

December 2009

2009 TAX FILING SEASON

IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-10-225](#), a report to congressional requesters

Why GAO Did This Study

The Internal Revenue Service's (IRS) filing season is an enormous undertaking that includes processing tax returns, issuing refunds, and responding to taxpayer questions. IRS's efforts to ensure compliance begin during the filing season. GAO was asked to assess IRS's 2009 filing season performance, identify ways to reduce taxpayers' use of short-term, high-interest refund anticipation loans (RAL) offered by paid preparers or banks, and identify ways to enhance compliance during processing. GAO analyzed IRS performance data, reviewed IRS operations, interviewed IRS officials, and reviewed its compliance programs and relevant statutes.

What GAO Recommends

GAO suggests that Congress provide IRS authority to automatically verify the number of years the Hope education tax credit is claimed.

GAO makes 7 recommendations including that IRS develop a plan to analyze its telephone data, work with the other entities involved in issuing refunds to improve timeliness, determine the feasibility of offering debit cards for refunds, and revise the Form 1098-T to improve its usefulness to taxpayers and IRS.

In response, the IRS Deputy Commissioner agreed with five recommendations and described some steps the agency is taking on the other two.

[View GAO-10-225](#) or [key components](#).

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2009 TAX FILING SEASON

IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved

What GAO Found

IRS processed 139 million returns and issued \$298 billion in refunds as of October 2, 2009. Electronic filing, which provides IRS with significant cost savings and taxpayers with faster refunds, increased to 68 percent of all returns filed. While taxpayers' access to telephone assistors was better than last year, it remained lower than in 2007 in part because of calls about tax law changes. Compared to 2005 through 2007, IRS reduced its goal for assistor answered calls in 2009 and set its 2010 goal at 71 percent. Despite heavy call volume, the accuracy of IRS responses to taxpayers' questions remained above 90 percent. IRS started a major data collection effort on why taxpayers call, but lacks a plan to analyze the data and improve telephone service.

Filing Season Workload and Performance Indicators, 2007 to 2009

Amounts in millions	2007	2008 ^a	2009
Individual tax returns processed			
Electronic returns	79	88	94
Paper returns	56	54	45
Total	135	142	139
Refunds			
Total refunds	104	105	109
Dollar amount of refunds (in billions)	\$234	\$247	\$298
Refund anticipation loans	10	10	8

Source: GAO analysis of IRS data.

^aExcludes 9 million stimulus-only returns.

According to IRS, issuing refunds faster reduces taxpayers' use of RALs, high-interest loans made by paid tax preparers or banks in anticipation of a refund. Issuing refunds is a joint effort by IRS, Treasury's Financial Management Service, which checks for non-tax debt owed to the federal government, and the Automated Clearing House, which distributes funds. However, IRS has not coordinated extensively with them to expedite refunds. Further, IRS has not studied the use of debit cards for unbanked taxpayers, which could also reduce taxpayers' use of RALs by providing faster and more secure refunds.

IRS automatically identifies and corrects select types of errors while processing tax returns. It could also correct tax returns that claim the Hope credit, a tax credit to help offset qualified education expenses, for longer than the number of years allowed. However, IRS lacks the authority to use prior years' tax return information for this purpose. Also, information reported by education institutions to taxpayers and IRS about qualifying educational expenses on the Form 1098-T is confusing for taxpayers and not useful for IRS. Many institutions report the total amount billed to students, but not what is actually paid after taking into account scholarships and grants. This results in some taxpayers under-claiming benefits, while others over-claim. Finally, because Form 1098-T can show the amount billed, which may not be the amount paid, IRS is unable to use the information to automatically verify taxpayers' claims for the credit through its computerized matching program.

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Abbreviations

ACH	Automated Clearing House
AGI	adjusted gross income
BSM	Business System Modernization
EITC	Earned Income Tax Credit
FDIC	Federal Deposit Insurance Corporation
FMS	Financial Management Service
IMF	individual master file
IRA	Individual Retirement Accounts
ITLA	Interactive Tax Law Assistant
IRS	Internal Revenue Service
MEA	math error authority
PIN	personal identification number
QSS	Quality Statistical Sample
RAC	refund anticipation check
RAL	refund anticipation loan
TAB	Taxpayer Assistance Blueprint
TIGTA	Treasury Inspector General for Tax Administration
TIN	taxpayer identification number

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United States Government Accountability Office
Washington, DC 20548

December 10, 2009

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable John Lewis
Chairman
The Honorable Charles W. Boustany, Jr.
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Internal Revenue Service's (IRS) 2009 filing season is an enormous and critical undertaking.¹ Last filing season, IRS processed over 140 million individual income tax returns and issued over 100 million refunds. IRS also answered tens of millions of taxpayer questions through telephone, Web site, and face-to-face assistance. During each of the last two filing seasons, IRS has been called upon to quickly implement complex tax law changes, including economic stimulus policies that have resulted in unexpected increases in call volume and created new taxpayer compliance challenges and workload.²

IRS's filing season performance also has indirect effects on taxpayers. For example, timely issuance of refunds can reduce taxpayer demand for

¹Most taxpayers file their tax returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing until as late as October 15.

