United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representative

May 1995

TAX ADMINISTRATION

Administrative Improvements Possible in IRS' Installment Agreement Program

GAO/GGD-95-137

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-259902

May 2, 1995

The Honorable Nancy L. Johnson
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Chairman Johnson:

This report responds to your predecessor's request that we evaluate the Internal Revenue Service's (IRS) use of installment agreements as a means for individual taxpayers to pay their tax debts. IRS changed the rules for installment agreements in April 1992 to streamline the process for taxpayers to request installment agreements and for IRS to approve them. Our report discusses the (1) increase in installment agreements following the April 1992 changes, (2) effects these changes had on IRS' collection activity, (3) concerns raised by IRS' internal auditors regarding these changes, and (4) information that IRS provides taxpayers on their liabilities under installment agreements. We also note administrative practices that may provide opportunities to improve the installment agreement program and provide descriptive information on taxpayers who elected to pay past due taxes through installment agreement procedures.

Results in Brief

Participation in IRS' installment agreement program grew rapidly after revised guidelines were implemented in April 1992. IRS data show that 2.6 million new agreements were approved for individual taxpayers in fiscal year 1994. This was a 136-percent increase from the 1.1 million new agreements approved in fiscal year 1991. During fiscal years 1991 through 1994, the amount of taxes being paid in new installment agreements increased 135 percent—from $4.0 billion to $9.4 billion. Installment agreements accounted for 33 percent ($4.5 billion) of IRS' delinquent tax collections from individual taxpayers in fiscal year 1994 compared with 14 percent ($1.9 billion) in fiscal year 1991.

The changes IRS made to its installment agreement procedures affected its collection activities in several ways. First, IRS service center collection and district office taxpayer service staff approved more agreements than in the past. Staff at IRS' Automated Collection System (ACS) call sites, who previously approved the majority of installment agreements, are now assigned higher-dollar cases. According to IRS collection officials, this shift in workload, coupled with IRS' raising the dollar threshold for which staff would actively pursue collection cases, caused a decrease in dollars collected by ACS staff from fiscal year 1992 to fiscal year 1994. To stem further decreases in collections by ACS staff, IRS subsequently lowered the dollar threshold of cases available for assignment to ACS staff. Second, more past due taxes are being paid off in installments without going through IRS' routine collection process. This is due in part because, under IRS' revised procedures, taxpayers can request an installment agreement when they file a balance due tax return. Taxpayers may enter into agreements at any time during IRS' routine collection process.

IRS' internal auditors have raised concerns about the ease with which taxpayers can enter into installment agreements. In September 1994, the auditors reported that IRS' new installment agreement procedures may be allowing taxpayers to (1) choose installment agreements to pay their taxes when they could have fully paid their taxes on time and (2) accumulate tax debt because it is easy to add subsequent income taxes to an existing installment agreement. In response, IRS management established a task group to assess the extent to which these situations were occurring. The task group made recommendations aimed at reducing the use of installment agreements to accumulate debt that could be paid through other methods. IRS also agreed to test an internal audit recommendation to obtain information from the program's participants on the (1) causes of their tax debts and (2) steps they have taken to preclude the need for an installment agreement to pay the next year's taxes.

Currently, IRS informs taxpayers that applicable penalties and interest charges will be added to their installment agreements; however, taxpayers are not given dollar estimates for these penalties and interest. This process contrasts with installment agreements made in the private sector, such as those for automobile loans, which typically disclose information regarding terms, conditions, and costs. While IRS is not subject to these same requirements, they may well serve as a model for IRS to disclose similar information to taxpayers entering into installment agreements. If IRS provided taxpayers with more information on the conditions and financial consequences for installment agreements, taxpayers would have a basis to make more informed decisions when electing installment agreements, agreeing to multiple-year payment terms, or adding other taxes to existing agreements.

Because of the rapid growth of the installment agreement program, the efficient administration of the program becomes increasingly important. We identified several changes that could improve the efficiency of the installment program. One change would be for IRS to experiment with encouraging taxpayers to make their monthly installment payments electronically by direct debit. This would reduce IRS costs. Presently, less than 2 percent of taxpayers with installment agreements pay by direct debit. Another administrative change that would reduce costs would be for IRS to send some default notices by regular mail instead of certified mail.

Background

IRS expects individual taxpayers to pay the full amount of tax owed when they file their tax return. However, Section 6159 of the Internal Revenue Code provides for taxpayers to pay their taxes in installments when full payment is not possible.

Taxpayers who cannot pay their taxes are subject to IRS' collection process. IRS' routine collection process can involve three stages, and taxpayers may enter into an installment agreement during any stage. In the first stage, IRS is to send a series of notices to taxpayers requesting payment. Cases unresolved by these notices may be referred to the second stage—ACS telephone call sites. IRS employees at these sites are to contact taxpayers to secure payments and contact banks and employers to identify levy sources. The employees are to also answer calls from taxpayers who have been subjected to collection actions, such as levies and liens. If ACS call site employees cannot resolve a case, it may be referred to an IRS district office—the third stage in the collection process—for further collection action.

IRS made changes to its installment agreement program in April 1992 making it easier for taxpayers to obtain agreements. IRS made the following changes under the revised program.

- Staff in all offices with taxpayer contact were delegated authority to approve installment agreements of up to $100,000.[1]
- The thresholds for which IRS can approve an installment agreement without filing a lien increased from $2,000 to $10,000 and without requiring taxpayers to provide financial information demonstrating the need for an agreement increased from $5,000 to $10,000. IRS refers to these agreements as streamlined agreements.
- IRS allowed taxpayers to request installment agreements when they file by attaching a Form 9465, Installment Agreement Request, or note to their tax returns (see app. I). These agreements, called pre-assessed agreements, do not go through IRS' routine collection process.

