

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Trends in Compliance Activities Through Fiscal Year 2022

December 20, 2023

Report Number: 2024-300-011

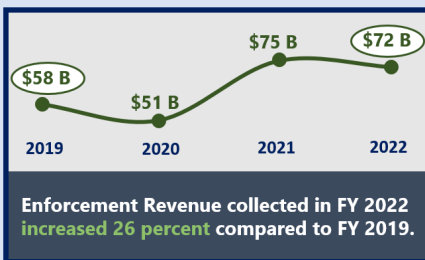
Why TIGTA Did This Audit

TIGTA conducts this review annually in response to continuing stakeholder interest in the analysis and trending of IRS civil enforcement activities, including Collection and Examination function activities. The overall objective was to provide various statistical information regarding the IRS's civil enforcement activities.

Impact on Tax Administration

This report is a compilation of statistical information reported by the IRS. The data presented in this report provide taxpayers and stakeholders with information about how the IRS focuses its compliance resources and the impact of those resources on revenue and compliance over time.

For instance, enforcement revenue collected during Fiscal Year (FY) 2021 was nearly \$75 billion.



What TIGTA Found

During FY 2022, U.S. taxpayers filed more than 161 million individual and 12 million business income tax returns. Return filings resulted in about \$4.9 trillion of total tax revenue collected during FY 2022, which is about \$790 billion more tax revenue than FY 2021, and the most revenue ever collected by the IRS.

Trends in overall tax revenue impact trends in enforcement revenue. The IRS collected \$72 billion in enforcement revenue in FY 2022, an increase of 26 percent compared to \$58 billion collected in FY 2019. Enforcement revenue collected reached a historic high of nearly \$75 billion in FY 2021, while from FY 2013 to FY 2020, enforcement revenue was just over \$59 billion.

The IRS budget increased approximately 11 percent, from \$11.3 billion in FY 2019 to \$12.6 billion in FY 2022. The IRS ended FY 2022 with 72,648 full-time equivalent employees, a slight decrease from the number of full-time equivalent employees in FY 2019.

The revenue collection was driven substantially by automated collection processes. About 74 percent of FY 2022's enforcement revenue was collected within the Collection notice stream and Automated Collection System (ACS). The ACS, which was responsible for \$10.6 billion revenue in FY 2019 and \$11.5 billion in revenue in FY 2022, collected approximately \$3.8 million per full-time equivalent in FY 2022, while revenue officers within Field Collection collected on average \$2.7 million each.

During FY 2022, the IRS completed over 557,000 (79 percent) examinations via correspondence and over 151,000 (21 percent) examinations in the field. This was 2 percent fewer correspondence examinations and 25 percent fewer field examinations than conducted in FY 2019. The decrease in staffing within the Examination functions has contributed to the decline in examinations.

The Inflation Reduction Act was signed into law in August 2022 and increased funding for IRS operations by nearly \$80 billion over 10 years. The IRS has stated in its Inflation Reduction Act Strategic Operating Plan that it plans transformational change for taxpayers, including rebuilding its workforce, modernizing its information technology systems, and addressing the growing Tax Gap. This law specifically provides the IRS with nearly \$46 billion for enforcement activities, which could be used for hiring more enforcement personnel, and \$3 billion for taxpayer services.

What TIGTA Recommended

TIGTA made no recommendations in this report. IRS officials were provided an opportunity to review the draft report and did not provide any comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

December 20, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in black ink, appearing to read "M. Weir", is positioned above the typed name.

FROM: Matthew A. Weir
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal
Year 2022 (Audit # 202330025)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities as they relate to the Internal Revenue Service's (IRS) efforts to bring taxpayers into compliance with their tax obligations. This review was part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenges of *Administering Tax Law Changes* and *Increasing Domestic and International Tax Compliance and Enforcement*.

Although we made no recommendations in this report, we provided IRS officials an opportunity to review the draft report. IRS management did not provide us with any report comments. If you have any questions, please contact me or Phyllis Heald London, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

<u>Background</u>	Page 1
<u>Results of Review</u>	Page 1
<u>Taxpayers Paid More in Taxes in Fiscal Year 2022 Than in Any Prior Year</u>	Page 1
<u>Resources and the Impact on Enforcement Revenue</u>	Page 4
<u>Collection Function Compliance Activities</u>	Page 8
<u>Examination Function Compliance Activities</u>	Page 14
Appendices	
<u>Appendix I – Detailed Objective, Scope, and Methodology</u>	Page 22
<u>Appendix II – Detailed Charts of Statistical Information</u>	Page 24
<u>Appendix III – Glossary of Terms</u>	Page 28
<u>Appendix IV – Abbreviations</u>	Page 30

Background

Given the responsibility for administering the Nation's tax code, the Internal Revenue Service (IRS) must consider its mission in planning and executing various legislative changes as well as in evaluating its performance and the results of its programs. The IRS's mission is to:

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

The Treasury Inspector General for Tax Administration (TIGTA) conducts an annual review of the IRS's fiscal year-end nationwide compliance statistics for the Examination, Independent Office of Appeals, Collection, and Automated Underreporter function activities. Our review used nationwide data from IRS management information systems. Our data analyses were limited to identifying changes and trends in IRS data.¹

Results of Review

Taxpayers Paid More in Taxes in Fiscal Year 2022 Than in Any Prior Year

During Fiscal Year (FY) 2022, U.S. taxpayers filed more than 161 million individual and 12 million business income tax returns and forms.² These filings make up approximately 66 percent of the 263 million returns and forms that the IRS received from taxpayers in FY 2022. The IRS also received over 31 million employment tax returns, more than 1 million excise tax forms, and just over 297,000 estate and gift tax forms. These filings resulted in over \$4.9 trillion of total Federal tax revenue collected during FY 2022, which is about \$790 billion more tax revenue collected than in FY 2021, and the most revenue ever collected by the IRS.³

Taxpayer services, such as filing and account services, taxpayer assistance, and taxpayer advocacy services, are important to ensure that taxpayers receive the help that they need to timely meet their tax obligations. Taxpayers that do not meet their tax filing and payment obligations contribute to the Tax Gap. The IRS estimates the gross Tax Gap for Tax Years (TY) 2020 and 2021 to be \$688 billion. The Tax Gap is generally comprised of three components: nonfiling, underreporting, and underpayment. The IRS estimates that these components contribute \$77 billion, \$542 billion, and \$68 billion, respectively, to the gross Tax Gap.⁴

¹ Most of the calculations throughout the report are affected by rounding. All initial calculations were performed using the actual numbers rather than the rounded numbers that appear in the report. Much of the data included in this report update prior TIGTA reports on compliance trends.

² See Appendix III for the glossary of terms.

³ See Appendix II, Figure 1 for gross collections by type of tax for FYs 2019 to 2022.

⁴ IRS, Publication 5869, *Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020-2021* (Oct. 2023).

Events that affected compliance efforts from FY 2019 to FY 2022

Legislative changes often have an impact on both voluntary compliance and the IRS's ability to mitigate the Tax Gap through its compliance functions. The Congressional Budget Office reported that the disruptions stemming from the Coronavirus Disease 2019 Pandemic (Pandemic) will further reduce the IRS's ability to enforce tax laws.⁵ On March 25, 2020, the IRS announced the *People First Initiative*, which included a series of steps to help taxpayers by offering temporary relief on a variety of issues ranging from easing payment guidelines to postponing compliance actions from April 1 to July 15, 2020.

The *People First Initiative* paused many enforcement activities during the April to July 2020 period. Specifically, the IRS:

- Suspended the issuance of new notices of liens and levies.
- Stopped initiating new field or correspondence examinations.
- Extended deadlines to make monthly payments on existing installment agreements.
- Extended deadlines for submitting supporting documentation for Earned Income Tax Credit (EITC) claims.

In addition, the closure of IRS facilities during this time interrupted the processing of paper correspondence from taxpayers, including documents related to audit and collection activities. According to the IRS, when it shut down offices, it immediately worked on enabling telephone assistants to telework in order to continue to provide live telephone assistance. By mid-April 2020, the Small Business/Self-Employed (SB/SE) Division Collection function began reopening its telephone lines (not at full staffing levels but staffing incrementally increased in the following months). Additionally, Field Collection employees were already telework-enabled, so they remained available to the taxpayers already assigned to them.

During this time, the IRS also closed the walk-in Taxpayer Assistance Centers. The closure reduced the resources available to help taxpayers comply with tax law. These closures also hindered taxpayers seeking assistance with new issues from recent legislative and administrative changes as well as taxpayers whose issues predated the Pandemic. The Taxpayer Advocate Service also suspended face-to-face meetings and limited assistance to telephone only.

As of May 31, 2023, the suspension of balance due collection notices (except those required by law) remained in place. IRS management has also paused lien and levy issuances intermittently due to resource constraints and Pandemic-related issues. This impacted the work performed by Automated Collection System (ACS) and ACS Support, since some enforcement actions were incomplete without the issuance of certain suspended letters or notices.

New legislation, such as the Families First Coronavirus Response Act (Families First Act) and the Coronavirus Aid, Relief, and Economic Security Act, added further demands on the IRS's resources.⁶ The Families First Act added tax credits for paid sick, family, and medical leave. The Coronavirus Aid, Relief, and Economic Security Act added numerous provisions, including a retention credit for employers that closed due to the Pandemic. With the implementation of

⁵ United States, Congressional Budget Office, *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020).

