to receive classroom and on-the-job training that covers various topics, such as the guidance and instructions in the Internal Revenue Manual, the processes for making adjustments, and the tax law.

Underreporter Branch

Branch staff are to receive annual training on phases of the underreporter programs being worked for a tax year. This training is to include screening cases, writing responses, reviewing statutes, and learning other core skills. Staff making interest abatements also are to attend bimonthly meetings.

Customer Service, Adjustment, and Collection Branches

These staff are to receive roughly the same training, which is to include 120 hours of classroom training, primarily in refund and EIC issues. After several months of on-the-job training, they are to receive an additional 120 hours of training on more complex issues, such as how to handle balance-due accounts, installment agreements, and return delinquencies.

Accounting Branch

All Accounting Branch training is to be on-the-job training. New staff are to have a coach who assists them through each of the steps involved in adjusting accounts.

Quality and Management Support Branch

Staff in the Output Review Section are to receive 2 weeks of classroom training on the Notice Review Processing System and on-line notice review. They also are to receive 4-6 weeks of on-the-job training.

Taxpayer Advocate's Office

Staff must have 2-3 years of experience dealing with adjustments, customer service, or collection before being selected for the staff. Once selected, staff are to receive classroom training for PRP caseworkers, including PRP quality standards.

Supervisory Review

The branches at the Fresno Service Center had two types of supervisory review of abatement decisions made by staff. One is to occur before the decision is made and one after the decision. Regardless of the type of review, FSC officials did not collect data on the number of reviews done

by supervisors or the percentage of abatement decisions that were reviewed.

According to FSC officials, supervisory review and approval of abatement decisions before they are finalized is required for a few types of abatements. For example, abatement decisions involving comparatively larger dollar amounts or certain types of penalty or interest abatements generally require supervisory review and approval.⁵ Also, FSC officials said that supervisors in each branch are to review a random sample of closed cases for each employee each month. These reviews are generally to be conducted to evaluate employee performance. Each branch gave supervisors the discretion to determine the percentage of abatement decisions to review. For example, the supervisors we talked to in at least one branch said they were likely to consider the past experience and performance of the staff member as well as the complexity and size of their caseload.

Quality Review

Fresno Service Center has a quality review program that is designed to ensure that abatement decisions are reviewed for quality by analysts outside the function making the abatement decision. These analysts at the service center are to review a sample of cases closed in each of the branches. The purpose is to measure adherence to specific quality standards.

For example, each branch is subject to quality reviews for a random sample of closed cases by the Program Analysis Section. Also, the Output Review Section in the Quality and Management Support Branch is to review a random sample of notices in each branch monthly. Finally, a random sample of cases closed by the Taxpayer Advocate's Office is to be reviewed at the Brookhaven (NY) Service Center.⁶

⁵We are not disclosing the requirements or criteria for making these abatement decisions because of their sensitivity.

⁶We did not analyze the samples to verify whether they were, in fact, randomly drawn.

Abatement Processes at the Kansas-Missouri District Office

The Kansas-Missouri District Office (KMDO) is located in St. Louis and has satellite offices across its two-state area. The district is responsible for auditing a variety of individual and business tax returns and for responding to taxpayer inquiries. It is also responsible for compliance programs that use third-party information to identify taxpayers who do not file tax returns or who understate their tax liability on filed returns.

Kansas-Missouri Groups That Make Abatements

Different work groups within the district make abatements.¹ Of the five divisions in KMDO, four make abatement decisions, usually through one or more branches. The division not making abatements is Criminal Investigation, whose primary workload involves investigating fraudulent or illegal activities.

Each division or office responsible for making abatements is shown in table III.1, which also lists examples of the type of abatements.

Table III.1: Examples of Abatements at Kansas-Missouri District Office

Division or office	Type of abatement
Collection Division	Discharged bankruptcies, offers-in-compromise, ^a trust fund recovery penalties ^b
Customer Service Division	Federal tax deposits, ^c taxpayer inquiries about assessments
Examination Division	Audit reconsiderations, ^d claims
Office of Taxpayer Advocate	Collection hardships and Problem Resolution Program (PRP) ^e

^aBy agreeing to an offer-in-compromise with a taxpayer, IRS accepts a lower dollar amount to settle a balance due.

^bIRS makes concurrent assessments against more than one officer or shareholder of a business that has not paid withheld employment taxes. Once the taxes are paid, the other assessments are abated.

^cIRS is to abate penalties erroneously assessed for failing to properly deposit federal taxes.

