

NONFILERS

People who fail to file tax returns are called nonfilers. Nonfilers don't file returns for a number of reasons. They may not be aware of the need to file. They may have suffered a traumatic event in their lives, such as divorce or loss of job. Many stop filing because they simply cannot pay what they owe.

The IRS identifies possible nonfilers in two ways. The first way looks for taxpayers who stop filing tax returns. They are identified through an annual computer matching program. The second way looks for taxpayers who have never filed a tax return. This is achieved through the IRS's information returns program.

Information Returns Program

Every year, payers of any type of income have to report to the IRS the amount of that income and to whom it is paid. Each year, the IRS receives about 750 million of these information returns reporting interest, dividends, stock sales, gambling winnings, mortgage interest paid, etc. These documents are sent directly to the IRS by banks, insurance companies, casinos and state governments. The IRS also receives wage information from the Social Security Administration where about 250 million W2 forms are processed each year. If these information returns reflect enough income that a taxpayer should have filed a tax return, but did not, the IRS will send the taxpayer a notice. This notice asks that the taxpayer either file the return, or explain why he or she doesn't need to file. If the taxpayer doesn't respond, the IRS will send a second notice. In Fiscal Year 1996, the IRS sent out nonfiler notices to 1.3 million taxpayers.

Payment Options

Many taxpayers respond when they receive these notices. In FY 1995 and 1996, taxpayers filed more than 620,000 returns after receiving nonfiler notices. Other taxpayers call the IRS after receiving such a notice because they don't have the money to pay. In many of these cases, the IRS can set up a payment agreement. From FY 1992 to FY 1996, collections from installment agreements increased from \$2.28 billion to \$6 billion. In other cases, where an installment agreement is not feasible, the taxpayer may be eligible for an "offer in compromise." When taxpayers cannot pay

their entire tax bills, they can submit an application for an offer in compromise to pay less than what they owe to settle their tax bills. The IRS accepted offers of \$287 million in 1996.

If a taxpayer does not respond to notices sent by the IRS, the IRS will then make a “substitute for return” assessment. In a “substitute for return” assessment, the IRS determines how much the taxpayer owes based on any available third party information. The IRS will then write to the taxpayer proposing that assessment. If the taxpayer does not respond to that notice, the IRS then sends a legally binding letter giving the taxpayer 90 days to go to Tax Court, file a return, or agree with the assessment.

If the taxpayer still doesn't respond to this “90-day letter,” the case will then go forward for assessment and issuance of collection notices. If the taxpayer fails to respond to these collection notices, the IRS will attempt to contact the taxpayer either by telephone or face-to-face to resolve the nonfiling. If the IRS can't contact the taxpayer, or if the taxpayer is not willing to make arrangements to pay or file, the IRS would then, as a final resort, have to take more serious collection actions, such as liens, levy, or seizure and sale of property.

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