[1]Previously, only IRS collection and taxpayer service offices had authority to grant installment agreements. Other offices with authority now include Appeals, Employee Plans and Exempt Organizations, Examination, Problem Resolution, and Returns Processing.

IRS made these changes to the installment agreement program to (1) improve voluntary compliance by emphasizing to taxpayers that installment payments are an option available to them to pay their tax debts if full payments cannot be made on time; (2) expedite the IRS collection process by bringing more delinquent accounts into a current status sooner, thereby increasing collections on such accounts in the form of installment payments; and (3) enhance its "one-stop service" concept by allowing staff in all functions with taxpayer contact to approve agreements.

In addition, IRS recently developed procedures to implement another change in the program—charging user fees for installment agreements. The Treasury, Postal Service, and General Government Appropriations Act of 1995 (P.L. 103-329) authorized the Secretary of the Treasury to supplement IRS' appropriations through the imposition of user fees for services performed by IRS. As a result, in March 1995, IRS began charging a $43 user fee for a new installment agreement and a $24 user fee for amending or reinstating an existing agreement.

Objectives, Scope, and Methodology

Our objectives were to review (1) the increase in installment agreements following changes IRS made in April 1992; (2) the effects these changes had on IRS' collection activity; (3) concerns raised by IRS' internal auditors regarding these changes; and (4) administrative aspects of the program, such as the information IRS provides taxpayers regarding installment agreements, and opportunities for improvement. We also collected descriptive information on taxpayers who elected to pay past due taxes through installment agreements.

To address the four objectives, we did the following:

- We met with officials in IRS' National Office of the Assistant Commissioner for Collections to discuss IRS' objectives for the installment program and gather information about the program's administration and progress.
- We met with IRS officials in the Cincinnati Service Center (Collections Branch) and the Cincinnati District Office (including the Taxpayer Service, Collection, and Examination divisions) to obtain information on the experiences of these IRS personnel with the revised procedures. We selected the Cincinnati Service Center because we had available experienced staff in that area.
- We discussed the installment agreement program changes with members of the American Institute of Certified Public Accountants, the Federation

of State Tax Administrators, the National Consumer Law Center, the Consumer Federation of America, and a Cincinnati-based commercial bank.

- We reviewed IRS internal audit and management reports concerning the installment agreement program.

To accomplish our objective of collecting descriptive information on taxpayers, we analyzed the 722 useable cases from our random sample of 900 installment agreements from IRS' Service Centers in Atlanta, GA; Cincinnati, OH; and Fresno, CA. The sample was taken from the inventory of 628,285 agreements at the 3 service centers as of April 23, 1994. In reviewing the sample, we obtained information about the agreements, such as (1) the tax periods covered by the agreements; (2) the original amount and current balance of the agreements; (3) the agreement payment history; and (4) certain taxpayer financial characteristics, such as adjusted gross income and source of income. The sample results were indicative of the installment agreement inventory at the three IRS service centers as of April 23, 1994. However, the results are not projectable to IRS' total universe of installment agreements and may not be indicative of the inventory at any other point in time. Appendix II describes our sampling methodology in more detail.

We did our audit work from January 1994 through November 1994 in accordance with generally accepted government auditing standards. On March 27, 1995, we met with IRS National Office officials to obtain their comments on a draft of this report. IRS representatives at that meeting included the Acting Assistant Commissioner, Collection. Their comments are summarized on page 16 and incorporated in this report where appropriate.

Installment Agreement Program Has Grown Rapidly

As stated earlier, the installment agreement program grew rapidly during fiscal years 1991 through 1994. As shown in table 1, significant growth took place between fiscal years 1992 and 1993. While part of this growth may be attributable to the April 1992 program changes, IRS officials said that changes to federal tax withholding tables in 1992 caused many taxpayers who would normally have received refunds to owe taxes when they filed their returns in 1993. IRS estimated that installment agreement requests would increase by about 39 percent because of the changes to the withholding tables.

Table 1: Installment Agreement Activity During Fiscal Years 1991 Through 1994

Current year dollars

Agreement activity	1991	1992	1993	1994
New agreements	1,087,032	1,481,374	2,497,294	2,634,557
Percent increase	N/A[a]	36%	69%	6%
Total dollars (billions)	$4.0	$5.6	$8.2	$9.4
Percent increase	N/A[a]	40%	46%	15%
Active agreements on September 30	986,761	1,366,309	2,344,901	2,625,902
Dollars owed (billions)	$3.2	$4.6	$6.9	$8.0
Average dollars owed	$3,276	$3,399	$2,940	$3,053

[a]Not available.

Source: IRS' Collection Activity Report 5000-6.

Installment Agreements Play a Greater Role in IRS Collections

Since 1992, installment agreements have played an increasing role in IRS' collection process. Table 2 shows that installment agreements have made up an increasing percentage of IRS' accounts receivable inventory for individual taxpayers since 1992.

Table 2: Installment Agreement Inventory for Individual Taxpayers From the End of Fiscal Years 1992 to 1994

Current year dollars

Inventory	1992	1993	1994
Accounts receivable[a] (billions)	$40.4	$45.2	$50.2
Installment agreements[b] (billions)	4.6	6.9	8.0
Installment agreements as a percent of the accounts receivable	11%	15%	16%

[a]Source: IRS' Electronic Management Support System. These data include accrued interest and penalties, but exclude trust fund recovery assessments and debts that IRS considers currently not collectible.