^dAudit reconsiderations occur when taxpayers ask IRS to reconsider assessments made in past audits.

^eStaff from the divisions resolve many PRP cases.

Source: Information provided by IRS officials.

Several factors affect which group makes the abatement decision, including the following.

- **Type of case.** Cases can vary by type of taxes (such as gift or excise), type of taxpayers (such as large corporation), and type of transactions (such as bankruptcy).

¹An abatement occurs when IRS reduces the assessment of tax, penalty, or interest against taxpayers for various reasons (e.g., an incorrect assessment or taxpayer had a reasonable cause for not complying with filing or payment requirements). An abatement may be initiated by a request from a taxpayer, by a taxpayer in response to IRS actions, or solely by IRS. For example, a taxpayer may file an amended return to claim changes to the original return. Factors such as the type, complexity, and source of the abatement determine which IRS group makes the abatement.

-
- Division function. The normal workload of the work group affects which group makes a specific abatement decision. For example, the Collection Division would make abatements in working cases, such as bankruptcy cases. Customer Service Division abatements could come from responding to taxpayer inquiries, such as those involving federal tax deposits.
 - Status of taxpayer account. For example, if a taxpayer is being audited by the district office and files an amended return or claim for refund with the service center, this return or claim is forwarded to the appropriate Examination group conducting the audit.

Summarized below are the responsibilities of each division and office, its workload, and examples of abatements.

Collection Division

The Collection Division is responsible for the collection of taxes from businesses and individuals who have an outstanding balance due or who have not filed required tax returns. In fiscal year 1998, the Collection Division closed about 14,300 cases, but Division officials could not identify how many cases involved abatements because they were not separately tracked.

Abatements in the division involve issues such as offers-in-compromise, trust fund recovery cases, and bankruptcy.² According to Collection officials, the most common abatements come from discharged bankruptcies, in which IRS makes abatements at the direction of a court. Offer-in-compromise cases involve an agreement by IRS to accept a taxpayer's offer to settle an outstanding assessment for less than the total due. In trust fund recovery cases, IRS has made assessments against officers or shareholders of a business that has not properly deposited its employment taxes and then is to abate the residual assessments after the tax liability has been paid.

Customer Service Division

The Customer Service Division takes taxpayers' calls and correspondence regarding inquiries about issues such as assessments. Taxpayer correspondence is forwarded to the IRS district office nearest the taxpayer for handling. During February 1998 through January 1999, the division closed nearly 17,000 cases. Customer Service officials said they did not track how many cases involved abatements.

According to division officials, the most common type of abatement results from penalty assessments in failure-to-deposit cases. For IRS to abate this

²For these types of cases, IRS abates the aggregated balance due; it does not break out the specific types of tax, penalty, or interest assessments.

penalty, the taxpayer must demonstrate a reasonable cause for not making the required tax deposits by the due date. If IRS agrees that the reason is valid, the penalty is to be abated.

Examination Division

The Examination Division is responsible for auditing individual and business tax returns selected by scoring criteria that identify returns with the greatest potential tax noncompliance. During fiscal year 1998, the Examination Division closed almost 19,000 cases. An Examination official said that the division has not tracked the number of cases that involved abatements, but that the division abates few assessments. This is because audits tend to focus on returns with potentially higher noncompliance, which is more likely to lead to additional taxes being assessed rather than assessed taxes being abated.

According to Examination officials, abatements come largely from claims involving audit reconsiderations that the service center sends to the district for review before being accepted. The Special Programs Section in Examination works the claim and can decide to accept or audit the claim. Audit reconsideration cases result when taxpayers ask IRS to revisit a prior audit that assessed additional taxes. The taxpayer believes that the taxes should not have been assessed. If the taxpayer provides support for that belief and IRS agrees, any excess tax amount is to be abated.

Taxpayer Advocate's Office

The Taxpayer Advocate's Office is to assist taxpayers through the Problem Resolution Program (PRP) and other activities after other IRS contacts have not resolved the taxpayer's concerns or when taxpayers ask for help. During a recent 6-month period, an Advocate official said that the office worked about 230 cases but did not know the number involving abatements because they were not separately tracked.

According to the Advocate official, the office routinely sends cases to a group in the Customer Service Division staffed with employees from other divisions. There, the case is to be worked by a division employee and monitored by the Advocate's Office to see that it is closed properly and timely.