²Millions of taxpayers qualified for the recovery rebate credit contained in the Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (2008). Taxpayers who did not receive the full economic stimulus payment in 2007 can claim some or all of the unpaid credit on their 2008 return. The Housing and Economic Recovery Act of 2008 included a first-time homebuyer credit of up to \$7,500 for homes purchased in 2008 that must be paid back over 15 years, Pub. L. No. 110-289, 122 Stat. 2654 (2008). The American Recovery and Reinvestment Act of 2009 increased the maximum credit to \$8,000 and eliminated the payback provision for homes purchased before December 1, 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

refund anticipation loans (RAL), which are short-term, often high-interest loans offered by tax preparers or banks that allow taxpayers to receive their refund cash quickly, sometimes within the same day.³ The filing season is also the time IRS begins its enforcement efforts with its math error program, in which IRS uses its computers to identify errors during processing, such as calculation mistakes or omitted or inconsistent entries. Where IRS has the statutory authority, also known as math error authority (MEA), it corrects certain errors before interest is owed by taxpayers, and helps taxpayers and IRS avoid burdensome audits.⁴

Earlier this year, we provided an interim assessment of IRS's 2009 filing season performance, made recommendations to improve IRS's 2010 filing season performance, and made suggestions to Congress to better ensure compliance, when tax returns are being processed, with the first-time homebuyer tax credit.⁵ In light of its importance, the Chair and Ranking Member of Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, and the Chair and Ranking Members of the Senate Finance Committee asked us to provide an overall assessment of IRS's 2009 filing season performance. For this report, our objectives were to

1. assess IRS's filing season performance compared to 2009 goals and prior years' performance;
2. identify opportunities for IRS to reduce taxpayers' reliance on RALs and Refund Anticipation Checks (RAC); and
3. identify opportunities, based on prior GAO reports such as those on higher education tax benefits, for IRS to enhance taxpayer compliance during returns processing.

³GAO, *Refund Anticipation Loans*, [GAO-08-800R](#) (Washington, D.C.: June 5, 2008).

⁴IRS is granted MEA in 26 U.S.C. § 6213(b). It can only be used for certain purposes specified by the Congress in 26 U.S.C. § 6213(g)(2). If it is not specified in the statute, IRS cannot pursue assessment and collection activities without issuing a statutory notice of deficiency.

⁵See GAO, *Tax Administration: Interim Results of IRS's 2009 Filing Season*, [GAO-09-640](#) (Washington, D.C.: June 3, 2009); GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season*, [GAO-09-1026](#) (Washington, D.C.: Sept. 23, 2009); and GAO, *First-time Homebuyer Tax Credit: Taxpayers' Use of the Credit and Implementation and Compliance Challenges*, [GAO-10-166T](#) (Washington, D.C.: Oct. 22, 2009).

Scope and Methodology

To meet our three objectives, we took the following steps.

- Reviewed and analyzed IRS reports, testimonies, budget submissions, and other documents and data, including performance and workload data, and compared these to IRS's goals and past performance to identify trends and anomalies in performance. We also tested for statistically significant differences between annual performance rates based on IRS sample data.
- Observed operations at the Joint Operations Center (which manages IRS's telephone services) and IRS's walk-in sites in Atlanta, Ga. and Baltimore, Md. and a volunteer site in Washington, D.C. We selected these particular offices for a variety of reasons, including the location of key IRS managers;
- Analyzed staffing data for paper and electronic filing, telephone assistance, and walk-in assistance.
- Reviewed information from other organizations who compile information pertinent to our objective, such as Keynote Systems, which evaluates Internet performance.
- Reviewed IRS reports and analyzed IRS data on RALs and RACs to identify trends and opportunities to reduce taxpayers' reliance on them.
- Reviewed IRS data and analyzed methods IRS currently employs to identify taxpayer compliance with eligibility requirement for higher education tax benefits.
- Reviewed MEA-related statutes to determine IRS's existing and possible new authorities.
- Interviewed IRS officials about current operations, trends, and significant factors and initiatives that affected performance; efforts to reduce reliance on RALs and RACs; and monitoring and oversight of compliance issues, including higher education credit claims.
- Interviewed representatives of some of the larger private and nonprofit organizations that prepare tax returns, including H&R Block and trade organizations that represent both individual paid preparers, tax preparation companies, and professional associations, including the American Institute of Certified Public Accountants.
- Reviewed Treasury Inspector General for Tax Administration (TIGTA) reports and interviewed a TIGTA official about IRS's performance and initiatives.
- Reviewed prior GAO reports and followed up on our recommendations made in filing season and related reports.

