

A Comparison of Revenue Officers and the Automated Collection System in Addressing Similar Employment Tax Delinquencies

SECTION TWO

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EXECUTIVE SUMMARY

When a taxpayer does not pay his or her tax liability after receiving a stream of delinquency notices, the IRS may assign the collection case to a revenue officer (RO) in the Collection Field function (CFf), to a group of Automated Collection System (ACS) employees in centralized call sites, or to the queue to wait until collection resources become available to work the case. Thus, the IRS must decide which cases to assign to ROs, ACS, or the queue, and which to prioritize.

Direct comparisons between ACS employees and ROs present challenges, in part, because ACS generally works “fresh” and comparatively low-dollar cases. Moreover, although the vast majority of all payments (including late payments) come in as a result of voluntary compliance, the IRS does not measure or compare the effect of CFf or ACS on the taxpayer’s future compliance.

In an effort to address these knowledge gaps, TAS compared the IRS’s performance in working similar types of collection cases initially assigned to an RO, ACS, or the queue. As employment tax delinquencies are a high priority for the IRS and can easily lead to future delinquencies, TAS focused on taxpayers with newly-delinquent employment tax deposit “modules” (*i.e.*, those with three or fewer delinquent quarters) that were first assigned to ACS, the queue, or CFf during 2003-2004. In an apples-to-apples comparison, TAS found:

- The CFf collected more dollars and resolved delinquencies more quickly than ACS, regardless of the size of the delinquency.
- ACS transferred more tax modules, particularly medium- and high-dollar modules (over \$1,500), to the queue and CFf, reducing the IRS’s speed and effectiveness in addressing them.
- CFf collected more on high-dollar modules initially assigned to the queue when it received them quickly. Thus, the IRS should consider limiting its use of the queue as an inventory management tool, particularly for high-dollar modules, as recommended by the National Taxpayer Advocate.²
- Taxpayers with low-dollar modules (*i.e.*, \$1,500 or less) reduced their delinquencies more than those with higher-dollar modules while they were in the queue.
- Taxpayers initially assigned to the queue appeared somewhat responsive to the notices they received after the initial notice stream. Thus, the IRS should consider sending additional notices to taxpayers assigned to the queue, particularly notices that emphasize payment alternatives and the impact of late payment penalties and daily compounded interest, as recommended by the National Taxpayer Advocate.³
- IRS data suggests the IRS’s collection functions had very little success in promoting future compliance, regardless of the collection channel. It also suggests that collection employees closed about 24 percent of their cases while the taxpayers in question were falling behind on or about to fall behind on their taxes (or tax filings). Thus, both ACS and CFf should do more to resolve all compliance issues and ensure the taxpayer is able to comply in future periods before closing cases, and

² See, e.g., National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, 69 (*An Analysis of the IRS Collection Strategy: Suggestions to Increase Revenue, Improve Taxpayer Service, and Further the IRS Mission*).

³ See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *supra* (Most Serious Problem: Inadequate Service Delivery in the IRS Collection Process Harms Business Taxpayers and Contributes to Substantial Amounts of Lost Revenue).

regularly measure and report on future compliance, as previously recommended by the National Taxpayer Advocate.⁴

This study did not directly investigate why ROs are faster and more effective in resolving delinquencies than ACS employees, particularly on higher-dollar cases (those with modules of \$1,500 or more). However, it may be because each RO is generally expected to address the cause of the noncompliance and then resolve his or her assigned cases rather than pass them along to another collection employee or the queue. It may also be because ROs communicate with the taxpayer by visiting or making outgoing calls, and actively assist the taxpayer with collection alternatives. If so, then the IRS should either avoid assigning these cases to ACS or empower ACS employees to operate more like ROs.

For example, ACS employees should be required to make more use of outbound calls, actively assist taxpayers in using collection alternatives (*e.g.*, installment agreements and offers in compromise), and be expected to fully resolve certain types of cases (rather than pass them along to another employee or the queue). These changes would make ACS employees responsible for case outcomes. If adopted, taxpayers could also work with one person who is familiar with their circumstances. However, such changes are unlikely to improve ACS's results unless ACS employees receive adequate training and authority, and the IRS executives responsible for managing them are regularly required to measure and report on ACS's performance in these areas.⁵

⁴ For a discussion of IRS measures, see, *e.g.*, National Taxpayer Advocate 2010 Annual Report to Congress 28-48 (Most Serious Problem: *IRS Performance Measures Provide Incentives that May Undermine the IRS Mission*).

⁵ *Id.*

INTRODUCTION

The collection process generally involves three stages.⁶ In the first stage, the IRS sends the taxpayer a series of notices.⁷ In the second stage, the IRS typically routes the case to the Automated Collection System (ACS), though it sometimes routes them directly to a revenue officer (RO) in the Collection Field function (CFF) or to the queue where they wait for collection resources to become available.⁸ In the final stage, the IRS routes cases that remain unpaid or unresolved in ACS or the queue to CFF.

