Volume 2

TAS Research and Related Studies

The Importance of Financial Analysis in Installment Agreements (IAs) in Minimizing Defaults and Preventing Future Payment Noncompliance

The Importance of Financial Analysis in Installment Agreements (IAs) in Minimizing Defaults and Preventing Future Payment Noncompliance[1]

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INTRODUCTION

In fiscal year (FY) 2016, over three million taxpayers entered into an installment agreement (IA) to satisfy their delinquent individual taxes.[2] Taxpayers owe most of their delinquencies on individual income taxes. However, penalties assessed against an individual corresponding to trust fund taxes withheld but not paid to the government also account for some of the delinquencies. In many cases, the taxpayer is eligible to enter into an IA without submitting any financial documentation. Taxpayers who owe $10,000 or less are guaranteed the right to an IA if the liability can be satisfied within three years.[3] The IRS allows taxpayers who owe no more than $50,000 and who can satisfy the liability within six years and within the ten-year statutory period to collect taxes to enter into an IA, without submitting any financial documentation. In fiscal year (FY) 2016, taxpayers entered into streamlined IAs nearly 85 percent of the time.

Streamlined IAs benefit the taxpayer by not requiring time to locate and submit financial verification, and they benefit the IRS because collection personnel do not have to conduct a financial analysis to determine what amount, if any, the taxpayer can afford. However, in many cases, streamlined IAs have the unintended consequence of taxpayers initiating IAs that they cannot afford.

The IRS has developed allowable expense standards, which determine what amount taxpayers need for basic living expenses, such as housing and utilities, food, transportation, and health care. The IRS bases these expenditures on family size. The IRS derives most of these amounts from the Bureau of Labor Statistics survey of expenditures. These amounts form basic guidelines regarding what a taxpayer needs for health and welfare, including the production of income. However, IRS guidelines also instruct Collection personnel to consider other special circumstances such as medical expenses or work related expenses.

Nevertheless, almost 40 percent of taxpayers entering into an IA in 2014 agreed to make installment payments even though their allowable living expense (ALE) exceeded their Total Positive Income (TPI). It is true that if a taxpayer does not pay or make payments on his or her delinquency, penalties and interest will continue to grow, increasing the size of the debt. Some taxpayers may also not require certain allowable living expenses (ALEs) (*e.g.*, a taxpayer may not have housing expenses because he lives with someone else). However, when taxpayers enter into truly unaffordable IAs, they are likely foregoing some necessities in order to meet the terms of the IA. These taxpayers may also be more likely to default their IA.

TAS reviewed the financial circumstances of over 3.4 million taxpayers who began an IA in 2014. The analysis included a comparison of the taxpayer's ALE and the TPI. We also considered the size of the liability. This study details the number of taxpayers who enter into IAs even though their ALE exceed their income, and explores the differences in the default rate at different ratios of income to ALE, as well as the subsequent compliance of the taxpayers after they enter into the IA. Finally, this study compares the default rates and subsequent compliance of taxpayers who receive an IA directly from the IRS with similar taxpayers who receive an IA after TAS involvement. We feel this is an important comparison because TAS procedures include a financial analysis to determine what IA payment the taxpayer can afford, while including the determination of the amount necessary to pay current taxes, so that the taxpayer does not incur future delinquencies.

2 Fiscal Year (FY) 2016 Collection Activity Report 5000-6 (Oct. 3, 2016).

3 IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, § 3467, 112 Stat. 685 (1998) (codified at IRC § 6159(c)). This legislation codified the IRS's standard practice. Conf. Rep. No. 105-599, at 292-93 (1998).

BACKGROUND

Individual taxpayers who are unable to pay their tax debt immediately can make monthly payments through an IA with the IRS. These agreements allow taxpayers to pay off their tax debt over time. Unfortunately, a number of these taxpayers, after initiating an IA, fail to make their balance due payments and default on their agreements. Defaulted IAs place an administrative strain on the IRS and may weigh down defaulting taxpayers with further IRS enforcement action.