Staffing

District officials said that most abatement decisions are made by authorized staff in the Collection and Customer Service Divisions. Also, a few abatements are made by staff in the Examination Division and Taxpayer Advocate's Office. Table III.2 summarizes the type and number of staff that make abatement decisions in the district, according to IRS officials.

Appendix III
Abatement Processes at the Kansas-Missouri District Office

Table III.2: Staffing Levels at Kansas-Missouri by Type of Staff and Grade Level, April 1999

Staff type and grade	Collection	Customer Service^a	Examination^b	Taxpayer Advocate	Total
Revenue officer (GS-7 to GS-12)	149 ^c	0	0	0	149
Tax examiner assistant (GS-5 to GS-9)	17	0	24	0	41
Customer/taxpayer service representative (GS-5 to GS-8)	8	480	0	0	488
Customer/taxpayer service specialist (GS-6 to GS-11)	1	33	0	0	34
Revenue agent (GS-9 to GS-13)	0	0	394	0	394
Tax auditor (GS-9)	0	0	42	0	42
PRP analyst (GS-9 to GS-12)	0	0	0	9 ^d	9
Total	175	513	460	9	1,157

^aExcludes 8 tax law specialists who advise staff that make abatements.

^bExcludes 5 lawyers who advise staff that make abatements.

^cIncludes revenue officer aides who do research for revenue officers.

^dExcludes a taxpayer advocate and 2 management assistants.

Source: IRS officials.

These staff have various duties, as discussed below.

Collection Division

Revenue officers work various types of delinquent accounts and investigations in the office and field. Also, they may work on specific programs, such as trust fund recovery penalties and lien withdrawals. Attorneys and district counsel assist with complex issues, such as bankruptcy. Revenue officer aides assist revenue officers by performing courthouse research and other duties.

Customer Service Division

Customer service representatives provide service to taxpayers who have contacted IRS via correspondence, telephone, or visits. They help prepare returns and answer questions regarding tax law, IRS procedures, and individual accounts.

Examination Division

Revenue agents and tax auditors audit various types of tax returns, such as income tax returns.

Taxpayer Advocate's Office

Staff monitor cases sent to the divisions to ensure that they are resolved promptly and appropriately.

Abatement Training

In general, training to be given in the divisions and offices that made abatements did not focus on abatements; rather, it focused on the range of duties for the various types of staff. The following briefly describes the training to be provided.

Collection Division

Revenue officers are to receive three phases of classroom training and on-the-job training after each phase. Afterward, they are to be assigned a

mentor to provide additional on-the-job training. Revenue officer aides receive no formal classroom training. All their training is on-the-job.

Employees dealing with bankruptcy cases are to receive training on bankruptcy issues, including 1 year of on-the-job training. IRS officials said employees handling the other types of abatements, such as offer-in-compromise and trust fund recovery cases, usually come from other IRS functions at which they have already received training to handle these issues.

Customer Service Division

Customer service representatives are to receive three phases of tax law classroom training and four additional phases of accounts-related classroom training. These courses include installment agreements; credit transfers; refund releases; tax adjustments; and penalty abatements. All classroom training is to be supplemented with on-the-job training.

Examination Division

Staff making abatements in the division are to receive many hours of classroom and on-the-job training, which varies by the type of staff. This training mostly addresses tax law and auditing topics, such as claims and audit reconsiderations. Revenue agents in specialty fields are to receive special training (e.g., a 3-week excise tax course).

Taxpayer Advocate's Office

PRP analysts are to receive some specialized training. However, an Advocate official explained that its office has recruited staff from other IRS divisions that should already have been trained in collection and audit issues that the office addresses.

Supervisory Review

At the district, except for one division, the staff making the abatement decision is usually the same staff that enters information about the decision into the taxpayer accounts on the computer. The exception is the Examination Division, where the staff making the decision do not have access for computer entry.

Two types of supervisory review can affect abatement decisions made by staff. One occurs before the decision is made and one occurs after the decision. Neither of these types of review focus on abatements; rather, they cover all types of adjustments. As a result, KMDO did not have data on the percentage of abatement decisions that were reviewed.

First, supervisors may review proposed decisions to approve them before they are finalized. KMDO did not have similar requirements for these reviews across the divisions. However, Collection officials told us that their supervisors are to review all cases. Examination officials said they

have no requirement except that supervisors are responsible for the quality of the cases closed in their groups.