ACS computers and employees generally send taxpayers demand notices, issue liens and levies, and answer calls from centralized sites. As described in prior reports, ACS began as a call center that devoted significant staff hours to outgoing calls, but now ACS employees spend only about two percent of their direct time making outgoing calls.⁹ When ACS employees communicate with taxpayers, they focus on getting the taxpayer to full pay, rather than exploring collection alternatives (*e.g.*, installment agreements and offers in compromise), as appropriate, based on the taxpayer's individual circumstances.¹⁰ ACS employees are not assigned caseloads, nor are they expected or required to routinely resolve cases during contacts with taxpayers. Unresolved cases may be worked by another ACS employee, or transferred to the queue or CFF. Moreover, taxpayers cannot work with the same ACS employee if they need to communicate with the IRS more than once in resolving a delinquency.

ROs working in field offices may also send letters, issue liens and levies, and answer calls. However, they are instructed that “[A]n effective initial [outgoing] contact is the cornerstone to timely and effective case resolution,” and are supposed to “discuss” collection alternatives with taxpayers who cannot pay.¹¹ They also have a direct phone line, are aware of local economic conditions, and may even visit the delinquent business.¹² Moreover, they are generally expected to resolve their cases (rather than pass them along to another collection employee or the queue).

6 The IRS collection process begins with an assessment, which can occur through three different methods: Self-assessment by the taxpayer when a return is filed; IRS assessment based on deficiency procedures and after the taxpayer has exhausted (or failed to exercise) all appeal rights; or an IRS-prepared “substitute for return” (SFR) where the taxpayer has failed to file a timely tax return. See IRC § 6020(b).

7 See, *e.g.*, IRC § 6303(a) (requiring a Notice and Demand for payment); IRM Exhibit 5.19.1-2 (Apr. 28, 2008). Delinquencies involving employment taxes reported on Form 941, *Employer's Quarterly Federal Tax Return*, usually receive two notices. In these cases, the IRS waits five weeks before sending the second notice, and an additional five to ten weeks (10-15 weeks total) after sending the second notice before moving the account to a delinquent status (*i.e.*, a tax delinquent account or TDA status). See, *e.g.*, IRM 5.19.1-2 (Oct. 18, 2013). For further discussion of the collection process, see, *e.g.*, National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *infra* (Most Serious Problem: *Collection Procedures Harm Business Taxpayers And Contribute To Substantial Amounts Of Lost Revenue*); National Taxpayer Advocate 2011 Annual Report to Congress 336 (Most Serious Problem: *The IRS Does Not Emphasize the Importance of Personal Taxpayer Contact as an Effective Tax Collection Tool*).

8 See, *e.g.*, IRM Exhibit 5.19.5-10 (Dec. 1, 2007).

9 See, *e.g.*, National Taxpayer Advocate 2012 Annual Report to Congress 384 (Most Serious Problem: *The Automated Collection System Must Emphasize Taxpayer Service Initiatives to Resolve Collection Workload More Effectively*).

10 As discussed in volume 1 of this report, ACS employees do not have the authority to grant extensions to pay on in business trust fund (IBTF) accounts, will not discuss alternative payment options if the taxpayer has an unfiled return, and are not trained or authorized to enter into non-streamlined installment agreements (IAs) or offers for accounts involving business taxes. National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *infra* (Most Serious Problem: *Collection Procedures Harm Business Taxpayers and Contribute to Substantial Amounts of Lost Revenue*) (citing IRM 5.19.1.5.3 (Oct. 18, 2013), IRM 5.19.1.5.4.2 (Oct. 18, 2013), and IRS response to TAS information request (Sept. 13, 2012)). Moreover, ACS issued only 29,246 business master file (BMF) IAs, representing only 5.5 percent of the BMF taxpayer cases received by ACS during FY 2013. *Id.* (citing IRS, Collection Activity Report, NO-5000-6, *Installment Agreement Report* (Sept. 2013) and IRS, Collection Activity Report, NO-5000-2, *Taxpayer Delinquent Accounts Report* (Sept. 2013)).

11 IRM 5.1.10.3.2 (Oct. 28, 2011) (initial contact); IRM 5.1.10.3.2 (Oct. 28, 2011) ([if] “[T]ax is due and the taxpayer is unable to pay in full [and] the taxpayer does not qualify for a guaranteed, streamlined, or in-business trust fund express installment agreement... [then] discuss other collection alternatives”).

12 IRM 5.1.10.4 (Apr. 20, 2010) (instructing ROs to check voice mail, leave business cards, and return calls).

Although the IRS assigns some cases directly to ROs in the Cff, ROs often work on cases initially assigned to the queue. The IRS has to decide which cases to assign to Cff, ACS, or the queue, and which to prioritize.

It is difficult for the IRS to compare ACS employees and ROs because it generally assigns them different types of cases. ACS often receives low-risk, low-dollar cases that have not aged, and therefore are easier to collect.¹³ Moreover, the IRS does not measure the relative effects of each collection channel on long-term voluntary compliance, even though these effects are probably more important (and resource-saving) than how much the IRS collects in the short run. The objective of this study was to compare the effect on compliance of assigning an employment tax delinquency to the Cff, ACS, or the queue, as described in the National Taxpayer Advocate's 2012 Annual Report to Congress.¹⁴

METHODOLOGY

TAS focused on newly-delinquent taxpayers with one or two employment tax delinquencies (called “taxpayer delinquency account” modules or TDAs) in 2003, and those with three delinquencies in 2003, provided they were not pyramiding (*i.e.*, there was a gap between the last two delinquencies).¹⁵ TAS excluded those with three or more consecutive delinquencies in order to focus on taxpayers whose liabilities were not excessively pyramiding before being assigned.¹⁶ By limiting the analysis to fresh delinquencies, and stratifying the results by the amount assessed, TAS sought to put each collection channel on a more equal footing – limiting the bias that might result from comparing aged delinquencies to fresh ones and large delinquencies to small ones.¹⁷

An analysis of each collection channel proved challenging because cases were often transferred among the channels (*e.g.*, from ACS to the queue to Cff and every other permutation). Thus, much of TAS's analysis stratifies results based on the initial collection channel to which the IRS assigned the case, even though it may have been transferred later.

