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BY THE COMPTROLLER GENERAL  
**Report To The Joint Committee On Taxation  
Congress Of The United States**

OF THE UNITED STATES

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## **IRS Generally Does A Good Job When Abating Civil Penalties--And Has Made Recent Improvements**

The Internal Revenue Service (IRS) is authorized to abate (cancel or reduce) civil penalties that it has imposed on taxpayers when (a) the penalties have been incorrectly assessed or (b) the taxpayer provides a valid explanation for underpaying taxes or failing to file required tax information. GAO's review of the penalty abatement process showed that although IRS is doing a good job in this area, performance could be improved.

GAO proposed that IRS provide clearer guidance for its employees to use when considering abatement requests made by taxpayers who claim they have a "reasonable cause" for failing to pay enough taxes or file required tax information. GAO also proposed that IRS implement procedures for reviewing the abatement process as well as provide its employees with additional training. IRS agreed with and implemented GAO's proposals. GAO is therefore making no recommendations in this report.



GAO/GGD-84-21  
MAY 22, 1984

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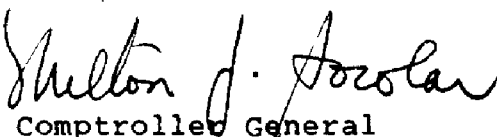
B-213919

The Honorable Robert J. Dole  
Chairman, Joint Committee on  
Taxation

The Honorable Dan Rostenkowski  
Vice Chairman, Joint Committee  
on Taxation  
Congress of the United States

This report is in response to your committee's request to review the Internal Revenue Service's (IRS') policies, procedures, and practices in administering the civil penalty provisions of the Internal Revenue Code. The report discusses IRS' penalty abatement process--an essential part of the penalty system. The report points out that although IRS does a good job in administering the penalty abatement process, its performance could be improved with regard to analyzing abatement requests in which the taxpayer claims reasonable cause for failing to pay enough taxes or file required tax information. IRS has taken action to implement our proposals.

As arranged with your committee, we are sending copies of this report to other congressional committees and subcommittees; the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties.

  
Acting Comptroller General  
of the United States

COMPTROLLER GENERAL'S REPORT  
TO THE JOINT COMMITTEE ON  
TAXATION  
CONGRESS OF THE UNITED STATES

IRS GENERALLY DOES A  
GOOD JOB WHEN ABATING  
CIVIL PENALTIES--AND  
HAS MADE RECENT  
IMPROVEMENTS

D I G E S T

The Internal Revenue Service (IRS) is authorized to impose monetary penalties on taxpayers who underpay their taxes or fail to file required tax information, returns, and statements. So as not to unfairly penalize taxpayers, IRS can also abate (cancel or reduce) penalties when it determines the penalty has been incorrectly assessed or when the taxpayer provides a valid explanation for noncompliance. IRS abated over 3.8 million civil penalties totaling \$2.1 billion in fiscal year 1983.

At the request of the Joint Committee on Taxation, GAO evaluated IRS' administration of the penalty abatement process by reviewing a random sample of 2,340 of the 407,700 abatements that were granted by IRS in six of its districts during fiscal year 1981. Based on its sample, GAO estimated that 92 percent of the abatements granted in these districts were appropriate and concluded that IRS did a good job when abating civil penalties.

However, GAO noted that IRS could improve its performance with regard to analyzing a specific type of abatement request--one in which the taxpayer claims "reasonable cause" for failing to pay enough taxes or file required tax information. GAO estimated that in the six districts, about 48,800 of the 407,700 abatements granted by IRS involved reasonable cause. Of these reasonable cause abatements, about 26 percent were determined by GAO to be incorrect.

GAO found that IRS should provide clearer guidance for employees to use in considering abatements based on reasonable cause. Also, IRS needed to (1) improve its penalty abatement training, (2) provide for management review of penalty abatement decisions, and (3) distribute its guidelines on reasonable cause to employees who make such decisions.

(GAO/GGD-84-21)

Tear Sheet

MAY 22, 1984

IMPROVED GUIDANCE WOULD  
AID EMPLOYEES IN ANALYZING  
ABATEMENT REQUESTS

A common reason for abating penalties is that the taxpayer has shown reasonable cause for noncompliance. But IRS guidance defining that term and for applying existing criteria is incomplete. As a result, employees are not always handling such abatement requests consistently or correctly. GAO showed 10 cases to 112 IRS employees and asked them to decide whether the information in the request justified abatement based on a reasonable cause. Although some differences are to be expected when judgment is involved, the wide variation in employees' comments demonstrated that IRS guidance on reasonable cause could be improved. (See p. 11.)

IRS guidance on reasonable cause consists of a set of examples plus a general statement instructing employees to accept any reason demonstrating that the taxpayer exercised "ordinary business care and prudence." GAO found that the examples were not comprehensive enough. GAO used a supplemental set of questions to analyze IRS' abatement decisions and IRS officials informed GAO that the questions it used would be incorporated into the training manual used at IRS service centers. (See pp. 12 to 14.)

GAO also found that in the locations it visited, abatement decisions were made without adequate supporting documentation. Providing IRS employees with guidance on what documentation is necessary for abating penalties could alleviate this problem. (See pp. 18 and 19.)

IMPROVED TRAINING AND  
MANAGEMENT REVIEW  
WOULD ALSO BE HELPFUL

Along with better guidance, IRS should give its employees additional training to help improve the quality of abatement decisions and execute procedures for management review of the penalty abatement process.

- Training in handling penalty abatements has been minimal, and the training that has been provided has not been consistent in its quality. In some instances, examples contrary to IRS policy were used to illustrate reasonable cause. (See pp. 14 to 16.)
- IRS has several overall management review programs, but they have not been used to assess the penalty abatement process. Use of such programs would help alert IRS to any abatement related problems that might exist. (See pp. 16 to 18.)

### PROPOSALS

GAO proposed that the Commissioner of Internal Revenue

- develop guidance to better explain how employees are to proceed in making determinations on the reasonableness of abatement requests and to describe the type of documentation that should be considered in making such determinations;
- expand and standardize training on handling penalty abatements and make it available to all employees likely to decide or review abatement requests;
- establish a penalty abatement review program so that the process and the decisions being made can be periodically evaluated; and
- provide a copy of IRS' handbook on reasonable cause to all employees who abate penalties.

### AGENCY COMMENTS

IRS agreed with GAO's proposals and has implemented them. In commenting on a draft of this report, the Commissioner of Internal Revenue stated that the Service has

- developed expanded criteria and guidelines for use in making penalty abatement decisions and

--taken action to improve the training provided to tax examiners at its service centers.

The Commissioner also outlined actions that IRS would take in response to GAO's proposal to establish a penalty abatement review program and stated that steps would be taken to ensure appropriate distribution of IRS' handbook on reasonable cause. Because of IRS' agreement and implementation of GAO's proposals, GAO is making no recommendations in this report. (See pp. 22 and 23.)

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### ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service



## CHAPTER 1

### INTRODUCTION

Over the years, the Congress and the administration have become increasingly concerned over a decline in taxpayer compliance with the tax laws. The Internal Revenue Service (IRS) has estimated that taxpayers who failed to meet their tax obligations cost the government over \$80 billion in revenues in 1981. Moreover, IRS projects lost revenues resulting from noncompliance to increase to about \$120 billion by 1985.

To help limit such losses, the Congress has authorized IRS to impose monetary penalties on taxpayers or institutions who underpay their taxes or fail to file required tax information, returns, and statements. The use of penalties as deterrents to noncompliance was given even greater emphasis with the passage of the Tax Equity and Fiscal Responsibility Act of 1982. This legislation added to the types of noncompliance subject to penalties and increased the minimum assessment for some existing penalties.

