

Fiscal Year 2006 Enforcement and Service Results

Statement of IRS Commissioner Mark W. Everson

November, 2006

The IRS made strong progress in a number of key enforcement categories. We are showing consistent improvements in areas critical to running a fair, efficient tax system. We are bringing in billions of dollars to the Treasury through our expanded enforcement activity. At the same time, I want to emphasize that this increase has not been at the expense of taxpayer service. We continued to show improvements in key areas involving services for taxpayers in fiscal 2006.

There are a lot of different ways to look at numbers. But no matter how you look at our results, they show a strong rebound in our enforcement efforts. Our enforcement activity is up from the low points following the Restructuring and Reform Act of 1998, and it has climbed significantly since I became Commissioner three-and-a-half years ago.

The bottom line for our enforcement efforts shows that dollars collected rose again last year. There's a strong trend line going up. Fiscal 2005 was a watershed year for us, with a number of big initiatives that helped push enforcement revenues up 10% to \$47.3 billion. In Fiscal 2006, enforcement revenues – the monies we get from our collection, examination, and document matching activities – increased to a record \$48.7 billion. Our exam dollars were down slightly this year because of the big bump from the Son of Boss settlement initiative in 2005. Even with that, our overall dollars collected jumped nearly 3% in 2006 principally because of a strong rise in collections.

The individual enforcement categories bear out the significance of our invigorated enforcement efforts. And all these numbers are for fiscal year 2006 that ended September 30:

* Total individual returns audited increased by over 6% to 1,293,681 in 2006 from 1,215,000 in 2005. That's the highest number since 1998. Some people have dismissed our audit increases because of our use of correspondence, or letter exams. While correspondence exams are an effective, efficient enforcement tool that we continue to rely on, it's important to note there's an even bigger increase in our field exams – these are the traditional, sit-down audits. The number of field audits increased nearly 23% in 2006 from the previous year, and they climbed by more than half from the level in 2004.

An important part of our enforcement effort has targeted high-income taxpayers. We've put a lot of emphasis in increasing audits in this area because it's critical to ensuring faith in the tax system. If you earn more than \$100,000 or you're a millionaire, you're a lot more likely to be audited these days than just a few years ago.

* Audits of individuals with income of \$1,000,000 and higher increased to 17,015 from 12,835, a nearly 33% increase in just one year. About 1 in every 16 of these taxpayers faced audits last year. If you're earning that kind of money and we notice a problem, you're going to hear from us.

* Audits of individuals with incomes over \$100,000 surpassed 257,000, an 18% increase from 2005. That's the highest figure in more than a decade, and well over double the 92,000 completed in fiscal year 2001.

Let's turn to businesses. We saw an increase in our efforts to review S corporations and partnerships while our other activity involving small business and large corporations remained relatively stable. Our business numbers reflect that we have placed more emphasis in the growing area of these flow-through returns involving S corporations and partnerships:

* Audits of S corporation returns increased to 13,984 from 10,417, a 34% increase. This is the highest level since 2000.

* For partnerships, audits of these flow-through returns increased to 9,777 from 8,489, a 15% increase. This category is at the highest level since 1998.

* Audits of small businesses organized as corporations remained about the same. 17,871 audits were completed in 2006, up slightly from 17,858 in 2005. Both of these figures are more than double the 7,294 audits of small businesses in 2004.

* Audits of larger corporations – those with assets over \$10 million – dipped by 2.2%, to 10,591 from 10,829 in 2005. While down slightly this year, audits remain up nearly 50 percent from 2003.

I also want to talk about our activities in the Exempt Organization area. We've placed renewed attention and added resources in the charitable arena to help protect the integrity and maintain faith in the charitable sector. You can really see the turnaround this year. These results show we are taking important steps to combat abuse in exempt organizations.

* Our Exempt Organization area audited 7,079 returns this year, an increase of 43% from the previous year. We're at the highest level since 2000.

* In addition to increased exam activity, we introduced a new program in 2004 using non-traditional compliance contacts to expand our enforcement presence within the tax-exempt community. These compliance contacts have been instrumental in addressing problem areas in sectors such as hospitals, executive compensation and credit counseling. In Fiscal 2006, we completed over 5,200 of these new compliance

contacts, over and above the traditional examination program. This is a 31% increase from the previous year. Before 2004, we weren't doing any of these contacts.

Exempt organizations are just one facet of the growing and increasingly important tax-exempt sector, which also includes retirement plans, tax-exempt financing and governmental entities whether federal, state, local or tribal. In addition to our exempt organizations work, IRS is also active in each of these areas.

Overall, some of our most common enforcement tools at the IRS also showed increases:

- * In our collection activities, levies and liens continue to top their 1998 levels. Levies increased by 36% to 3,742,276. Liens rose nearly 20% to 629,813.

Our increased efforts in the enforcement arena resulted from a variety of factors. We have put more emphasis on enforcement in staffing. But we've also worked hard to be more efficient with the resources we have. We've improved our analysis and workload identification. We've had successful targeted tax compliance efforts.

Finally, let me emphasize that these dramatic enforcement improvements have not been done at the expense of taxpayer service. There's more information in our charts, but in category after category the numbers have increased in our telephone work, electronic filing and our IRS.gov services.

- * Electronic filing by individuals continued to increase, up 6% (3 percentage points) to 54% of all individual returns.

- * The level of service for toll-free assistance was 82%, about the same level of 2005 and up substantially from 2001.

- * The level of customer satisfaction with the toll-free line remains 94%, the same as last year.

- * The tax law accuracy of toll-free response edged up a notch to 91% from 89%, the prior year.

- * Taxpayers continued to find IRS.Gov a useful source of information about the tax system and how to comply with their tax obligations. Visits to the IRS Web site jumped nearly 10% in 2006 to more than 193 million visits.

- * Taxpayers also increased their use of the online refund status tool 'Where's My Refund.' In 2006, there were 24.7 million status checks, up nearly 12% from 2005.

Clearly, more work needs to be done by the IRS to improve services and enforcement. But we are clearly making progress, and these numbers underscore that point.