Of the 452,353 taxpayers in the IRS's Accounts Receivable Dollar Inventory (ARDI) database with TDAs in 2003, only 44,351 taxpayers (50,790 modules) met TAS's criteria. Of these, 21,057 taxpayers (23,767 modules) were first assigned to ACS, 19,433 (22,596 modules) were first assigned to the queue, and 3,861 (4,427 modules) were first assigned to the Cff. Thus, the collection cases TAS analyzed were significantly different from typical collection cases — particularly those normally assigned to the Cff. For example, although the Cff typically receives aged cases from the queue, the Cff cases in TAS's sample were about the same age (77 days) as those received by ACS (81 days) and the queue (77 days).

13 The collection industry estimates that the probability of collecting unpaid accounts falls to 70 percent after three months, 52 percent after six months, and 23 percent after a year. See, *e.g.*, Treasury Inspector General for Tax Administration, Ref. No. 2011-30-112, *Reducing the Processing Time Between Balance Due Notices Could Increase Collections* 8 (Sept. 26, 2011) (citing collectability statistics based on a survey conducted by the Commercial Collection Agency Association).

14 National Taxpayer Advocate 2012 Annual Report to Congress, vol. 2, 142-148 (*Research Prospectus: Comparing the Effect of Revenue Officers and the Automated Collection System on Future Compliance*).

15 These employment taxes are typically reflected on Form 941, *Employer's Quarterly Federal Tax Return*.

16 Those with delinquencies in the last two quarters of 2003 could have continued to pyramid in 2004.

17 To see how modules eventually closed, TAS pulled data from the Accounts Receivable Dollar Inventory (ARDI) database on the Compliance Data Warehouse (CDW) in September 2013 for all of the modules through extract cycle 201324 (*i.e.*, week 24 of 2013). To look at future behavior, TAS pulled status history for these cases through post cycle 201325 (*i.e.*, week 25 of 2013).

TAS performed additional analysis on the cases with delinquencies that had been fully resolved during the 2003-2004 period within a single collection channel (*i.e.*, that were not transferred). TAS hoped to isolate the effect of each collection channel's resolution of these cases on future compliance.

Although TAS tried to analyze similar cases by initial collection channel, the IRS's case routing systems generally assign the most difficult collection cases to CFf or the queue, rather than to ACS.¹⁸ Indeed, even among the cases in TAS's sample, those routed first to ACS had paid about 25 percent of the original assessment even before the cases were assigned to ACS, as compared to about two percent for those first routed to the queue, and eight percent for those first routed to CFf.¹⁹ Thus, some of the differences between CFf and ACS could have been due to differences in the difficulty of the cases. However, ACS generally did not achieve superior results.

FINDINGS

CFf collected more than ACS.

On the surface, some of ACS's results appear superior. Of the modules initially assigned to ACS, it closed more as fully paid (64 percent) than CFf (54 percent) or the queue (25 percent). However, ACS generally received modules with smaller delinquencies (\$1,369 on average) than CFf (\$13,133) or the queue (\$8,284), which were easier for any collection channel to close as fully paid. Indeed, even among modules of \$1,500 or less, CFf closed a greater percentage (70 percent) as fully paid than ACS (69 percent) or the queue (38 percent), as shown on the following table.

TABLE 1, Modules Closed as Fully Paid by Initial Collection Channel and Module Balance

Module Balance	ACS	Queue	CFf
\$1,500 or less	69%	38%	70%
\$1,500-\$5,000	42%	26%	57%
More than \$5,000	38%	19%	48%
All Modules	64%	25%	54%

Overall, ACS appears to have closed a larger percentage than CFf as fully paid (64 vs. 54 percent) only because it received a larger number of low-dollar modules (19,663 vs. 666). Moreover, a broader look at the data shows that regardless of the size of the delinquency, CFf collected a greater percentage than ACS (or the queue), as shown on the following table.

¹⁸ See, e.g., IRM 5.1.1.13.4.1 (Jan. 1, 2003) (procedures applicable during the period under study); IRM 5.1.20.2 (May 27, 2008) (current procedures).

¹⁹ Similarly, those first assigned to ACS voluntarily paid more while in notice status (34 percent of the amount collected), than those initially assigned to either the queue (21 percent) or CFf (21 percent). As described in more detail below, taxpayers with smaller module balances (*i.e.*, the kind often assigned to ACS) were generally more likely to pay while in notice status or before their cases were assigned to any collection channel.