So as not to unfairly penalize taxpayers, IRS can "abate" (cancel or reduce) penalties when they have been incorrectly assessed or when the taxpayer provides a valid explanation for noncompliance. In fiscal year 1983, IRS abated over 3.8 million civil penalties amounting to \$2.1 billion. Since 1978, when IRS first started to regularly collect annual statistics on penalties abated, the number of penalties abated has doubled and the dollars abated have increased over five-fold. Moreover, as figure 1 shows, the proportion of penalties that are abated has increased every fiscal year since 1979.

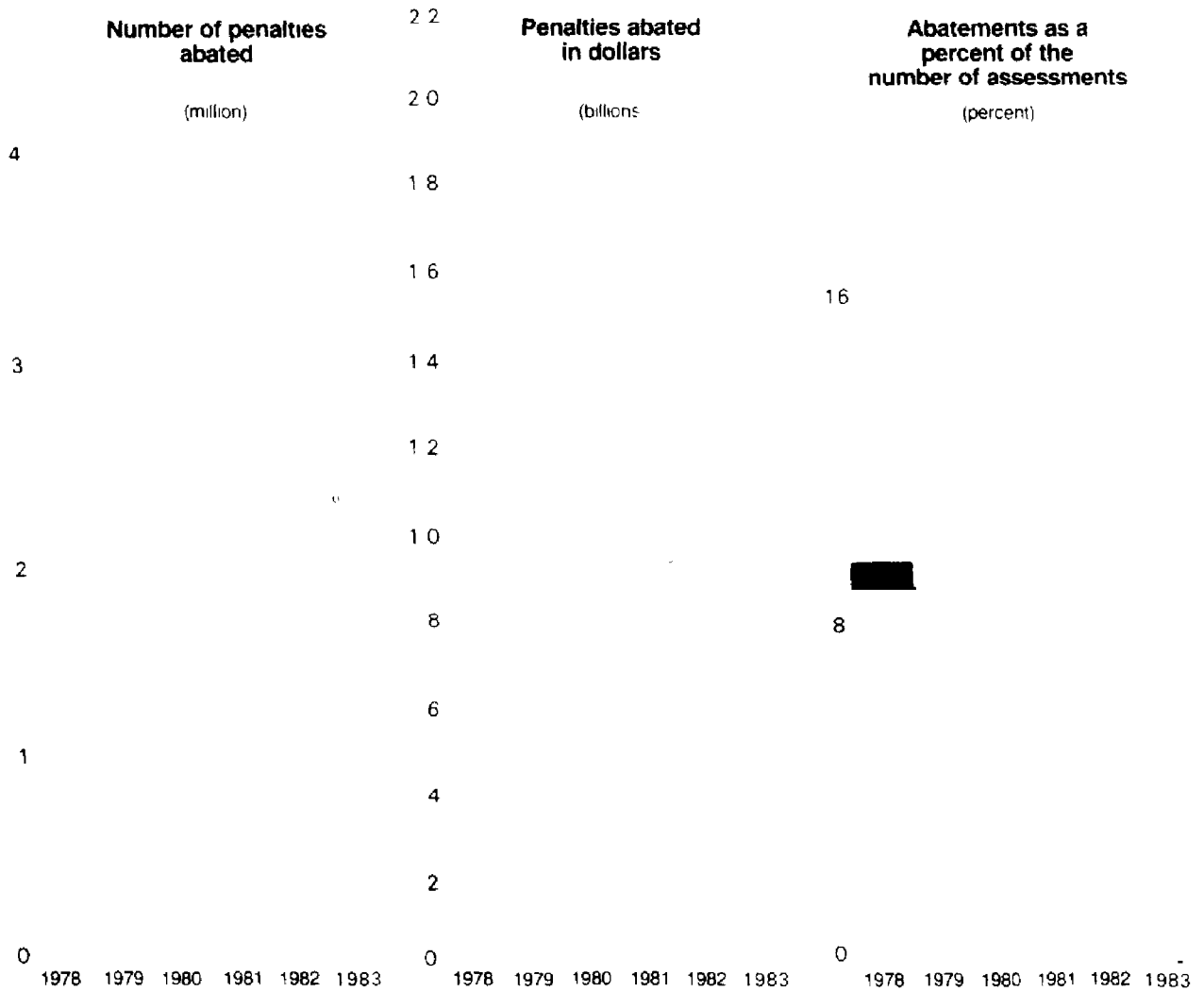
### THE ASSESSMENT AND ABATEMENT PROCESS

IRS uses penalties as a way of encouraging voluntary compliance with the tax laws. As such, taxpayers are assessed penalties when they fail to file their return on time, make required tax payments, or do not meet other reporting requirements. While most of these penalties are automatically assessed by IRS' computers, some manual assessments are made by IRS employees.

An abatement can occur either at a taxpayer's request or automatically through IRS processing. In the former case, taxpayers may ask IRS to cancel penalties that they believe were improperly assessed.

Figure 1

### Annual Trends in Penalty Abatements



About 88 percent of the abatement requests in our sample were handled by IRS service centers. At a service center, the taxpayer's request is assigned to a tax examiner for review and resolution. Guided by the Internal Revenue Code, revenue rulings setting forth the Commissioner's interpretation of the Code, and IRS policy statements and operating procedures, the tax examiner determines whether the taxpayer's request should be approved. In making this decision, the examiner can seek information from IRS' records, obtain the taxpayer's original tax return, or contact the taxpayer for additional information or clarification.

Abatement requests not handled by service centers are handled by district offices. These requests normally involve cases that are already being handled by district offices. Like tax examiners in a service center, district office employees--generally revenue officers or revenue representatives--review the taxpayer's statement and judge whether the request should be approved.

In those instances where a taxpayer's request for an abatement has been denied, IRS advises the taxpayer that its decision may be appealed through its administrative appeals procedures. A more detailed description of the abatement process for taxpayer requested abatements is shown in figure 2.

