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The Honorable Russell B. Long
 Vice Chairman, Joint Committee on
 Internal Revenue Taxation
 Congress of the United States

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Dear Mr. Vice Chairman:

Today I transmitted to you our report to the Joint Committee on the Internal Revenue Service's (IRS's) collection of taxpayer delinquent accounts. Because the report is to be released to the public, we are making this separate report to the Joint Committee on the following matter. Public disclosure of this matter might adversely affect tax collections.

SAVINGS IN MANPOWER BY
DEFERRING COLLECTION ACTION ON
LOW DOLLAR BUSINESS DELINQUENCIES

Under present procedures IRS service centers generally do not send (issue) delinquent accounts to district offices for collection action if the amount is less than \$150 on individual tax delinquencies or is less than \$25 on business tax delinquencies. If an account remains unpaid after the service center mails the routine payment request notices, the account remains in the computer files if the amount owed is less than the applicable minimum dollar amount for issuance to the district office. These small accounts remain in the computer file until (1) they are paid, (2) another delinquency occurs increasing the total for the combined accounts to or above the minimum amount for issuance, or (3) the statutory period for collection expires.

Following are estimates of the number of 1970 delinquent accounts on which collection action would have been deferred and the resulting savings in man-years if the minimum amount for issuance of a business tax delinquency had been at various dollar levels. These estimates are based on IRS statistical

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data which showed (1) that of the delinquent business accounts issued during 1970 about 5, 16, 26, and 32 percent were delinquencies of less than \$25, \$50, \$100, and \$150, respectively, and (2) the average man-hours required to close an account.

Increase from \$25 to less than	Additional deferred business accounts		Estimated savings in man-years
	<u>Number</u>	<u>Amount</u>	
	(millions)		
\$ 50	106,600	\$ 3.8	138
75	167,300	7.5	217
100	209,700	11.2	272
125	245,400	15.1	318
150	272,500	18.8	353

Deferring collection action on business accounts involving a small amount of delinquent taxes would not necessarily mean that the revenue would be lost or that no collection action would be taken, but rather that collection action would generally be deferred until the total delinquency of the taxpayer aggregates to the specified minimum amount for issuance. IRS computers are programed to periodically screen each taxpayer's account to determine whether past-due taxes for all tax periods will aggregate to the specified minimum dollar amount for issuing a delinquent account. This procedure, known as the aggregate analysis program, is performed four times a year for business accounts.

One effect of the aggregate analysis program is to encourage taxpayers owing small amounts to voluntarily pay their taxes to avoid IRS collection actions.

An IRS study on the effect of setting the minimum amount for issuance of individual income tax delinquent accounts at \$100 showed that, of those accounts between \$25 and \$100 which were deferred because they were less than the specified minimum amount, 69 percent were, within 2 years, removed from

the deferred inventory by either payment, refund offset, or issuance to the district offices for collection action.

In addition, increased IRS operating activities and prospective staffing reductions made it necessary for IRS to review its program needs to insure the most productive use of available manpower. As a result, in September 1971 IRS increased the minimum balance from \$100 to the current \$150 for issuing a delinquent account on an individual's income tax.

An IRS official told us that the \$25 minimum for issuance of a business tax delinquent account had not been established on the basis of a study and that no study had been made of the possible effect of increasing the minimum amount above \$25.

Conclusion

By deferring collection action on low dollar delinquent business taxes, the delinquent accounts workload at the district offices could be significantly reduced and a substantial number of man-years could be made available for other tax administration work. We believe that raising the minimum amount would not result in a material loss of tax revenue nor would it necessarily have a significant adverse effect on IRS efforts to promote and achieve voluntary tax compliance. Because potential savings in manpower could result, we believe that IRS should consider the feasibility of increasing the minimum amount for issuance of a business delinquency to a level above the present \$25, including a determination of the effect of raising the minimum by various amounts.

Recommendation to the Commissioner of Internal Revenue

We recommend that IRS determine the feasibility of increasing the minimum amount for issuing a delinquent business account.

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IRS comments and our evaluation

In commenting on this matter, the Acting Commissioner of Internal Revenue, by letter dated April 30, 1973, advised us that IRS is considering a proposal to study the tolerance level for business accounts to determine the economically optimum tolerance values for different categories of business taxpayers.

Because potential savings in manpower could result from increasing the minimum amount for issuing a business delinquency to a level above the present \$25, we believe that IRS should undertake the proposed study.

We are also sending this separate report to the Chairman. We are sending copies to the Commissioner of Internal Revenue.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James P. Axtell".

Comptroller General
of the United States