TABLE 2, Collection Results by Initial Collection Channel and Module Balance²⁰

	ACS			Queue			Cff		
Module Balance	Average Assessed	Average Paid	Paid to Assessed Ratio	Average Assessed	Average Paid	Paid to Assessed Ratio	Average Assessed	Average Paid	Paid to Assessed Ratio
\$1,500 or less	\$848	\$504	59%	\$771	\$310	40%	\$716	\$515	72%
\$1,000–\$5,000	\$2,772	\$897	32%	\$2,728	\$714	26%	\$2,957	\$1,615	55%
More than \$5,000	\$7,172	\$2,252	31%	\$21,685	\$3,030	14%	\$23,771	\$10,147	43%
All modules	\$1,369	\$630	46%	\$8,284	\$1,367	17%	\$13,133	\$5,759	44%

These results are consistent with the notion that higher-graded ROs working in the Cff, who make outgoing calls and collect delinquencies in the field using a wider range of collection tools (including payment alternatives), are more effective than lower-graded ACS employees working remotely at a campus who primarily interact with taxpayers responding to systemically issued liens and levies. Notably, Cff surpassed ACS's collection results in every category, including low-dollar (\$1,500 or less) modules where it collected 72 percent of the initial assessment as compared to ACS, which collected only 59 percent. As noted above, the overall data may be misleading because ACS surpassed Cff (albeit by a small margin) only because it received a larger number of low-dollar modules (19,663 vs. 666).

Cff resolved delinquencies more quickly than ACS.

A superficial look at the data may suggest ACS resolved cases more quickly than Cff. On average, modules initially assigned to ACS spent 726 days in collection, as compared to 1,305 days for those initially assigned to the queue, and 1,189 days for those initially assigned to Cff. However, Cff receives more high-dollar modules, which may take longer to address.

In addition, these figures include the periods when the modules were being paid through installment agreements (IAs) and the periods during which they were deemed “currently not collectible” (CNC). Although both ACS and Cff might resolve delinquencies more quickly if they were empowered to accept more offers in compromise, an IA or CNC determination is an appropriate resolution for many accounts. Moreover, these resolutions add to the time cases spend in collection, and Cff may receive more cases where these resolutions are appropriate.²¹ Moreover, even when they receive cases where IAs are appropriate, ACS employees are not trained or authorized to accept non-streamlined IAs from businesses.²²

20 This table shows collections within the initial collection channel. Because of the way data is presented in the ARDI, payments may exceed the assessment at the time the case is first assigned to a collection channel. For example, abatements and additional accruals are not reflected in the initial assessment and offsets are not reflected as payments. Thus, we present the data as a ratio of payments to the average initial assessment, which may exceed 100 percent. Even if abatements were taken into account, Cff's ratio would be higher than ACS's in each module category — 86 vs. 70 percent for \$1,500 or less, 61 vs. 38 percent for \$1,500 to \$5,000, and 49 vs. 37 percent for more than \$5,000.

21 As noted above, ACS issued only 29,246 BMF installment agreements, representing only 5.5 percent of the BMF taxpayer cases received by ACS during FY 2013. See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *supra* (Most Serious Problem: *IRS Collection Procedures Harm Business Taxpayers and Contribute to Substantial Amounts of Lost Revenue*).

22 See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *supra* (Most Serious Problem: *Collection Procedures Harm Business Taxpayers and Contribute to Substantial Amounts of Lost Revenue*) (citing IRM 5.19.1.5.3 (Oct. 18, 2013), IRM 5.19.1.5.4.2 (Oct. 18, 2013), and IRS response to TAS information request (Sept. 13, 2012)).

Accordingly, TAS reanalyzed the data by omitting the periods cases were in IA or CNC status when comparing how long ACS and Cff took to resolve a delinquency.²³ When these periods were omitted and the data were stratified by module balance, it became clear that among the cases initially assigned to Cff or ACS, respectively, Cff resolved them more quickly than ACS, regardless of the amount of the delinquency, as shown by the following table.

TABLE 3, Average Days in Collection by Initial Collection Channel and Module Balance²⁴

Module Balance	ACS	Queue	Cff
\$1,500 or less	344	594	328
\$1,500–\$5,000	442	591	372
More than \$5,000	537	794	497

Cff even closed low-dollar modules (\$1,500 or less) initially assigned to it more quickly than ACS – within 328 days as compared to 344 days for ACS. These findings suggest that in allocating limited resources between ACS and collection, the IRS should not assume ACS resolves cases more quickly. Given that delinquencies become more difficult to collect over time, reallocating dollars from Cff to ACS may be quite costly. Moreover, Cff’s ability to resolve delinquencies provides better customer service to taxpayers.

ACS transferred more of its cases than Cff.

Modules initially assigned to ACS took longer to resolve, in part, because ACS transferred more of them to the queue than Cff. Overall, ACS transferred about 24 percent of the modules it was initially assigned — 22 percent to the queue and 2 percent to Cff. By comparison, Cff only transferred four percent to the queue and none to ACS, as shown in the following table.

TABLE 4, Percentage of Modules Transferred from the Initial Collection Channel to Another Collection Channel

Transfers	From ACS	From Queue	From Cff
To ACS	0%	1%	0%
To Queue	22%	0%	4%
To Cff	2%	52%	0%
Total to Another Channel	24%	53%	4%

ACS transferred an even higher percentage of the higher-balance modules. It transferred more than half of those with a balance of \$5,000 or more and 47 percent of the \$1,500–\$5,000 modules, as compared to 19 percent of those with a balance of \$1,500 or less, as shown on the following table.