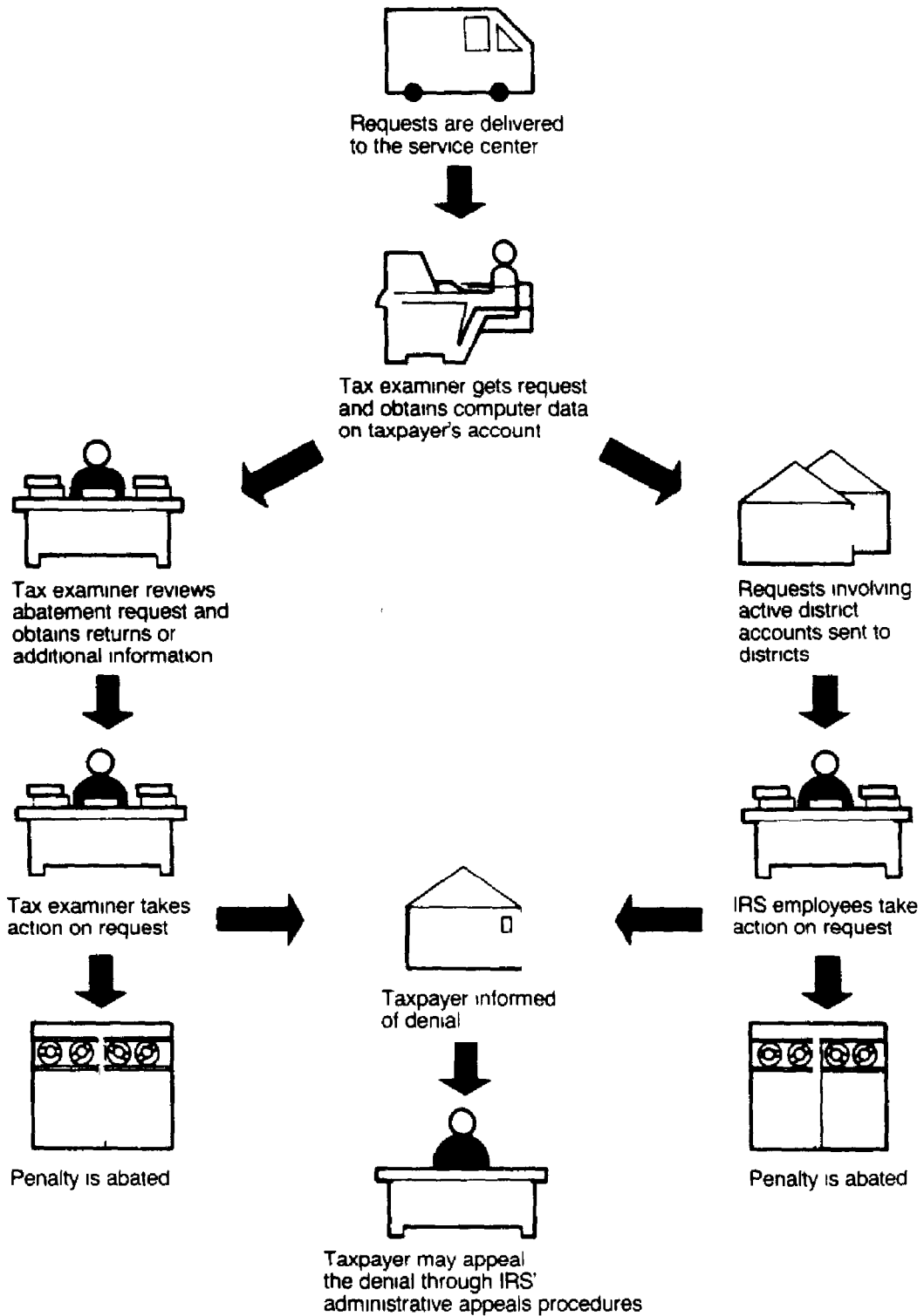
In addition to requests initiated by taxpayers, IRS may automatically eliminate or reduce a penalty. This generally occurs when a taxpayer's tax liability is reduced or an overpayment credit is transferred from another account involving that taxpayer. For example, a taxpayer having several accounts with IRS may have made deposits to the wrong account and notified IRS later that this was done in error. IRS would subsequently adjust the accounts, and any penalty that had been assessed would be automatically adjusted.

#### WHEN IS AN ABATEMENT JUSTIFIED?

The Internal Revenue Code permits abatement of most types of penalties if the taxpayer can show reasonable cause for failing to pay or file. The reasonable cause concept has been part of our tax laws since 1918.

Figure 2

## PENALTY ABATEMENT PROCESS FOR TAXPAYER-REQUESTED ABATEMENTS



IRS considers reasonable cause to be any valid and clearly established reason advanced by a taxpayer as the cause for delay in either filing a return or paying tax when due. Examples of acceptable causes for delay appearing in IRS' policy manual include

- death, serious illness, or unavoidable absence of the taxpayer;
- destruction of tax records by fire or other casualty; and
- delays in the delivery of returns that have been mailed on time.

IRS instructions also make it clear that these are not the only acceptable causes and that any reason indicating that the taxpayer exercised ordinary business care and prudence will be accepted as reasonable cause.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

The Joint Committee on Taxation asked us to review IRS' policies, procedures, and practices in administering the civil penalty provisions of the Internal Revenue Code. Because we considered an efficient and equitable abatement process to be an essential part of the overall penalty process, we proposed that we review the penalty abatement process. The committee concurred with our proposal.

Our primary objective was to evaluate IRS' administration of abatements. We interviewed IRS personnel at the national, regional, service center, and district levels in the Returns Processing, Collections, Taxpayer Service, and Data Processing Divisions. We reviewed policy and procedures manuals and management reports relating to IRS' penalty abatement process. We also reviewed IRS' internal audit reports and met with IRS internal audit personnel. Our work was performed in accordance with generally accepted government auditing standards.

This report focuses on how improvements in IRS' operating procedures would help ensure that penalty abatements granted by IRS are justified. As part of this review, we also looked for indications that IRS was denying penalty abatement requests by taxpayers that should have been approved. In this regard, we reviewed files maintained at the service centers we visited that contained correspondence on taxpayers' disagreements with IRS' denial of their penalty abatement requests. We found no evidence indicating that these taxpayers were being unfairly treated.

We selected six IRS district offices and their respective regions and service centers for review so as to obtain (1) offices in different areas and of different sizes, (2) a representative mix of IRS operations at district offices and service centers, and (3) the most efficient use of our resources. Our review locations were discussed with IRS officials, who believed that our selection represented a fair cross section of their district offices and service centers. Our work took place at

--IRS' national office, Washington, D.C.;

--IRS' regional offices in Chicago, Philadelphia, and San Francisco;

--IRS' service centers in Fresno, Kansas City, and Philadelphia, and

--IRS' district offices in Baltimore, Chicago, Los Angeles, Milwaukee, San Francisco, and Wilmington.

The three service centers and six district offices abated 407,700 penalties in fiscal year 1981 for taxpayers residing in the six districts. From these, we analyzed a random sample of 2,340, amounting to \$3.6 million for individuals, corporations, and employers, to determine the appropriateness of IRS' abatements.

We analyzed each of the cases in our sample using a data collection instrument. We drew information for the cases from the case files, which contained the taxpayer's abatement request and other documents used by the examiner in reaching a decision. If IRS regional and service center officials disagreed with the results of our analysis, we considered their reasons in deciding whether to adjust our statistics. (See app. III for details on the degree of IRS concurrence.)

## CHAPTER 2

### IRS CAN IMPROVE THE PENALTY ABATEMENT PROCESS

We evaluated IRS' administration of the penalty abatement process by reviewing a random sample of 2,340 of the 407,700 abatements that IRS granted in fiscal year 1981 in six of its districts. Based on this sample, we estimated that 92 percent of these abatements were appropriate and concluded that IRS generally did a good job when abating civil penalties.

However, our analysis of the remaining 8 percent of the abatements that were granted pointed to several areas where the abatement process could be improved. For example, many of the penalties IRS abated for reasonable cause were incorrect because IRS employees did not adequately consider the facts and circumstances surrounding the situation. We also found that IRS has paid little attention to training its employees on handling penalty abatement requests and that IRS needs to periodically review abatement decisions to evaluate its performance in this area. With the exception of spot checks that were conducted at two service centers during our review, IRS has not conducted any management-type reviews of penalty abatements.

### IRS CAN IMPROVE THE GUIDANCE IT PROVIDES FOR MAKING PENALTY ABATEMENT DECISIONS BASED ON REASONABLE CAUSE

Most types of penalties may be abated if a taxpayer can show reasonable cause for not meeting the requirements of the Internal Revenue Code. IRS' guidelines list certain examples that are considered acceptable as reasonable cause, but employees are allowed a great deal of discretion in deciding upon these or any other situations under which taxpayers claimed they exercised "ordinary business care and prudence" but still could not meet their tax obligations. We found that IRS employees made errors in cases that had circumstances similar to those listed in the IRS guidelines and also in those that did not.

The Internal Revenue Manual offers both general and specific guidelines for determining whether a taxpayer has reasonable cause for not complying with the Code. The general guidelines, which apply to any taxpayer and any penalty that may be abated, list the following examples that may be acceptable as reasonable cause:

1. The taxpayer or a member of the immediate family dies or suffers serious illness. In the case of a corporation or other entity, the death or illness

must be the individual with sole authority to file a return or make a deposit or payment, or a member of that person's immediate family.

