



Highlights of [GAO-07-112](#), a report to the Committee on Finance, U.S. Senate

TAX ADMINISTRATION

Little Evidence of Procedural Errors in Collection Due Process Appeal Cases, but Opportunities Exist to Improve the Program

Why GAO Did This Study

As a result of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998, taxpayers facing liens or levies can request a Collection Due Process (CDP) appeal hearing with IRS's Office of Appeals (Appeals). By 2005, CDP cases represented about one-quarter of Appeals' workload.

GAO was asked to provide information on (1) whether the IRS Collection function (Collection) erred in processing liens and levies and how often CDP case results changed after the appeal, (2) the arguments raised and the communication between IRS and taxpayers, (3) the characteristics of CDP taxpayers, and (4) potential improvements to the CDP program. To develop this information, GAO analyzed a random sample of 208 CDP cases closed by Appeals during fiscal year 2004.

What GAO Recommends

GAO makes recommendations to improve the efficiency of the CDP program. GAO also suggests that Congress consider amending the statute to remove CDP eligibility for selected categories of taxpayers if those taxpayers' inclusion is not consistent with the goal of ensuring due process. IRS generally agreed with two recommendations but disagreed that it could require taxpayers seeking a collection alternative to submit additional information with their hearing requests. GAO then revised those recommendations to be a matter for congressional consideration.

www.gao.gov/cgi-bin/getrpt?GAO-07-112.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

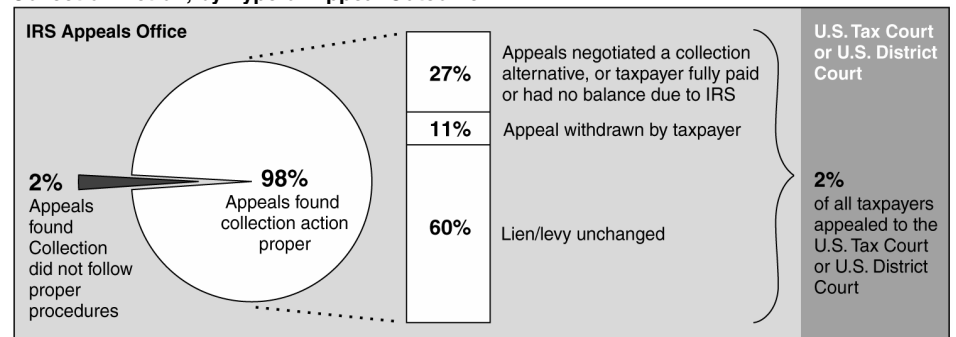
GAO estimates that Appeals found Collection did not follow proper procedures in 2 percent of CDP cases closed during fiscal year 2004. About 27 percent of taxpayers received a different outcome than the lien filing or levy after appealing, including those that negotiated collection alternatives or ended up with no balance due to IRS. For about 60 percent of taxpayers, Appeals upheld the collection action often because taxpayers did not file all the required tax returns necessary to qualify for a collection alternative.

GAO's estimates show that nearly 90 percent of CDP taxpayers raised arguments permitted by statute with both Collection and Appeals, such as requesting a collection alternative. An estimated 5 percent of taxpayers raised frivolous arguments—arguments without legal basis per IRS guidance—with either Collection or Appeals. When taxpayers raised the same argument with Collection and Appeals, Appeals reached the same conclusion as Collection in more than 80 percent of cases. In general, the median number of IRS-initiated contacts with taxpayers was twice as high as the median number of taxpayer-initiated contacts with IRS.

CDP taxpayer characteristics varied among individual and business filers. Both did not pay taxes for multiple return filing periods. Total tax liability varied considerably, with trust fund recovery penalty and employment tax cases having the highest liabilities.

Allowing certain taxpayers like those that offer arguments without a legal basis to use the CDP program may not be consistent with the program's goal of ensuring due process. Also, Appeals resources are not used efficiently when taxpayers request collection alternatives yet have not (1) submitted financial documentation with their CDP requests, (2) worked with specialized Collection units, or (3) filed all required tax returns needed to qualify for a collection alternative. IRS has taken steps to revise the CDP regulations and hearing request form, but has not established responsibility for analyzing program outcome data to determine if these changes will be effective.

Estimated Percentage of CDP Cases in Which Appeals Found an Improper or Proper Collection Action, by Type of Appeal Outcome



Source: GAO analysis of IRS data.