Second, KMDO officials said that supervisors are supposed to review a random sample of closed cases for each employee each month. These reviews are generally conducted for performance evaluation, and the requirements differ across the divisions. For example, Customer Service officials told us that their supervisors are to review at least 25 percent of the cases closed by each employee.

Quality Review

Each division is subject to reviews by a quality measurement system. Under this system, district office reviewers are to check the quality of work in closed cases against specific quality standards. These standards differ for each division. The closed cases selected for review are to be randomly drawn from all types of cases closed in a division.³ KMDO did not have data on how many quality reviews addressed abatement decisions because abatement cases were not reviewed separately.

In the Collection Division, for example, a sample of nine closed cases per branch is to be pulled for a nationally centralized review under the Collection Quality Measurement System. Similarly, in the Customer Service Division, Quality Assurance reviewers are required to do a closed case review on paper transactions. The sampling plan for each review period is developed in the National Office. At the time of our work, for example, the Quality Assurance Office was slated to review every 107th closed case. Examination also has closed cases reviewed under a national quality measurement system. The Taxpayer Advocate Office's review only covers those relatively few cases that are not referred to and closed at another division.

³Our objectives did not include testing whether IRS used random sampling as described.

Abatement Processes at the Northern California District Office

The Northern California District Office is located in Oakland and is responsible for Northern California from the Oregon border to just south of San Francisco.

Northern California Groups That Make Abatements

The district office has six operating divisions: Collection, Customer Service, Criminal Investigation, Research and Analysis, Examination, and Quality Assurance. Staff in three of the divisions can make abatements through one or more branches.¹ The Taxpayer Advocate’s Office can also make abatements, but Advocate officials said their office makes few abatements because most of their cases are referred to the other divisions or the service center for the actual decision.

Table IV.1 shows the divisions or offices that make abatements as well as examples of the type of abatements made by each.

Table IV.1: Examples of Abatements at Northern California District Office

Division or office	Type of abatement
Collection Division	Penalties for reasonable cause for not paying tax debts or filing required tax returns, trust fund recovery penalties, ^a discharged bankruptcies
Customer Service Division	Various penalties for reasonable cause
Examination Division	Audit refunds and audit reconsideration, ^b category A claims and interest claims ^c
Office of Taxpayer Advocate	Issues certain taxpayers have had difficulty getting resolved, penalties for reasonable cause

^aIRS makes concurrent assessments against more than one officer or shareholder of a business that has not paid withheld employment taxes. Once the taxes are paid, the other assessments are abated.

^bAudit reconsiderations occur when taxpayers ask IRS to reconsider assessments made through past audits.

^cCategory A claims involve issues that are complex, sensitive, or prone to noncompliance.

Source: Information provided by IRS officials.

In the following, we briefly describe the types of abatements made at each division or office. We also identify the caseload for all types of adjustments, including abatements, to taxpayers’ accounts. None of the divisions had data on the portion of the caseload that involved abatements.

Collection Division

The Collection Division is responsible for processing cases involving tax delinquency accounts and tax delinquency investigations. In the former, a tax liability has been assessed but not paid; in the latter, IRS is trying to

¹An abatement occurs when IRS reduces the assessment of tax, penalty, or interest against taxpayers for various reasons (e.g., an incorrect assessment or taxpayer had a reasonable cause for not complying with filing or payment requirements). An abatement may be initiated by a request from a taxpayer, by a taxpayer in response to IRS actions, or solely by IRS. For example, a taxpayer may file an amended return to claim changes to the original return. Factors such as the type, complexity, and source of the abatement determine which IRS group makes the abatement

obtain an unfiled tax return to determine whether a tax liability exists. The division may abate penalties for these cases. The division receives these cases from the service center and has field branches whose staff can make abatement decisions. During fiscal year 1998, the division processed about 13,600 cases, but it did not track how many of them were abatements.

According to district officials, in a typical Collection Division case, a revenue officer contacts a taxpayer who has not fully paid a tax liability. The taxpayer requests that the failure-to-pay penalty be abated and provides evidence of reasonable cause. The officer is to review the information provided by the taxpayer and make a decision on whether to abate the failure-to-pay penalty. The criteria for Collection abatements are contained in the Internal Revenue Manual, chapter 21.² Evidence required to make the abatement includes statements or documents from the taxpayer supporting the reasonable cause claim. Information about the abatement decision is to be maintained in case files at the service center.