2. The taxpayer or individual with sole authority to file a return or make a deposit or payment on behalf of a corporation or other entity is unavoidably absent.
3. The taxpayer's residence, place of business, or business records are destroyed by fire, other casualty, or civil disturbance.
4. For reasons beyond the taxpayer's control, he or she is unable to obtain records necessary to determine the amount of the tax due.
5. The taxpayer mails the return or payment in time to reach IRS within the prescribed period with the normal handling of mail, but through no fault of the taxpayer, the return or payment is not delivered on time.
6. The taxpayer receives erroneous information from an IRS employee, or IRS does not furnish necessary forms and instructions in time despite the taxpayer's timely request.
7. The taxpayer is incorrectly advised by a competent tax advisor that filing a return is not necessary. The taxpayer must have furnished all necessary and relevant information and must have exercised normal care and prudence in deciding whether to obtain additional advice.

The manual also lists examples related to either specific types of taxpayers, such as exempt organizations; specific types of individuals, such as tax return preparers; or specific types of penalties, such as the penalty for failure to deposit or the penalty for a dishonored check. An employer, for example, may have a penalty for "failure to deposit" abated when

- the tax liabilities during a given quarter exceed the deposit requirements by only a small amount; or
- unusual, unanticipated, large increases in sales or employment increase the employer's liability to a level that would necessitate deposits.

Many of the reasons that taxpayers in our sample gave for not complying with tax requirements were not covered by specific



circumstances noted in the manual but fell into the vaguely defined category of ordinary business care and prudence and ignorance of the law. Forty-seven percent of the reasonable cause abatements in our sample were based on these two explanations. The manual provides no explanation of what is considered to be ordinary business care and prudence, and it provides only a limited explanation of ignorance of the law. This lack of IRS guidance forced IRS personnel to use their own judgment, providing no assurance that taxpayers were being treated consistently or that employees were thoroughly examining requests that came in.

To do our analysis of IRS' abatement process, we grouped the reasonable cause decisions made by IRS into three categories. The first category included those abatements involving one of the seven general examples. The second category included the examples related to specific types of taxpayers or penalties. The third included those decisions that related to the general category of ordinary business care and prudence or ignorance of the law. Table 1 contains our estimates of the reasonable cause decisions in the three categories for the locations we visited. We found that incorrect decisions were made regardless of the circumstances used by taxpayers to justify an abatement. Incorrect decisions occurred most often (34.8 percent) when the taxpayer's excuse was ordinary business care or ignorance of the law.

Table 1

Incorrect Reasonable Cause Decisions

<u>Category used by taxpayer</u>	<u>All cases</u>		<u>Cases estimated by GAO to be incorrect</u>	<u>Error rate for each reasonable cause category</u>
	<u>Number</u>	<u>Percent</u>		
General	15,600	32.0	3,200	20.5
Specific	10,200	20.8	1,500	14.7
Ordinary business care or ignorance of the law	23,000	47.2	8,000	34.8
Total	<u>48,800</u>	<u>100.0</u>	<u>12,700</u>	<u>26.0</u>

The examples contained in the manual provide a general idea of what IRS considers to be reasonable cause, yet they are not sufficiently definitive to lead to a decision in particular cases. For example, the death of a taxpayer's spouse 2 months

before a tax return is due may be reasonable cause for not filing the return on time, but a spouse's death 2 years earlier may not be. The guidelines provide no guidance to employees on where to draw the line. As a result, the guidelines tend to encourage granting an abatement whenever a taxpayer cites a circumstance (such as death) similar to those contained in the examples. In fact, officials in one IRS service center told us they would generally approve a taxpayer's abatement request if it involved one of the generic examples cited in the manual.

We questioned approved abatement requests where the circumstance was covered in IRS' guidelines but the information contained in the request did not appear to us to support abatement of the penalty. For example:

--A corporation was assessed a penalty for not depositing its employment taxes on time. The taxpayer asked that the penalty be abated because the bookkeeper was on vacation and did not have the opportunity to make the deposit. The general guidelines address the unavoidable absence of an individual with sole authority to make deposits; however, in our view, a vacation is not an unavoidable absence, nor should a bookkeeper be the only individual with the authority to make deposits. IRS officials agreed that the abatement request should not have been approved.

--A corporation was 27 months late in filing its 1977 income tax return. The abatement request stated that the corporation had changed accountants in 1975--2 years earlier--and various records had been lost. The taxpayer's explanation did not adequately state why this affected the 1977 return, which was finally filed in September 1980. The 5-year lapse between the change of accountants and the filing of the return seemed excessive for a prudent business person. IRS officials agreed that the abatement request should not have been approved.

The following examples illustrate the kinds of cases we questioned when ordinary business care and prudence was the basis for the abatement.

--A law firm was assessed a penalty for not depositing its employment taxes on time. The penalty was subsequently abated on the basis of a letter from a member of the firm explaining that the tax deposits were late because of "minor errors and administrative confusion inevitable in any small business." Such a general comment does not show that the law firm exercised ordinary business care and prudence. IRS officials agreed that the abatement should not have been made.

--A corporation was assessed a penalty for paying its 1978 income taxes 20 months late. The taxes, which were due March 1979, were not paid until December 1980. In requesting an abatement, the taxpayer's accountant stated that early in 1978 the business was purchased and new corporate officers were elected. The new officers were unable to obtain financial information from the previous officers until late in 1980, at which time the taxes were paid. In our judgment, the taxpayer did not provide sufficient information to conclude that a 20-month delay was, under the circumstances, prudent business care.

--A corporation was penalized for failing to make its required tax deposits throughout the year. The taxpayer's abatement request stated that the corporation did not pay because it never received the tax deposit forms and as such was enclosing the payment with its annual return. We took the position that a prudent businessperson would not have allowed required tax deposits to go unpaid because of the lack of a form. IRS agreed that the abatement request should not have been approved.

To supplement our analysis of case files, we asked 112 employees who make abatement decisions at the three service centers and six district offices where we did our work to judge 10 sample cases of abatements, using the guidance normally available to them. With one exception, each of the requests involved two penalties. We asked each employee whether he or she would abate either one or both of the penalties, neither penalty, or whether additional information would be needed before making a decision.

We discussed our plans to use this approach with IRS national office officials and asked them to look at the test cases we proposed to use. The officials said that our test cases included typical examples of reasonable cause requests and that our approach would provide insight into the uniformity with which IRS employees were making abatement decisions.

The 112 employees did not arrive at consistent decisions. In only 1 of the 10 cases did more than 70 percent of the employees agree on the disposition. In most cases, there was a general lack of agreement, as the following data show.

<u>Percent of agreement</u>	<u>Number of cases</u>
70 to 80	1
60 to 69	0
50 to 59	6
Less than 50	<u>3</u>
Total	<u>10</u>

Although some inconsistency is to be expected when judgment is involved, the wide variation in employees' comments on our test cases demonstrates that IRS guidance on reasonable cause could be improved.

Reasonable cause guidelines should show employees how to properly analyze abatement requests

Whether a taxpayer has reasonable cause for having a penalty abated is a judgmental decision, and each case must be evaluated on its own merits. But IRS could provide better guidance to aid its employees in making abatement decisions on the basis of reasonable cause. Such guidance would enable employees to better identify the pertinent facts in each situation and to determine whether those facts justified an abatement. This type of guidance would also help to ensure that requests for penalty abatements are treated more consistently.

In our analysis of reasonable cause abatements, we found IRS' guidelines to be of little help because the circumstances cited as examples for abating based on reasonable cause often did not apply. In identifying facts that bore on whether the taxpayer acted or failed to act as a prudent businessperson, we found ourselves asking the same general questions in each case. Rather than emphasizing particular situations or key words, such as death or illness, our questions were directed at the relationships between the events or parties involved, the responsibilities of taxpayers, and the analysis of information presented. Through this process we developed the following questions that we then used as a basis for analyzing the taxpayer's statement and other relevant facts for the cases in our sample:

1. Do the taxpayer's reasons address the penalty that was assessed?
2. Does the length of time between the event cited as a reason and the filing or payment date negate the event's effect?