This report discusses numerous filing season performance measures and data covering the quality, accessibility, and timeliness of IRS's services that, based on our prior work, we consider sufficiently objective and reliable for purposes of this report. To the extent possible, we

corroborated information from interviews with documentation and data and where not possible, we attribute the information to IRS officials in our report. We reviewed IRS documentation, interviewed IRS officials about computer systems and data limitations, and compared those results to our standards of data reliability.⁶ Data limitations are discussed where appropriate. Finally, we conducted our work primarily at IRS headquarters including at the Small Business/Self-Employed Division in Washington, D.C., and the Wage and Investment Division headquarters in Atlanta, Ga. as well as the other sites mentioned earlier. We conducted this performance audit from January 2009 through December 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We received technical and written comments on a draft of this report, which we addressed. A letter from the IRS Deputy Commissioner for Services and Enforcement providing those comments is reprinted in appendix I. In that letter, the Deputy Commissioner explicitly agreed with five of our recommendations and described the steps IRS is taking with respect to our two other recommendations.

Background

Most taxpayers file their individual income tax returns electronically, although millions still mail paper returns. Compared to paper, electronic filing allows taxpayers to receive refunds faster, is less prone to transcription and other errors, and provides IRS with significant cost savings. Last year we reported that IRS estimated it used 39 percent fewer staff years for processing tax returns in 2007 than in 1999 for a savings of \$85 million.⁷

- The Free File program provides taxpayers below an income ceiling with access to a consortium of tax preparation companies that offer free on-line tax preparation and filing services for qualifying taxpayers.⁸

⁶GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-02-15G](#) (Washington, D.C.: Sept. 1, 2002).

⁷See GAO, *Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season*, [GAO-08-567](#) (Washington, D.C.: Mar. 13, 2008).

⁸Taxpayers with an adjusted gross income of \$56,000 or less in 2008 can access the Free File program offered through IRS's Web site.

-
- CADE, part of IRS's high-risk Business System Modernization program (BSM), is intended to eventually replace IRS's antiquated Master File legacy processing system and facilitate faster refund processing and provide IRS with more up-to-date account information.⁹

Primarily through its telephone, Web site, and, to a much lesser extent, through its face-to-face assistance, IRS also provides tax law and account assistance, limited return preparation, tax forms and publications, and outreach and education.

- IRS staff provides assistance at 401 walk-in sites where taxpayers can receive basic tax law assistance, receive assistance with their accounts, and have returns prepared by IRS if their annual income is \$42,000 or less.
- IRS also has volunteer partners that staff over 12,000 sites, which help serve traditionally underserved taxpayer segments, including elderly, low-income, and disabled taxpayers, and taxpayers with limited English proficiency.

IRS developed the Taxpayer Assistance Blueprint (TAB), a 5-year plan designed to assist the agency in providing, evaluating, and improving taxpayer services at lower cost. TAB also provided estimates of the cost-per-service contact for different types of taxpayer services and conducted preliminary research about the effect of taxpayer service on compliance. IRS delivered an update of TAB to Congress in October 2009.

Millions of taxpayers who do not want to wait for their tax refunds from IRS choose to obtain RALs, which are offered by paid preparers or banks to taxpayers in connection with federal and/or state tax refunds.

- RALs are short-term, high interest rate bank loans. We found that the annual percentage rate on RALs can be over 500 percent, RALs offer taxpayers the benefit of receiving cash quickly based on an expected refund.¹⁰ Combined with tax preparation fees, RALs may considerably

⁹IRS's highly complex, multibillion-dollar Business System Modernization (BSM) program is critical to (1) transforming the agency's manual paper-intensive business operations, (2) fulfilling its obligations under the IRS Restructuring and Reform Act, and (3) providing more reliable and timely financial management to allow IRS to better justify resource allocation decisions and budgetary requests. Despite progress in improving modernization management controls and capabilities and addressing long-standing financial management weaknesses, significant challenges and serious risks remain. (See GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: January 2009).

¹⁰[GAO-08-800R](#).

reduce a taxpayer's refund. However, RALs remain popular, especially among low-income taxpayers.

- RAL providers might also offer RACs, which are not loans, but instead are a refund delivery option where IRS direct deposits a refund into a temporary account set up by a financial institution, which withdraws the tax return preparation fee, and then makes the remaining funds available to the taxpayer. RALs and RACs allow taxpayers to pay return preparation and fees out of their refunds.

IRS uses its many tools to identify and correct noncompliance, whether intentional or unintentional.