[b]Source: IRS Collection Activity Report (5000-6).

Table 3 shows that installment agreements have accounted for an increasing percentage of IRS' total collections. IRS National Office collection officials said that the increase in total collections between fiscal years 1993 and 1994 was a positive result of the changes made to the installment agreement program.

Table 3: IRS Collections for Individuals for Fiscal Years 1991 to 1994 (Current Year Dollars)

Amounts in billions

	Amounts collected[a]			
Source of collection	**1991**	**1992**	**1993**	**1994**
Balance due notices	$4.1	$3.6	$3.0	$2.8
Collection notices	3.0	2.7	2.4	2.3
Installment agreements	1.9	2.3	3.2	4.5
Taxpayer delinquent accounts[b]	4.1	4.3	3.6	3.6
Deferred accounts[c]	.3	.3	.4	.5
Total collections[d]	**$13.3**	**$13.3**	**$12.6**	**$13.8**
Installment agreements as a percent of total collections	14.2%	17.0%	26.0%	33.0%

[a]Includes payments received and credit offsets.

[b]Collections from levies, liens, and other IRS collection actions.

[c]Collections from accounts in which collection action is deferred except for sending taxpayers periodic notices and applying future refunds to the balance owed.

[d]Totals may not sum due to rounding.

Source: IRS' Reports on Delinquent Accounts Receivable Yield.

In raising service center and taxpayer service authority to grant installment agreements from $5,000 to $10,000, IRS wanted to shift some of the collection work from ACS call sites to service center collection and district taxpayer service offices. Some shift in workload has occurred. Taxpayer service and service center staffs originated about 82 percent of all agreements in fiscal year 1994, up from 43 percent in fiscal year 1991. Most of the increase was due to these two staffs granting streamlined agreements. ACS call sites granted fewer agreements in fiscal year 1994 (about 381,000 or 15 percent of agreements) than in fiscal year 1991 (about 579,000 or 53 percent of agreements).

In shifting the installment agreement workload to service center and taxpayer service staff, IRS hoped to increase ACS collections by freeing up

ACS staff to work on higher dollar cases. However, the expectation of increased collections had not materialized since ACS collections per staff year dropped between fiscal years 1992 and 1994 from $1.71 million to $1.44 million in current year dollars. Overall, the amount collected at ACS sites decreased from $4.88 billion to $3.30 billion during the same period.

IRS collection officials said that the lower ACS collections are due, in part, to their decision during this same period to increase the deferral level—the amount under which delinquent accounts are not pursued beyond the notice stage, except to offset refunds. According to IRS officials, this increase reduced ACS workloads more than expected and contributed to reduced ACS collections. IRS subsequently lowered its deferral level in April 1994, a move IRS officials expect will increase ACS workloads and the resulting collections.

Another indication of the greater impact the installment agreement program is having on collections was the increased number of balance due accounts that are being resolved earlier in the collection process. IRS data show that more balance due accounts are being favorably resolved by taxpayers paying or arranging to pay the amounts owed without IRS resorting to collection notices and subsequent collection actions. Between fiscal years 1991 and 1994, accounts favorably resolved before a collection notice rose from 41 percent to 52 percent, with installment agreements accounting for a growing share of the favorable early resolutions. In fiscal year 1994, installment agreements accounted for 41 percent of the favorable early resolutions, up from 14 percent in fiscal year 1991.

IRS' Internal Audit Questioned Implementation of the Installment Program

IRS' internal audit raised several questions regarding the installment agreement program since IRS implemented the April 1992 changes. In September 1994, IRS' internal auditors raised concerns about whether (1) the new procedures for granting installment agreements were encouraging taxpayers to choose installments when they could be paying their taxes in full and (2) the program was leading some taxpayers to accumulate debt they may not be able to pay.

Some Installment Payers May Be Able to Pay in Full

The installment agreement program was established to provide taxpayers who cannot pay their taxes in full, when they are due, an opportunity to pay in installments. Before the program was revised in April 1992, taxpayers whose agreements were for tax debts above $5,000 were required to provide financial data to substantiate their inability to pay in full and on time. Under its streamlined procedures, IRS relies on taxpayers to determine for themselves whether they can pay in full or want to pay in installments, as long as the amount owed does not exceed $10,000 and the payment period meets IRS requirements.[2] IRS recognizes that this may result in some taxpayers opting for installment agreements even though they could have paid in full and on time. IRS collection officials told us they did not know the extent to which this occurs, but they believed the benefits from streamlining outweigh any unintended negative effects of making installment agreements available to taxpayers who can pay in full.

This issue was raised by IRS' internal auditors in their September 1994 report on using and processing installment agreement requests received with tax returns. The auditors reviewed a sample of 2,824 pre-assessed installment agreements—those agreements requested by taxpayers when they filed their tax returns—granted in 1993 and found that 22 percent of the taxpayers had paid in full with their return the previous year, while another 10 percent had fully paid later during the collection notice process. The auditors reasoned that on the basis of the taxpayer's payment history, some of these taxpayers could have paid their taxes in full in the year they entered into an agreement. In addition, to obtain more conclusive information on whether some taxpayers who entered into installment agreements could have paid their taxes on time, the auditors contacted 87 taxpayers who received pre-assessed agreements. The auditors were told by 41 percent of these taxpayers that they could have fully paid their accounts by withdrawing savings, liquidating assets, or borrowing.