IAs play a significant role in the tax administration of the United States. The IA program allows taxpayers who do not have the means to immediately satisfy their tax liabilities the flexibility to meet their tax obligations. Over three million individual taxpayers took advantage of this program in calendar year 2014 to initiate an IA with the IRS.[4] With this in mind, the National Taxpayer Advocate directed TAS Research to examine the default and subsequent compliance rate of taxpayers who enter into various types of IAs.

There are several types of IAs. Taxpayers enter into online IAs electronically over the internet. Taxpayers may also enter into IAs through direct interaction with the IRS or by mailing their request for an IA to the IRS. The IRS classifies IAs as either streamlined or non-streamlined. Streamlined agreements carry an assessed tax liability of $50,000 or under. Taxpayers must pay the debt in full within six years or within the time limit for the IRS to collect the tax, whichever is earlier. They do not need to submit a financial statement with their request for an IA, but must pay their agreements through either a direct debit or payroll deduction arrangement.[5] Since streamlined IAs do not require financial analysis, taxpayers may enter into these agreements regardless of their financial circumstances.

In addition to streamlined IAs, the IRS conducts financial analysis on non-streamlined IAs. These non-streamlined IAs also generally have a higher balance due associated with them. The IRS has developed ALE standards, which Collection personnel apply to determine if a taxpayer has the ability to enter into a non-streamlined IA.

The ALE standards estimate the amounts of money taxpayers need for their health and welfare, based on family size and residential location. A comparison of the taxpayer's income and the ALE standards determine what IA payment the taxpayer can afford, or if the taxpayer can afford an IA at all (*i.e.,* should the taxpayer be placed in Currently Not Collectible (CNC)-Hardship status or encouraged to submit an Offer in Compromise based on doubt as to collectability).

Before entering into any kind of IA, taxpayers are required to file all past due returns. Once taxpayers have initiated an agreement, they need to pay all future taxes on time or their agreements may default.

4 The IRS assigns a different collection status to taxpayers with approved IAs.

5 Internal Revenue Manual (IRM) 5.14.5, *Streamlined, Guaranteed and In-Business Trust Fund Express Installment Agreements* (Dec. 23, 2015).

OBJECTIVES

To begin exploration of this topic, TAS Research answered the following research questions:

1. Regarding taxpayers who had an IA opened in calendar year (CY) 2014, what was their default rate and subsequent compliance as of September 2016? We provided answers to this question for each of the following stratifications:
   - Level of last recorded balance due
   - TPI[6] to ALE[7] ratio
2. What was the subsequent filing and payment compliance behavior of TAS customers and non-TAS taxpayers who had an IA opened in CY 2010?

METHODOLOGY

Research Question 1: Comparing the IA Default Rates by Different Levels of Balance Due and Ratios of TPI to ALE

To answer the first research question, TAS Research queried the IRS Compliance Data Warehouse (CDW) to find data on taxpayers with IAs initiated in CY 2014.[8] To measure taxpayer income and balance due, we used Tax Year 2014 TPI from the taxpayer's Individual Income Tax Return (Form 1040) and aggregated the Total Module Balance Due from the Accounts Receivable Dollar Inventory (ARDI) for Individual Master File (IMF) taxpayers. We identified cases that entered into an IA during CY 2014 through the IMF status code. We identified the type of IA (online, streamlined, or non-streamlined) from the IMF IA Originator Code.

The Small Business/Self-Employed (SB/SE) Finance, Research, and Strategy Office publishes ALE data each year.[9] We calculated ALE amounts for the health, housing, transportation, and general table standards to compare to the TPI from a taxpayer's 2014 tax return.[10] We then produced figures showing the default rate for the stratifications of IA taxpayers listed above.

6 TPI is calculated by summing the positive values from the following income fields from a taxpayer's most recently filed individual tax return: wages; interest; dividends; distribution from partnerships, small business corporations, estates, or trusts; Schedule C net profits; Schedule F net profits; and other income such as Schedule D profits and capital gains distributions. Losses reported for any of these values are treated as zero.

7 IRM 5.15.1.7(2) ALE standards provide a way of estimating the minimum dollar amount a taxpayer's expenses for his or her family's health, welfare and production of income. The standards are determined yearly by family size, geographic location, as well as the unique circumstances of individual taxpayers. In this analysis, we used the 2014 ALE standards to help establish a taxpayer's ability to pay off an IA. *See* IRM 5.15.1.7(2), *Financial Analysis Handbook, Allowable Expense Overview* (Nov. 17, 2014).

