



INSPECTOR GENERAL  
FOR TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20005

January 26, 2021

The Honorable Bill Pascrell, Jr., Chairman  
The Honorable Mike Kelly, Ranking Member  
Committee on Ways and Means, Subcommittee on Oversight  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairman Pascrell and Ranking Member Kelly:

This is in response to your December 22, 2020, request for my office to undertake a review of the approximately 5 million notices of tax due and demands for payment that the Internal Revenue Service (IRS) planned to mail in December and January. You asked us to respond to the questions set out below. We have answered these questions using information obtained from the IRS during the period of December 2020 through January 2021.

**Question 1:** *What are TIGTA's concerns with respect to the mailing of these notices?*

The primary concern the Treasury Inspector General for Tax Administration (TIGTA) has with these notices is that they include incorrect information as it pertains to the notice dates and due dates for taxpayers to take action. The IRS planned to include "stuffers" with these notices by way of a Form 1052-D, *Important! You Have More Time to Respond to the Enclosed Notice*, but this stuffer was only going to be included for certain statutorily required notices. The IRS is currently unable to determine the exact number of Form 1052-Ds that were issued to taxpayers. Taxpayers receiving these notices could be confused as to how to proceed whether they received a Form 1052-D with their notice or not, simply due to the original notices including incorrect information.

The following information was provided by the IRS to show the estimated number and types of notices in which the stuffer was supposed to be included.

- 2,108,737 notices – Internal Revenue Code (I.R.C.) Section 6303, Notice and demand for tax, that informs taxpayers of tax due and demands payment;<sup>1</sup>
- 1,384,959 notices – I.R.C. § 7524 annual reminder notices that remind the taxpayer of an existing balance due;

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<sup>1</sup> I.R.C. § 6303 Notice and Demand include notices such as, balance due notices with or without a math error, Federal Tax Deposit discrepancies with a balance due, penalty notices, shared responsibility payment notices, etc.

- 150,658 notices – I.R.C. § 6213(b) math error notices that inform taxpayers of a change to their return.

There were an estimated 1,177,384 notices of other types in which the stuffer was not to be included. The majority (94 percent) of these notices were notices of address change or notices that a refund will be sent by mail due to a failed direct deposit.

Another concern TIGTA has relates to how the penalties and interest for the accounts associated with these untimely notices will be handled. The IRS's Office of Service-wide Penalties reported that there have been computer programming changes and system updates to recognize the affected accounts, and they have provided assurance that taxpayers will not experience any economic hardships. The intent of the programming change is to identify the accounts for taxpayers who were affected by the late notices, and to prevent any failure-to-pay penalties and interest from accruing on unpaid balances until the revised due date on the notices. Because it is early in the process, TIGTA has not yet tested whether any of these programming changes or system updates were effective in reducing burden to these taxpayers.

An additional concern of TIGTA's involves the notices that were purged from the mailing. As the Taxpayer Advocate reported, 11 million notices were computer generated in November but not mailed. While the IRS planned to mail approximately 5 million of those notices in December and January, the remaining notices were purged. TIGTA has a concern about some of these notices because the purge included Notices 501 and 503, which are balance due notices reminding taxpayers that they owe tax, and are generally prerequisites for Notice 504, which is the final balance due notice and includes the Notice of Intent to Levy.<sup>2</sup> The IRS reported that for taxpayers affected by the purged 501 and 503 notices, once the process to issue notices resumes, the affected taxpayers will receive the next notice due based on the timeline of the notice stream. Therefore, it is possible that taxpayers will not receive either the 501 or 503 reminder notices if the time to issue those notices has passed. The IRS stated that taxpayers with scheduled 504 series final balance due notices did go out in November.<sup>3</sup>

The IRS was faced with a difficult dilemma in attempting to restart its notice operations in the wake of the shutdown due to the COVID-19 pandemic in that many of the notices that were ready to be issued and required by law were inaccurate due to the delay in mailing the notices. Taxpayers have a right to be informed with correct information. While purging notices is problematic because there is a delay in taxpayers receiving vital information about their accounts, we believe that the IRS's decision to purge these notices was reasonable.

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<sup>2</sup> CP 501 and 503 balance due reminder notices are not statutorily required.

<sup>3</sup> TIGTA has not yet been able to verify that the series 504 notices were sent in the November run because they have not yet posted to the Collection Data Warehouse files.

**Question 2:** *What is the number of notices printed and mailed?*

The IRS reported a total of 11,036,403 notices as part of the November backlog. The backlog occurred because print vendors the IRS contracts with were not able to accept and process the entire volume of backlogged notices from the IRS.<sup>4</sup> The IRS uses these vendors when they do not have the capacity to process the scheduled notices at their own print sites. In addition, some vendors had difficulty downloading and running larger notice files, which the IRS stated has now been corrected. Once it was determined that the volume was too large to be processed, IRS management made the decision to purge notices they deemed were not critical to mail out – those that did not require immediate action. The decision to purge an estimated 6,214,665 notices left 4,821,738 notices not purged. The IRS’s plan was to mail these notices by January 8, 2021. As of January 5<sup>th</sup>, the IRS reported that they had sent 86 percent of the notices and the rest were printed and expected for timely delivery, and the vendor was on track to complete theirs by the due date as well. Due to data capturing methods and posting delays, it will be at least a few weeks before the exact number of notices that were mailed can be determined.

**Question 3:** *Who reviewed and approved these notices?*

The IRS reported that its Chief Counsel determined that the purged notices were not statutorily or operationally required, and the IRS business operating divisions determined that the business need did not outweigh the confusion it would cause the taxpayer to send the notices. Notices that were statutorily or operationally required were not purged. The IRS reported that these actions were approved by the IRS’s Deputy Commissioner for Services and Enforcement, IRS business divisions, IRS Chief Counsel and the Taxpayer Advocate Service. The IRS reported that it would be at the discretion of the business operating divisions to determine if they will re-issue the purged notices in a future mailing.

**Question 4:** *Does TIGTA have any recommendations for actions that can be taken by the IRS to prevent the issuance of untimely or erroneous notices?*

The untimely and erroneous notices were caused by the unprecedented shutdown of IRS offices due to the COVID-19 pandemic. As the IRS reopens its offices and restarts operations, it must assess actions taken during the shutdown. TIGTA inquired of the IRS as to how it planned to mitigate future backlogs from occurring. The IRS reported that its Media & Publications Division worked with the Government Printing Office to re-negotiate the vendor contract with new, shortened Service Level Agreements, which they hope will mitigate any future backlogs from happening. The IRS’s Consolidated

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<sup>4</sup> The vendor contract specifies: “In placing work, the Government will first communicate with the low contractor to determine whether or not at that time the order for the specified quantity can be accepted for shipment within the time required by the Government. The Government will be obligated to place each order with the low contractor first, the next low contractor second, and so on until the order has been accepted. Placement of orders shall be made only with those contractors whose prices are determined to be fair and reasonable. The low contractor and each successive next low contractor shall be obligated to accept the order except when the shipping schedule cannot be met. When the contractor accepts, a formal print order will be issued.”

Print Site (CPS) is also assessing what low priority, non-sensitive notices can be sent to the vendors to free up CPS capacity for other notices with shorter timeframes or higher priorities.

If you have any questions or require further information regarding this matter, please do not hesitate to call me at (202) 622-6500, or have a member of your staff contact Michael McKenney, Deputy Inspector General for Audit, at (202) 622-6510.

Sincerely,

A handwritten signature in black ink that reads "J. Russell George". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Russell George  
Inspector General