In response to IRS' internal audit findings, IRS has begun taking steps to discourage taxpayers who can pay in full from using installment agreements. For example, IRS revised Form 9465 to advise taxpayers to consider other alternatives, such as bank loans, before requesting an installment agreement when filing a tax return.

Some Taxpayers May Be Accumulating Debt

IRS' streamlined procedures allow for new tax debt to be added to an existing installment agreement without a review of a taxpayer's financial condition or of possible remedies to incurring future debt, provided the new aggregate balance does not exceed $10,000 and the payment period meets IRS requirements. IRS data show that about 16 percent of the agreements granted in fiscal year 1994 were added to existing installment

[2]The formula for the payoff period is discussed in IRS' Law Enforcement Manual and is not available to the public.

debt. In their September 1994 report, IRS internal auditors expressed concern that IRS procedures allowed taxpayers to incur tax debts beyond what they could reasonably be expected to pay. The auditors stated that allowing taxpayers to add tax debt beyond what could be paid within a reasonable time would increase IRS' accounts receivable balance and its costs to collect taxes.

According to an IRS official, one explanation for why the practice of accumulating debt was allowed is that IRS accommodated taxpayers who had balance due accounts because of 1992 changes in the withholding tables. During that period, IRS assumed that many taxpayers would owe taxes unexpectedly and allowed taxpayers to pay those taxes by adding debt to existing agreements under streamlined procedures.

That policy continued through 1994 when, as a result of concerns from IRS' internal auditors, IRS took several steps to address the issue for the 1995 tax filing season. For example, the monthly installment agreement reminder notices for December 1994 included a special reminder to taxpayers. The reminder stated that under the terms of their existing agreements the taxpayers were not eligible for another installment agreement while their existing agreements were in effect and that all federal tax liabilities must be paid in full or they would be in default. Also, Form 9465 was revised to inform taxpayers that they are not to use the form if they were currently making installment payments and that the agreement would be in default if all liabilities were not paid in full. In addition, in January 1995, IRS issued procedures to field personnel working installment agreements to prevent taxpayers from adding new tax debt to existing liabilities. IRS plans to revisit this issue before the 1996 tax filing season.

IRS internal auditors also reviewed whether taxpayers with installment agreements acted on their own to avoid the need for future agreements. In doing so, IRS contacted 87 taxpayers who were granted pre-assessed installment agreements and found that 39 percent had not adjusted their withholding or estimated payments to avoid owing money on successive tax returns. Although acceptance letters to taxpayers contain instructions for making such adjustments, no such instructions appear on Form 9465, which is the initial form completed by taxpayers who request pre-assessed agreements.

The auditors recommended that IRS include a section on Form 9465 for taxpayers to identify the cause of their tax debts and the steps taken to ensure that the condition does not recur the following year. Additionally, IRS' Research Division is studying a group of taxpayers to determine the cause for their delinquencies and through that study intends to determine how best to solve the problem of underwithholding and underestimated payments.

IRS Could Improve Certain Administrative Aspects of the Program

As we discussed earlier, the installment agreement program grew rapidly during fiscal years 1991 through 1994. Because of this growth, we believe the administrative operation and efficiency of the program has become increasingly important. In that regard, we reviewed certain aspects of the program and offer several suggestions that could lead to more efficient administration. Specifically, we are concerned about the (1) lack of information taxpayers receive about the length and costs of installment agreements, (2) extent IRS has taken advantage of opportunities to improve program efficiency, and (3) amount of installment agreement debt by taxpayers with agreements lasting more than 5 years.

IRS Could Provide Taxpayers Additional Information on Installment Agreement Costs

During the term of an agreement, a taxpayer continues to accrue interest and penalty charges on the unpaid balance of the debt. IRS advises taxpayers in its agreement application forms and acceptance letters that interest and penalties will continue to accrue while they are making installment payments. However, IRS does not tell taxpayers the total estimated cost of the agreement, including interest and penalty accruals, nor does IRS tell taxpayers how long it will take to pay off their debt. The lack of information provided by IRS contrasts with prevailing private sector practices, which are governed by truth-in-lending laws.

Penalty and interest accruals add considerably to the cost and payoff period of an agreement. For example, assume a taxpayer agrees to make $100 monthly payments on a $2,800 tax debt (the median amounts from our sample). To pay off interest and penalty accruals, the taxpayer would need to make 6 additional monthly payments (34 payments versus 28 payments) and pay an additional $544 (assuming the 0.5 percent per month penalty rate and monthly compounding of interest at 9 percent). Under the Internal Revenue Code, the rate of interest is determined on a quarterly basis computed from the federal short-term rate based on daily compounding.

Representatives of consumer groups told us that providing taxpayers with better cost information could lead some taxpayers to consider and use other options to pay their tax debts before choosing installment agreements or assuming long payoff periods. By providing more information to taxpayers on the cost of agreements, IRS may be able to limit agreement use more closely to taxpayers who are unable to pay their taxes on time in a lump sum.

IRS officials agreed that more information would be a factor in deterring some taxpayers with other available resources from using IRS' installment agreement program to pay their taxes. However, IRS officials are reluctant to provide specific cost and payoff period projections to installment agreement applicants. The officials are concerned that the estimates they provide at the beginning of an agreement could be misleading because these estimates could change over the life of the agreement. For example, the estimates could be affected by interest rates that are subject to quarterly adjustment and by missed taxpayer payments. A method to alleviate this concern would be to include revised cost and payoff period projections in the monthly statements that IRS sends taxpayers during the course of an agreement. These notices already include information specific to a taxpayer's agreement, such as the amount of payment due and the current unpaid balance.