8 To identify taxpayers with new IAs, we selected records with a Master File Status Code equal to 60 from extract cycle 201401 to 201453 in the Accounts Receivable Delinquent Inventory (ARDI) Individual Master File (IMF) Module table, then deleted any continuing IA records from CY 2013.

9 For more information, see 2016 Most Serious Problem: *The IRS Is Failing to Properly Evaluate Taxpayers' Living Expenses and Is Placing Taxpayers in IAs They Cannot Afford*.

10 For a more detailed explanation, see the 2016 TAS research study, entitled, *The IRS Should Use its Internal Data to Determine if Taxpayers Can Afford to Pay Their Tax Delinquencies*, *infra/supra*.

Research Question 2: Comparing Subsequent Compliance of Taxpayers Receiving IAs After TAS Involvement to Similar Taxpayers Receiving IAs Without TAS Involvement

To answer the second research question, TAS Research compared the subsequent compliance of two groups of taxpayers:

1. Those who had a TAS case closed in CY 2010 (referred to in this paper as "TAS customers"), and;
2. Those from the general population who did not have a TAS case closed in CY 2010 (referred to as "non-TAS taxpayers").

We used a propensity matching technique and a matched pair process to develop valid, unbiased comparison groups for analysis. After developing the comparison groups, we established baseline numbers using CY 2010 compliance data and then contrasted the compliance behavior of TAS customers to the compliance behavior of non-TAS taxpayers for TYs 2010 through 2013. This allowed us to examine the question of whether service by TAS had an impact on the subsequent compliance of the two groups.

One problem that can arise in a comparison analysis such as ours is selection bias. Selection bias is defined as an error in selecting statistical observations such that all study participants are not equally balanced. The following example illustrates how selection bias had the potential to compromise our study.

Assume that TAS Research observed a difference in subsequent compliance between TAS and non-TAS groups and attributed that difference to service received from TAS. However, suppose that in our analysis we failed to take into account that TAS customers were already more compliant than the general population going into their experience with TAS. In that instance, therefore, we would have drawn a biased conclusion because we failed to compare two groups with similar characteristics (that is, the groups were not equally balanced).

To avoid the problem of selection bias, TAS Research took the following steps. We first identified key variables — for example, income level, taxpayer's age, or prior year compliance — that could possibly have provided an alternative reason for a difference in compliance. We then used a propensity matching technique and a matched pair process to develop comparison groups that were effectively identical with respect to those key variables.

The first step in the propensity matching technique was to produce propensity scores that estimated the probability an individual taxpayer in the dataset would become a TAS customer. We used logistic regression analysis to derive the propensity scores.

In the logistic regression procedure, we selected certain key demographic and operational fields as independent variables (for example, adjusted gross income, balance due amount, Business Operating Division code). We ran the regression to predict whether the taxpayer was a TAS customer or not and derived propensity scores from the regression.[11] We then used propensity scores in the matched pair process.

11 We developed the regression on a dataset that contained a random sample of non-TAS taxpayer records combined with TAS customer records.

The matched pair process paired individual taxpayers with similar propensity scores from each group.[12] The result of the propensity matching technique and the matched pair process was a dataset of non-TAS taxpayers that were effectively identical to TAS customers over the entire set of key variables. Thus, we avoided the problem of selection bias because we were able to make comparisons of similar groups of taxpayers.

TAS Research matched pairs of TAS customers and non-TAS taxpayers on the following key variables to ensure that the comparison groups were effectively identical to each other.

- Propensity score;
- Adjusted Gross Income;
- Age of Taxpayer;
- Filing Status Code;
- Business Operating Division Code;
- Tax Module Balance Due Amount;
- Major Source of Assessment Code categories;
- Earned Income Tax Credit (EITC) Indicator;
- CY 2010 Delinquent Return Indicator; and
- CY 2010 Count of TDAs (please note that these last two variables served as baseline indicators to make certain that the two comparison groups were identical in terms of filing and payment compliance going into the year that the TAS group received service).