²³ As noted above, TAS pulled ARDI data through post cycle 201324 (*i.e.*, week 24 of 2013). TAS computed the time to resolve a delinquency using extract cycle indicators for new (*i.e.*, rectype1=N) and resolved (*i.e.*, rectype1=R) cases. Most cases were resolved prior to 201324, but some remained unresolved (*e.g.*, because they were in IA or CNC status).

²⁴ These figures omit the time modules spent in IA and CNC status.

TABLE 5, Transfers from the Initial Collection Channel to Another Collection Channel by Module Balance

Transfers	From ACS	From Queue	From CFf
Module Balance of \$1,500 or Less			
To ACS	0%	1%	0%
To Queue	18%	0%	3%
To CFf	1%	29%	0%
Total to Another Channel	19%	30%	3%
Module Balance of \$1,500-\$5,000			
To ACS	0%	1%	0%
To Queue	42%	0%	4%
To CFf	5%	52%	0%
Total to Another Channel	47%	53%	4%
Module Balance of \$5,000 or More			
To ACS	0%	2%	0%
To Queue	44%	0%	5%
To CFf	7%	65%	0%
Total to Another Channel	51%	67%	5%

These results appear consistent with current ACS practices. Significantly more delinquent trust fund dollars pass through ACS with unresolved cases than ACS actually collects (including via refund offsets and installment agreements), as described in other sections of this report.²⁵ Thus, ACS may not have been equipped to handle many of the cases it received (*e.g.*, taxpayers with unfiled returns, other delinquencies, or requiring collection alternatives such as high-dollar installment agreements or offers in compromise).

CFf collected more on high-dollar modules when it received them quickly.

When CFf received high-dollar modules (more than \$5,000) directly, it collected more of the assessment (43 percent), than when the IRS assigned the modules to the queue first.²⁶ The CFf collected less (33 percent) when it received these high-dollar modules from the queue within two quarters, and even less (31 percent) when it received them from the queue later. Moreover, regardless of module balance, CFf collected a greater percentage on cases that were routed to the queue first when CFf received them within two quarters, as shown on the table below.

25 National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *supra* (Most Serious Problem: *Inadequate Service Delivery in the IRS Collection Process Harms Business Taxpayers and Contributes to Substantial Amounts of Lost Revenue*) (citing IRS, Collection Activity Report, NO-5000-2, *Taxpayer Delinquent Accounts Report* (Sept. 2012)).

26 Assessment in this context means the assessment at the time the case was first assigned to the initial collection channel (*e.g.*, CFf or the queue), as reflected on ARDI.

TABLE 6, Cff Collections on Modules by Balance and Time in the Queue

	Direct to Cff			Queue to Cff <= 2 Qtrs			Queue to Cff > 2 Qtrs		
Module Balance	Average Assessed	Average Paid	Paid to Assessed Ratio	Average Assessed	Average Paid	Paid to Assessed Ratio	Average Assessed	Average Paid	Paid to Assessed Ratio
\$1,500 or less	\$716	\$515	72%	\$732	\$592	81%	\$660	\$515	78%
\$1,500–\$5,000	\$2,957	\$1,615	55%	\$2,844	\$1,782	63%	\$2,743	\$1,577	57%
More than \$5,000	\$23,771	\$10,147	43%	\$22,502	\$7,356	33%	\$17,040	\$5,261	31%

It is not surprising that the less time high-dollar modules spent in the queue, the more Cff collected. However, this finding may suggest the IRS could improve collection results, particularly on high-risk trust fund modules, by limiting its use of the queue as an inventory management tool, as recommended by the National Taxpayer Advocate.²⁷

Although Cff did not collect more on low-dollar modules (*i.e.*, \$5,000 or less) routed directly to it than on those first assigned to the queue, some of these modules may have been routed directly to Cff because they were deemed “high risk” for reasons other than a high module balance, potentially making them more difficult to collect.²⁸ In addition, if most taxpayers are trying to pay their delinquencies, then those with high-dollar modules may benefit more than those with low-dollar modules from the assistance that an RO can provide, as further discussed below.

Taxpayers with smaller delinquencies paid more while their cases were waiting to be assigned to Cff.

While their cases were awaiting assignment to Cff, taxpayers paid more on low-dollar modules than on high-dollar modules. For example, on cases assigned directly to Cff, those with modules of \$1,500 or less reduced their assessments by 56 percent before the cases were assigned to Cff. By comparison, on modules of \$5,000 or more, taxpayers reduced their assessments by only six percent, as shown on the following table.

²⁷ See, e.g., National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, 69 (*An Analysis of the IRS Collection Strategy: Suggestions to Increase Revenue, Improve Taxpayer Service, and Further the IRS Mission*).

²⁸ The IRS currently assigns various “high risk” cases directly to Cff, regardless of module balance. For example, these cases may include “non master file” cases, those resulting from informants, and certain repeaters, among others. See, e.g., IRM Exhibit 5.19.5-10 (Dec. 1, 2007).