Greater Use of Direct Debit Payments Could Improve Efficiency

IRS offers taxpayers the option of making installment payments automatically by directly withdrawing funds from the taxpayer's bank account. According to IRS, the advantages to direct debit agreements are they (1) are cheaper to service than the standard agreement, (2) eliminate the chance that a taxpayer will forget to make a payment or send less than the agreed upon payment amount, (3) eliminate the float time associated with processing paper remittances, and (4) may reduce default rates.

Although direct debit agreements offer these advantages to IRS, they made up less than 2 percent of the agreements in IRS' inventory at the end of fiscal year 1994. IRS collection officials explained that one reason for the low rate of direct debits is that staff who set up installment agreements view direct debits as additional work because the processing involves performing more steps and gathering more information from taxpayers.

According to IRS data, pre-assessed installment agreements accounted for almost 31 percent of the 2.6 million new agreements in fiscal year 1994. Form 9465, the form used by taxpayers to request pre-assessed agreements, does not mention the direct debit option (see app. I), leaving it up to IRS staff to pursue this option later. As noted, however, IRS collections officials indicated that this reliance on staff has limited the number of direct debits. Because of the advantages of the direct debit payment method, it may be worthwhile for IRS to test a revision of the form to include space for taxpayers to authorize direct debits and supply the information necessary to set them up.

Sending Some Default Notices by Regular Mail Could Reduce Costs

When taxpayers default on their installment agreements, service center staff must review the taxpayers' accounts and send them a default notice. That notice is a statement informing the taxpayer that the account is not current and, if not corrected, the taxpayer is subject to levy action. Depending on how taxpayers respond to these notices, IRS staff may reinstate the agreement; take some other collection action, such as a levy or lien filing; or place the account in a deferred status where only passive collection actions, such as refund offsets are taken.

One service center has suggested that some of the costs incurred on defaulted agreements may be reduced if IRS could send default notices by regular mail rather than certified mail. This change would replace a $1.29 letter with a 23-cent letter (presorted rate) and also reduce some handling costs. Since defaults are not uncommon, the savings in postage costs could be significant. The service center estimated its own annual savings would be nearly $150,000.

Our analysis suggests that the service center suggestion has merit. We realize that some default notices may still need to be sent by certified mail because they are used to give taxpayers notice of impending levy actions against their assets. Section 6331(d) of the Internal Revenue Code requires that IRS inform taxpayers in person or by certified mail 30 days before taking levy actions. Other defaulted installment agreements, however, are placed in deferred status, and no levy action is pending because collection action is limited to periodic notices and offsets against future refunds. Our review of the October 1 through 7, 1994, listing of 1,933 defaulted agreements in the Central Region showed that 62 percent of these agreements were below the deferral level. IRS officials agreed that taxpayers in these instances would not need to be sent default notices by certified mail. The officials added that notices for cases subject to levies could continue to be coded to send by certified mail.

Protracted Agreements Account for a Large Percentage of Installment Debt

According to IRS data, in 1994 the average installment agreement was paid off in about 9.5 months. However, a large portion of IRS' installment debt is for agreements that will run for more than 5 years if payments are made at their current levels. Such agreements are costly to administer, and IRS considers them riskier than shorter term agreements. IRS' manual states that installment agreements lasting more than 5 years are not likely to be paid off. Thus, these protracted agreements are candidates for other options, such as an offer in compromise, which is a program that allows taxpayers to liquidate their tax liability through a lump-sum settlement for less than the amount owed.

About 18 percent of the agreements we reviewed from three service centers were protracted agreements.[3] These agreements accounted for approximately 53 percent, or $846 million, of the installment debt owed at the three centers. For these agreements, the median balance owed was $5,780, the median monthly payment was $100, and the projected median payoff period was 7.6 years.

Some of the protracted agreements in our sample are unlikely to ever be paid off because current payments were not keeping up with accruing interest. These agreements made up about 16 percent of the protracted agreements we reviewed, with a current unpaid balance totaling $292 million. The median monthly payment on these agreements was $50, and the median unpaid balance was $17,530. At IRS' 9-percent annual interest rate as of December 1994, 1 month's interest on the median unpaid balance amounted to $131.

IRS officials acknowledged the existence of these types of agreements in their inventory, adding that sometimes accepting a taxpayer's installment payment may be its best option. The officials explained that these payments often represented amounts that may otherwise not be collected. IRS' procedures require staff to periodically review agreements with terms exceeding 3 years to reevaluate taxpayers' financial conditions. Presumably, if the review indicated a better payment option, IRS would pursue it.

[3]Our estimate of protracted agreements is conservative because we did not include the additional time taxpayers would need to pay the failure to pay penalty, which amounts to 0.5 percent per month, up to a maximum of 25 percent. The penalty doubles to 1 percent per month if taxpayers enter into an agreement after receiving an IRS notice of intent to levy. We excluded the penalty portion because we could not accurately project the effect of the penalty on payoff periods. This projection could not be done because the agreement amounts we used in our analysis did not separate the original tax due from accrued penalties and interest, and the penalty is computed only on the unpaid original tax. Therefore, we chose to base our projected payoff periods just on IRS' interest accruals, which accrued at a 9-percent annual rate in December 1994 and are applied to the total unpaid balance.