3. Does the continued operation of a business after the event that caused the taxpayer's noncompliance negate the event's effect?
4. Should the event that caused the taxpayer's non-compliance or increased liability have reasonably been anticipated?
5. Was the penalty the result of carelessness or did the taxpayer appear to have made an honest mistake?
6. Has the taxpayer provided sufficient detail (dates, relationships) to determine whether he or she exercised ordinary business care and prudence?
7. Is a nonliable individual being blamed for the taxpayer's noncompliance? What is the nature of the relationship between the taxpayer and this individual? Is the individual an employee of the taxpayer or an independent third party, such as an accountant or lawyer?
8. Has the taxpayer documented all pertinent facts?
9. Does the taxpayer have a history of being assessed the same penalty?
10. Does the amount of the penalty justify closer scrutiny of the case?
11. Could the taxpayer have requested an extension or filed an amended return?

We used our guidelines to analyze the cases that were used as examples earlier in this chapter. Additional examples showing the rationale that we used to question abatement decisions are presented below. In each case, the penalty was abated for reasonable cause, and IRS officials subsequently agreed with us that the abatement was improper.

--A corporation was assessed a penalty for not paying its entire tax liability on time. The corporation, in requesting an abatement, explained that because it did not want to overpay its taxes, it deducted a certain amount for an item it assumed IRS would consider to be deductible. The corporation then determined that the item was not deductible and submitted the payment after the tax return was due. We concluded that the late-payment penalty should not have been abated. The corporation could have paid the tax and, if the item was found to be deductible, filed an amended return.

--Another corporation was penalized for failure to file its income tax return and pay its tax liability as well as for failure to pay its estimated tax payments on time. The letter requesting abatement explained why the estimated tax payments were omitted but did not explain why the tax return and accompanying payments were late. IRS, however, abated all three penalties. This abatement, in our opinion, was incorrect because the taxpayer's explanation did not address all of the penalties that were abated.

--A corporation that filed its quarterly return 7 months late was assessed penalties for failure to file the return and failure to pay the tax due. In requesting an abatement, the corporation explained that its bookkeeper left 1 month before the return was due. It added that the return was filed as soon as possible under the circumstances. When we found that the reports due for subsequent quarters had been filed on time, we considered the length of time between the bookkeeper's departure and the filing of the return--8 months--to be excessive.

--Another corporation, in filing its quarterly return of federal tax deposits for employee withholding, was assessed a failure to pay penalty. The penalty was assessed because the corporation gave year-end bonuses to its employees--thus incurring a greater tax liability--but failed to make timely federal tax deposit payments. In requesting an abatement, the corporation only stated that it had since been instructed on how to calculate the tax liability. We did not believe this statement provided sufficient reason to abate the penalty.

We discussed our guidelines with IRS officials and employees who handle penalty abatements. They agreed that our approach was sound. In fact, national office staff told us that they planned to include these guidelines in their newly combined procedural/training manual.<sup>1</sup>

#### BETTER PENALTY ABATEMENT TRAINING IS NEEDED

IRS officials in the national office and the field acknowledged that very little effort has been devoted to training IRS

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<sup>1</sup>In February 1983, IRS combined its penalty and reasonable cause manual and related training material into one procedural/training handbook.

personnel on handling penalty abatement requests. For example, a training coordinator at one service center commented that instructors emphasized to their classes the familiarization with tax forms rather than the actual practice of making account adjustments, such as handling abatement requests. In one district office an instructor told us that 1 day's training is devoted to penalties, and that only a small portion of this time is spent on abatement requests. This instructor characterized such training as "awareness training," and stated that because there was generally no time to teach the handling of abatement requests in the classroom, students were advised to read the training material on their own time.

While tax examiners received brief classroom exposure to the concept of reasonable cause, they learned how to handle abatement requests primarily through on-the-job training. On-the-job training is valuable because it helps employees learn in a practical situation; however, relying too heavily on this type of training can cause problems. For example, because such training is based on actual cases handled during the training period the employee will have little exposure to reasonable cause if few cases of this type are handled. Also, on-the-job training presupposes that the instructor or coach has the proper understanding of the subject. If this is not the case, the gaps in training can merely perpetuate themselves.

Compounding the training problem was the inconsistency we found in the training materials that were used. IRS uses a decentralized system in the sense that each functioning division oversees the preparation of its own training material. Although training materials are reviewed by the functioning division(s) to insure technical accuracy, the Returns Processing and Accounting Division--the division responsible for the procedural guidelines handbook for reasonable cause and penalty abatements--was not being included in the review process for all of the training materials that had been prepared. This resulted in a wide disparity in the training materials dealing with reasonable cause. In some cases, training material cited certain examples of reasonable cause that were contrary to IRS policy.

Course books used by the various IRS divisions differed widely in the amount of guidance, examples, and exercises presented. For instance, the 1981 course book used in the service centers contained a number of examples that provided the employee with some idea of what was considered acceptable as reasonable cause. The other course books we reviewed were of more limited value. One used two examples to illustrate reasonable cause, and another had neither examples nor an explanation of reasonable cause.

Although the course book used in the service centers was the most complete, it also fell short in providing adequate guidance. For example, 4 of the 10 illustrations used in the book to explain reasonable cause were questionable:

- "The taxpayer started to prepare the return in sufficient time but finds that because of complicated issues, assistance and more time is needed before the return can be filed.
- "Inability of the practitioner to secure competent help in sufficient time to cope with the planned workload.
- "The advent of new tax laws, regulations, or administrative requirements which create complex problems and significantly delay the practitioner in preparing returns for clients.
- "A scarcity of qualified professional practitioners in the taxpayer's community."

These examples did not appear to us to justify abatements, since taxpayers can avoid penalties in such instances by applying for an extension of time in filing their tax returns. IRS staff agreed, and these examples were dropped in the revised course book issued in February 1983.

To assure greater uniformity in taxpayer treatment, training in the handling of abatement requests should be similar for all employees. Having a single division develop such training or requiring that training efforts be coordinated are two alternatives that should be explored. National office officials agreed that better coordination of such training materials would produce more consistent courses that would help achieve more uniform decisionmaking.

#### EFFECTIVE MANAGEMENT REVIEW SYSTEM IS NEEDED TO EVALUATE PENALTY ABATEMENT REQUESTS

One reason IRS officials gave us for the lack of emphasis on abatement training was that they were unaware of any problems with penalty abatement requests. After we began our review, two regions undertook a review of the penalty abatement process at their respective service centers and identified the same deficiencies we found in processing reasonable cause abatement requests. One region found that 50 percent of the reasonable cause decisions it tested were incorrect and the other that 20 percent of its sampled cases were incorrect.



IRS needs to review the abatement process so that it can be alerted to any systemic weaknesses that might exist. Currently, it has two types of review programs--management review and quality review--that could serve this purpose. The former, however, had never been used to evaluate abatements before our review, and the latter would need modification before it could be effectively used to assess the abatement process.

#### Management review

The management review program has two components, either of which could be used to identify abatement problems: the National Office Review Program and the Regional Office Review Program.

The National Office Review Program deals with the operations of the regional offices. Under this program, analysts visit each region for 2 to 3 days every 21 months to evaluate how effectively regions are carrying out their primary role of supervising districts. The analysts focus on major regional programmatic efforts and accomplishments and significant needs and problems. Under this program IRS has not conducted any reviews of penalty abatements, although national office officials suggested that this program could be used to evaluate how well the process was working. They added that one advantage of a national review is that it provides a uniform overview of IRS operations; however, they pointed out that this program would need to be expanded to review penalty abatements.

Under the Regional Office Review Program, analysts review district and service center operations and provide management with a report summarizing their observations and recommending corrective action. National office officials stated that this program, like the national review program, could be expanded to include evaluation of the penalty abatement process.