TABLE 7, Change in Average Assessed Module Balances before Assignment to Cff by Balance and Time in the Queue²⁹

Module Balance	Direct to Cff	Queue to Cff ≤ 2 Qtrs	Queue to Cff > 2 Qtrs
\$1,500 or less	-56%	-76%	-78%
\$1,500-\$5,000	-15%	-14%	-16%
More than \$5,000	-6%	+16%	-3%

These findings suggest that most taxpayers are trying to pay voluntarily and the IRS should do more to help them. Taxpayers with larger module balances may have paid less while their cases were awaiting assignment because they were more likely to require deferred payment alternatives (*e.g.*, installment agreements and offers) and personal attention than those with smaller delinquencies. However, the IRS does not actively promote these collection alternatives to taxpayers assigned to the queue or ACS.³⁰ Indeed, modules first assigned to Cff were more often resolved using an installment agreement (eight percent) than those first assigned to ACS (three percent) or the queue (two percent), regardless of the module balance, as shown on the following table.

TABLE 8, Percentage of Modules Closed Using an Installment Agreement by Initial Collection Channel and Module Balance

Module Balance	ACS	Queue	Cff
\$1,500 or less	3%	2%	4%
\$1,500-\$5,000	4%	2%	7%
More than \$5,000	5%	2%	11%
Overall	3%	2%	8%

Although the sample generally excluded accounts that were pyramiding before being assigned, some assessments actually increased while the module was waiting in the queue, as shown in Table 7 (above).³¹ Specifically, delinquent modules of more than \$5,000 assigned to the queue for less than two quarters generally had 16 percent higher balances by the time they were assigned to Cff. Thus, allowing accounts to age in the queue did not necessarily prompt taxpayers to reduce their assessments even if they were not initially pyramiding. Rather, as noted above, the probability of collecting a delinquency falls quickly over time.

Taxpayers initially assigned to the queue were receptive to additional notices.

For modules first assigned to the queue, taxpayers voluntarily paid most of the dollars the IRS collected — when the case was in the queue (30 percent) or in notice status (21 percent). In addition, most payments received while in queue status were received within about 35 days of being placed in the queue, suggesting

²⁹ The module balance categories are based on the balance when the modules are assigned to Cff. TAS used 183 days (or about two quarters) in the queue as the breakpoint because it was near the median for the cases being analyzed.

³⁰ For further analysis of this problem, see National Taxpayer Advocate 2013 Annual Report to Congress vol. 1, *infra* (Most Serious Problem: Inadequate Service Delivery in the IRS Collection Process Harms Business Taxpayers and Contributes to Substantial Amounts of Lost Revenue).

³¹ As noted above, the sample excluded those with three or more consecutive delinquencies in 2003 in order to focus on those whose liabilities were not excessively pyramiding before being assigned. However, those with only two delinquencies in 2003 could have continued to pyramid in 2004.

that some resulted from a prior notice.³² In other words, these taxpayers appeared to want to resolve their debts, but may not have received adequate service or time to do so during the initial notice stream. Thus, it might be worthwhile for the IRS to continue to send monthly delinquency notices to taxpayers assigned to the queue, particularly notices that emphasize payment alternatives and the consequences of interest and penalty accruals, as described elsewhere in this report.³³

None of the IRS's collection functions were very successful in promoting future compliance according to IRS data.

Among the taxpayers whose collection cases closed within a single collection channel in 2003 or 2004 (*i.e.*, without being transferred to another channel), 24 percent had not filed a return (*i.e.*, had a tax delinquency investigation or TDI) or had a new delinquency (*i.e.*, had a TDA) by 2005, according to IRS data.³⁴ This figure rose to 45 percent by 2009, and to 50 percent by 2012. The IRS's compliance data (*i.e.*, TDAs and TDIs) could be faulty, as some of the businesses that appeared to have future noncompliance may have discontinued operations instead.³⁵ TAS sought to address this concern by eliminating accounts deemed CNC, but some out-of-business taxpayers may not have been designated as CNC. Nonetheless, assuming the IRS's compliance data is accurate, the IRS's collection functions had very little success in promoting future compliance.

Although TAS hoped to be able to compare the performance of each collection channel in promoting future compliance, it is unclear whether the groups of taxpayers whose cases it resolved in a single collection channel were similarly situated enough to make valid comparisons. High-risk taxpayers whose cases were routed directly to CFf were more likely to become noncompliant (56 percent) than those initially routed to ACS (49 percent), and those routed to ACS were more likely to become noncompliant than those who paid while in the queue (47 percent), as shown on the following table.

TABLE 9, Subsequent Noncompliance by Year and Collection Channel³⁶

Collection Channel	Cumulative Subsequent Noncompliance Percentage by Year		
	2005	2009	2012
ACS	23%	44%	49%
Queue	21%	41%	47%
CFf	28%	52%	56%
Total	24%	45%	50%

32 As noted above, the IRS waits five weeks before sending the second notice, and an additional five to ten weeks (10-15 weeks total) after sending the second notice before moving the account to a delinquent status (*i.e.*, a tax delinquent account or TDA status). See, e.g., IRM 5.19.1-2 (Oct. 18, 2013).

