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.
  - IRS began phase-out of filter in 2004.
  - IRS removed Filter in 2005.

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 FPLP accounts levied by IRS – Oct. 2006 through March 2007.
- 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 place in the “can pay” bucket.
  - Taxpayers with income <= allowable expense proxy were place 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
  - » 90^{th} 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
  - » 90th percentile = $9,539
- Most streamlined

Findings

– Presence of other Assets

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

	Allowable Expense Classification	
Case Status / Ability to Pay	**Cannot Pay**	**Can Pay**
Levy	237	11,012
Paid	292	9,388
IA	164	4,598
Total	**693**	**24,998**

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.

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  - File assembly.
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Building a Better Filter

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