Customer Service Division

Abatements in the Customer Service Division result from requests by taxpayers to abate certain types of penalties for reasonable cause. Customer service representatives are to collect evidence from the taxpayer on the reasonable cause and make the abatement decision. Documentation on these decisions is to be maintained in the case file at the service center. Officials from Customer Service could not provide caseload data on these or other types of case decisions for fiscal year 1998.

According to district officials, these penalty abatement cases typically involve penalties for failure to file a required tax return on time or failure to pay assessments on time. The criteria for Customer Service abatements are also contained in the Internal Revenue Manual, chapter 21.

The Customer Service Division refers some abatement cases to other IRS functions for processing. Taxpayer contacts concerning claims or requesting audit reconsideration can be referred to the district's Examination Division or to the service center. Requests for abatement of very large dollar penalties and of assessments to be paid under installment agreements can be referred to the Collection Division for processing.

Examination Division

Abatements in the Examination Division originate as claim referrals from the service centers, reconsideration of assessments from prior audits, requests for interest reduction, and tax reductions identified during audits.

²Because these criteria are considered to be sensitive information, we are not disclosing them in any detail throughout this appendix.

Examination staff also are to process abatements referred to them from the district's taxpayer advocate. The Examination Division might refer cases to other divisions or IRS offices either because the taxpayer moved or because the taxpayer has a representative who lives elsewhere. During fiscal year 1998, the division closed about 44,200 cases, but the percentage that involved abatements was not tracked.

According to district officials, a typical Examination abatement case is one in which the taxpayer requests that the findings of a prior audit be reconsidered. Examination staff are to review the issues and make a decision on whether to abate the amount being questioned. Abatements are also considered to be common for category A claims, which are usually referred from the service center and consist of claims and amended returns that are sensitive, prone to noncompliance, or more complex than other claims.

The criteria for Examination abatements are contained in the Internal Revenue Manual, chapter 21. Evidence required for Examination abatements typically includes information from audit files, tax returns, or other documentation provided by the taxpayer that is to be maintained in the case file.

Taxpayer Advocate's Office

The Taxpayer Advocate's Office is responsible for helping taxpayers resolve tax-related problems. The office should receive cases that meet certain criteria, such as repetitive IRS contacts over a short time period or taxpayer problems that have not been resolved through regular channels for a long period of time.

Advocate officials told us that they refer most cases to divisions, service centers, and other districts. For example, cases might be referred to the Examination and Collection Divisions, which have caseworkers to handle these cases. Primarily for geographic reasons, some cases are referred to other districts—that is, to move the case closer to where the taxpayer is located and the actions are being taken.

Generally, the workload does not vary much throughout the year and consists primarily of processing taxpayer requests for reduction or elimination of penalties. This workload totaled about 4,000 cases in fiscal year 1998, but the percentage that involved abatements was not tracked. Advocate officials said their office makes the final decision on a small number of abatements.

According to Advocate officials, a typical case would involve abating a failure-to-file penalty when a taxpayer had reasonable cause for not filing by the required due date. A taxpayer may initiate this action by providing information on why the penalty should be abated (e.g., taxpayer was hospitalized). The criteria for abatements are in the Internal Revenue Manual, chapter 21. Evidence required to make the abatement includes statements from the taxpayer on the reasonable cause claim. This evidence is to be kept in the case file.

Staffing

According to IRS officials, district office staffing does not vary much seasonally because the workload remains fairly constant. Table IV.2 summarizes the type and level of staff that make abatement decisions in the district, according to IRS officials.

Table IV.2: Staffing Levels by Type of Staff and Grade Level, May 1999

Staff type and grade ^a	Collection	Customer Service	Examination	Taxpayer Advocate	Total
Revenue officer (GS-7 to GS-12)	227	0	0	0	227
Tax examiner assistant (GS-5 to GS-9)	20	8	0	2	30
Customer service representative (G-5 to GS-9)	0	213	0	0	213
Revenue agent (GS-9 to GS-13)	0	0	411	0	411
Tax auditor (GS-9 to GS-12)	0	0	108	0	108
PRP specialist (GS-11)	0	0	0	5	5
Total	247	221	519	7	994

^aStaff at the highest grade levels usually fill supervisory positions.

Source: IRS officials.

Abatement Training

In general, training to be given in the divisions and offices that made abatements did not focus on abatements. Rather, the training focused on the range of duties for the various types of staff. The following briefly describes the training to be provided.

Collection Division

Training targeted at abatements is limited. According to district officials, the only training directed at abatements was a class on processing Form 3870, Request for Adjustment. Otherwise, the staff making abatement decisions are to receive training in three phases, consisting of over 300 classroom hours. This training is to cover the collection process, including abatements, adjustments, forms, and reasonable cause for abatements. Other training is to be provided on-the-job.