⁶ Pub. L. No. 116-127, 134 Stat. 178 (codified in scattered sections of 7, 26, 29, and 41 U.S.C.) and Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

these new credits, the IRS had to determine which area would process the work, write procedures for processing this work, and then locate and train enough employees to handle the additional workload.

The American Rescue Plan Act of 2021, enacted on March 11, 2021, provided nearly \$2 trillion in economic stimulus funding to speed up the country's recovery from the economic effects of the Pandemic.⁷ The American Rescue Plan Act of 2021 temporarily expanded the Child and Dependent Care Credit and the self-only EITC for TY 2021. These changes made the Child and Dependent Care Credit one of the largest refundable tax credits administered by the IRS for TY 2021. Refundable tax credits can result in taxpayers having their tax reduced to zero and the issuance of a refund in the amount of any unused credit. A consequence of refundable credits is that they can result in the issuance of improper payments and can be the target of unscrupulous individuals. As such, they pose a significant risk as an avenue for those seeking to defraud the Government. As of May 5, 2022, the IRS processed more than 5.1 million tax returns claiming a refundable Child and Dependent Care Credit totaling more than \$11.1 billion.⁸

The Inflation Reduction Act, signed into law on August 16, 2022, increases funding for the IRS's operations by nearly \$80 billion over 10 years to rebuild its workforce, modernize its information technology systems, and address the growing Tax Gap.⁹ In its Inflation Reduction Act Strategic Operating Plan, the IRS promised to transform itself for taxpayers through five general objectives:

- Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.
- Quickly resolve taxpayer issues when they arise.
- Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the Tax Gap.
- Deliver cutting-edge technology, data, and analytics to operate more effectively.
- Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

This law provides the IRS with nearly \$46 billion for enforcement, which is planned for the hiring of more enforcement personnel and upgrading systems to reduce the Tax Gap and provides \$3 billion for taxpayer services. This funding could be used to support its hiring initiative that the IRS announced in March 2022 to onboard 10,000 employees within two years. In June 2023, legislation was signed into law to raise the country's debt limit and to establish new budget levels for programs and activities across the Government.¹⁰ Once this legislation is fully implemented, the funding for the IRS enacted under the Inflation Reduction Act will be reduced by approximately \$20 billion.

⁷ Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).

⁸ TIGTA, Report No. 2023-47-037, *American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits* p. 1 (June 2023).






⁹ Pub. L. No. 117-169, 136 Stat. 1818.

¹⁰ Pub. L. No. 118-5, 137 Stat. 10.

Resources and the Impact on Enforcement Revenue

From FY 2019 to FY 2022, the IRS’s budget increased 11 percent, from \$11.3 billion to \$12.6 billion. However, Figure 1 shows that during this period, funding for each of the IRS’s main budget activities and the number of full-time equivalent (FTE) employees varied.

Figure 1: Change in Budget Allocation (in millions) and FTE Employees by Budget Activity for FY 2019 and FY 2022¹¹

		 In FYs 2019 to 2022, the IRS’s appropriations increased by 11 percent and the full-time employees decreased by 0 percent.					
					FTE		
Budget Activity	FY2019	FY2022	% change	FY2019	FY2022	% change	
 Taxpayer Services	\$2,557	\$2,808	10%	28,531	26,698	(6%)	
 Enforcement	\$4,678	\$5,364	15%	33,478	35,550	6%	
 Operations Support	\$3,918	\$4,148	6%	10,277	10,133	(1%)	
 Business Systems Modernization	\$150	\$275	83%	445	267	(40%)	
Grand Total	\$11,303	\$12,595	11%	72,731	72,648	0%	

Source: IRS, Congressional Budget Justification and Annual Performance Report and Plan FYs 2020 and 2024.

Figure 1 also reflects that the funding changes between FYs 2019 and 2022 did not necessarily result in corresponding changes in the number of FTE employees. For example, the budget amount for the IRS’s Business Systems Modernization increased by 83 percent, but the number of FTEs decreased by 40 percent. In FY 2019, \$150 million of the enacted budget to Business Systems Modernization funded a total of 445 FTEs while in FY 2022, \$275 million of the enacted budget funded 267 FTEs. The budget allocation for Enforcement increased 15 percent and Enforcement FTEs increased 6 percent. Overall, the IRS ended FY 2022 with 72,648 FTE employees, a slight decrease from the number of FTE employees in FY 2019.

In a 2019 report, the IRS stated it anticipated up to 31 percent of its current workforce would retire within the next five years, creating significant risk of a large knowledge and experience gap.¹² In March 2022, the IRS announced a hiring initiative to onboard 10,000 employees to work in IRS campuses within two years to resolve its backlog of 23.5 million paper tax returns

¹¹ Per the IRS, the Business System Modernization actual funding amounts for FY 2019 were \$345 million with 460 FTEs and \$248 million with 270 FTEs for FY 2022. TIGTA reported the Operating Plan Appropriation funding amounts for FYs 2019 and 2022 for all budget activities because at the time of fieldwork, actual funding for FY 2022 was only available for Business Systems Modernization.

¹² IRS, Publication 5382, *Internal Revenue Service Progress Fiscal Year 2019, Putting Taxpayers First* (Dec. 2019).

due partly to the Pandemic. When completed, this initiative will increase the IRS's FY 2020 workforce by approximately 13 percent. The campus hiring initiative negatively impacted the Large Business and International (LB&I) and SB/SE Divisions from hiring revenue agents to increase high-income taxpayer audits. As of September 2022, the IRS estimated that the LB&I and SB/SE Divisions could have hired approximately 450 and 2,300 positions, respectively, without exceeding authorized staffing levels.¹³ The hiring goals for both divisions for FY 2023 included increased examination hiring; however, a dispute with the Office of Personnel Management on certain revenue agent position classifications impeded revenue agent hiring for most of FY 2023.¹⁴

Figure 2 shows examination and collection staffing by compliance program and position.

¹³ TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved* pp. 4 and 6 (June 2023).

¹⁴ TIGTA, Report No. 2023-30-054, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers* p. 9 (Aug. 2023).

Figure 2: FYs 2019 Through 2022 Examination and Collection Staffing¹⁵

	FY 2019	FY 2020	FY 2021	FY 2022
Collection				
Revenue Officers (Field Collection)	2,239	2,078	1,937	1,906
Campus Collection (including ACS Staff)	3,969	5,168	4,872	5,472
Wage and Investment (W&I) Division Examination				
Tax Examining Staff	908	1,142	995	941
SB/SE Division Examination				
Revenue Agents	3,995	3,402	3,522	3,410
Tax Compliance Officers	447	509	542	547
Tax Examiners	47	43	49	47
LB&I Division Examination				
Revenue Agents	2,754	2,798	2,931	2,775
Tax Compliance Officers	62	62	68	52
Tax Examiners	0	4	4	3
Tax Exempt and Government Entities (TE/GE) Division Examination				
Revenue Agents	811	973	900	908
Tax Examining Staff	174	183	185	172
Total Field Collection Revenue Officers and Campus Collection Staff	6,208	7,246	6,809	7,378
Total Examination Staff	9,198	9,116	9,196	8,855
Total Field Collection Revenue Officers and Campus Collection, and Examination Staff	15,406	16,362	16,005	16,233

Source: TIGTA analysis of Collection Activity Report 5000-23, IRS Tables 37, and W&I Division management-provided data. The HCO Division provided data for the TE/GE Division.

From FY 2019 to FY 2022:

- The SB/SE Division ended FY 2022 with fewer revenue agents and revenue officers than it had at the end of FY 2019.
- Notwithstanding the declines in revenue agents and revenue officers in the SB/SE Division, total examination and collection staffing increased 5 percent, from 15,406 to 16,233.
- Revenue agents for the LB&I and TE/GE Divisions increased by 21 and 97, respectively.

¹⁵ We included FY 2022 Staffing information in Figure 2 based on the most current IRS data available.

- Collection staffing increased from 6,208 to 7,378, an increase of 1,170. Specifically, Campus Collection (including the ACS) increased by 1,503 while the number of Field Collection revenue officers decreased by 333.

Enforcement revenue originated and collected

The amount of total enforcement revenue collected, as shown in Figure 3, increased to \$72 billion in FY 2022 compared to approximately \$58 billion in FY 2019, an increase of 26 percent. IRS enforcement revenue collected reached a historic high of nearly \$75 billion in FY 2021 while from FY 2013 to FY 2020, enforcement revenue collected never exceeded more than \$59 billion.¹⁶ However, enforcement revenue collected as a percentage of total Federal tax revenue collected has remained less than 2 percent. For example, in FY 2022, enforcement revenue collected of \$72.4 billion was still only 1.47 percent of the \$4.9 trillion in total Federal tax revenue collected.

The IRS attributes enforcement revenue collected to one of four areas regardless of which area collects the assessment. For example, if examination assesses additional tax, the collection area may collect the tax after the case leaves examination. The revenue is attributed to examination. The IRS attributes enforcement revenue to the following four areas:

- Examination – Each of the four operating divisions have examination functions with the authority to examine taxpayers' books and records to ensure compliance with the tax laws, and revenue collected on an examination assessment is tracked separately from other enforcement revenue.¹⁷
- Independent Office of Appeals (Appeals) – Taxpayers have the right to appeal the IRS's decision to Appeals, which attempts to resolve Federal tax controversies without litigation on a basis which is fair and impartial to both the Government and the taxpayer.¹⁸ Appeals decisions may result in an assessment of tax.
- Collection – The IRS Collection function collects revenue from delinquent tax returns and balance due accounts.
- Automated Underreporter (AUR) – The AUR function identifies discrepancies between amounts reported on income tax returns with information supplied to the IRS from third-party sources, *e.g.*, employers, banks, credit unions.¹⁹ AUR cases are not considered examinations.