33 Although the IRS may continue to send delinquency notices to taxpayers assigned to the queue, some receive a notice only once a year. See IRM 21.3.1.4 (Oct. 1, 2002) (describing various "annual" delinquency notices). For further discussion of the type of notice the IRS should send, see National Taxpayer Advocate 2013 Annual Report to Congress vol. 1, *supra* (Most Serious Problem: *Inadequate Service Delivery in the IRS Collection Process Harms Business Taxpayers and Contributes to Substantial Amounts of Lost Revenue*).

34 As noted above, TAS pulled status history for closed modules through post cycle 201325 (*i.e.*, week 25 of 2013) and sorted them by entity. To be identified as having a closed case, all of the entity's modules had to be reflected as resolved (rectype1=R) on ARDI. For example, an entity's modules could be resolved by a payment or an abatement.

35 If the IRS's compliance data is not accurate, it may be wasting significant resources in trying to address noncompliance by out of business taxpayers. However, both TDI and TDA data showed similar levels of future noncompliance. It may be unlikely that both TDI and TDA indicators are faulty to the same degree.

36 To reduce the bias that could occur as a result of including businesses that were no longer operating, TAS omitted taxpayers that the IRS deemed CNC.

More importantly, however, taxpayers whose cases took longer to close were more likely to become non-compliant, regardless of which channel closed their case, as shown on the following table.

TABLE 10, Subsequent Noncompliance by Year, Collection Channel, and Time to Close

Collection Channel	Quarters to Close	Cumulative Subsequent Noncompliance Percentage by Year		
		2005	2009	2012
ACS	0-1	21%	42%	48%
	1-2	26%	46%	51%
	2-3	29%	50%	55%
	3+	31%	52%	57%
Queue	0-1	19%	40%	46%
	1-2	21%	41%	47%
	2-3	22%	44%	50%
	3+	27%	47%	52%
CFf	0-1	24%	46%	52%
	1-2	31%	57%	60%
	2-3	33%	54%	59%
	3+	38%	61%	66%

These findings suggest that addressing delinquencies quickly not only improves direct collections, but also improves future compliance. Thus, sending cases to CFf sooner, where the root causes of the non-compliance are more likely to be addressed, may not only yield quicker, more satisfactory resolutions of the cases at hand, but also could reduce future non-compliance — thereby protecting substantial amounts of potentially lost revenue.

These findings also show that about half of all of the subsequent delinquencies arise within about a year after the IRS closed the collection case. Thus, the IRS appears to have closed cases while tax and filing delinquencies were developing on other tax periods or at least without doing enough to educate delinquent businesses and ensure that they were willing and able to stay compliant.³⁷

To promote future compliance the IRS should address delinquencies quickly, but only close cases after completely addressing all issues and periods, and communicating with the taxpayer to ensure they are willing and able to remain compliant. Recidivists may benefit from ongoing monitoring and rapid and proactive follow-up. To measure the effectiveness of these efforts, IRS collection executives should establish metrics that show the effect of their operations on the future compliance of the taxpayers whose cases they close, as previously recommended by the National Taxpayer Advocate.³⁸

³⁷ For analysis of these issues, see, e.g., National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, 69 (*An Analysis of the IRS Collection Strategy: Suggestions to Increase Revenue, Improve Taxpayer Service, and Further the IRS Mission*) and National Taxpayer Advocate 2012 Annual Report to Congress 358, 380 (Most Serious Problem: *The Diminishing Role of the Revenue Officer Has Been Detrimental to the Overall Effectiveness of IRS Collection Operations*).

³⁸ See, e.g., National Taxpayer Advocate 2012 Annual Report to Congress 358, 380 (Most Serious Problem: *The Diminishing Role of the Revenue Officer Has Been Detrimental to the Overall Effectiveness of IRS Collection Operations*) (recommending the IRS measure: “the number and percentage of taxpayers that remain in compliance for the five years following the collection treatment (long-term compliance).”). As this analysis shows, it is practical for the IRS to measure and analyze a taxpayer’s future compliance. Indeed, given the speed within which future noncompliance occurs, a short-term future compliance measure (e.g., two to three years) might even be feasible.

CONCLUSION AND RECOMMENDATIONS

This study examined the results of assigning fresh employment tax delinquency modules to ACS or CFf. TAS's findings and recommendations are summarized below.

- **CFf collected a greater percentage of delinquencies initially assigned to it than those initially assigned to ACS and collected them more quickly, regardless of the size of the delinquency.**

CFf surpassed ACS's collection results in every category, including low-dollar modules where it collected 72 percent of the initial assessment as compared to ACS, which collected only 59 percent. Similarly, CFf closed modules of every size more quickly than ACS, including low-dollar modules (\$1,500 or less), which it closed within 328 days as compared to 344 days for ACS. Thus, the IRS should not shift resources from CFf to ACS based on the perception that ACS is faster or better at collecting certain delinquencies than CFf.

- **ACS transferred more delinquencies, particularly higher-dollar modules (over \$1,500), reducing the IRS's speed and effectiveness in addressing them.**

ACS transferred about 24 percent of the modules it was initially assigned — 22 percent to the queue and two percent to CFf. By comparison, CFf only transferred four percent to the queue and none to ACS. ACS transferred an even higher percentage of the high-balance modules. It transferred 47 percent of those with a module balance between \$1,500 and \$5,000, and more than half of those with a balance of \$5,000 or more, as compared to 19 percent of those with a balance of \$1,500 or less.