To develop the TAS customer groups, we selected the entire population of TAS closed cases who had an IA.[13] To develop the non-TAS taxpayer group, we drew a random sample of 5,000 taxpayers from the general population who had IAs.

We combined the TAS and non-TAS groups into a single dataset and ran a logistic regression model that produced propensity scores. These scores generated the probability that a particular taxpayer came to TAS for service. The model correctly classified 79 percent of the observations in the data.

After completing propensity matching, TAS Research used the matched pair process to ensure that the TAS and non-TAS groups were effectively identical with respect to the key variables listed above. Please see Appendix A for a comparison of key variables between the TAS and non-TAS groups, and Appendix B for the classification figure results of the logistic regression.

To analyze filing compliance, we compared the percentage of the taxpayers in the TAS customer group who had a Status Code of 2, 3, or 6 (that is, a return due) to the percentage for non-TAS taxpayers.

12 For a more detailed description of the matched pair process, see National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 92, 99 (*Estimating the Impact of Liens on Taxpayer Compliance Behavior and Income*). For those readers with a technical interest, TAS used a "5 -> 1 Greedy" matching technique to produce the matched pairs by performing a logistic regression as described in Lori S. Parsons, Ovation Research Group, Seattle, WA, Working Paper 214-26, *Reducing Bias in a Propensity Score Matched-Pair Sample Using Greedy Matching Techniques* (Mar. 2001).

13 For TAS customers with IAs, we selected taxpayers who had an IA initiated in CY 2010, and who had a primary issue code of 751 to 759 (which marked the observation as a TAS IA case). We selected non-TAS taxpayers who had an IA initiated in CY 2010. A Status Code 60 in the IMF Status History table denoted IAs.

For the analysis of payment compliance, we compared the percentages of TAS customers who had a Status Code greater than 12 (that is, a payment due) to the percentages for non-TAS taxpayers. We made both of these comparisons for TYs 2010 through 2013. We used two-sided z-tests for proportions to determine the significance of any differences in the percentages.

FINDINGS

Research Question 1: Comparing the IA Default Rates by Different Levels of Balance Due and Ratios of TPI to ALE

TAS Research found that:

1. Nearly 40 percent of taxpayers entering into IMF IAs in 2014 had incomes below their ALE.
2. Looking at IMF IAs on balances of over $1,000 (80 percent of all IAs in 2014), taxpayers have lower default rates as the ratio of TPI to ALE increases, as indicated by the following figure:

FIGURE 3.1, Defaulted and Non-Defaulted IAs by Ratio of TPI to ALE and Amount Owed

			Defaulted		
			Not Defaulted	Defaulted	Total
Balances Owed Between $1,001 – $10,000	TPI < ALE	Count	632,596	207,690	840,286
		%	75.3%	24.7%	100.0%
	TPI/ALE Ratio Between 1–2.5	Count	856,692	245,013	1,101,705
		%	77.8%	22.2%	100.0%
	TPI/ALE Ratio > 2.5	Count	205,180	51,974	257,154
		%	79.8%	20.2%	100.0%
	Total	Count	1,694,468	504,677	2,199,145
		%	77.1%	22.9%	100.0%
Balances Owed > $10,000	TPI/ALE < 1	Count	61,648	46,169	107,817
		%	57.2%	42.8%	100.0%
	TPI/ALE Between 1–2.5	Count	155,708	97,666	253,374
		%	61.5%	38.5%	100.0%
	TPI/ALE > 2.5	Count	128,355	67,080	195,435
		%	65.7%	34.3%	100.0%
	Total	Count	345,711	210,915	556,626
		%	62.1%	37.9%	100.0%

The first half of the figure includes balances owed from $1,001–$10,000. The second part of the figure includes taxpayers who owe more than $10,000. The three TPI to ALE ratios categories are less than one; one to 2.5; and more than 2.5. An analysis of the figure shows that the default rates decrease as the ratio of income to ALE increase. This is especially true when considering instances where the taxpayer owes over $10,000 where the default rate for taxpayers is 8.5 percent higher for taxpayers with an income to ALE ratio less than one than for taxpayers whose ratio of income to ALE is greater than 2.5.