Figure 3 shows the amount of enforcement revenue collected and attributed to these four areas for FYs 2019 and 2022.

¹⁶ See Appendix II, Figure 5, Enforcement Revenue Collected Over the Past Decade by Area.

¹⁷ Internal Revenue Code (I.R.C.) § 7602.

¹⁸ Internal Revenue Manual (IRM) 8.1.1.1 (Oct. 1, 2016).

¹⁹ Matches items reported on an individual's income tax return to information supplied to the IRS from outside sources, *e.g.*, employers, banks, credit unions, to determine if the taxpayer's tax return reflected the correct amounts, thereby ensuring that the tax amount is correct.

Figure 3: Enforcement Revenue Origin FYs 2019 and 2022 by Area²⁰

Area	FY 2019		FY 2022		Percentage Change From FY 2019 to 2022 Increase/(Decrease)
	Amount (in Billions)	Percentage	Amount (in Billions)	Percentage	
Examination	\$9.3	16%	\$6.8	9%	(27%)
Appeals	\$1.6	3%	\$2.4	3%	49%
Collection	\$41.8	73%	\$57.9	80%	39%
AUR Program	\$4.9	8%	\$5.3	7%	8%
Total	\$57.5	100%	\$72.4	100%	26%

Source: TIGTA analysis of IRS management-provided data. Totals may not calculate due to rounding.

Total enforcement revenue collected increased 26 percent from FY 2019 to FY 2022. Although IRS research shows that examinations have the greatest impact on tax compliance, enforcement revenue collected for examination assessments decreased by 27 percent from FY 2019 to FY 2022.²¹

The IRS stated that total enforcement revenue increased significantly in FYs 2021 and 2022 primarily due to an increase in revenue from taxpayers voluntarily filing their returns with a balance due, which is paid after the initiation of collection activity. The revenue collected from these taxpayers after entering balance due status is recorded as enforcement revenue and attributed to the IRS collection area. Specifically, 18 million taxpayers with an unpaid balance from a voluntarily filed return contributed to revenue for TY 2019, increasing to over 20 million taxpayers for both TYs 2021 and 2022. This also accounts for the \$16.1 billion increase (a 39 percent increase from FYs 2019 to FY 2022) in enforcement revenue attributed to the Collection function. However, 61 percent of the \$16.1 billion (or \$9.7 billion) increase came from the increase in the amount collected from collection notices (notice stream) as shown in Figure 4.

Collection Function Compliance Activities

The stated mission of the IRS's Collection function is to provide taxpayers with top quality pre- and post-filing services by helping them understand and comply with all applicable tax laws and by applying the tax laws with integrity and fairness.²² Enforcement revenue is collected using different enforcement tools to generate revenue collection streams, which the IRS defines as follows:

- Pre-Collection Notice – Tax payments that were not paid with the tax return but are not yet considered delinquent are attributable to the Collection function.

²⁰ Enforcement Revenue in Figures 3 and 4 does not equal due to the rounding of the individual components that make up the totals in the different figures.

²¹ Alan H. Plumley, IRS, *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results* (Nov. 2002).

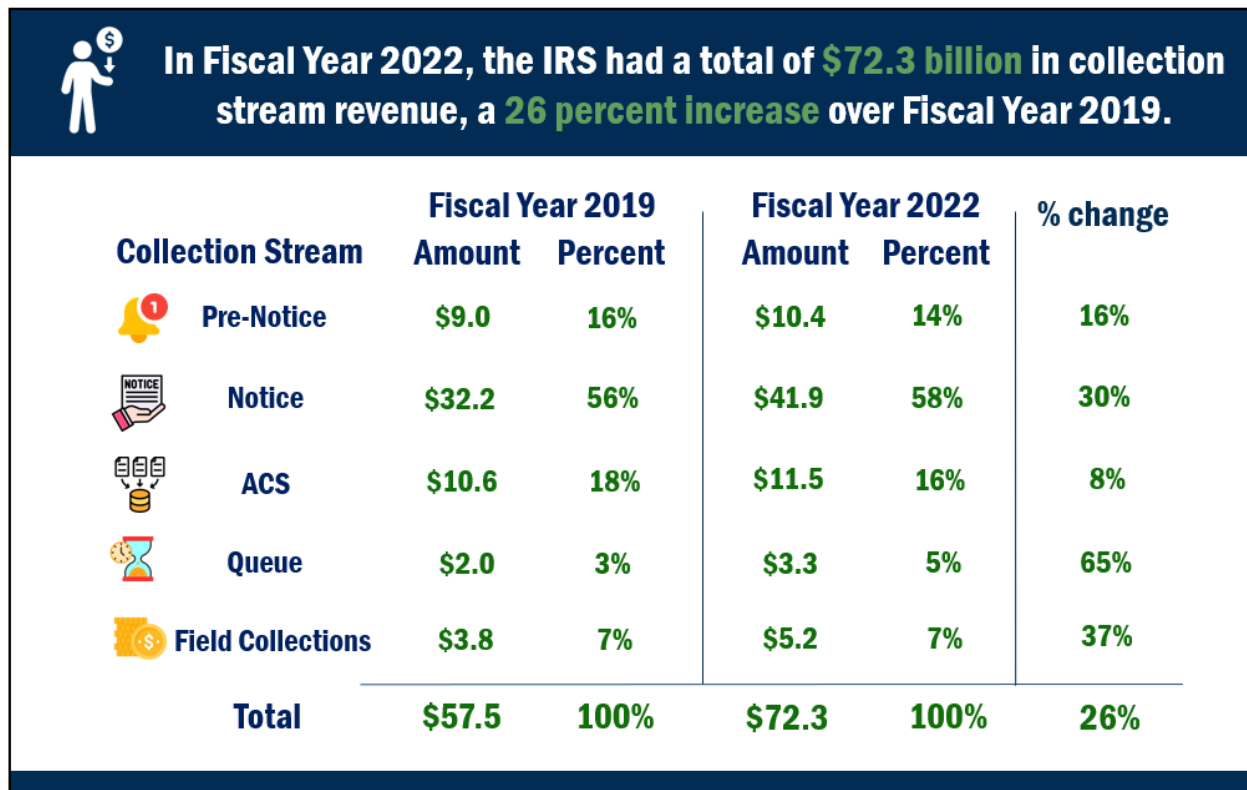
²² IRM 1.1.16.3 (Mar. 15, 2022).

Trends in Compliance Activities Through Fiscal Year 2022

- Collection Notices – The IRS issues a series of collection notices referred to in the IRS as the “notice stream.”
- ACS – The ACS consists of 19 IRS call centers through which telephone assistors collect unpaid taxes and secure tax returns from taxpayers with delinquent accounts who typically call the ACS telephone number provided on collection notices. ACS employees also work cases that may generate tax revenue from a variety of systemic actions, such as the issuance of Notices of Intent to Levy, in an attempt to prompt payments and bring taxpayers who are unresponsive or uncooperative into compliance.
- Collection Queue – The collection Queue holds collection cases awaiting assignment to Field Collection (hereafter “Queue”). Taxpayers sometime voluntarily make payments while in the Queue.
- Field Collection – Field Collection cases are worked by revenue officers through direct contact with taxpayers and their representatives.

Figure 4 shows enforcement revenue collected during FYs 2019 and 2022 by the Collection function. As shown in Figures 3 and 4, enforcement revenue collected increased 26 percent between FYs 2019 and 2022, from \$57.5 billion to \$72.3 billion.

Figure 4: Enforcement Revenue Collected in FYs 2019 and 2022 by Collection Function



Source: TIGTA analysis of IRS management-provided data. Totals may not calculate due to rounding.

Figure 4 shows that the collection of enforcement revenue is driven substantially by automated collection processes. In both FYs 2019 and 2022, 74 percent of the total enforcement revenue was collected within the notice stream and the ACS. From FY 2019 to FY 2022, there was a 30 percent increase of \$9.7 billion in the notice stream. The IRS stated that the increase in

FY 2022 was due to working the inventory backlogs of unprocessed paper tax returns resulting from the FY 2019 Government shutdown and the Pandemic. To work these backlogs, the IRS used overtime and reassigned some ACS Support employees to assist the IRS's efforts to whittle down the backlog of unprocessed paper tax returns (which the IRS refers to as the "Surge Team").

Other than issuance of required statutory notices to taxpayers, no collection action occurs on collection cases sitting in the Queue while they await assignment; however, \$1.3 billion more was collected in the Queue in FY 2022 than in FY 2019. The IRS stated that it does not have specific data on the reason for the increase, though payments received in the Queue tend to follow the trends in collection payments overall and are often the results of reminder notices, related casework, and voluntary payments.

ACS Collection

Collection inventory is routed to the ACS when taxpayers do not respond to notices issued via the notice stream. ACS staff generally work cases requiring telephone contact for resolution, as well as those cases that may realize a benefit from a variety of systemic actions in an attempt to prompt payments and bring taxpayers who are unresponsive or uncooperative into compliance. A total of \$11.5 billion in enforcement revenue was collected by the ACS in FY 2022, an increase from the \$10.6 billion collected in FY 2019. With 3,036 FTEs, the ACS supported the IRS's enforcement operations by collecting approximately \$3.8 million per FTE in FY 2022.