Conclusions

Since 1991, taxpayer use of installment agreements has grown considerably, and installment agreements have accounted for a growing portion of IRS' collection activity. The program grew more rapidly after IRS made changes in April 1992. IRS internal auditors, however, reported that some taxpayers are using installment agreements even though they were able to fully pay their taxes. This practice conflicts with IRS' intent to reserve installment agreements for taxpayers who cannot otherwise pay their taxes in full when they are due. The auditors also raised concerns about the ease with which taxpayers could accumulate additional tax debt by adding new income tax liabilities to existing agreements. IRS has acted to address the internal auditors' concerns.

Our work surfaced several other concerns about certain administrative aspects of the program. For example, IRS does not tell taxpayers the extent that interest and penalty accruals will add to the costs of installment agreements and the payoff time. Providing this information may influence some installment payers to pay in full or make larger monthly payments. In addition, IRS could reduce some of the administrative costs of servicing agreements by (1) encouraging more taxpayers to make installment payments by direct debit and (2) mailing some default notices by regular mail instead of certified mail.

Our sample of installment agreements contained a substantial amount of installment debt associated with agreements having payoff periods longer than 5 years. This length of time makes collection of the debt risky and more expensive to administer, according to IRS. IRS reviews agreements every 3 years to explore payment options.

Recommendations

To improve the information provided to taxpayers and the administration of the installment agreement program, we recommend that the Commissioner of Internal Revenue

- notify taxpayers about projected total costs and payoff periods when setting up agreements with taxpayers and when mailing monthly reminder notices,
- experiment with Form 9465 to test whether having space for taxpayers to authorize direct debit installment payments increases the frequency with which this option is used, and
- send agreement default notices to taxpayers by regular mail instead of certified mail unless an account is being referred for levy action.

Agency Comments and Our Evaluation

Responsible IRS officials, including the Acting Assistant Commissioner, Collection, reviewed a draft of this report and provided oral comments in a meeting on March 27, 1995. The officials said that the report was a fair and accurate assessment of the installment agreement program and that they generally agreed with our recommendations. In response to the recommendations, the Acting Assistant Commissioner said that:

- IRS will study the feasibility of notifying taxpayers about the projected costs and payment periods of installment agreements. If notification is not feasible under its existing computer systems, IRS will pursue changes as part of its Tax Systems Modernization. In the interim, IRS plans to modify the monthly reminder notice in 1996 to provide taxpayers with a breakdown of the current balance due and penalty and interest charges.
- IRS will consider options, including modification of Form 9465, to encourage taxpayers to authorize direct debit payments on their installment agreements.
- IRS will develop methods to identify defaulted installment agreement accounts it does not intend to take levy action against and send default notices to these taxpayers by regular mail.

We believe the actions that IRS proposes, if properly implemented, would be responsive to our recommendations.

We are sending copies of this report to other congressional committees; the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

The major contributors to this report are listed in appendix III. If you or your staff have any questions, you can reach me at (202) 512-5407.

Sincerely yours,

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
Administration Issues

Contents

Abbreviations

ACS	Automated Collection Systems
IRS	Internal Revenue Service
TRCAT	Taxpayer Service and Returns Processing Categorization of Accounts Receivable

IRS Form 9465 Installment Agreement Request (1995 Version)

Form **9465**
(Rev. January 1995)
Department of the Treasury
Internal Revenue Service

Installment Agreement Request

▶ **See instructions below and on back.**

OMB No. 1545-1350

Note: *Do not file this form if you are currently making payments on an installment agreement. You must pay your other Federal tax liabilities in full or you will be in default on your agreement.*

If you can't pay the full amount you owe, you can ask to make monthly installment payments. If we approve your request, you will be charged a $43 fee. **Do not** include the fee with this form. We will send you a bill for the fee when we approve your request. We will usually let you know within 30 days after we receive your request whether it is approved or denied. But if this request is for tax due on a return you filed after March 31, it may take us longer than 30 days to reply.

To ask for an installment agreement, complete this form. Attach it to the front of your return when you file. If you have already filed your return or you are filing this form in response to a notice, see **How Do I File Form 9465?** on page 2. If you have any questions about this request, call 1-800-829-1040.

Caution: *A Notice of Federal Tax Lien may be filed to protect the government's interest until you pay in full.*

1 Your first name and initial — Last name — **Your social security number**

If a joint return, spouse's first name and initial — Last name — **Spouse's social security number**

Your current address (number and street). If you have a P.O. box and no home delivery, show box number. — Apt. number

City, town or post office, state, and ZIP code. If a foreign address, show city, state or province, postal code, and full name of country.

2 If this address is new since you filed your last tax return, check here ▶ ☐

3 ( ) Your home phone number — Best time for us to call

4 ( ) Your work phone number — Ext. — Best time for us to call

5 Name of your bank or other financial institution:
Address
City, state, and ZIP code

6 Your employer's name:
Address
City, state, and ZIP code

7 Enter the tax return for which you are making this request (for example, Form 1040). But if you are filing this form in response to a notice, don't complete lines 7 through 9. Instead, attach the bottom section of the notice to this form and go to line 10 . . . . ▶ ________

8 Enter the tax year for which you are making this request (for example, 1994) . . . . ▶ ________

9 Enter the total amount you owe as shown on your tax return . . . . ▶ $________

10 Enter the amount of any payment you are making with your tax return (or notice). See instructions . ▶ $________

11 Enter the amount you can pay each month. **Make your payments as large as possible to limit interest and penalty charges.** The charges will continue until you pay in full . . . . ▶ $________

12 Enter the date you want to make your payment each month. Do not enter a date later than the 28th ▶ ________

Your signature	Date	Spouse's signature. If a joint return, BOTH must sign.	Date

Privacy Act and Paperwork Reduction Act Notice.—Our legal right to ask for the information on this form is Internal Revenue Code sections 6001, 6011, 6012(a), 6109, and 6159 and their regulations. We will use the information to process your request for an installment agreement. The reason we need your name and social security number is to secure proper identification. We require this information to gain access to the tax information in our files and properly respond to your request. If you do not enter the information, we may not be able to process your request. We may give this information to the Department of Justice as provided by law. We may also give it to cities, states, and the District of Columbia to carry out their tax laws.