Customer Service Division

Staff making abatements in the division are to receive the basic training module, which includes case processing, telephone routing, customer service core skills, disclosure policies, and telephone training. Other training modules provide more specialized and advanced courses, such as computing and adjusting penalties and determining penalty relief.

Examination Division

Staff making abatements are to receive classroom and on-the-job training. This training mostly addresses the tax law and auditing. None of the training focused on abatements. As of April 1999, the staff had not yet been trained on the new process for audit reconsideration in which the requests for reconsideration are to be submitted directly to the service center and subsequently referred to Examination for action.

Taxpayer Advocate's Office

Staff working the cases are to receive classroom training. Initially, they are to receive 16 hours of PRP caseworker training and on-the-job training for making adjustments on the computer system. The PRP caseworker-training course was being updated, and additional classroom training for PRP specialists and analysts is to be added.

Supervisory Review

Staff that make abatement decisions usually are not the same staff that enter information about decisions into taxpayers' computerized accounts. According to district officials, this improves internal control. Exceptions are the Taxpayer Advocate's Office and Customer Service Division, where the same individual makes the decision and enters the information.

Two types of supervisory review can affect abatement decisions made by staff. One occurs before the decision is made and one occurs after the decision. Regardless of the type of review, district officials did not collect data on either the number of reviews done by supervisors or the percentage of abatement decisions that were reviewed.

First, supervisors may review decisions before they are made for purposes of approval. The requirements for such a review differed according to various division officials. For example, supervisors in the Taxpayer Advocate's Office and Collection Division are to review all requests for abatement and those in Customer Service are to review large-dollar abatements. The other divisions did not require supervisors to review and approve abatement decisions before they became final.

Second, district officials said that supervisors are to review a random sample of closed cases for each employee each month. These reviews are generally conducted for performance evaluation, and the requirements differ across the district. Following is a summary of supervisory review requirements for each division and office.

Collection Division

According to district officials, supervisors' reviews are to be conducted using the Collection Management Information System. Supervisors are to look for appropriate documentation and data. IRS does not maintain data on the number or percent of cases reviewed.

Customer Service Division	District officials said that supervisors are to review five closed cases each month for each employee to evaluate performance for the critical elements in the job description. Supervisors also are to make additional random reviews to ensure quality.
---------------------------	---

Examination Division	According to district officials, supervisors are to review a sample of closed cases for employee evaluations. The division has no specific criteria for the number of cases to be reviewed. Supervisors may choose to review a higher or lower number of closed cases depending on the auditor's skill level and experience and the supervisor's workload.
----------------------	--

Taxpayer Advocate's Office	District officials told us that supervisors are to review all staff decisions. Reviews are to be used for both quality control and staff evaluations.
----------------------------	---

Quality Review	Reviewers at the district office review closed cases in the divisions to check the quality of the work against specific quality standards. These standards differed for each division, but in general, the standards focused on communication, timeliness, and accuracy.
----------------	--

District officials said that the cases selected for review are to be randomly drawn from all types of cases closed in a division.³ Because abatement cases are not reviewed separately, district officials did not have data on how many quality reviews addressed abatement decisions.

Specifically, district officials provided the following information about the review of closed cases in each division or office by independent reviewers.

- The Quality Assurance Division reviews a monthly sample of closed cases from the Taxpayer Advocate's Office. According to district officials, Quality Assurance reviews 16 cases plus 100 percent of the cases initiated from IRS' periodic problem solving days.
- The Collection Division reviewed between 5 and 10 percent of the closed cases—about 1,300 reviewed cases in fiscal year 1998—as part of the Collection Quality Measurement System.
- The Customer Service Division's Automated Compliance Section reviewed 439 cases during fiscal year 1998.
- Examination Division cases underwent Quality Assurance review against the Examination Quality Standards. In fiscal year 1998, 506 closed audit cases were reviewed as part of this Examination Quality Measurement System.

³Our objectives did not include testing whether IRS used random sampling as described.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Tom Short (202) 512-9110
Royce Baker (913) 384-3222

Acknowledgments

In addition to those named above, Lawrence Dandridge, Rodney Hobbs, Stephen Pruitt, Louis Roberts, Elizabeth Scullin, and Kathleen Seymour made key contributions to this report.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Order by mail:

**U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touch-tone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