Taxpayer Delinquent Accounts (TDA), *i.e.*, taxpayer accounts with a balance due, are worked by ACS staff. During FY 2022, almost 4 million TDA modules were routed to the ACS. The Pandemic had an effect on the closure and revenue collection of TDAs. The number of taxpayers calling the ACS to inquire about their TDAs decreased by over 29 percent from just over 18,000 in FY 2019 to almost 12,700 in FY 2022. Due to this decrease, activity and results on TDA accounts assigned to the ACS all decreased from FY 2019 to FY 2022 as follows:

- TDA closures decreased over 2.9 million or 43 percent (6.8 million modules to 3.9 million modules).
- Collection on TDAs assigned to the ACS decreased \$0.3 billion or 8 percent (\$4 billion to \$3.7 billion).
- Closures of taxpayer modules being fully paid decreased by approximately 100,000 modules or 7 percent (1.5 million modules to 1.4 million modules).

One of the factors contributing to the decline in TDA dispositions is that as of May 2023, balance due notices (except for statutory notices), along with many other collection notices and enforcement actions such as levies, were still generally suspended since February 2022 (as discussed previously). On March 17, 2022, the IRS paused the ACS quarterly manual inventory, due to continued high call demand and assistance with surge efforts of backlogged inventory due to the Pandemic.²³ Although there was a decrease in the amount of TDAs issued to the ACS, TDA modules in ending inventory remained the same at 6.7 million in both FY 2019 and FY 2022.

²³ TIGTA, Report No. 2024-300-008, *Post-Pandemic Actions Have Contributed to Declines in Automated Collection System Level of Service and Collection Inventories* p. 12 (Dec. 2023).

Field Collection

Field Collection receives the most complex cases because its employees (revenue officers) have the legal and financial training to work cases that are considered high risk. Revenue officers work with taxpayers to bring them into compliance by obtaining delinquent returns and payments on past due tax delinquencies or establishing payment plans. When necessary, revenue officers take enforcement actions such as levies, Notice of Federal Tax Lien filings, or seizures of property. During FY 2022, Field Collection closed nearly 155,000 delinquent tax modules for which taxpayers fully paid their delinquent tax obligations.

Because Field Collection cases are labor intensive, the cost associated with working them is generally higher than activities in other collection operations. In FY 2022, the IRS's Cost Accounting and User Fees Office analyzed cost-based performance measures for Field Collection. These performance measures included determining a cost per dollar collected.²⁴ The IRS's analysis shows that in FY 2022, Field Collection costs were \$0.11 for every dollar of enforcement revenue collected compared to \$0.13, \$0.16, and \$0.11 for FY 2019 through FY 2021, respectively. The reason given for the higher Field Collection cost in FY 2020 (\$0.16) was the decrease in tax revenues, which was primarily a result of the People First Initiative implemented in response to the Pandemic.

Field Collection increased collection revenue by \$1.4 billion (37 percent) when comparing FY 2019 and FY 2022. The IRS stated this increase was in part due to Field Collection focusing on assigning high-dollar employment tax cases with balances of \$250,000 or more. In addition, in FY 2022, Field Collection management began focusing on assigning cases with individual taxpayers owing over \$1 million. IRS management reports noted that there were 1,906 revenue officers working active inventory as of September FY 2022. They collected, on average, \$2.7 million each during FY 2022.

Private Debt Collection (PDC)

In December 2015, legislation was enacted that requires the IRS to use designated contractors to assist in collecting tax delinquencies. The Fixing America's Surface Transportation Act includes a provision requiring the IRS to enter into qualified tax collection contracts with private collection agencies (PCA) to work "inactive tax receivables."²⁵ As of FY 2022, PCAs had over 1.6 million delinquent taxpayer accounts in open inventory totaling \$15.6 billion in outstanding tax liabilities.

We noted the following pertaining to PDC performance:

- PDC annual program revenues increased by almost 460 percent from \$268 million in FY 2019 to \$1.5 billion in FY 2022.
- From the launch of the PDC program in 2016 through September 2022, the program generated revenue totaling nearly \$3.8 billion (\$1.4 billion in commissionable payments, \$113 million in non-commissionable payments, and \$2.3 billion in Special Compliance Personnel Program revenue).

²⁴ The cost per dollar collected represents how much the IRS spent on collecting one dollar, which is calculated by dividing net cost over Field Collection enforcement revenue.

²⁵ Pub. L. No. 114-94, 129 Stat. 1312, 1733-36 (2015) (codified as I.R.C. § 6306).

- From FY 2016 to FY 2022, the program's total cost was \$490 million while overall net revenue to the U.S Department of the Treasury was \$3.1 billion.²⁶

PDC collections reflected an average cost of \$0.16 (\$490 million/\$3.1 billion) per dollar collected for all years combined while the collection cost for FY 2022 was \$0.09 (\$120 million/\$1.4 billion). A recent TIGTA audit reported that the IRS has not effectively tracked the program costs related to the PDC program. Specifically, TIGTA found \$7.1 million in underreported costs and an overstatement of indirect costs by \$607,099.²⁷

Another recent TIGTA report found 14,141 low-income taxpayers with new tax years assigned to PCAs that should have resulted in the IRS recalling their accounts. Assigning low-income taxpayers, *i.e.*, taxpayers with income below 200 percent of the poverty level, violates the law.²⁸ TIGTA also reported that the average age of PCA inventory has decreased from 5.3 years, reported in the previous TIGTA biannual performance review report, to 4.3 years.²⁹ This trend is due to the Taxpayer First Act, which mandated that cases two years and older be assigned to PCAs, whereas previously the mandate was three years.³⁰ The "collectability curve" holds that cases older than three years are generally harder to collect, and the change in the law allows potentially more productive cases to be assigned to PCAs.

Nonfilers

The SB/SE Division collection area also has responsibility for the IRS's Nonfiler Inventory and Analysis group. The mission of the Nonfiler Inventory and Analysis group is to provide Service-wide policy guidance on SB/SE Division and W&I Division:

- Delinquent taxpayers.
- Nonfiler return delinquency case selection.
- Inventory analysis on processes related to Campus Return Delinquency programs.
- Inventories for taxpayers that are delinquent in filing tax returns.

Once the Nonfiler Inventory and Analysis group evaluates the potential nonfiler inventory, it selects a portion of the overall number of nonfilers for case creation. Those nonfilers selected for case creation receive a delinquency notification, similar to taxpayers with delinquent payments. If a taxpayer fails to resolve the nonfiler case during this notice process, a Taxpayer Delinquency Investigation case may be generated and sent to one of the collection inventory streams.

As of January 2023, the Nonfiler Inventory and Analysis group had an inventory of 50.7 million Taxpayer Delinquency Investigations for TYs 2015 through 2019 on individual taxpayers. During FY 2022, the IRS sent notices to 189,000 nonfiler taxpayers, a 78 percent decrease compared to

²⁶ Net revenue to the General Fund/Treasury is the total revenue (commissionable payments, non-commissionable payments, and Special Compliance Personnel Program revenue) minus retained earnings. Retained earnings are 50 percent of commissionable payments.

²⁷ TIGTA, Report No. 2022-30-022, *The IRS Private Debt Collection Program Has Not Effectively Reported All Program Costs or Included Adequate Disclosures* pp. 7 and 20 (Mar. 2022).

²⁸ I.R.C. § 6306(d)(3)(F).

²⁹ TIGTA, Report No. 2023-30-005, *Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance* p. 5 (Dec. 2022).

³⁰ Pub L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

FY 2021 when the IRS sent notices to 860,000 nonfiler taxpayers. The identification of business nonfilers increased in FY 2022 (87.6 million) from FY 2021 (66.5 million). However, notices sent to business nonfilers decreased 85 percent from FY 2021 (nearly 65,900) to FY 2022 (nearly 9,900). The IRS has decreased the number of notices issued for both individual and business nonfilers.

TIGTA reported in May 2020 that the IRS developed a new nonfiler strategy that may approach nonfiling in a more strategic manner.³¹ However, there is no clear evidence that the new nonfiler program is in place. Additionally, IRS nonfiler programs are spread across multiple functions with no one area being primarily responsible for nonfiler oversight.

Another TIGTA report issued in March 2023 found that from FYs 2016 through 2020, Federal Employee/Retiree Delinquency Initiative data showed that over 42,000 Federal civilian employees repeatedly failed to file a tax return for multiple years.³² Furthermore, the number of delinquent Federal civilian employees has increased by 32 percent from FYs 2015 to 2021. In FY 2021, 149,000 Federal civilian employees owed \$1.5 billion in unpaid taxes. Also, in the beginning of Calendar Year 2020, IRS management created and completed specialized Revenue Officer Compliance Sweeps which focused on high-income nonfilers.

Automated Substitute for Return (ASFR) Program

The ASFR Program is one of the key compliance programs within the IRS that enforces filing compliance on taxpayers that have not filed individual income tax returns but owe a significant income tax liability. ASFR determines and assesses the correct tax liability by securing valid income tax returns from taxpayers or by computing tax, penalties, and interest, based upon information returns from third parties, for example Form W-2, *Wage and Tax Statement*, and Form 1099-MISC, *Miscellaneous Information*.³³

Figure 5 shows ASFR cases closed when contact with the nonfiler taxpayer was made and when cases were closed without making contact.

³¹ TIGTA, Report No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* p. 4 (May 2020).

³² TIGTA, Report No. 2023-30-011, *The IRS Has Not Adequately Prioritized Federal Civilian Employee Nonfilers* p. 4 (Mar. 2023).

³³ There are more than a dozen different varieties of 1099 forms, and the reporting requirements for each are different.