For IMF taxpayers who owe no more than $1,000, the TPI to ALE ratio makes little difference in whether the IA will default. It is likely that even taxpayers with income below their ALE are able to shuffle

spending priorities for a short time to satisfy the IA. It is also likely that these taxpayers have other refund offsets, which satisfy the liability thereby fulfilling the IA.[14]

As previously noted, taxpayers enter into a preponderance of IAs through streamlined procedures. In FY 2016, the IRS entered into streamlined IAs, requiring no financial analysis over 80 percent of the time. When we consider only streamlined IAs with balances owed over $1,000, the difference among the default rates at different ratios of income to TPI is more pronounced, as indicated by the following figure:

FIGURE 3.2, Defaulted and Non-Defaulted IAs by Ratio of TPI to ALE and Amount Owed — Only Streamlined IAs

				Defaulted		
				Not Defaulted	Defaulted	Total
Balances Owed Between $1,001 – $10,000	TPI_ALE$	TPI < ALE	Count	598,726	194,475	793,201
			%	75.5%	24.5%	100.0%
		TPI/ALE Ratio Between 1–2.5	Count	810,811	227,785	1,038,596
			%	78.1%	21.9%	100.0%
		TPI/ALE Ratio > 2.5	Count	191,952	47,382	239,334
			%	80.2%	19.8%	100.0%
	TOTAL		Count	1,601,489	469,642	2,071,131
			%	77.3%	22.7%	100.0%
> $10,000	TPI_ALE$	TPI < ALE	Count	50,900	35,283	86,183
			%	59.1%	40.9%	100.0%
		TPI/ALE Ratio Between 1–2.5	Count	136,474	76,711	213,185
			%	64.0%	36.0%	100.0%
		TPI/ALE Ratio > 2.5	Count	112,463	51,093	163,556
			%	68.8%	31.2%	100.0%
	TOTAL		Count	299,837	163,087	462,924
			%	64.8%	35.2%	100.0%

When considering only streamlined IAs for taxpayers who owe from $1,001 to $10,000, taxpayers with income less than TPI have a default rate nearly five percent more than taxpayers whose incomes is over 2.5 times their ALE. For taxpayers who owe over $10,000, the default rate for taxpayers whose income does not exceed their ALE is nearly ten percent higher than taxpayers whose income is over 2.5 times their ALE. Again, there is little difference in the default rates for taxpayers who owe no more than $1,000.

We also examined the subsequent compliance of taxpayers who entered into IAs in 2014 when considering their income to ALE ratio and the amount owed. However, an analysis of the TY 2015 subsequent compliance shows that taxpayers with incomes less than their ALE were much more likely to

14 TAS Research Study, *The IRS Should Use its Internal Data to Determine if Taxpayers Can Afford to Pay Their Tax Delinquencies* (2016), *infra/supra*.

be noncompliant than taxpayers with incomes in excess of their ALE.[15] The following figure depicts the TY 2015 subsequent noncompliance of taxpayers by whether or not their income is below their ALE, by three categories of the amount of the delinquency:

FIGURE 3.3, Tax Year Subsequent Paying and Filing Compliance by Ratio of TPI to ALE and Amount Owed

			Filing and Payment Noncompliance TY 2015		
			Not Both Filing and Payment Noncompliant	Both Filing Noncompliant and Payment Noncompliant	Total
Balance ≦ $1,000	TPI < ALE	Count	209,024	177,479	386,503
		% within TPI < ALE	54.1%	45.9%	100.0%
	TPI ≧ ALE	Count	190,501	108,201	298,702
		% within TPI ≧ ALE	63.8%	36.2%	100.0%
Balance $1,001 – $10,000	TPI < ALE	Count	465,568	374,678	840,246
		% within TPI < ALE	55.4%	44.6%	100.0%
	TPI ≧ ALE	Count	872,574	486,325	1,358,899
		% within TPI ≧ ALE	64.2%	35.8%	100.0%
Balance > $10,000	TPI < ALE	Count	58,668	49,147	107,815
		% within TPI < ALE	54.4%	45.6%	100.0%
	TPI ≧ ALE	Count	296,501	152,310	448,811
		% within TPI ≧ ALE	66.1%	33.9%	100.0%
TOTAL	TPI < ALE	Count	733,260	601,304	1,334,564
		% within TPI < ALE	54.9%	45.1%	100.0%
	TPI ≧ ALE	Count	1,359,576	746,836	2,106,412
		% within TPI ≧ ALE	64.5%	35.5%	100.0%

