Developing a Filter to Protect Low Income Taxpayers from Systemic Levies Issued Through the Federal Payment Levy Program
Background

• Federal Payment Levy Program (FPLP).
  – Authorized by Taxpayer Relief Act (1997).
  – Implemented by IRS in 2000.
  – Attaches to 15% of Federal Payment.
Background

• Primary TAS Concern - SSA Recipients.
  – Average benefit is $962.70.
  – Half of total income for 65% of recipients.
  – 90% of total income for 34% of recipients.
Background

- 2003 GAO Report on FPLP.
- Questioned fairness of TPI filter.
- Often, not recent income tax return to determined TPI.
- Equal payment rates for taxpayers below and above filter level.
Background

• 2003 GAO report on FPLP.
  – Detected unreported income from payer documents.
  – Detected presence of other assets (real estate) which could be used to satisfy liability.
Background

• From 2003 until 2005 IRS filtered low income from receiving FPLP levy on SSA benefits.
  
  
Background

• TAS FPLP Cases.
  – <500 cases before filter phase-out.
  – >1,700 cases during phase-out.
  – >4,000 cases after phase-out.
Developing a Filter

• Data mining efforts proved unsuccessful.

• Developed rules-based filter.
  – IRS Allowable Expense standards.
  – Basic Assumptions.
Sample Data


• IRS Collection disposition data.

• IRTF data.

• IRMF data.
Methodology

• IRS Allowable Expense standards are IRS amounts allocated to taxpayers based on household income, size and other circumstances.

• Used IRTF and IRMF data to create proxy for IRS allowable expenses for each SSA FPLP taxpayer in sample.
Methodology

• Allowable Expense Standards (2006).

• National Standards (food, clothing, misc.).

• Housing and Utilities (by county).

• Transportation.
Methodology

• National Standards.
  – Household size: number of exemptions from most recent tax return.
  – If most recent Form 1040 not filed, household size set to one.
  – Income: composite of IRTF and IRMF values (includes spouse IRMF Income).
Methodology

• Housing and Utilities.
  – Based on county and household size.
  – Used SSA ZIP Code to determine county.
  – Used exemption count on most recent year’s tax return to determine household size.
Methodology

• Housing and Utilities.

  – If county could not be determined, used national average for household size.

  – If most recent Form 1040 not filed, household size set to one.
Methodology

• Transportation.
  – Allowed lowest regional IRS allowable expense operating amount for one car.
  – No allocation for ownership costs or public transportation.
Methodology

• Final Allowable Expense Amount
  – Determined yearly allowable expenses as sum of national standard, housing and utility, and transportation amount multiplied by 12.
Methodology

• Computing Taxpayer’s *Best* Income

  – If most recent Form 1040 not filed, used IRMF Data to determine income.

  – Spouse’s IRMF Income was also used.
Methodology

• Computing Taxpayer’s *Best* Income

  – Used IRTF Form 1040 Total Positive Income.

  – Used IRMF Amounts from Forms W-2, 1099INT, 1099DIV, 1099R, 1099SSA, and 1099MISC.

  – Compared Form 1040 and IRMF data to use highest composite amount.
Methodology

• Final Analysis

  – Taxpayers with income > allowable expense proxy were placed in the “can pay” bucket.
  
  – Taxpayers with income <= allowable expense proxy were placed in the “cannot pay” bucket.
Findings

• Analyzed inconsistencies with IRS “can pay” dispositions.

• Disposed as full pay, but classified as “cannot pay.”

• Disposed as installment agreement, but classified as “cannot pay.”

Did not consider continuing levy cases in primary analysis since IRS disposition unknown.
Findings

- Disposed as full pay, but classified as “cannot pay.”

  - 2.3% of IRS dispositions
  - Small balances due: median = $184
  - Low Income levels:
    » Mean = $6,600
    » 90th percentile = $10,606
Findings

– Disposed as installment agreement, but classified as “cannot pay.”

• 2.7% of IRS dispositions

• Larger balances due: median = $1,036

• Low Income levels:
  » Mean = $6,438
  » 90\textsuperscript{th} percentile = $9,539

• Most streamlined
Findings

- Presence of other Assets

  • Over 97% of non-hardship taxpayers with other assets already classified as “can pay.”

<table>
<thead>
<tr>
<th>Case Status / Ability to Pay</th>
<th>Cannot Pay</th>
<th>Can Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy</td>
<td>237</td>
<td>11,012</td>
</tr>
<tr>
<td>Paid</td>
<td>292</td>
<td>9,388</td>
</tr>
<tr>
<td>IA</td>
<td>164</td>
<td>4,598</td>
</tr>
<tr>
<td>Total</td>
<td>693</td>
<td>24,998</td>
</tr>
</tbody>
</table>
Conclusions

• Less than 6% of all cases with IRS dispositions were classified as “cannot pay.”

• Taxpayers with small liabilities showed ability to endure FPLP levy.
Conclusions

• Analysis of taxpayer incomes supports filter results.

• 97% of taxpayers with real estate or other more liquid assets were already classified as “can pay.”

• Over 10% of taxpayers classified as “can pay” could not afford FPLP 15% levy.
Future Considerations

• Use Accurint Data to analyze assets for a sample of cases.

• Analyze effect of new allowable expense standards.

• Test the filter by obtaining actual financial data on a sample of cases.
Acknowledgements

• W&I Compliance
  – Joint project.
  – Data acquisition.

• W&I Research
  – File assembly.
  – Modeling efforts.
Building a Better Filter

Using IRS Allowable Expense Standards to Protect Lower Income Social Security Recipients from the Federal Payment levy Program