Figure 5: ASFR Closed Cases and Additional Assessments for FYs 2019 to 2022

	FY 2019	FY 2020	FY 2021	FY 2022	Change From FY 2019 to 2022
Cases Closed With Contact	207,200	343,900	128,700	149,900	(28%)
Cases Closed Without Contact	157,400	318,700	274,100	145,700	(7%)
Additional Assessments (in millions)³⁴	\$6,566	\$5,586	\$3,907	\$2,931	(55%)

Source: IRS Data Books for FYs 2019 to 2022.

From FY 2019 to FY 2022, the cases closed with taxpayer contact decreased 28 percent whereas the assessments resulting from these cases decreased 55 percent. For FY 2020, the IRS noted that due to the Pandemic, processing centers were shut down for employee safety. This caused significant reductions in automated programs and backlogs for processing paper-filed information returns. During FYs 2021 and 2022, the IRS stated that due to the FY 2020 shutdowns of the processing centers, it continued to experience process delays for paper-filed information forms. In addition, many nonfiler initiatives remained paused to prevent burdening taxpayers whose returns may not yet have been processed.

Examination Function Compliance Activities

The IRS’s primary objective in selecting returns for examination is to promote the highest degree of voluntary compliance.³⁵ Examination is a vitally important aspect of maintaining a voluntary tax compliance system because approximately 79 percent of the gross Tax Gap is comprised of underreported tax on timely filed returns.³⁶ However, unpaid taxes comprise 10 percent of the Tax Gap while enforcement revenue collected attributed to the Collection area makes up 76 percent of the enforcement revenue collected from FY 2019 to FY 2022. The enforcement revenue collected attributed to the IRS Examination function over these four fiscal years only totaled \$30 billion. TIGTA researched the last 10 fiscal years (from FY 2013 to FY 2022), and in none of those years did enforcement revenue from Examination exceed Collection’s enforcement revenue.

Examinations are the means of detecting and collecting a portion of tax that is not reported and paid voluntarily. These efforts have both a direct and indirect impact on the Tax Gap. In addition to the direct impact on the taxpayers examined, the IRS Research function has determined that there is a substantial indirect multiplier effect on tax compliance that results from examinations. IRS examinations can range from the issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer’s records (field examination). During FY 2022, the Examination functions completed over 557,000 (79 percent) examinations

³⁴ Includes tax, interest, and penalties assessed. Cases closed without contact receive no ASFR assessments.

³⁵ IRM 1.2.1 (Jan. 2022). IRM 1.2.1.5.10(2) has been unchanged since June 1, 1974.

³⁶ IRS, Publication 5869, *Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 and 2021* (Oct. 2023).

Trends in Compliance Activities Through Fiscal Year 2022

via correspondence and over 151,000 (21 percent) examinations in the field. Compared to FY 2019, in FY 2022, there were 2 percent fewer correspondence examinations and 25 percent fewer field examinations conducted.

The decline in examinations is the result of decreases in staffing within the Examination functions. The IRS’s Examination staff are organized in the four operating divisions: LB&I, SB/SE, TE/GE, and W&I. Positions include revenue agents, tax compliance officers, and tax examiners. As shown in Figure 2, the number of the IRS’s Examination staff decreased 4 percent from 9,198 in FY 2019 to 8,855 in FY 2022. As a result, and as Figure 3 shows, enforcement revenue collected from examinations was \$6.8 billion (9 percent) of the IRS’s total enforcement revenue of \$72.4 billion collected in FY 2022, a decrease from the \$9.3 billion (16 percent) of the \$57.5 billion in total enforcement revenue in FY 2019.

As Figure 6 shows, since FY 2019, total proposed additional tax has increased from \$17.3 billion in 2019 to \$30.2 billion in FY 2022.³⁷ Figure 6 also reflects the effects of the Pandemic on examinations with the decline of proposed adjustments from \$17.3 billion in FY 2019 to \$12.9 billion in FY 2020. However, proposed additional tax increased in both FYs 2021 and 2022.

Figure 6: Proposed Additional Tax After Examination

FY	Amount in Billions			Percentage Change Compared to FY 2019 Increase/(Decrease)		
	Field	Correspondence	Totals	Field	Correspondence	Totals
2019	\$13.8	\$3.5	\$17.3			
2020	\$10.1	\$2.8	\$12.9	(27%)	(20%)	(25%)
2021	\$22.0	\$4.8	\$26.8	59%	37%	55%
2022	\$21.9	\$8.3	\$30.2	59%	136%	75%

Source: TIGTA analysis of IRS Data Books for FYs 2019 to 2022. Percentages may not calculate due to rounding.

The general trend of proposed additional tax from FY 2019 to FY 2022 is over a 75 percent increase in the total proposed additional tax resulting from examinations, and the most significant increase (136 percent) was from correspondence examinations. Over the past four years, the IRS Examination function proposed approximately \$87.2 billion in additional tax.

When an examination is completed, the IRS can either leave the tax assessment “as is” which is known as a “no change” or it can propose an adjustment (also known as an exam recommended tax or credit) to increase or reduce the current tax assessment. Taxpayers may not agree with all or a portion of these proposed assessments and may appeal the results of the examination or may not pay the assessed tax. As such, a portion of these recommended assessments may be reduced either before or after the Examination function closes the case. We inquired about the life cycle of these assessments, requesting the recommended assessed tax amount, subsequent reductions, and the final assessed tax amount.

³⁷ See Appendix II, Figure 4 for Recommended Additional Tax After Examination Over the Past Decade.

Figure 7 provides a summary of the IRS consolidated examination data directly from the Enforcement Revenue Information System (ERIS). The data within ERIS are different from the examination results shown in Figure 6, which represent proposed additional tax in the fiscal year in which the examination closed and comes from the Automated Information Management System. ERIS tracks the amount and timing of all revenue resulting from examinations (including amounts collected from IRS Collection functions that originated from examinations) and captures the dollars assessed and collected on those cases. For instance, ERIS shows the total recommended changes in tax that resulted from the examination, the amount the taxpayer disagreed with and appealed, and the amount examination assessed (the agreed portion of the tax).

ERIS also shows the amount of tax that Appeals assessed and the revenue collected (by IRS Collection functions) from the examination assessment amounts and the Appeals assessment amounts.³⁸ Appeals data become more complete over time and are often not reflected for many years after the examination is closed. Recent examinations will also not have had as much time for any agreed portion to be collected, so looking at the same fiscal year over time would change the results as the collection process has time to be worked the further from the fiscal year that the examination was closed.

Figure 7 shows recommended change in tax per examination went from \$21.5 billion in FY 2019 to \$34.7 billion in FY 2022, an increase of 61 percent. The amount that taxpayers appealed went from \$6.6 billion in FY 2019 to \$12.1 billion in FY 2022, an increase of 83 percent. Of the \$6.6 billion appealed by taxpayers in FY 2019, Appeals subsequently assessed \$2.3 billion. The breakdown by business operating division is shown in Figures 8 through 11.

Figure 7: Revenue Received From Examinations Closed in FYs 2019 Through 2022 (Dollar Amounts in Billions)

FY	Recommended Change in Tax Per Examination	Unagreed Amount Appealed by Taxpayer	Abatements	Examination Assessment Amount	Amount Collected- Examination Assessment Amount	Appeals Assessment Amount	Amount Collected- Appeals Assessment Amount
2019	\$21.50	\$6.60	\$2.41	\$12.50	\$9.43	\$2.30	\$1.93
2020	\$22.40	\$9.80	\$2.69	\$9.94	\$7.10	\$0.98	\$0.90
2021	\$26.00	\$7.10	\$3.63	\$15.23	\$10.98	\$0.58	\$0.41
2022	\$34.70	\$12.10	\$2.53	\$20.12	\$12.60	\$0.25	\$0.24
Total	\$104.60	\$35.60	\$11.26	\$57.79	\$40.11	\$4.11	\$3.48

Source: Provided by the IRS ERIS through September 2022. Totals may not calculate due to rounding.

When taxpayers do not agree with all or a portion of these proposed adjustments, the IRS denotes these disputes as unagreed. The taxpayer may formally protest the unagreed assessments through Appeals and pursue further actions through the U.S. Tax Court. The Appeals function’s mission “is to resolve tax controversies, without litigation, on a basis which is fair and impartial to both the taxpayer and the Federal Government.” Over the past four years, taxpayers disagreed (Figure 7-Unagreed Amount Appealed) with \$35.6 billion (34 percent) of

³⁸ Appeals noted that it does not produce sustention rates as a measure of productivity or success. It stated that cases are worked by applying the law to each taxpayer’s unique facts and circumstances and attempts to resolve cases that are susceptible to resolution, considering hazards of litigation where appropriate. It also stated that it does not measure success based on the extent to which cases are sustained in favor of the IRS or conceded in favor of the taxpayer.

\$104.6 billion in recommended change in tax with FY 2020 having the highest unagreed rate of 44 percent.

The difference between the recommended change in tax per examination and the unagreed amount and abatements amount (Figure 7) is the amount of the tax assessed by Examination.³⁹ Over the past four years, Examination made assessments totaling nearly \$58 billion, of which \$40 billion has been collected.

Over the past four years, the Appeals process resulted in assessments of \$4.11 billion, of which \$3.48 billion has been collected.