#### Quality review

The quality review program is a control mechanism designed to provide supervisors with certain information about employees' performance. Emphasis is placed on identifying procedural errors and not on the merits of a taxpayer's case. Because of this emphasis, the quality review program has not specifically focused on problems of penalty abatements. We found that

- the quality review program is not designed to provide sufficient data to assess the quality of penalty abatement decisions;
- reviewers do not believe they have adequate quality standards for evaluating the adequacy of reasonable

cause decisions and documentation submitted by taxpayers.

The quality review program was designed primarily to evaluate employee performance, not to identify systemic defects. Quality review data are obtained by sampling employee work and recording the number and types of errors by each employee. The program classifies employee errors into 91 defect codes, none of which relates specifically to penalty abatement errors. To obtain data useful for evaluating the penalty abatement process through the quality review program, more specific defect codes for penalty abatements were needed. In commenting on a draft of this report, IRS informed us that additional defect codes had been established.

Another obstacle to using the quality review program for identifying problems with reasonable cause penalty abatements is that reviewers believe they lack quality standards. Several quality reviewers said the review staff considered reasonable cause to be judgmental and therefore would not assess errors. However, we believe that IRS reviewers could determine whether penalty abatement requests were incorrectly granted for reasonable cause by examining the support for the decision that was made.

National office staff believed that if the quality review program in the service centers were modified, it could be an effective way to evaluate the penalty abatement process. However, in the district offices, where abatements are less frequent, officials believed that the best way to evaluate abatements would be through management review programs. Their rationale is that incorporating quality review into their existing management review programs would be the most cost-effective way to review the penalty abatement process.

OTHER IMPROVEMENTS WOULD HELP ENSURE  
MORE APPROPRIATE ABATEMENTS

An estimated 8,000 of the 32,600 questionable abatements represented by our sample were made based upon insufficient supporting documentation. Additional improvements IRS could make to improve this aspect of the penalty abatement process included

- providing IRS employees with guidance on what documentation is necessary for abatement decisions,
- providing all employees who handle penalty abatement requests with a copy of the handbook on reasonable cause, and

--ensuring that taxpayer statements explaining reasonable cause are made under penalty of perjury.

Guidelines are needed for documenting abatement requests

IRS guidance states that for adjustments involving small dollar amounts, employees should generally take action without requesting additional information. Consequently, employees have approved abatement requests when taxpayer-provided evidence was insufficient for reaching an informed decision. The following cases show the need for additional guidance:

--A taxpayer who was assessed a penalty wrote to IRS stating that he was enclosing a cancelled check as proof that he had paid his taxes on time. Even though there was no evidence that a cancelled check was received, IRS abated the penalty.

--A taxpayer who was assessed an estimated tax penalty failed to provide the required worksheet to support his abatement request. The taxpayer stated that he had earned his income unevenly throughout the tax year but did not show the distribution of his income and the tax liability for each period. IRS abated the penalty without a worksheet; thus, it did not know how the taxpayer arrived at his computation.

IRS can develop general guidelines that would assist employees in making sure that abatement decisions were adequately documented. For example, guidelines might state that when a taxpayer claims a timely payment, the tax examiner should not abate the penalty unless the taxpayer provides a copy of the cancelled check or some other evidence that shows that IRS received payment. The guidelines might also state that when the taxpayer claims an estimated tax penalty exception, the tax examiner should not abate without a worksheet showing the taxpayer's computations. IRS could develop similar guidelines for other types of abatement situations.

We discussed this matter with national office officials who agreed that such guidelines would be helpful.

Handbook on reasonable cause should be provided to employees who make abatement requests

Although IRS expects its employees to use its handbook on reasonable cause, many employees did not have one. We found employees deciding abatement requests without the handbook or using outdated copies. The problem arose because IRS does not distribute its handbook on reasonable cause to all employees who make abatement decisions.

The Internal Revenue Manual is divided into parts that conform to IRS' operating divisions. Various parts of the manual briefly discuss the concept of reasonable cause and refer employees to the reasonable cause section in the returns processing part of the manual for specific guidance. Not all employees who make abatement decisions have this part of the manual. We found that groups at the service centers generally receive it, but district office groups do not.

IRS national office officials told us that they expected their divisions to obtain copies of the handbook through IRS' distribution process. However, they could see how employees might not have received portions of the manual if divisions had been requesting only their own part.

#### Reasonable cause abatement requests were not being made under penalty of perjury

The Internal Revenue Code requires that all taxpayer provided information be submitted under penalty of perjury. However, IRS does not make taxpayers aware that abatement requests are to be made under the penalty of perjury.

A penalty of perjury statement would serve as a form of documentation for statements that have no other accompanying evidence. In most cases (85 percent), additional evidence was not submitted; however, only 10 percent of the employees we interviewed said they requested penalty of perjury statements. Moreover, our sample of penalty abatements contained no evidence of reasonable cause statements being submitted under penalty of perjury.

We discussed several methods of enforcing the penalty of perjury requirement with IRS officials. These officials stated that, as a result of our review, they have placed a brief statement on the billing notice advising taxpayers of this requirement.

Although this is a positive step in addressing our concerns, such a statement provides little assurance that the taxpayer has read this notice, understands IRS' requirement, and is familiar with the penalty of perjury statement. IRS should analyze the results of its action to determine whether more stringent measures are needed. One such step could be to actually require taxpayers to sign their request under penalty of perjury.

#### CONCLUSIONS

While IRS generally does a good job when abating civil penalties, it could do more to help ensure that its review

practices with regard to reasonable cause are appropriate and consistent. Presently, IRS' approach in guiding its employees in assessing requests for reasonable cause is not sufficient to assure that penalties are abated correctly and consistently.

IRS should more clearly instruct its employees to identify the pertinent facts in abatement requests and to determine whether those facts justify an abatement. Guidance could be developed in the form of questions that an employee could ask in determining whether an abatement request is reasonable. Such an approach would help ensure that abatement requests receive consistent review and resolution.

IRS also needs to increase the training it provides on penalty abatement requests and improve the material used for such training by the various IRS divisions. Instructional materials were prepared separately by the various divisions with minimal coordination, and in some instances, training material did not accurately reflect IRS policy.

Management review of penalty abatements is required to ensure that the abatement process is operating properly. In addition, certain other steps could be taken to help ensure that information supporting abatement requests is complete and accurate and that appropriate decisions are made. IRS needs to establish guidelines for documenting abatement requests and make sure the handbook containing abatement guidance is provided to all employees who make abatement decisions.

#### PROPOSALS

We proposed that the Commissioner of Internal Revenue

- develop guidance to better explain how employees are to proceed in making determinations on the reasonableness of abatement requests and to describe the type of documentation that should be considered in making such determinations;
- expand and standardize penalty abatement training and make it available to all employees likely to decide or review abatement requests;
- establish a penalty abatement review program so that the process and the decisions being made can be periodically evaluated; and
- provide a copy of the handbook on reasonable cause to all employees who abate penalties.

## AGENCY COMMENTS AND OUR EVALUATION

The Commissioner of Internal Revenue commented on a draft of our report by letter dated November 12, 1983 (see app. I). IRS generally agreed with our proposals and since has taken actions that in our view will improve the administration of its penalty abatement process.

IRS agreed with our proposal to develop guidance to better explain how employees are to proceed in making determinations on the reasonableness of abatement requests and to describe the type of documentation that should be considered in making such determinations. IRS stated that it asked three of its service centers to review a list of questions for use in penalty abatement determinations that included the criteria we used in our review, as well as additional items proposed by IRS. Based on the results, IRS decided to incorporate the expanded criteria into a revised Internal Revenue Manual. An IRS official advised us that the manual was distributed in March 1984.