Cat. No. 14842Y — Form **9465** (Rev. 1-95)

Form 9465 (Rev. 1-95) Page **2**

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Learning about the law or the form,** 2 min.; **Preparing the form,** 31 min.; **Copying, assembling, and sending the form to the IRS,** 20 min.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form simpler, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Attention: Tax Forms Committee, PC:FP, Washington, DC 20224. **DO NOT** send the form to this address. Instead, see **How Do I File Form 9465?** on this page.

General Instructions

If you cannot pay the full amount you owe shown on your tax return (or on a notice we sent you), you can ask to make monthly installment payments. However, you will be charged interest and may be charged a late payment penalty on any tax not paid by its due date, even if your request to pay in installments is granted. To limit the interest and penalty charges, file your return on time and pay as much of the tax as possible with your return (or notice). But before requesting an installment agreement, you should consider other less costly alternatives, such as a bank loan.

You will be charged a $43 fee if your request is approved. Do not include the fee with this form. We will send you a letter telling you your request has been approved, how to pay the fee, and how to make your first installment payment. After we receive each payment, we will send you a letter showing the remaining amount you owe, and the due date and amount of your next payment.

By approving your request, we agree to let you pay the tax you owe in monthly installments instead of paying the amount immediately in full. In return, you agree to make your monthly payments on time. You also agree to meet all your future tax liabilities. This means that you must have adequate withholding or estimated tax payments so that your tax liability for future years is paid in full when you timely file your return. If you do not make your payments on time or you have an outstanding past-due amount in a future year, you will be in default on your agreement and we may take enforcement actions to collect the entire amount you owe.

Bankruptcy—Offer-in-Compromise.—If you are in bankruptcy or we have accepted your offer-in-compromise, **do not** file this form. Instead, call your local IRS District Office Special Procedures function. You can get the number by calling 1-800-829-1040.

Specific Instructions

Line 1

If you are making this request for a joint tax return, show the names and SSNs in the same order as shown on your tax return.

Line 10

Even if you can't pay the full amount you owe now, you should pay as much of it as possible to limit penalty and interest charges. If you are filing this form with your tax return, make the payment with your return. If you are filing this form separately, for example, in response to a notice, include a check or money order payable to the Internal Revenue Service with this form. On your payment, write your name, address, social security number, daytime phone number, and the tax year and tax return for which you are making this request (for example, "1994 Form 1040").

Line 11

You should try to make your payments large enough so that your balance due will be paid off by the due date of your next tax return.

Line 12

You can choose the date each month that you want to make your payments. For example, if your rent or mortgage payment is due on the first of the month, you may want to make your installment payments on the 15th. When we approve your request, we will tell you the month and date that your first payment is due. If we have not replied by the date you choose for your first payment, you may send your first payment to the Internal Revenue Service Center at the address shown on this page for the place where you live. Make your check or money order payable to the Internal Revenue Service. See the instructions for line 10 for what to write on your payment.

How Do I File Form 9465?

- If you haven't filed your return, attach Form 9465 to the front of your return.
- If you have already filed your return, you are filing your return electronically, or you are filing this form in response to a notice, mail it to the **Internal Revenue Service Center** at the address shown below for the place where you live. No street address is needed.

If you live in:	Use this address:
Florida, Georgia, South Carolina	Atlanta, GA 39901
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
American Samoa Guam: Nonpermanent residents only* Puerto Rico (or if excluding income under section 933) Virgin Islands: Nonpermanent residents only* Foreign country (or if a dual-status alien): U.S. citizens and those filing Form 2555, 2555-EZ, or 4563 All APO and FPO addresses	Philadelphia, PA 19255

*Permanent residents of Guam and the Virgin Islands cannot use Form 9465.

Printed on recycled paper

*U.S. Government Printing Office: 1995 — 387-095/20052

Profile of Installment Agreements From GAO Sample

To profile characteristics of taxpayers with installment agreements, we used the active inventory of installment agreements as of April 23, 1994, at three IRS service centers—Atlanta, GA; Cincinnati, OH; and Fresno, CA. We selected these centers because of their larger inventories and the availability of our staff to review the sample. We identified active installment agreements by obtaining IRS' Taxpayer Service and Returns Processing Categorization of Accounts Receivable (TRCAT) file for each of the three service centers. We isolated installment agreements from the individual master file and then took a stratified random sample of 900 installment agreements from the TRCAT file—300 from each service center. We were able to analyze 722 of these cases.

Table II.1 gives information on the total number of cases we sampled from the three service centers. Since we used a probability sample of installment agreements to develop our estimates, each estimate has a measurable precision or sampling error that may be expressed as an upper and lower limit. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the study population using the same measurement methods. The difference between the upper and lower limits is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedures we used would produce a confidence interval containing the population value we are estimating.