Examination results by business operating division

W&I Division –The profile of taxpayers served by the W&I Division mostly pay taxes through withholdings, prepare their own returns, interact with the IRS once a year, and receive refunds. The W&I Division’s three key functional operations are: Customer Assistance, Relationships, and Education; Customer Account Services; and Return Integrity and Compliance Services. While Customer Assistance, Relationships, and Education and Customer Account Services provide taxpayer service, Return Integrity and Compliance Services is primarily a tax compliance function that conducts examinations of refundable credits, such as the EITC and attempts to improve the IRS’s ability to detect and prevent improper refunds by administering various questionable refund programs.

According to IRS data, the number of W&I Division closed examinations has dropped 7 percent, from 335,704 in FY 2019 to 312,064 in FY 2022. At the same time, the amount of recommended additional tax increased approximately 4 percent, from \$1.4 billion in FY 2019 to nearly \$1.5 billion in FY 2022. Examinations within the Return Integrity and Compliance Services function of the W&I Division are conducted by the Refundable Credits Examination Operations unit. The substantial portion of the W&I Division’s compliance activities now revolve around addressing noncompliance involving refundable credits, mostly the EITC but also the American Opportunity and Premium Tax Credits.⁴⁰

The EITC is an anti-poverty program that provides a refundable credit to help low-to-moderate-income workers and families. The EITC was enacted by the Tax Reduction Act of 1975 to offset the impact of Social Security payroll taxes and rising food and energy prices and encourages individuals to seek employment rather than depend on welfare.⁴¹

The EITC accounts for an estimated \$28 billion, or 10 percent, of the individual income underreporting Tax Gap.⁴² TIGTA reported previously that the EITC accounted for almost 31 percent of all IRS audits in the last 10 years.⁴³ According to the IRS FY 2022 Data Book, the

³⁹ An abatement is the reduction or elimination of an assessment. There are several circumstances when a taxpayer may request an abatement. The authority for the IRS to make abatements comes from I.R.C. § 6404.

⁴⁰ A refundable tax credit is created when a taxpayer's tax bill is less than the amount of a refundable credit and they are allowed by tax law to receive the difference back in their refund.

⁴¹ Pub. L. No. 94-12, § 204.

⁴² IRS, Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016* (Oct. 2022).

⁴³ TIGTA, Report No. 2021-30-051, *The Earned Income Tax Credit Examination Compliance Strategy Can Be Improved* p. 9 (Sept. 2021).

Trends in Compliance Activities Through Fiscal Year 2022

number of EITC examinations slightly increased 5 percent from 206,753 for TY 2019 to 217,841 for TY 2020.

Figure 8 shows the IRS’s revenue data from ERIS for the W&I Division. The data reflect updates within ERIS through September 2022, associated with examination cases closed in the applicable fiscal years.

Figure 8: Revenue Received From Examinations Closed by the W&I Division in FYs 2019 Through 2022 (Dollar Amounts in Millions)

FY	Recommended Change in Tax Per Examination	Unagreed Amount Appealed by Taxpayer	Abatements	Examination Assessment Amount	Amount Collected- Examination Assessment Amount	Appeals Assessment Amount	Amount Collected- Appeals Assessment Amount
2019	\$1,443.24	\$10.15	\$42.25	\$1,390.84	\$1,308.48	\$5.27	\$4.44
2020	\$943.18	\$9.12	\$37.57	\$896.49	\$830.35	\$2.35	\$1.77
2021	\$1,694.12	\$6.79	\$32.67	\$1,654.65	\$1,547.21	\$3.66	\$2.89
2022	\$1,497.22	\$6.63	\$7.76	\$1,482.84	\$1,361.83	\$0.23	\$0.20
Total	\$5,577.76	\$32.69	\$120.25	\$5,424.82	\$5,047.87	\$11.51	\$9.30

Source: Provided by the IRS ERIS through September 2022. Totals may not calculate due to rounding.

For this four-year period, the total recommended change in tax from W&I Division examinations totaled over \$5.5 billion and taxpayers appealed nearly \$33 million, less than 1 percent. In addition, the IRS collected 92 percent of the tax Examination assessed in FY 2022, and 87 percent of the tax Appeals assessed in FY 2022.

SB/SE Division – The SB/SE Division’s mission is to help small business and self-employed taxpayers understand and meet their tax obligations. It serves more than 57 million taxpayers with the profile breakdown as follows:

- 47 million are Schedule C, *Profit or Loss From Business*; Schedule E, *Supplemental Income and Loss*; or Schedule F, *Profit or Loss From Farming*, filers.
- 6.8 million corporate taxpayers.
- 3.8 million partnership taxpayers.

In addition, the SB/SE Division serves about 26.8 million taxpayers filing employment tax returns, 1.1 million taxpayers filing excise tax returns, 250,000 taxpayers filing gift returns, and 27,000 taxpayers filing estate returns. The SB/SE Division’s Examination staff includes revenue agents, tax compliance officers, and tax examiners who perform examinations either in the field or at a campus via correspondence audit.

Figure 9 shows the IRS’s examination revenue data from ERIS for the SB/SE Division. The data reflect updates within ERIS through September 2022, associated with examination cases closed in the applicable fiscal years.

Figure 9: Revenue Received From Examinations Closed by the SB/SE Division in FYs 2019 Through 2022 (Dollar Amounts in Millions)

FY	Recommended Change in Tax Per Examination	Unagreed Amount Appealed by Taxpayer	Abatements	Examination Assessment Amount	Amount Collected- Examination Assessment Amount	Appeals Assessment Amount	Amount Collected- Appeals Assessment Amount
2019	\$8,404.24	\$2,052.51	\$637.53	\$5,714.20	\$2,828.53	\$508.52	\$197.66
2020	\$6,374.11	\$1,397.50	\$406.63	\$4,569.97	\$2,026.33	\$156.92	\$83.65
2021	\$9,861.31	\$2,640.03	\$834.96	\$6,386.32	\$2,817.66	\$257.20	\$166.25
2022	\$12,567.73	\$3,253.09	\$282.95	\$9,031.69	\$3,013.29	\$9.48	\$5.66
Total	\$37,207.39	\$9,343.13	\$2,162.07	\$25,702.19	\$10,685.81	\$932.12	\$453.23

Source: Provided by the IRS, via ERIS through September 2022. Totals may not calculate due to rounding.

For this four-year period, the total recommended change in tax from SB/SE Division examinations totaled over \$37 billion and taxpayers appealed over \$9 billion, 25 percent. In addition, the IRS collected nearly 33 percent of the tax Examination assessed in FY 2022 and nearly 60 percent of the tax Appeals assessed in FY 2022.

LB&I Division – The LB&I Division is responsible for tax administration activities for domestic and foreign businesses with a U.S. tax reporting requirement and assets of \$10 million or greater, as well as the Global High Wealth and International Individual Compliance programs.

Figure 10 shows the IRS’s assessment data from ERIS for the LB&I Division. The data reflect assessments within ERIS through September 2022, associated with examination cases closed in the applicable fiscal years.

Figure 10: Revenue Received From Examinations Closed by the LB&I Division in FYs 2019 Through 2022 (Dollar Amounts in Millions)

FY	Recommended Change in Tax Per Examination	Unagreed Amount Appealed by Taxpayer	Abatements	Examination Assessment Amount	Amount Collected- Examination Assessment Amount	Appeals Assessment Amount	Amount Collected- Appeals Assessment Amount
2019	\$11,478.97	\$4,392.55	\$1,708.47	\$5,377.95	\$5,264.46	\$1,803.55	\$1,730.65
2020	\$14,992.13	\$8,332.22	\$2,227.97	\$4,431.94	\$4,195.67	\$818.39	\$801.20
2021	\$14,228.19	\$4,333.97	\$2,757.76	\$7,136.45	\$6,585.88	\$315.94	\$238.10
2022	\$20,611.92	\$8,821.01	\$2,239.96	\$9,550.95	\$8,172.76	\$239.86	\$235.04
Total	\$61,311.20	\$25,879.76	\$8,934.16	\$26,497.29	\$24,218.77	\$3,177.73	\$3,004.98

Source: Provided by the IRS, via ERIS through September 2022. Totals may not calculate due to rounding.

For this four-year period, the total recommended change in tax from LB&I Division examinations totaled over \$61 billion, and taxpayers appealed over \$25 billion, 42 percent. In addition, the IRS collected 86 percent of the tax Examination assessed in FY 2022, and 98 percent of the tax Appeals assessed in FY 2022.

TE/GE Division – TE/GE Division taxpayers include small local community organizations, major universities, large pension funds, small business retirement plans, local and State governments, participants in complex tax-exempt bond transactions, and Indian tribal governments and tribal associations. The TE/GE Division divides its customers among three functions: Employee Plans, Exempt Organizations, and Government Entities.

Trends in Compliance Activities Through Fiscal Year 2022

Employee Plans is responsible for retirement plans and related trusts, Individual Retirement Accounts, plan participants and beneficiaries, and retirement plan sponsors. To accomplish their mission, Employee Plans employees work on determination letter requests, voluntary correction submissions, return examinations, tax administration and enforcement activities, and Knowledge Management. Exempt Organizations and Government Entities areas of responsibility include organizations exempt from income tax under I.R.C. § 501, including charities, private foundations, and other types of exempt organizations, such as business leagues; labor unions; veterans' organizations; political organizations described in I.R.C. § 527; and Federal, State, and local governments.

Figure 11 shows the IRS's assessment data from ERIS for the TE/GE Division. The data reflect assessments within ERIS through September 2022, associated with examination cases closed in the applicable fiscal years.