The figure shows that taxpayers with incomes below their ALE who entered into IAs in 2014 have about a ten percent higher subsequent noncompliance level than those taxpayers who entered into an IA with income at least equal to their ALE. For taxpayers who owed over $10,000, taxpayers with incomes less than their ALE were nearly 12 percent more likely to be filing and payment noncompliant than taxpayers with incomes equal to or higher than their ALE. This difference in future noncompliance may occur because the required IA payments do not allow more financially disadvantaged taxpayer to also meet current tax obligations.

15 Although taxpayers whose incomes were over 2.5 their ALE were less likely to be noncompliant than taxpayers whose incomes were greater than or equal to their ALE, but not more than 2.5 times their ALE, the differences were relatively small; therefore, we combined the taxpayers with incomes at least as high as their ALE into a single category.

Research Question 2 – Comparing Subsequent Compliance of Taxpayers Receiving IAs After TAS Involvement to Similar Taxpayers Receiving IAs Without TAS Involvement

We found no significant difference between the TAS customers and non-TAS taxpayers in terms of delinquent returns in subsequent years, thus indicating that service by TAS had no appreciable effect on filing compliance (see Figure 3.4). However, Figure 3.5 shows that the TAS group had a significantly lower percentage of taxpayers with a delinquent balance due than the non-TAS group for TYs 2010 and 2011, suggesting that TAS service had the effect of increasing payment compliance for TAS customers in the first two years after service was provided.

FIGURE 3.4, Taxpayers With a Delinquent Return Due

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	33.1%	34.9%	-1.8%	No significance
TY 2011	36.5%	37.8%	2.7%	No significance
TY 2012	36.7%	36.3%	.4%	No significance
TY 2013	33.1%	32.6%	.5%	No significance

As mentioned, when exploring subsequent payment compliance, we did find that taxpayers who had sought TAS assistance with an IA were less likely to incur subsequent liabilities for two years after the IA was initiated. The following figure depicts this information.

FIGURE 3.5, Taxpayers With a Delinquent Balance Due

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	49.8%	41.4%	8.4%	Significant at .05
TY 2011	42.2%	35.4%	6.8%	Significant at .05
TY 2012	32.4%	31.7%	.7%	No significance
TY 2013	33.1%	32.6%	.5%	No significance

To augment the finding in Figure 3.5, TAS Research examined the percentage of taxpayers in each group who kept their IAs in good standing (that is, they either full-paid their accounts or were able to keep their agreements from defaulting). Figure 3.6 below displays the percent of taxpayers who had a Status 12 (Full Paid) or an ongoing Status 60 (IA). As seen in the figure, the TAS group showed significantly higher percentages of taxpayers who full paid or who had ongoing IAs for TYs 2011, 2012, and 2013.

FIGURE 3.6, Taxpayers With Status 12 (Full-Pay) or an Ongoing Status 60 (Installment Agreement)

Subsequent Tax Year	Non-TAS Group	TAS Group	Difference of Non-TAS and TAS	Significance of Difference
TY 2010	94.3%	95.8%	1.5%	No significance
TY 2011	87.2%	91.5%	4.3%	Significant at .05
TY 2012	79.4%	83.6%	4.2%	Significant at .05
TY 2013	74.4%	79.8%	5.4%	Significant at .05

TAS Case Advocates may be more effective than IRS Collection personnel in creating IAs which allow taxpayers to meet ongoing tax obligations while remaining current with the payment of delinquent taxes. TAS Case Advocates also educate taxpayers about their ongoing responsibility to remain current with their tax obligations. For example, TAS Case Advocates will ensure that wage earners have sufficient income tax withheld from their pay and that self-employed taxpayers can maintain their estimated tax payments.

