



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

B-198049

~~Information...
by...
...specific approval~~

MAY 6, 1981

The Honorable Sam Nunn
United States Senate

Dear Senator Nunn:

Subject: IRS Collection Activities in the Area of
Organized Crime (GGD-81-74)

This is in response to your April 29, 1980, request for information concerning the Internal Revenue Service's (IRS) efforts to collect monies owed IRS by organized crime figures. Our study was based on an examination of 66 organized crime cases for which investigative work had been completed by IRS offices in Brooklyn, Chicago, Los Angeles, Manhattan, and Philadelphia during the period October 1, 1977, through December 31, 1979. Because our study involved only organized crime cases completed during this period, and 81 percent of these cases had not reached the collection phase, we could not draw any overall conclusions concerning IRS' collection efforts. We did, however, obtain information on the total additional taxes and penalties assessed, the outstanding balances, whether the accounts were collectible, and how actively IRS was trying to collect the amounts due. The information developed is summarized below and discussed in more detail in the enclosure.

Collection activity is considered a civil action and cannot begin until the case is referred by the Criminal Investigation Division (CID) to IRS' Collection Division. CID, however, will not close a case and refer it until all judicial proceedings are completed. Once an organized crime case is referred to the Collection Division it loses its identity, and the Division does not specifically emphasize the collection of monies owed by organized crime individuals. IRS officials told us that within its collection activity, higher dollar amount cases usually receive priority processing regardless of the individual involved. IRS officials stated, however, that if they so desired, priorities could be established to pursue organized crime figures without regard to dollar amount.

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Of the 66 organized crime cases in our universe, 12 had tax assessments totaling \$380,127.99. Payments of \$189,297.82 had been made on 8 of the 12 cases, of which 3 had been paid in full. Nine cases had outstanding balances of \$190,830.17, or about 50 percent of the total amounts assessed. However, five of the nine cases recently had assessments made in 1980. The remaining 54 cases had no final tax assessment; therefore, collection action had not yet been initiated.

An internal IRS study issued on May 28, 1980, showed a high incidence of uncollectible accounts in organized crime strike force cases. The study found that in 16 of 21 cases the taxpayers disposed of their assets and put them beyond the Government's reach an average of 4.7 years before final assessment. IRS concluded that more had to be done to improve the collectibility of organized crime cases. Its recommendations called for ways to achieve closer liaison among all IRS divisions. Specifically, the recommendations called for (1) better identification of the organized crime strike force cases, (2) greater awareness of transferee assessment (putting assets in the name of someone else so they cannot be seized for payment), and (3) increased use of civil liability as a condition for probation.

Implementation of the first two recommendations has been approved by the Director of the Collection Division, however, they had not been incorporated in the IRS' operating procedures manual at the time we completed our review. These changes should allow the Collection Division to identify organized crime cases and examine transferee transactions so as to control the dissipation of assets which could be used to pay potential tax liabilities. The final recommendation, advocating civil liability as a condition of probation, was not adopted because CID believes that the courts would reduce or adopt more lenient sentences, thereby weakening the criminal deterrent.

Although IRS does not place any priority on the collection of monies from known organized criminals, there is nothing in IRS' regulations precluding it from making such collections a higher priority. IRS officials stated, however, that currently dollar criterion is emphasized in their collection efforts.

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As agreed with your office, we did not obtain written agency comments. However, we did discuss the facts presented in this report with IRS officials. They agreed with the accuracy of the information presented. As arranged with your office, we plan no further distribution until 5 days from the date of this report.

Sincerely yours,

A handwritten signature in black ink that reads "W.J. Anderson". The signature is written in a cursive style with a prominent initial "W".

William J. Anderson
Director

Enclosure

C o n t e n t s

Enclosure

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ABBREVIATIONS

CID	Criminal Investigation Division
GAO	General Accounting Office
IRS	Internal Revenue Service

Internal Revenue Service's Collection
Efforts For Organized Crime Cases

This is in response to Senator Sam Nunn's request of April 29, 1980, requesting us to provide information concerning IRS' collection efforts relating to cases involving organized crime individuals. Our study was based on an examination of 66 cases for which criminal investigative work had been completed during fiscal years 1978 and 1979 and the first quarter of fiscal year 1980 (October 1, 1977, through December 31, 1979), by five IRS district offices. These cases were a part of another GAO study involving the Federal efforts to combat organized crime. Because these cases were recently completed and IRS' procedures are extremely lengthy, only 12 of the 66 cases examined had reached the collection phase. The district offices, universe of cases, cases examined, and cases reaching collection follow.