Figure 11: Revenue Received From Examinations Closed by the TE/GE Division in FYs 2019 Through 2022

FY	Recommended Change in Tax Per Examination	Unagreed Amount Appealed by Taxpayer	Abatements	Examination Assessment Amount	Amount Collected- Examination Assessment Amount	Appeals Assessment Amount	Amount Collected- Appeals Assessment Amount
2019	\$171,787,678	\$102,520,837	\$19,076,034	\$50,190,807	\$37,247,184	\$1,292,772	\$1,075,270
2020	\$97,901,648	\$38,205,474	\$20,003,506	\$39,692,668	\$30,638,264	\$3,598,564	\$425,718
2021	\$211,183,724	\$148,808,132	\$5,503,750	\$56,871,841	\$30,127,256	\$1,219,679	\$425,230
2022	\$62,515,445	\$10,538,459	\$216,803	\$51,760,182	\$39,918,316	\$7,125	\$7,125
Total	\$543,388,495	\$300,072,902	\$44,800,094	\$198,515,499	\$137,931,020	\$6,118,140	\$1,933,343

Source: Provided by the IRS, via ERIS through September 2022. Totals may not calculate due to rounding.

For this four-year period, the total recommended change in tax from TE/GE Division examinations totaled over \$543 million and taxpayers appealed over \$300 million, over 55 percent. In addition, the IRS collected over 77 percent of the tax Examination assessed in FY 2022, and all the tax Appeals assessed in FY 2022.

Conclusion

The IRS's enforcement efforts faced challenges from FY 2019 to FY 2022. The IRS adapted to the requirements of the Pandemic, including suspension of enforcement activities for the benefit of the public, which included suspension of delinquency notices, liens, and levy issuances. During this period, the IRS was faced with the implementation of various tax provisions associated with assisting taxpayers impacted by the Pandemic, which resulted in the diversion of enforcement resources to focus on processing the backlog of paper tax returns as a priority.

Through the IRS, the U.S. Government received total revenues of about \$4.9 trillion from taxpayers, which is nearly \$790 billion more tax revenue than in FY 2021 and the highest amount collected by the IRS. This increase in revenue appears to be driven by individual income taxes which increased by 47 percent since FY 2019 (nearly \$1 trillion).⁴⁴

To address its staffing challenge, the IRS will need to focus on using its Inflation Reduction Act resources to ramp up its hiring efforts needed to onboard qualified employees to pursue

⁴⁴ See Appendix II, Figure 1, Gross Collections by Type of Tax for FYs 2019 to 2022.

Trends in Compliance Activities Through Fiscal Year 2022

examinations of high-income and high-wealth individuals, complex partnerships, and large corporations that generally have more opportunity to avoid taxation.⁴⁵

The IRS's compliance operations collected \$72.4 billion in enforcement revenue during FY 2022, a 26 percent increase from FY 2019. The FY 2022 enforcement revenue collection was driven substantially by automated processes. The IRS's Examination function continued its declining enforcement trend in terms of the number of examinations; however, there was a general increase from \$17.3 billion in FY 2019 to \$30.2 billion in FY 2022 for proposed additional taxes after examinations. The trending decline in the number of examinations is likely contributing to expansion in the overall Tax Gap as taxpayers that appear to present a compliance risk are less likely to have an examination conducted.

⁴⁵ United States, Congressional Budget Office, Compendium of Inflation Reduction Act Spending and FTE data (April 19, 2023).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide various statistical information regarding Collection and Examination function activities as they relate to the IRS's efforts to bring taxpayers into compliance with their tax obligations. To accomplish our objective, we:

- Obtained and analyzed data, records, and other documentation related to voluntary compliance during the 2022 Filing Season.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to IRS Collection functions' FY 2022 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to IRS Examination functions' FY 2022 enforcement activities.
- Obtained and analyzed data, records, and other documentation to identify trends or changes related to any other compliance data such as enforcement revenue, gross collections, or notice stream collections.
- Obtained and analyzed EITC filing and examination data to identify trends.
- Reviewed applicable TIGTA, Congressional Budget Office, Government Accountability Office, and National Taxpayer Advocate reports for relevant information associated with trends or statistics identified in the programs referenced previously.
- Obtained the IRS's feedback regarding the impact of FY 2019 to FY 2022 events, new legislation, and budget issues on its compliance functions.
- Interviewed IRS personnel about the data systems used by the IRS to compile data for this report.

Performance of This Review

This review was performed with information obtained from the LB&I, SB/SE, TE/GE, and W&I Divisions, and Research, Applied Analytics, and Statistics during the period December 2022 through September 2023. We did not conduct this performance audit in accordance with generally accepted Government Auditing Standards because this review is a statistical portrayal of the IRS's results data, and TIGTA did not validate the accuracy or reliability of the information generated from IRS systems. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Timothy Greiner, Director; Eugenia Smoak, Audit Manager; Michele Strong, Senior Auditor; and Victor Taylor, Senior Auditor.

Data Validation Methodology

We used nationwide data from various IRS management information systems. Due to time and resource constraints, we did not audit the IRS's systems to validate the accuracy and reliability of the information.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

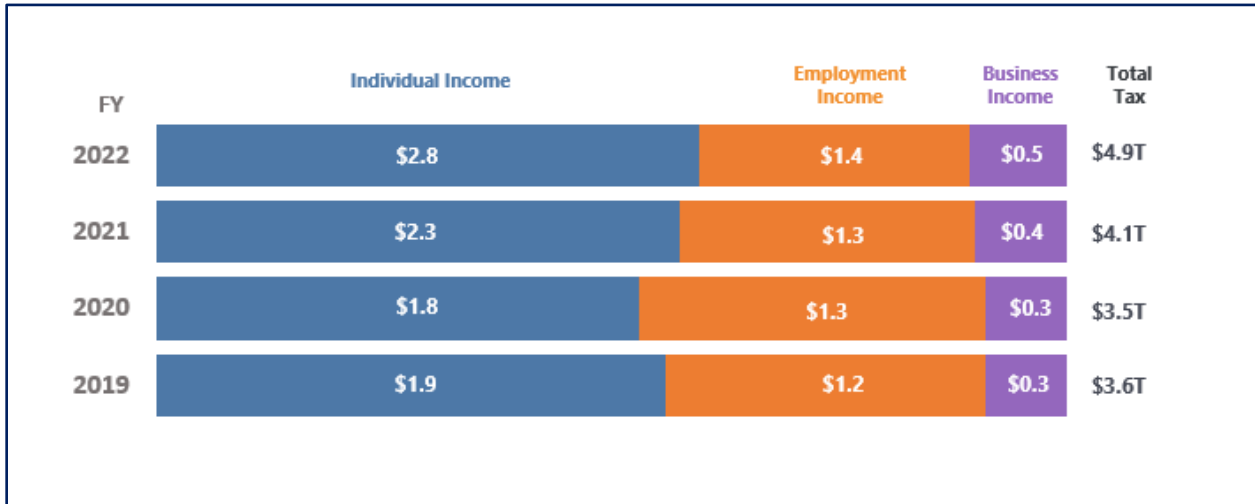
Appendix II

Detailed Charts of Statistical Information

Figure 1 – Gross Collections by Type of Tax (in trillions)	Page 25
Figure 2 – Amount of Enforcement Revenue Compared to Unpaid Assessments.....	Page 25
Figure 3 – Percentage Change of Tax Returns Filed and Examined	Page 26
Figure 4 – Recommended Additional Tax After Examination Over the Past Decade.....	Page 26
Figure 5 – Enforcement Revenue Collected Over the Past Decade by Area.....	Page 27

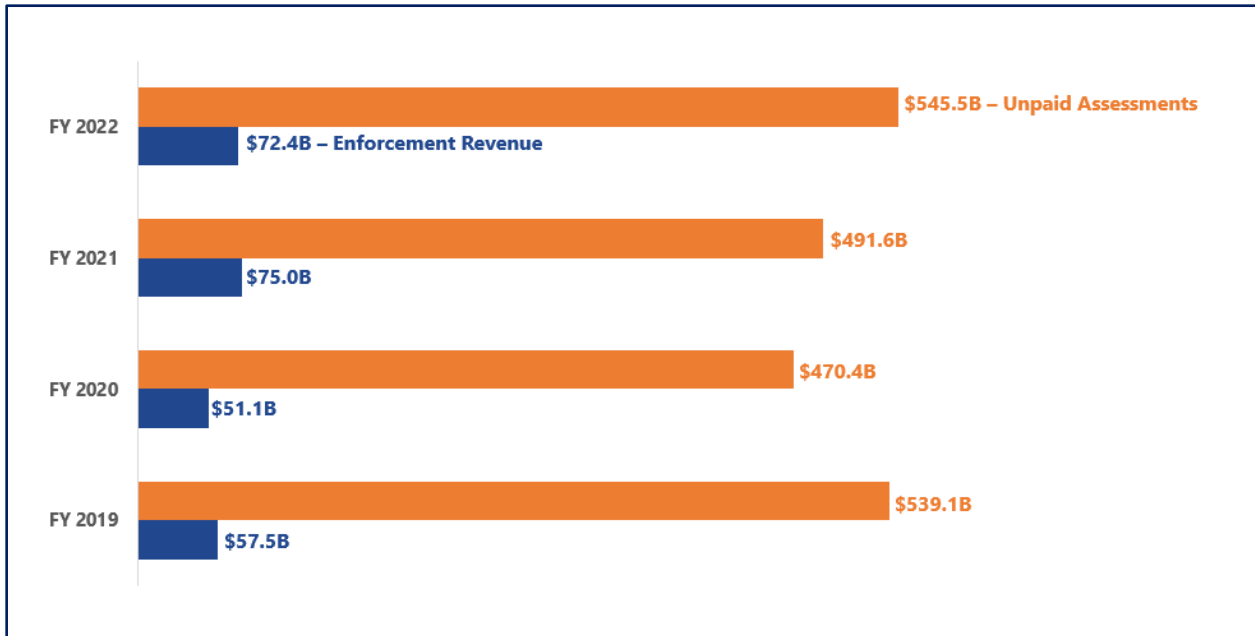
Trends in Compliance Activities Through Fiscal Year 2022

Figure 1: Gross Collections by Type of Tax (in trillions)¹



Source: TIGTA analysis of IRS Data Books for FY 2019 to FY 2022.