- Over the years, Congress granted IRS statutory authority to cover specific areas so that the agency could correct tax return errors during processing, including calculation errors and entries that are inconsistent or exceed statutory limits, without having to issue the taxpayer a statutory notice of deficiency (see app. II for details). Math error checks are automated and low-cost relative to audits. Prompt compliance checks, such as math error checks, increase the likelihood of IRS collecting all or part of the amount owed.¹¹ However, IRS must be granted MEA from Congress by statute for specific purposes, and as noted above, we recently suggested areas where IRS could benefit from new authorities.
- IRS gets most of the information returns during the filing season. These returns are provided by third parties, such as employers, banks, or educational institutions, file returns with IRS and taxpayers that provide information on a variety of taxpayer transactions. IRS tries to match information from the information returns filed by third parties against taxpayers' income tax returns to see if taxpayers have filed returns and reported their income and expenses. This approach tends to lead to high levels of taxpayer compliance.

¹¹GAO, *Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing*, [GAO-09-146](#) (Washington, D.C.: Dec. 12, 2008).

Access to Telephone Assistors Remained Low, and IRS Has a Limited Understanding of Why Taxpayers Call and Has Not Clearly Integrated TAB into Its Planning Documents

As of October 2, 2009, IRS processed 139 million individual income tax returns. As shown in table 1, 94 million taxpayers (68 percent) electronically filed their returns compared to 88 million (62 percent) last year, excluding the 9 million stimulus-only returns.¹² Electronic filing provides IRS with significant cost savings—IRS estimates the cost savings of electronic filing to be \$2.71 per return over the costs in 2008. It helps taxpayers to receive their refunds faster and aids IRS in achieving the electronic filing goal of having 80 percent of all federal tax and information returns filed electronically by 2012.¹³ IRS issued approximately 109 million refunds, up 4 million from last year, for \$298 billion. Approximately 66 percent of all refunds were directly deposited, 9 percent more than last year. This increase is important, because direct deposit is faster, more convenient for taxpayers, and less expensive for IRS than mailing paper checks.

Table 1: Individual Income Tax Returns and Refunds Processed, 2005 through 2009

Amounts in millions

	2005	2006	2007	2008 ^a	2009	Percentage change from 2008 to 2009
Individual tax returns processed						
Electronic returns	65	72	79	88	94	6
Paper returns	62	59	56	54	45	-16
Total	127	131	135	142	139	-2
Refunds						
Total refunds	99	99	104	105	109	4
Dollar amount of refunds (in billions)	\$210	\$219	\$234	\$247	\$298	20
Average refund amount ^b	\$2,126	\$2,206	\$2,259	\$2,347	\$2,735	16
Number of direct deposits	53	56	61	66	72	9

Source: GAO analysis of IRS data.

¹²The Economic Stimulus Act of 2008 mandated that IRS send stimulus payments to millions of households. Many taxpayers that were exempt from filing a tax return did file in 2008 to receive the stimulus payment. See [GAO-09-146](#).

¹³The original goal was 80 percent by 2007, but Congress revised the time frame to 2012. Pub. L. No. 105-206 (1998). See, for example, GAO, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) (Washington, D.C.: Nov. 15, 2006).

Note: Data from January 1 through September 30, 2005, September 29, 2006, September 28, 2007, September 26, 2008, and October 2, 2009.

^aExcludes the 9 million stimulus-only returns processed by IRS as of September 26, 2008.

^bActual dollar amount, not in millions.

IRS attributes the increase in electronic filing, in part, to a 19 percent increase in people filing from home computers, which may be related to the elimination of separate fees for electronic filing.¹⁴ According to IRS, the elimination of fees by some paid preparers also contributed to the decline in the Free File program—as of September 20, 2009, the number of taxpayers who filed through Free File decreased to 3 million, down 37 percent from last year. IRS also attributed part of the decrease to the migration of taxpayers to other free offers in the marketplace. The Free File program offered a new option this year, fillable forms, that allow taxpayers to download forms from IRS and fill them in on a home computer without using tax preparation software. About 270,000 taxpayers used this option.

Finally, IRS met or exceeded its goals for six out of eight of the processing measures (see app. II for details). For example, IRS exceeded its goals for refund timeliness, and deposit timeliness and accuracy. The one measure where performance was significantly below IRS's goal and last year's level was the correspondence error rate, which is the percentage of incorrect notices and letters issued to taxpayers. According to IRS officials, this resulted from a high number of erroneous notices sent to taxpayers during the filing season related to the recovery rebate credit.¹⁵ In our interim report, we noted that millions of tax returns had these types of errors, which resulted in a delay in refund timeliness from 1 day to a week. IRS took actions to address the errors, including developing an automated tool to correct the errors more quickly.¹⁶

¹⁴GAO, *Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks*, GAO-09-297 (Washington, D.C.: Feb. 25, 2009).

¹⁵During the 2009 filing season, the recovery rebate credit was available to taxpayers who did not receive the economic stimulus payment or who were entitled to an additional payment based on information on their tax year 2008 tax return. Millions of taxpayers made errors calculating credit amounts and received math error notices notifying them of the change(s) made to the return.

¹⁶GAO-09-640.