IRS also agreed with our proposal to expand and standardize penalty abatement training and make it available to all employees likely to decide or review abatement requests. Revised training material was made available to the service centers on January 1, 1984. Also, IRS has taken action to ensure recurring training for service center tax examiners on reasonable cause and penalty abatements and will conduct a special training class during fiscal year 1984 for all tax examiners in the service centers who do penalty abatements.

IRS generally agreed with our proposal and has since taken steps to establish a penalty abatement review program. It stated that it would

- expand its current quality review program to aid in determining whether the expanded criteria issued by IRS are being used and whether sufficient documentation is present,
- conduct a series of program review visitations in fiscal year 1985 in at least three service centers,
- undertake "quality analyses" of service center abatement activities to determine whether abatement decisions are consistent with IRS' expanded guidelines, and
- incorporate procedures into its National Office Review Program process to ensure that penalty abatement guidelines are being followed.

Finally, IRS agreed that employees who make penalty abatements should either have a copy of IRS' handbook on reasonable cause or should have one readily available. Accordingly, IRS has taken steps to ensure the handbook is appropriately distributed.

Because of IRS' agreement with and implementation of our proposals, we are making no recommendations in this report.

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

Mr. William J. Anderson  
Director, General Government Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Anderson:

I appreciate the opportunity to review your draft report entitled, "IRS Does A Good Job When Abating Civil Penalties -- But It Can Make Improvements." We generally agree with your recommendations and have already begun to implement some of them. Our specific comments on each recommendation are enclosed.

With kind regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Roscoe Egger".

Enclosures



IRS Comments on GAO Draft Report Entitled  
"IRS DOES A GOOD JOB WHEN ABATING CIVIL PENALTIES--  
BUT IT CAN MAKE IMPROVEMENTS"

Recommendation 1:

Develop guidance to better explain how employees are to proceed in making determinations on the reasonableness of abatement requests and to describe the type of documentation that should be considered in making such determinations.

Response:

We agree with the recommendation and have discussed with GAO the type of criteria used by their auditors in reviewing IRS's penalty abatements. We subsequently asked three of our service centers to review a revised list of additional criteria/questions for use in penalty abatement determinations. This list included GAO's criteria as well as some IRS items. Based on the results of this review, we have adopted the revised criteria for use in making the proper abatement decisions and in determining whether documentation submitted by the taxpayer is sufficient.

The expanded criteria and guidelines have been included in a revision of Internal Revenue Manual (IRM) 30(85)0 (Penalty and Reasonable Cause). The revision is scheduled to be printed and distributed by 2/1/84. Revised guidelines will be included in the appropriate portions of IRM Part VI (Taxpayer Service).

Recommendation II:

Expand and standardize penalty abatement training and make it available to all employees likely to decide or review abatement requests.

Response:

We agree with the recommendation.

Using the expanded reasonable cause criteria in IRM 30(85)0, we modified the training material used by Adjustment tax examiners in the service centers. These modifications should provide more standardized training guidelines for penalty abatements. The revised training material will be available in the service centers January 1, 1984. We are also coordinating efforts to ensure recurring training for service center tax examiners on reasonable cause and penalty abatements. A special training class for all service center Adjustment Branch tax examiners who currently do penalty abatements will be conducted during fiscal year 1984 based on the expanded criteria.

The standardization of the training on the subject of penalty abatement will be coordinated to ensure technical accuracy of materials, consistency in following established guidelines, and the adequacy of training. This training material will be available for use by all IRS functions.

Recommendation III:

Establish a penalty abatement review program so that the process and the decision being made can be periodically evaluated.

Response:

We generally agree with this recommendation and will implement additional management and quality review features as follows:

- a) We will expand our current quality review program to include additional defect codes. These codes will aid in determining whether the expanded determination criteria are being used and whether sufficient documentation is present.
- b) We will carry out a series of "program review" visitations in at least three of our service centers. These reviews will be conducted in fiscal year 1985; i.e., after the specialized service center training has been completed and the centers have gained experience in using the expanded IRM 30(85)0 guidelines.
- c) We will also undertake specific "quality analyses" in our service center adjustment activity to determine if penalty abatement decisions are consistent with the expanded guidelines. These "quality analyses" will be conducted under the procedures in IRM 30(28)0 (Service Center Quality Review System). We will schedule these analyses for late fiscal year 1984 or early fiscal year 1985.
- d) The Taxpayer Service ongoing NORP process will incorporate a review to insure that penalty abatement guidelines are being followed.

**Recommendation IV:**

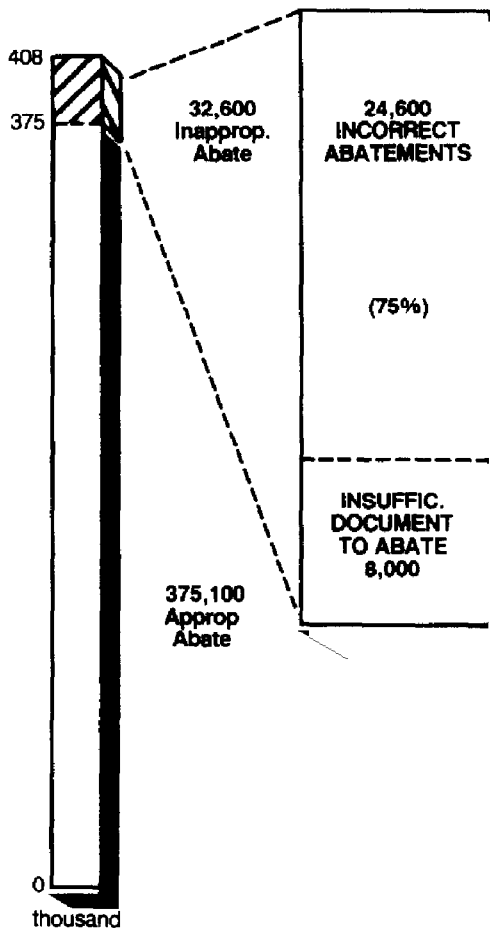
Provide a copy of the reasonable cause handbook to all employees who make penalty abatements.

**Response:**

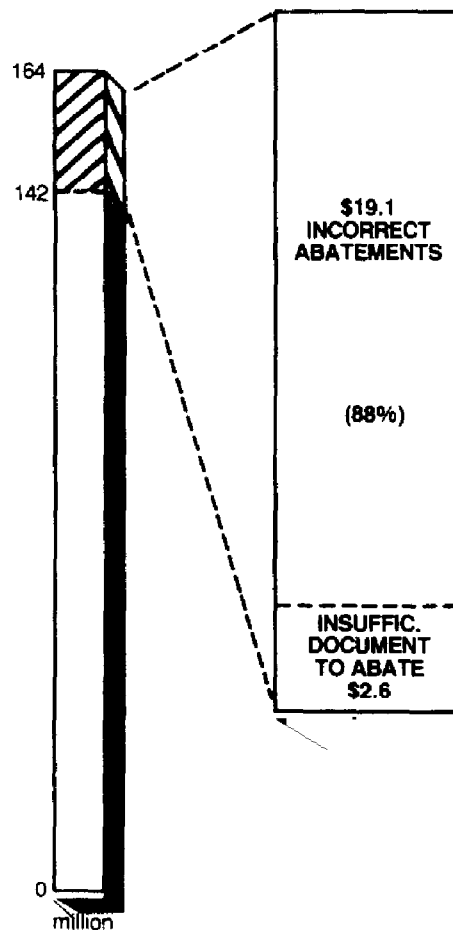
We agree that all employees who make penalty abatements should either have a copy of IRM 30(85)0 or should have one readily available and know where it can be located. Steps will be taken to ensure appropriate distribution of the Handbook.

SAMPLING AND DATA ANALYSIS--  
RESULTS AND METHODOLOGY

Among the 407,700 abatements represented by our sample, we estimated that 375,100 (92 percent) were appropriately granted. Of the remaining abatements, 24,600, totaling \$19.1 million, were estimated to be incorrect and 8,000, totaling \$2.6 million, were estimated to have been granted without sufficient documentation.