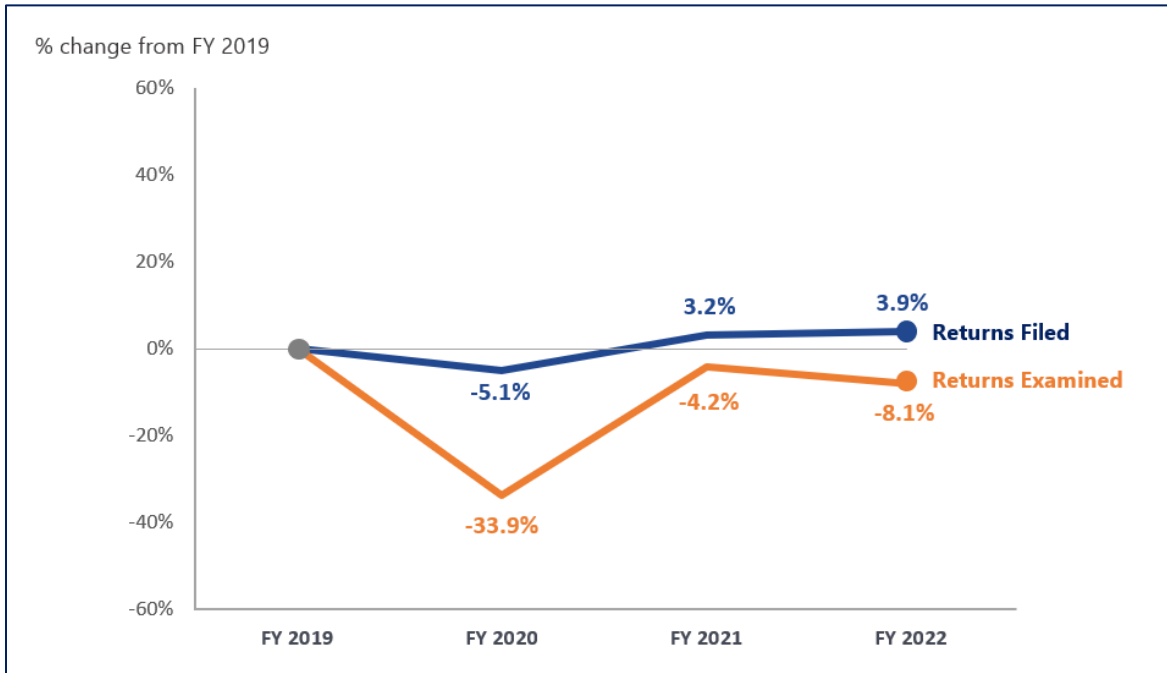
Figure 2: Amount of Enforcement Revenue Compared to Unpaid Assessments



Source: Office of Research, Applied Analytics, and Statistics for the enforcement revenue, and the Chief Financial Officer for the unpaid assessment data.

¹ Gross collections include taxes, penalties, and interest. The Business, Individual, and Employment taxes in this figure may not sum to the total amount because the total gross collections listed in the far-right column includes excise, estate and trust, and gift taxes (which are not included as a category in this figure).

Figure 3: Percentage Change of Tax Returns Filed and Examined



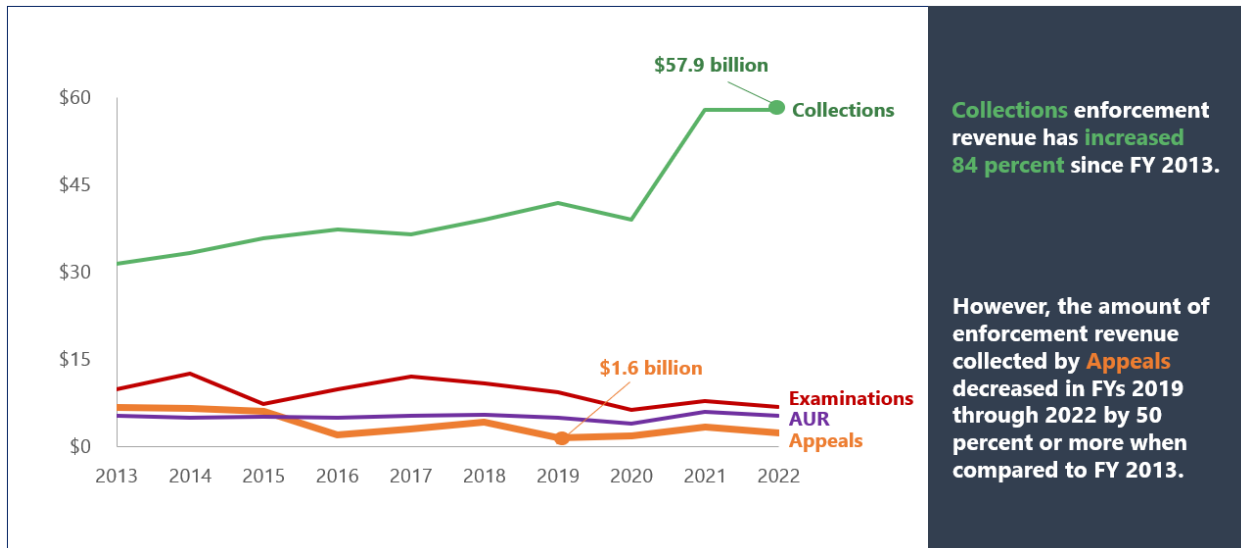
Source: TIGTA analysis of IRS Data Books for FY 2019 to FY 2022.

Figure 4: Recommended Additional Tax After Examination Over the Past Decade

FY	Amount in Billions			Percentage Change Compared to FY 2013 Increase/(Decrease)		
	Field	Correspondence	Totals	Field	Correspondence	Totals
2013	\$28.5	\$8.6	\$37.1			
2014	\$26.2	\$7.0	\$33.1	(8%)	(19%)	(11%)
2015	\$17.8	\$7.3	\$25.1	(38%)	(15%)	(32%)
2016	\$21.6	\$5.4	\$27.0	(24%)	(37%)	(27%)
2017	\$23.9	\$5.1	\$29.0	(16%)	(41%)	(22%)
2018	\$21.3	\$5.2	\$26.5	(25%)	(40%)	(29%)
2019	\$13.8	\$3.5	\$17.3	(52%)	(59%)	(53%)
2020	\$10.1	\$2.8	\$12.9	(65%)	(67%)	(65%)
2021	\$22.0	\$4.8	\$26.8	(23%)	(44%)	(28%)
2022	\$21.9	\$8.3	\$30.2	(23%)	(4%)	(19%)

Source: TIGTA analysis of IRS Data Books for FYs 2013 to 2022.

Figure 5: Enforcement Revenue Collected Over the Past Decade by Area



Source: TIGTA analysis of ERIS data for FY 2013 to FY 2022.

Glossary of Terms

Term	Definition
Automated Collection System	A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Enforcement Revenue Information System	Tracks the direct hours spent on cases, the life span of enforcement cases, assessments, recommendations, collections, and the timing of revenue collected from all IRS enforcement actions.
Field Collection	An IRS function within the SB/SE Division that helps taxpayers understand and comply with all applicable tax laws and applies the tax laws with integrity and fairness. It is also responsible for protecting the revenue and the interests of the Government through direct collection and enforcement activity with taxpayers or their representatives.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Full-Time Equivalent	A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.
Internal Revenue Manual	The primary, official source of IRS instructions to staff related to the organization, administration, and operation of the IRS.
IRS Data Book	The Data Book (or IRS Data Book) is published annually by the IRS and contains statistical tables and organizational information on a fiscal year basis. It provides information on activities conducted by the IRS, such as taxes collected, enforcement, taxpayer assistance, budget, workforce, and other selected activities.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
Revenue Agent	An employee in the Examination function who conducts face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes, <i>e.g.</i> , excise tax returns.
Revenue Officer	An employee in the Collection function who provides customer service by explaining taxpayer rights and responsibilities, collects delinquent accounts, secures delinquent returns, counsels taxpayers on their tax filing and payment obligations, conducts tax investigations, files Notices of Federal Tax Lien, releases Federal tax liens, and performs seizures and sales of delinquent taxpayer assets.

Trends in Compliance Activities Through Fiscal Year 2022

Term	Definition
Tax Compliance Officer	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
Tax Examiner	In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Taxpayer Delinquency Investigation	An account for which it appears a tax return has not been filed by a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer.

Abbreviations

ACS	Automated Collection System
ASFR	Automated Substitute for Return
AUR	Automated Underreporter
EITC	Earned Income Tax Credit
ERIS	Enforcement Revenue Information System
FTE	Full-Time Equivalent
FY	Fiscal Year
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
LB&I	Large Business and International
PCA	Private Collection Agency
PDC	Private Debt Collection
SB/SE	Small Business/Self-Employed
TDA	Taxpayer Delinquent Account
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
W&I	Wage and Investment



**To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.