Work to Increase CADE Functionality Has Been Suspended While IRS Develops a New Strategy for Modernizing Taxpayer Accounts

IRS's CADE processed 40 million tax returns and 35 million refunds worth \$59 billion. This accounts for about 29 percent of all returns processed. CADE processes returns and refunds between 1 and 8 days faster than legacy systems. Additionally, for the first time this year, CADE processed returns with payments to IRS—7 million returns with payments of \$9 billion.

Table 2: Individual Income Tax Returns and Refunds Processed on CADE, 2006 through 2009

Amounts in millions					Percentage change from 2008 to 2009
2006	2007	2008	2009		
Returns processed	7	13	31	40	31
Refunds issued	7	11	29	35	21
Dollar amount of refunds issued (in billions)	3	12	44	59	33
Payments received ^a	NA	NA	NA	7	NA

Source: GAO analysis of IRS data.

Note: Data from January 1 through mid-September. NA means not applicable.

^aBeginning in 2009, CADE has the capability of processing certain returns with payments.

After over 5 years and \$400 million, CADE is only processing about 15 percent of the functionality originally planned for completion by 2012.¹⁷ In addition, each successive release of the system was expected to process more complex returns and several technical challenges had not been addressed. Given this, IRS estimated that full implementation of CADE would not be achieved until at least 2018 or possibly as late as 2028. As a consequence, IRS decided to stop development of new CADE functionality and rethink its strategy for modernizing individual taxpayer accounts to determine whether an alternative approach could deliver improvements sooner. IRS also stopped its plans for adding new functionality to a CADE-related system that allows its telephone assistants to access and work with taxpayer accounts. According to IRS officials, the need to enhance computer security and the availability of new technologies also influenced the decision to rethink the CADE strategy.

¹⁷This is based on the percentage of functions, forms, and transactions IRS reports having delivered to date.

Stopping CADE development has trade-offs in that IRS will not be able to materially increase the number of returns processed on CADE during the 2010 filing season, which, in turn, means that the number of taxpayers benefiting from faster refund processing will not increase.¹⁸

On the other hand, IRS's new strategy for modernizing individual taxpayer accounts is intended to address the risks and challenges of the initial approach. Importantly, IRS officials responsible for implementing this new strategy told us that they expect to provide all taxpayers with faster refund processing by the 2012 filing season. IRS plans to do this by continuing daily processing of the roughly 40 million taxpayer accounts currently on CADE while converting the legacy Individual Master File system from weekly to daily processing for the roughly 100 million remaining accounts. IRS also plans to develop a new database that would be the single authoritative source of taxpayer account information and use the new database for daily processing by 2014.

IRS established a program management office to guide the implementation of the new strategy and developed a preliminary road map and high-level cost estimates for the effort. It also defined the overall business benefits the strategy is expected to provide. IRS officials also stated that they are working on a more detailed plan for the strategy, including milestones, deliverables, and detailed costs for the first phase of the strategy and expect to have them completed in December. These documents as well as plans for fully implementing the new strategy are critical to justifying IRS's change in direction and we plan to evaluate them as part of the review of IRS's fiscal year 2010 Business Systems Modernization expenditure plan, which we recently initiated.¹⁹

¹⁸The changes to CADE for the 2010 filing season will primarily be legislative changes and improvements to existing functions.

¹⁹Business Systems Modernization funds (except labor costs) are unavailable until IRS submits a modernization expenditure plan to the congressional appropriations committees and obtains their approval. The appropriation that funds IRS requires GAO to review this plan. We have also initiated a more detailed review of the new strategy at the request of the House Appropriations Subcommittee on Financial Services and General Government and plan to report on the results of this review within the next year.

Access to Telephone Assistors Remained Low for the Second Year in a Row and IRS Decreased Its 2010 Access Goal

As shown in table 3, taxpayers’ access to IRS’s telephone assistors was better than last year, but was below IRS’s original goal for 2009 and remains well below 2005 through 2007 performance.

Table 3: IRS Telephone Service Goals and Performance, 2005 through 2010 Filing Seasons

		2005	2006	2007	2008	2009	Fiscal year 2010
Percentage of callers seeking live assistance who received it	Actual	82	81	81	57	68	NA
	Goal	82	82	82	82 ^a	77 ^b	71
Average wait time goal (minutes)		2.8	5	4.3	4.4	10	NA
Actual average wait time (minutes)		4.3	3.9	4.6	8.6	8.4	NA

Source: GAO analysis of IRS data.

Note: Data from January 1 through June 30. NA means not applicable.

^aIRS revised its original goal of 82 percent down to 74 percent because of high call volume due to stimulus-related questions.