<u>District office</u>	Universe of organized crime cases (note a)	Cases sampled (note b)	Cases examined (note c)	Cases in collection phase
Chicago	101	30	8	3
Los Angeles	107	30	18	3
New York				
Manhattan	143	30	13	2
Brooklyn	105	30	9	3
Philadelphia	<u>103</u>	<u>30</u>	<u>18</u>	<u>1</u>
Total	<u>559</u>	<u>150</u>	<u>66</u>	<u>12</u>

a/Total universe of organized crime cases closed during the period October 1, 1977, through December 31, 1979. All cases fall under the Special Enforcement Program.

b/As part of another GAO study, we randomly sampled 30 cases in each IRS district office.

c/Out of the 30 sampled cases, we examined all cases that had a district court disposition and reviewed all case file data, including taxpayer delinquency accounts and the master file transcript of accounts.

IRS' ORGANIZED CRIME PROGRAM

Organized crime investigations are conducted under IRS' Special Enforcement Program, within its Criminal Investigation Division (CID). This unit is the focal point for all organized crime cases. CID does not consider a case closed until all judicial proceedings are completed; CID then refers the case to the Examination Division, which makes an assessment of the taxes owed. After the assessment is made the case is referred to the Collection Division. At this point in the process, the identity of the case as an organized crime case is lost. The Collection Division views the case the same as any other case.

STATUS OF EXAMINED CASES

We used October 1980 as our cutoff date for the assessment date of tax cases examined, and April 13, 1981, as our cutoff for the amounts paid on these cases. The status of these cases follows.

<u>District office</u>	<u>Status of cases</u>					<u>Total</u>
	<u>On appeal</u>	<u>Under examination</u>	<u>Settled</u>	<u>Being collected</u>	<u>Other (note a)</u>	
Chicago	0	3	1	2	2	8
Los Angeles	2	1	0	3	12	18
New York						
Manhattan	2	9	1	1	0	13
Brooklyn	4	1	1	2	1	9
Philadelphia	<u>5</u>	<u>6</u>	<u>0</u>	<u>1</u>	<u>6</u>	<u>18</u>
Total	<u>13</u>	<u>20</u>	<u>3</u>	<u>9</u>	<u>21</u>	<u>66</u>

a/Includes cases involving no tax liability, successful criminal appeal, pending criminal appeal, re-indictment, and tax paid prior to audit by IRS.

ENCLOSURE

ENCLOSURE

The individual breakdown of the cases that had reached the collection phase of IRS' procedures and the outstanding balances as of April 13, 1981, follow.

<u>Status of case and assessment date</u>	<u>Assessed amount</u>	<u>Payments made as of April 13, 1981</u>	<u>Balance due as of April 13, 1981</u>
<u>Being collected</u>			
Sept. 1979	\$ 4,169.32	\$ 2,485.58	\$ 1,683.74
Sept. 1979	68,492.00	0	a/ 68,492.00
April 1980	110,511.00	85,840.46	24,670.54
Aug. 1980	13,373.85	0	a/ 13,373.85
Oct. 1980	28,482.22	4,673.19	23,809.03
Not available	27,941.76	24,661.88	3,279.88
June 1980	16,571.47	0	a/ 16,571.47
Not available	28,932.00	0	28,932.00
April 1980	<u>34,646.00</u>	<u>24,628.34</u>	<u>10,017.66</u>
	<u>\$333,119.62</u>	<u>\$142,289.45</u>	<u>\$190,830.17</u>
<u>Paid in full</u>			
May 1979	\$ 27,485.40	\$27,485.40	0
June 1979	5,924.97	5,924.97	0
April 1980	<u>13,598.00</u>	<u>13,598.00</u>	<u>0</u>
	<u>\$ 47,008.37</u>	<u>47,008.37</u>	<u>0</u>
Total	<u>\$380,127.99</u>	<u>\$189,297.82</u>	<u>\$190,830.17</u>

a/An additional \$6,641.84 is due on these three accounts because of interest accrued on the outstanding balance.

