



# Addressing Underreporting- The Soft Notice Approach

IRS Nationwide

2008

**Tax  
FORUM**

Partners in Tax  
Administration

# The Tax Gap and AUR

- Difference between tax that should be paid and amount actually paid on a timely basis
- Three main components
  - Nonfiling
  - Underpayment
  - Underreporting
- AUR program combats underreporting



# The AUR Program

- Third parties including employers, banks and brokers provide information returns to the IRS
- IRS matches amounts reported on individual tax and information returns
- Initial match begins *after* processing all tax returns and information returns

IRS Nationwide

2008

**Tax  
FORUM**

Partners in Tax  
Administration

# The AUR Program

- Available AUR inventory is the resulting mismatches
- Cases are selected from the available inventory and are reviewed by IRS technicians
- Generally, IRS issues CP 2000 notice to taxpayer for discrepancies that remain unresolved

IRS Nationwide

2008

**Tax  
FORUM**

Partners in Tax  
Administration



# Notice CP 2000

- Notice CP 2000 proposes changes to income, payments, credits and/or deductions and includes a calculation of tax based on those proposed changes
- Responses to the CP 2000 could result in a no-change, a refund, an assessment of additional tax or the issuance of a Statutory Notice of Deficiency

# AUR Impact – FY 2007

- Nearly 3.5 million CP 2000 notices were issued
- The AUR program generated increased tax revenue totaling more than \$5 billion

IRS Nationwide

2008

**Tax  
FORUM**

Partners in Tax  
Administration

# Addressing the Tax Gap

- Continuing efforts to reduce the Tax Gap triggered development of an alternative treatment to address the unselected mismatches

The Problem

# Soft Notice CP 2057

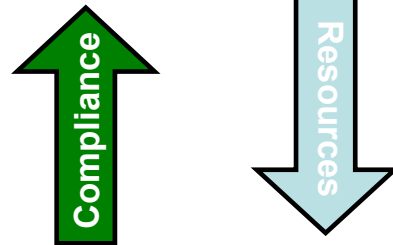
- AUR compliance efforts touch 4-5 million taxpayers annually
- The Soft Notice approach is being developed to reduce the tax gap through voluntary compliance
- Initial efforts with the Soft Notice indicated a significant number of individuals filed an amended return and did not repeat underreporting in the subsequent year



# Soft Notice CP 2057

## The Constraint

How can AUR improve compliance



with minimal additional resource expenditures?

## The Procedures

TY03-TY04: AUR sent a total of 2,505 Soft Notices to multiple types of taxpayers, with results pointing to the need to expand the Soft Notice initiative.

### Total Results (from both tests):

- ▶ 1040x filed: ≈ 25%
- ▶ Subsequent year Behavior Correction: ≈ 78%
- ▶ Phone Calls Received: ≈ 13%

# Soft Notice CP 2057

- The 2008 Soft Notice Initiative will include a sub sample of each of the major income categories in tax year 2007 cases .
- Soft Notices are scheduled to be mailed in mid-October 2008.



# Responding to the CP 2057

- Taxpayers receiving the notice are instructed to:
  - file an amended return form 1040X if they had underreported in error
  - correct information documents reported to IRS in error
- Taxpayers that receive a Soft Notice and repeat their behavior will be identified in the following tax year

# Reminders

- Keep good records of all annual income
- Report all income and follow the form instructions for where to report it
- Review the return before it is filed to ensure it includes all income
- Make sure payers have taxpayer's most current address