^bIRS revised its original filing season goal of 77 percent down to 67.8 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

IRS reduced its 2009 goal for providing assistor services from the goals for 2005 through 2008, as shown in table 3. IRS initially set the fiscal year 2009 goal for the percentage of taxpayers seeking assistor service who actually received it at 77 percent.²⁰ Perhaps more importantly, IRS reduced the goal for 2010 to 71 percent. According to IRS officials, the goals were reduced because of resource trade-offs related to call volume increases starting in 2008.

As shown in table 4, IRS’s call volume in 2008 and 2009 was substantially higher than in prior years. Although IRS received 40 million fewer calls in 2009 than in 2008, the volume was still well above earlier years.²¹ While

²⁰IRS subsequently reduced this goal to 68 percent in April 2009 due largely to increased call volume related to electronic filing authentication and stimulus-related questions. IRS also increased its wait time goal, and the average time a taxpayer waits to speak with an assistor remains over 8 minutes, nearly twice the average wait times between 2005 and 2007.

²¹Unlike last year, when so many calls came in after the filing season, between April and June, this year call volume was heaviest during February (see app. IV for graphic illustrations of weekly call volume).

IRS's automated call systems answered an increasing number of calls, the number of calls abandoned by taxpayers, busy signals, and calls disconnected by IRS also went up substantially. This may have limited many taxpayers from reaching IRS assistors with questions.

Table 4: Calls to IRS by Call Type, 2005 through 2009

Amounts in millions

	2005	2006	2007	2008	2009	Percentage change from 2008 to 2009
Assistor calls answered	22	21	22	27	26	-4
Abandoned calls	11	12	13	34	21	-38
Busies and IRS disconnects	1	2	1	14	5	-64
Automated calls answered	23	22	21	43	25	-42
Total calls received	58	57	57	118	78	-34

Source: GAO analysis of IRS data.

Note: Data from January 1 through June 30.

IRS attributed the heavier-than-anticipated call volume in part due to stimulus-related questions and taxpayers needing authentication information. Taxpayers had to provide their last year's adjusted gross income (AGI) or personal identification number (PIN) to authenticate their identity in order to electronically file. Taxpayers who did not know their AGI or PIN and tried to get it from IRS had to call an assistor or visit an IRS walk-in site. While IRS took actions to minimize the effect of these calls, heavy volume continued through the filing season. According to IRS, its assistors answered 3 million calls from taxpayers needing their AGI, nearly 10 percent of all assistor calls, at a cost of \$36 million through June 2009.

We recently reported that IRS is developing an automated Web and phone application to provide taxpayers with authentication information for electronic filing in the 2010 filing season.²² In that report, we also made recommendations to improve telephone service by reducing the volume of telephone calls, which could improve taxpayer access to IRS assistors. For example, in addition to recommending ways to reduce the number of rejected returns, which often lead to taxpayers calling IRS, we

²²[GAO-09-1026](#).

recommended that IRS develop a low-cost automated method to respond to taxpayer questions about volunteer site locations and hours of operation. IRS is in the process of addressing those recommendations.

Despite the heavy call volume, the accuracy of the telephone assistors' responses to tax law and account questions was higher by a statistically significant amount compared to the same period last year and exceeded IRS's fiscal year 2009 goals (see table 5). Since 2005, IRS has maintained a level of accuracy of about 90 percent or more. According to IRS officials, the high accuracy is due to training and the introduction of new tools, particularly the Interactive Tax Law Assistant (ITLA), which is a Web-based probe and response guide to help assistors provide more accurate and consistent responses to specific tax law questions.

Table 5: IRS Telephone Assistor Accuracy Performance, 2005 through 2009

	2005 actual	2006 actual	2007 actual	2008 actual	2009 actual	Fiscal year 2009 goals
Accuracy measures ^a						
Tax law accuracy rate (in percent) ^b	89.5 +/-0.6	90.6 +/-0.6	90.7 +/-0.9	90.3 +/-0.9	92.5 +/-0.8	91.0
Accounts accuracy rate (in percent) ^b	91.3 +/-0.4	93.3 +/-0.3	93.2 +/-0.5	93.5 +/-0.4	95.1 +/- 0.4	93.5

Source: GAO analysis of IRS data.

^aBased on representative samples from January through June.

^bThe percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.

IRS Has a Limited Understanding of Why Taxpayers Call

IRS has limited information on why taxpayers call to speak IRS assistors. To help obtain better information on why taxpayers call, IRS recently implemented a major data collection effort called Contact Analytics at all its 26 call sites. According to IRS, Contact Analytics is a significant investment that will allow IRS to search recorded telephone interactions between taxpayers and IRS assistors for key words or phrases. It is intended to improve service by providing IRS with a research tool to better understand why taxpayers are calling and take corrective action if

necessary as well as identify areas to reduce costs, such as identifying calls that can be moved to self-service.²³