Table II.1: Total Number and Sample Size of Active Installment Agreements at Three IRS Service Centers as of April 23, 1994

Service center	Total number of cases on TRCAT	Sample size	Sample cases analyzed	Estimated study population	Lower limit/upper limit
Atlanta	214,001	300	246	175,481	166,279/ 184,683
Cincinnati	159,495	300	236	126,001	118,026/ 132,859
Fresno	254,789	300	240	203,831	192,366/ 215,297
Total	**628,285**	**900**	**722**	**505,313**	**476,671/ 532,839**

Source: GAO sample of installment agreements from three IRS service centers.

We attempted to gather profile information from IRS' records on all 900 sample cases. Due to a 2-month time lag in processing sample information and obtaining the records from IRS' Integrated Data Retrieval System, we were unable to obtain profile data for certain cases. Therefore, we excluded these cases from our sample analysis. We found the majority of the excluded cases involved installment agreements that had been paid off by the taxpayer during the period we were gathering our data. We also excluded installment agreements cases that had been paid off but a new agreement was created during the 2-month lag in obtaining IRS records because these new cases were technically not part of the April 23, 1994, inventory. We excluded other agreements granted to pay off trust fund recovery penalties because these types of debts are not related to payments of personal income taxes and would have biased our analysis. Finally, we excluded cases that IRS was unable to locate in its records. Table II.2 gives the reasons for excluding sample cases and the estimate for each category of excluded cases.

Table II.2: Reasons for Excluding Sample Cases and the Estimated Number of Occurrences in the April 23, 1994, Installment Agreement Inventory

Reasons	Estimate	Lower limit	Upper limit
Paid off agreement			
Atlanta	20,687	13,536	27,838
Cincinnati	31,367	24,200	38,535
Fresno	41,616	30,963	52,268
Total	**93,670**	**68,699**	**118,640**
Agreements created after April 23, 1994			
Atlanta	8,560	4,930	14,676
Cincinnati	0	0	2,013
Fresno	4,246	1,820	9,783
Total	**12,806**	**6,750**	**26,472**
Agreements involved trust fund recovery penalty			
Atlanta	6,420	3,396	11,984
Cincinnati	1,063	292	3,820
Fresno	3,397	1,325	8,601
Total	**10,880**	**5,013**	**24,405**
Missing data			
Atlanta	2,853	1,113	7,224
Cincinnati	1,595	544	4,619
Fresno	1,699	467	6,105
Total	**6,147**	**2,124**	**17,948**

Source: GAO sample of installment agreements from three IRS service centers.

Table II.3 contains profile information we gathered on the sample installment agreements taken from the TRCAT file. This file is a snapshot of the installment agreements IRS was managing on April 23, 1994. The sample results may not be indicative of all installment agreements managed by IRS at the three service centers at any other point in time.

Table II.3: Confidence Limits for Characteristics of Installment Agreements for GAO Sample

Characteristics of agreements	Estimate	Lower limit	Upper limit
Median original agreement amount	$2,803	$2,454	$3,246
Median current unpaid balance	$1,543	$1,352	$1,894
Median monthly payment	$100	$85	$100
Median age of agreements (months)	10.4	10.0	10.9
Median payoff period (months)	32	29	35
Median number of tax periods in agreement	2	1	2
Percent of agreements with added tax periods	42%	35%	51%
Percent of agreements covering:			
One tax year	48%	40%	58%
Two tax years	34%	28%	42%
Three or more tax years	18%	13%	23%
Percent of agreements that have been in default status at least once	36%	29%	44%
Reason agreement was added (percent):			
Insufficient withholdings and estimated payments	61%	51%	72%
Previous nonfiler	14%	10%	19%
Previous underreporter	14%	10%	18%
Previous examination/audit	7%	5%	10%
Other	4%	2%	6%
Collection status when entering agreement (percent):			
Before collection notice	51%	42%	61%
During notice phase	19%	14%	24%
After notice phase	28%	22%	35%
Could not determine	2%	1%	3%
Agreements granted for tax year 1992 only	125,472	103,047	149,389
Median adjusted gross income of taxpayers	$34,374	$28,208	$41,294
Percent with adjusted gross income over $50,000	27%	15%	44%

(continued)

Characteristics of agreements	Estimate	Lower limit	Upper limit
Percent of total agreements made up by protracted agreements	18%	14%	24%
Percent of total unpaid balance made up by protracted agreements	53%	27%	91%
Unpaid balance on protracted agreements (millions)	$846	$523	$1,200
Median unpaid balance for protracted agreements	$5,780	$4,192	$7,933
Median monthly payment for protracted agreements	$100	$50	$120
Median payoff period for protracted agreements (years)	7.6	7.3	11.7
Percent of protracted agreements made up by agreements with monthly payments insufficient to keep up with accruals	16%	12%	21%
Unpaid balance on agreements with insufficient payments (millions)	$292	$128	$474
Median unpaid balance for agreements with insufficient monthly payment amounts	$17,530	$15,032	$18,667
Median monthly payment amounts for agreements with insufficient monthly payment amounts	$50	$50	$50
Percent of agreements originating in 1992 and 1993 that later added tax debts	34%	26%	45%
Percent of agreements with added tax debts having a majority of wage or self-employment income	94%	65%	100%

Source: GAO analysis of IRS data.

Major Contributors to This Report

General Government Division, Washington, D.C.

Joseph E. Jozefczyk, Assistant Director, Tax Policy and Administration Issues
Charlie W. Daniel, Assignment Manager

Cincinnati Field Office

Robert I. Lidman, Regional Assignment Manager
Richard C. Edwards, Evaluator-in-Charge
Donald L. Allgyer, Evaluator
Jennifer C. Jones, Evaluator
Mary Jo Lewnard, Technical Advisor
Kenneth R. Libbey, Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.