CONCLUSIONS

The IA is an important tool to collect delinquent taxes. In FY 2016, individual taxpayers initiated over three million IAs. Nearly 85 percent of these IAs were streamlined agreements, requiring no financial analysis.[16] In fact, taxpayers with incomes not in excess of the ALE initiated nearly 800,000 (38.3 percent) of the 2014 IAs for delinquencies between $1,001 and $10,000. While not requiring financial analysis reduces short-term work for the IRS, failing to conduct some degree of financial analysis may actually increase rework and foster additional noncompliance in future years, as the IA will prevent some taxpayers from meeting ongoing tax obligations. Taxpayers also face additional burden as they enter into IAs which they cannot afford. From the findings of this report, we have listed the following overall conclusions:

- Many taxpayers initiate IAs even though their income is less than their ALE, meaning that taxpayers are likely foregoing necessities to meet the terms of their IA.
- Taxpayers are more likely to default on their IAs when their income is below their ALE, suggesting that these taxpayers are entering into IAs that they cannot afford.
- Taxpayers become more likely to be noncompliant in the years after they start an IA, suggesting that the terms of the IA do not always provide taxpayers with the means to pay current taxes.
- The involvement of TAS in IAs increases subsequent payment compliance and decreases the likelihood that taxpayers will default on their IAs. This fact suggests that additional financial analysis will increase the number of successful IAs and reduce subsequent noncompliance.

RECOMMENDATIONS

In light of the previous conclusions, we believe that additional financial analysis is needed to determine if a taxpayer can afford an IA, and, if so, what payment amount will allow tax delinquencies to be satisfied, while maintaining current tax obligations. As part of its Future State initiative, the IRS can provide an online payment estimator, which considers the broad spectrum of taxpayer financial circumstances. However, the IRS should also not neglect its duty to provide financial analysis directly to taxpayers not comfortable with online tools. The IRS also must recognize that delinquencies should be reported as CNC (hardship) when taxpayers' ALE exceed their income. Our specific recommendations follow:

- Create an online financial calculator, which will assist taxpayers with establishing IAs that they can afford, while paying current tax liabilities. This calculator should consider various financial circumstances, and not just compute the ratio of taxpayers' delinquencies and a stated number of payments.
- Provide basic financial analysis for taxpayers who are not comfortable with the online experience to determine the appropriate amount for an IA.
- When financial analysis shows taxpayers as being unable to afford an IA, report the delinquencies as CNC.

16 IRS FY 2016 Collection Activity Report 5000-6 (Oct. 3, 2016).

APPENDIX A

FIGURE 3.7, Comparison of TAS Customers and Non-TAS Taxpayers With Respect to Key Variables in the Analysis

Key Variable	Variable Value	TAS Customers	Non-TAS Taxpayers
Mean of Adjusted Gross Income Amount		$80,750	$79,020
Mean of Age of Taxpayer		43.0	44.1
Filing Status Code	Single	39.6%	39.3%
	Married Filing Joint	45.0%	45.1%
	Married Filing Separate	6.1%	6.3%
	Head of Household	9.3%	9.3%
Business Operating Division Code	W&I	48.7%	47.1%
	SB/SE	51.3%	52.9%
Quartile Categories for Tax Module Balance Due Amount	$6 - 2,751	9.2%	9.7%
	$2,752 - 7,100	15.1%	14.8%
	$7,101 - 21,084	28.2%	26.9%
	> $21,084	47.6%	48.5%
Major Source of Assessment Code Categories	TDI, Taxpayer Delinquent Investigation, Status 03 and Delinquency, Status 02, Delinquent Return Notice status	11.1%	11.8%
	Exam Assessments and Underreporter program	35.2%	34.2%
	Balance Due	50.6%	50.9%
	Adjustments, Math Errors, Penalties/any unreversed penalty, Other/debit module with none of the above conditions	3.1%	3.0%
Earned Income Tax Credit Indicator	No	93.2%	91.6%
	Yes	6.8%	8.4%
CY 2010 Delinquent Return Indicator	No	58.5%	57.4%
	Yes	41.5%	42.6%
Mean of CY 2010 Count of TDAs		3.01	3.06

APPENDIX B

FIGURE 3.8, Classification for the Logistic Regression Performed to Develop Propensity Scores

Observed	Predicted		
	Non-TAS Taxpayer	TAS Customer	Percent Correct
Non-TAS Taxpayer	2,714	380	87.7%
TAS Customer	500	575	53.5%
Overall Percentage			78.9%

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