However, the agency does not have a comprehensive and detailed analysis plan for effectively using Contact Analytics data to determine how to improve taxpayer service or reduce costs. According to IRS officials, because Contact Analytics is a new program and data is only beginning to be collected, IRS has not yet considered a plan to analyze the data produced by the program. IRS officials recently indicated that now that Contact Analytics has been implemented, they intend to eventually develop an analysis plan. However, a standard approach for major data collection efforts is to develop a research plan before data collection begins. Such a plan helps ensure that necessary data is collected and that resources are not wasted collecting information that will not be needed.²⁴ Now that IRS is actually collecting the data, the lack of a research plan delays the time when improvements to taxpayer service, based on the results of the research, could be implemented. Having a comprehensive and detailed analysis plan that includes, for example, a research design, dissemination of results, and involvement of relevant stakeholders, provides a number of benefits, perhaps most importantly, increasing the likelihood that the analysis will yield methodologically sound results, thereby supporting effective policy decisions.²⁵

While many taxpayers require service from live assistors, diverting calls to automated services is also important because of the costs involved—IRS assistors answered about 26 million calls between January 1, 2009 and June 30, 2009 at a cost of \$25.75 per call, for a total of \$670 million. Also, taxpayers would benefit from reduced wait times and having the capability to obtain information immediately and without having to speak to an assistor.

²³Contact Analytics is one of the 55 initiatives outlined in the Taxpayer Assistance Blueprint (TAB), and is directly linked to the Improving Taxpayer Services goal as well as the Electronic Interaction Enablement and Telephone Service Enhancements objectives.

²⁴See GAO, *Quantitative Data Analysis: An Introduction*, GAO-10.1.11 (Washington D.C.: May 1992).

²⁵GAO, *Earned Income Tax Credit: Implementation of Three New Tests Proceeded Smoothly, but Tests and Evaluation Plans Were not Fully Documented*, [GAO-05-92](#) (Washington, D.C.: Dec. 2004).

IRS Added Features to Its Web Site that Potentially Diverted Calls

IRS continues to launch new features on its Web site to provide better access to information and reduce taxpayer burden, including

- the “How Much Was My 2008 Stimulus Payment” application and the recovery rebate check calculator that used the economic stimulus payment amount from 2008 along with several other factors to determine eligibility for recovery rebate credit and the appropriate amount to claim;
- the Online Payment Agreement application that provides taxpayers with an online, interactive payment agreement process that reduces the need for contact with an assistor and eliminates paper processing.
- a “What if” page on IRS.gov that describes different scenarios for taxpayers on the possible impact of, for example, loss of job or house, on the taxpayers ability to pay taxes; and
- information on the new tax credits provided in the Recovery Act with details on, for example, claiming the first-time homebuyer credit and tax breaks for vehicle purchases.

As table 6 shows, compared to before 2008, visits to IRS’s Web site are substantially higher than in the last 4 years with the exception of 2008. The year 2008 was anomalous, in part, because of the high number of visits to stimulus-related features on IRS’s Web site in 2008.

Table 6: IRS Web Site Use, 2005 through 2009

Amounts in millions						
	2005	2006	2007	2008 ^a	2009	Percentage change from 2008 to 2009
Total visits	148	161	178	304	246	-19
Downloads	125	170	128	145	150	3
Searches ^b	166	128	146	175	184	5
Where’s My Refund?	22	25	32	39	53	36
Recovery Rebate Check Calculator ^b	NA	NA	NA	NA	7	NA
How Much Was My 2008 Stimulus Payment? ^c	NA	NA	NA	NA	55	NA
Online Payment Agreement (in thousands) ^d	NA	NA	NA	4,763	49,233	NA

Source: GAO analysis of IRS data.

Note: NA means not applicable.

^aData from October through December 2008.

^bIncludes visits and page views.

^cData from January 1 through June.

^dIRS launched the Online Payment Agreement application in 2008.

One measure of the quality of IRS's Web site is its ranking in the Keynote Systems top 40 government Web sites. During each week of the 2009 filing season, IRS ranked fourth and fifth in response time out of the top 40 government Web sites in the Keynote Government Index weekly ratings, compared to ranging between first or second last filing season.²⁶

Finally, IRS is working on a Web portal strategy to expand taxpayers' access to self-assistance tools for account and tax law issues. Both the TAB and IRS's 2009-2013 strategic plan focus on enhancing features on IRS's Web site.

IRS Improved Its Ability to Assess the Quality of Assistance at Volunteer Sites and Accuracy Improved at IRS's Walk-in Sites

As of June 28, 2009, IRS's volunteer partners prepared 3 million tax returns, a slight increase of 1 percent over last year. IRS provides training and certification for volunteer staff to help ensure quality. However, assessing the quality of assistance at volunteer sites is a challenge for IRS because of the large number of volunteer sites and staff providing return assistance. IRS officials stated that the agency partnered with community-based organizations to run 12,160 sites in 2009, 320 sites more than last year, staffed with nearly 83,000 volunteers.²⁷

Despite these challenges, IRS conducted several types of quality reviews, including site and tax return reviews as well as mystery shopping reviews in both 2008 and 2009.²⁸ For 2009, IRS combined site and return reviews into its Quality Statistical Sample (QSS) reviews. According to IRS

²⁶The Keynote Government Index measures and benchmarks the performance of the home pages of 40 major U.S. federal government Web sites from the 10 largest U.S. metropolitan areas.