ABATEMENTS



DOLLARS ABATED

Where are the penalty abatement problems?

Although IRS employees handled less than one-half of the penalty abatements in our sample, their actions accounted for over 98 percent of the dollar errors we identified. The remaining abatements were processed by IRS' computers. With regard to these abatements, the only problem we noted was brought to IRS' attention and corrected before our work was completed.<sup>1</sup>

Of the abatements handled by IRS employees, most were handled by IRS service centers and the remainder by IRS district offices.<sup>2</sup> The following table shows the percentage of abatements handled by service centers and district offices. It also shows the percentage of errors made by each as well as the percentage of errors related to reasonable cause. As shown in the table, service centers made most of the errors but, proportionately, more were made by district offices.

Table 3

IRS Employee Errors By Organization

<u>Organization</u>	<u>Abatements processed</u>	<u>Percent of</u>	
		<u>Total errors</u>	<u>Errors in reasonable cause cases</u>
Service centers	88	79	38
District offices	12	21	60
	<u>100</u>	<u>100</u>	

Selection of locations

The locations we visited handled almost one-fifth of the penalty abatements processed nationally. In determining which IRS districts to include in our review, we wanted to cover different regions across the United States and include districts

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<sup>1</sup>Taxpayers were applying unused tax credits from a previous year to reduce a penalty. Since this practice was contrary to an IRS revenue ruling, we called the matter to the attention of IRS. IRS altered its computer program to correct it.

<sup>2</sup>Penalty abatements made by IRS district offices, posts of duty, and appeals offices are categorized as district office abatements.

with varying workload. We discussed our location selection with IRS' national office officials. After we included a district office with a small workload, they believed our selection represented a fair cross section of their district offices and service centers. The offices selected and their characteristics are shown below.

<u>IRS district</u>	<u>IRS region</u>	<u>IRS service center</u>	<u>Workload</u>
Baltimore	Mid-Atlantic	Philadelphia	Medium
Wilmington	Mid-Atlantic	Philadelphia	Small
Chicago	Midwest	Kansas City	Large
Milwaukee	Midwest	Kansas City	Medium
Los Angeles	Western	Fresno	Large
San Francisco	Western	Fresno	Large

#### Selection of abatement cases

IRS categorizes penalty abatements into seven tax types. For our review we selected the three types--individual, corporation, and employment--that accounted for almost 90 percent of the abatements in fiscal year 1981. (The other four tax types are excise, estate and gift, tax return preparers, and others.)

The 2,340 cases we reviewed were randomly drawn from IRS' master files at the National Computer Center in Martinsburg, West Virginia. IRS extracted every fifth penalty abatement record from its master file. Using the IRS data, we obtained a random sample of penalty abatements. The sample was stratified by the six locations and the three tax types. In other words, for each of the 18 combinations of location and tax type, a fixed sample (130 cases) was taken. The starting point and sample interval for the 18 combinations were obtained by dividing the count in each combination by the desired sample size and the remainder was used as the starting point with the dividend used as the interval.

This stratification method allowed us to distinguish problems or characteristics peculiar to or shared among the types or locations. We weighted the data to project the sample results to the 407,700 abatements made in the six geographical areas. The universe, sample sizes, weights, and projected populations for the three types we examined at the locations visited are shown on the following page.

	<u>Estimated universe<sup>a</sup></u>	<u>Sample reviewed</u>	<u>Cases analyzed<sup>b</sup></u>	<u>Case weight</u>	<u>Projected population (1000s)</u>
<u>Baltimore</u>					
Individual	24,270	132	130	183.9	23.9
Corporation	3,100	134	130	23.1	3.0
Employment	24,910	138	130	180.5	23.5
<u>Wilmington</u>					
Individual	2,345	134	130	17.5	2.3
Corporation	705	140	130	5.0	0.7
Employment	2,870	136	130	21.1	2.7
<u>Chicago</u>					
Individual	35,030	134	130	261.4	34.0
Corporation	6,095	148	130	41.2	5.4
Employment	42,975	134	130	320.7	41.7
<u>Milwaukee</u>					
Individual	17,240	132	130	130.6	17.0
Corporation	2,605	142	130	18.3	2.4
Employment	16,915	137	130	123.5	16.1
<u>Los Angeles</u>					
Individual	72,580	136	130	533.7	69.4
Corporation	10,770	162	130	66.5	8.6
Employment	68,825	154	130	447.0	58.1
<u>San Francisco</u>					
Individual	59,230	143	130	414.2	53.8
Corporation	6,370	152	130	41.9	5.4
Employment	49,590	162	130	306.1	39.8
Total	<u>446,425</u>	<u>2,550</u>	<u>2,340</u>		<u>407.8</u>

<sup>a</sup>Estimated at five times the number obtained from every fifth case sample of all fiscal year 1981 abatements.

<sup>b</sup>Some cases were excluded from the analysis. Generally these were cases which were not considered to be abatements or those where IRS could not provide adequate case information within the time frame of our review.

#### Quality control over data collected

We maintained strict quality control over the information collected from abatement case files. We tested our data collection instrument on actual cases and modified it where appropriate. A GAO staff member compared the information recorded on each data collection instrument with the related case file and signed off on the accuracy of the recorded information.

#### METHOD OF ANALYSIS

We analyzed the computerized data bases we developed using "logistic regression analysis" to determine the effect certain factors had on a given variable.



Logistic regression analysis is a statistical technique used to test two or more independent groups for differences in the probability that an event will occur. We used it to test for differences in the probability that a case was inappropriately abated. For example, did the probability of an inappropriate abatement vary by location?

Overall, about 73 percent of the abatements we questioned involved reasonable cause decisions and exceptions to the penalty for underpayment of estimated taxes. Our analysis showed that if IRS corrected the problems we identified with regard to these two categories, the error rate would decline to about 2 percent of the penalty abatements processed. Thus, these two areas became the subject of a more detailed review.

We determined the significance of the differences in probabilities between groups by using confidence levels that represent the probabilities that the differences in our sample were not products of chance. In interpreting the analysis results, we used a confidence level of 95 percent or greater as being significant.

#### Sampling error

Estimates based on our sample may be subject to a sampling error. The following shows the sampling error for the major estimates that we made during this review.

	<u>Sampling error</u>
8 percent of the abatements inappropriately granted	+ 1.4 percent
16 percent of the abatements processed by IRS employees inappropriately	+ 3.0 percent
\$19.1 million of abatements in sample incorrect	+ \$13.4 million
\$2.6 million of abatements in sample granted without sufficient documentation	+ \$2.0 million
IRS employees handled less than one-half of the penalty abatements	44 percent + 3 percent
Service centers handled 88 percent of the abatements	+ 3 percent
Districts handled 12 percent of the abatements	+ 3 percent
About 73 percent of the questioned abatements involved reasonable cause decisions and estimated tax exceptions	+ 8 percent
48,838 reasonable cause cases in six locations visited	+ 6,799

EXTENT TO WHICH IRS AGREED WITH GAO'S  
DETERMINATION OF QUESTIONABLE ABATEMENTS

<u>IRS region</u>	<u>IRS district</u>	<u>Percent of agreement</u>
Mid-Atlantic	Baltimore	64.5 <sup>a</sup>
	Wilmington	69.0 <sup>a</sup>
Midwest	Chicago	81.2
	Milwaukee	76.9
Western	Los Angeles	87.5
	San Francisco	82.2

<sup>a</sup>Although IRS agreed with most of our determinations, the Mid-Atlantic region's agreement rate was lower than the others. Officials from the Mid-Atlantic region agreed that more documentation was needed before certain penalties should have been abated. However, they would not agree that these cases were the result of inappropriate abatements by the region. They pointed out that IRS national office procedures did not require supporting documentation.

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