



September 27, 2010

IRS Mulls Making Soft Notices Permanent Practice

Of late, the IRS has been using an automatic feature in its ongoing tax filing system that prods taxpayers to check their own tax returns for discrepancies and inaccuracies. This automated feature is called the Automated Under-reporting Program (AUR). Under this program, the IRS sends out Form CP 2057 that reminds taxpayers to check the accuracy of their tax returns. It is largely viewed as a soft notice because it does not require the taxpayer to take any action and is aimed at encouraging voluntary compliance on the part of the taxpayer. It only recommends the taxpayer file an amended return if they have under-declared their income.

This situation does come about because of the discrepancy between the figures in the taxpayer's return and that of related information submitted by their employers and financial institutions. The IRS is now reviewing the Automated Under-reporting Program Soft notice initiative where the notices provide the taxpayer with information to check against their tax returns. If they find an error, the form spells out what needs to be done but does not require that the taxpayer pay more taxes, submit additional documents or even file an amended return.

The Treasury Inspector General for Tax Administration (TIGTA) recently conducted an audit on the IRS pilot initiative with soft notices and wrote a report recommending the IRS improve its plan in reviewing if the soft notices should become a permanent feature of their AUR system. If the results from the IRS prove to be positive, the soft notices approach could be made a permanent part of the IRS standard procedures.

The TIGTA report contained two recommendations, both of which were agreed upon by the IRS. Firstly, the report recommended that the IRS clearly define what constitutes success in the implementation of the soft notices initiative. And the second recommendation was to carefully take into consideration all costs involved in the implementation of the initiative to determine if there was a net benefit to the taxpayers.

In response to the recommendations, the IRS said it would draw up the actual metrics to evaluate and report the results of the soft notices next year. Concerning the determination of net benefit, the IRS said that it already had the mechanism in place to calculate the costs of the large scale rollout of the initiative. Hence no corrective action was necessary to be made.