To increase its speed and effectiveness in addressing delinquencies, the IRS should reduce ACS transfers while ensuring that ACS completely resolves all of the taxpayer's compliance issues through collection alternatives, if possible. Moreover, ACS may require significant restructuring and ongoing training, as described below. Alternatively, the IRS should not assign high-dollar modules (*e.g.*, more than \$1,500) to ACS.

- **CFf collected more on high-dollar modules when it received them quickly.**

When CFf received high-dollar modules (more than \$5,000) directly, it collected more of the assessment (43 percent) than when it received a module that the IRS assigned to the queue first. CFf collected less (33 percent) when the IRS assigned these modules to the queue for up to two quarters before sending them to CFf, and even less (31 percent) when modules remained in the queue longer. Thus, the IRS should limit its reliance on the queue, particularly for high-risk high-dollar trust fund delinquencies.³⁹

³⁹ See, *e.g.*, National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, 69 (*An Analysis of the IRS Collection Strategy: Suggestions to Increase Revenue, Improve Taxpayer Service, and Further the IRS Mission*).

■ **Taxpayers with smaller delinquencies paid more while their cases were waiting to be assigned to CFf.**

Among cases assigned directly to CFf, taxpayers with modules of \$1,500 or less reduced their assessments by 56 percent before the cases were assigned to CFf. By comparison, on modules of \$5,000 or more (also routed directly to the CFf), taxpayers reduced their assessments by only six percent.

While most taxpayers seemed to be trying to resolve their delinquencies, those with larger module balances may have been more likely to require collection alternatives, which the queue does not actively promote. This finding may lend support to the recommendation for the IRS to limit its reliance on the queue, especially for high-dollar or high-risk trust fund delinquencies.

■ **Taxpayers initially assigned to the queue were responsive to the notices they received after the initial notice stream.**

Taxpayers initially assigned to the queue voluntarily paid most of the dollars the IRS collected when the case was in the queue (30 percent) or in notice status (21 percent), and most of them did so within 35 days (the median) of receiving a notice. Thus, the IRS should consider sending additional notices to taxpayers assigned to the queue, particularly notices that emphasize payment alternatives and the economic impact of late payment penalties and daily-compounded interest, as recommended by the National Taxpayer Advocate.⁴⁰

■ **Regardless of the collection channel, IRS data suggest the IRS's collection functions had very little success in promoting future compliance.**

Among the taxpayers whose collection cases closed within a single collection channel in 2003 or 2004 (*i.e.*, without being transferred to another channel), 24 percent had an unfiled return or a new delinquency (*i.e.*, had a TDI or TDA) by 2005, according to IRS data, a figure that rose to 50 percent by 2012. Taxpayers whose cases took longer to close were more likely to become noncompliant, a finding that lends further support to recommendations (above and below) to limit use of the ACS and the queue, which may delay resolution of higher-dollar delinquencies. Thus, both ACS and CFf should

- 1) Resolve all compliance issues before closing cases — and take proactive measures to promote future compliance especially in cases involving recidivists;
- 2) Offer collection alternatives and education to taxpayers to ensure they are willing and able to remain compliant; and
- 3) Regularly measure and report on progress in promoting future compliance, as previously recommended by the National Taxpayer Advocate.⁴¹

40 See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 1, *supra* (Most Serious Problem: *Inadequate Service Delivery in the IRS Collection Process Harms Business Taxpayers and Contributes to Substantial Amounts of Lost Revenue*).

41 For a discussion of IRS measures, see, e.g., National Taxpayer Advocate 2010 Annual Report to Congress 28-48 (Most Serious Problem: *IRS Performance Measures Provide Incentives that May Undermine the IRS Mission*).

- **ACS may require significant restructuring and training to handle the higher-dollar modules it is assigned.**

As noted above, ACS ultimately transfers most of its higher-dollar modules to another collection channel unresolved, and the resulting delays seemingly reduce the CFF's ability to collect the delinquency along with future compliance. Accordingly, the IRS should either avoid assigning such cases to ACS or empower ACS employees to handle more of the issues that may arise in them.

Although this study did not directly address why ROs resolve cases more quickly and effectively than ACS employees, it may be because each RO is generally expected to resolve his or her assigned cases (rather than pass them along to another collection employee or the queue), communicate with the taxpayer (*e.g.*, by making outgoing calls), and actively assist the taxpayer with collection alternatives. If so, then ACS employees should make more use of outbound calls, actively assist taxpayers in using collection alternatives (*e.g.*, installment agreements and offers in compromise), and address all of the taxpayer's collection issues before closing or transferring a case.

Further, the IRS should consider assigning certain types of cases to specific ACS employees, so the employees and their managers are responsible for assigned-case outcomes. If adopted, taxpayers would also be able to work with one person who is familiar with their circumstances. However, these changes are unlikely to improve ACS's results unless ACS employees receive adequate authority to resolve cases, training to do so properly, and the IRS executives responsible for managing ACS are required to measure and regularly report on ACS's performance in these areas.⁴²

⁴² For a discussion of IRS measures, see, *e.g.*, National Taxpayer Advocate 2010 Annual Report to Congress 28-48 (Most Serious Problem: *IRS Performance Measures Provide Incentives that May Undermine the IRS Mission*).

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