ENCLOSURE

ENCLOSURE

Of the 66 cases we examined, 12 had formal tax assessments totaling \$380,127.99. In eight of these cases payments of \$189,297.82 had been made as of April 13, 1981. Nine cases had outstanding balances of \$190,830.17 or about 50 percent of the total amount assessed. However, five of the nine cases recently had assessments made in 1980. The remaining 54 cases had no final tax assessment, therefore, collection action had not yet been initiated for these cases.

IRS' TAX PROCESS

Civil actions cannot take place until all criminal judicial proceedings have been completed. Once CID has completed its investigation and all judicial proceedings are complete, CID refers the case to the Examination Division. When the case has been adjudicated and released from CID control, the Examination Division completes the assessment process. At this point, the taxpayer can use the civil process to appeal what has been determined as the taxes owed.

After the civil appeal process, taxpayers must pay taxes assessed if they do not win their appeal. If taxpayers fail to settle their accounts, the Examination Division sends the file to the local service center which then generates up to three delinquency notices. If the taxpayer does not pay the taxes upon receipt of the third notice, IRS establishes a taxpayer delinquent account which is sent to a district collection division for collection action. If the collection division is unsuccessful in getting the taxpayer to pay the taxes owed, it may seize any available taxpayer assets or classify the account as currently not collectible. If the account is so classified it may be reopened at any time during the 6-year statutory collection period if IRS determines assets are available to settle the taxpayer's debt.

IRS' COLLECTION DIVISION PRIORITIES

IRS officials told us that the Collection Division places no special emphasis on collecting monies owed by organized crime individuals. In fact, the district office's priority work categories are based generally on dollar amounts within each collection category, thus higher dollar amount cases are usually processed first. For example, a \$25,000 delinquent account takes precedence over a \$10,000 delinquent account. However, IRS' officials told us that nothing in its regulations precludes IRS from making collections from organized crime figures a high priority. However, if IRS were to do this, it would have to insure that these types of cases were identified so that Collection Division personnel knew which cases were organized crime cases.

Although organized crime individuals' cases are coded during the criminal investigation stage, no separate code or identification is currently made to identify an individual as being an organized crime figure while in the collection phase. The Assistant Director of the Collection Division stated that as far as collection activities are concerned, emphasis is given to dollar amount. Further, IRS officials showed us a draft manual change which will provide for the identification of organized crime cases.

IRS' STUDY OF CURRENTLY NOT COLLECTIBLE
STRIKE FORCE PROGRAM CASES

An IRS study issued May 28, 1980, reported on the tracking of a sample of 21 organized crime strike force program cases for which criminal investigations were completed in fiscal year 1972. The cases were analyzed and tracked through the assessment and collection phases. The study found that in 16 of the 21 cases the taxpayers disposed of their assets and put them beyond the reach of the Government an average of 4.7 years before assessment. These 16 cases represented uncollected amounts of approximately \$7.1 million, or nearly 84 percent of the currently not collectible amount of \$8.5 million for all 21 cases.

IRS' general recommendation was that more attention should be given to the collection activity in the organized crime strike force program. Specific recommendations called for ways to achieve closer liaison among CID, Examination, and Collection personnel in (1) identifying strike force program cases and cases related to previously identified strike force subjects, (2) becoming more aware of transferee assessment (putting assets into a spouse's or corporation account) possibilities, and (3) investigating the increased usage of imposing payment of civil liability as a condition for probation.

Implementation of the first two recommendations have been approved by the Director of the Collection Division, however, they had not been incorporated in IRS' operating procedures manual at the time we completed our review. IRS officials said these manual changes should be issued in May 1981. These changes will allow the Collection Division to identify organized crime cases and examine transferee transactions so as to control the dissipation of assets which could be used to pay potential tax liabilities. If a transferee assessment is not considered, the reasons why must be addressed. The final recommendation calling for civil liability as a condition for probation was not adopted because CID believes that the courts would reduce or adopt more lenient sentences, thereby weakening the criminal deterrent.

CONCLUSIONS

Because our study involved only organized crime cases for which criminal investigative work had been completed during fiscal years 1978 and 1979 and the first quarter of fiscal year 1980, and 81 percent of the cases examined had not reached the collection phase, we could not draw any overall conclusions concerning IRS' collection efforts of monies owed by organized crime individuals.

Although IRS does not place any priority on the collection of monies from known organized criminals, there is nothing in IRS' regulations precluding it from making such collections a high priority. Officials told us that currently dollar criterion takes precedence in their collection efforts.