²⁷Volunteer sites are located in a variety of locations, such as community and neighborhood centers, schools, and other locations, some of which may be fairly remote. Further, many sites operate only for a few days and limited hours.

²⁸Mystery shopping involves IRS officials visiting volunteer sites posing as taxpayers to assess the experience of the preparers. Site reviews assess whether volunteer preparers were adhering to minimum quality standards required by all sites. Return reviews determine whether the tax law was applied properly for critical items and resulted in an accurate return based on the taxpayer interview and supporting documentation. However, because IRS's site and return reviews were based on a non statistical selection of returns prepared during visits to volunteer sites prior to the 2009 filing season, the results were not statistically valid or reliable.

officials, QSS reviews were based on a statistically valid sample of sites.²⁹ IRS reported that it collected data from 240 site reviews and 679 return reviews, generally reviewing 3 tax returns per site visit. As of mid-April, return preparation accuracy was 78 percent. In contrast, IRS's mystery shopping reviews resulted in a 68 percent accuracy rate. However, IRS officials stated that the QSS reviews are statistically valid and, therefore, provide a better overall assessment of return accuracy than mystery shopping. Consequently, IRS officials reported they will not conduct mystery shopping in 2010.

While we acknowledge that the QSS reviews represent an important advancement in IRS's assessment of the accuracy of return assistance at volunteer sites, it is important to consider how the data are collected and how the results will be used. The results of the QSS return reviews could be biased because of volunteers' awareness of the presence of IRS officials. According to IRS officials, since site visits were unannounced, volunteer staff may have been unaware of IRS's presence while observing the first return, but were likely to have noticed IRS's presence by the second and third return. As a result, volunteers could be more quality conscious while preparing the later returns, adhering to the quality process encouraged by IRS more than they might have been otherwise. IRS officials stated that they understand the limitations of how the results were obtained.

In contrast to a slight increase at volunteer sites, as of April 30, 2009, the total number of taxpayers' contacts at IRS's 401 walk-in sites was 2.7 million, down 12 percent compared to previous year.³⁰ Further, as of June 30, 2009,

- the accuracy of account assistance improved to 88 percent compared to 83 percent last year, and
- the accuracy of tax law assistance also improved to 76 percent from 67 percent last year. According to IRS officials, this increase is due in large part to management's focus on the consistent use of IRS tools available to assistors. They identified IRS's ITLA in particular, for the

²⁹According to IRS officials, IRS used a group of 22 specially trained tax specialists to visit a statistically valid sample of volunteer sites and generally perform three return reviews at each site in order to determine the overall accuracy of tax returns prepared at the volunteer sites.

³⁰In fiscal year 2008, IRS reverted back to its old methodology in an effort to capture the number of taxpayers assisted rather than, as in prior years, capturing services provided.

increase in accuracy in tax law and return assistance, which is used by both IRS's telephone and walk-in site assistors to provide more accurate and consistent answers to taxpayers' questions. While IRS officials acknowledged that using ITLA may take longer to get the answer, assistors properly using the tool will provide the right answer(s) to customer specific tax law questions more often than when ITLA is not used.

The Relationship between TAB and IRS's Budget and Strategic Plan Is Not Clear

TAB is IRS's 5-year strategic plan for improving service to taxpayers and helping guide the agency's budget and resource allocation decisions. However, the linkage between TAB and the 2010 budget request for IRS or IRS's agency wide 2009–2013 strategic plan is not clear. TAB is mentioned once in the budget document and not at all in IRS's strategic plan. This lack of transparency obscures the link between TAB and IRS's overall strategic plan and budget. IRS officials acknowledged that while TAB is not specifically included and integrated in IRS's budget and other planning documents, IRS considers TAB to be a guiding principle.

According to the Office of Management and Budget and our own work, it is important to link general goals communicated in strategic plans with cross-cutting initiatives, such as those listed in TAB because they work together to form a budget and implementation framework.³¹ Without more explicit connections between TAB and IRS's planning documents, Congress and other stakeholders may not be able to understand the priority that IRS places on improving taxpayer service.

RAL Usage Declined in 2009 and IRS Could Further Reduce Usage by Issuing Faster Refunds

According to IRS, depending on the tax refund amount, RAL and RAC fees may range from \$39 to over \$600, which includes the account set-up fee, tax preparation, and interest. In a recent report, we noted that these charges may amount to an annual percentage interest rate of over 500 percent.³² IRS officials told us that IRS's continued efforts to reduce RALs and RACs focus on increasing electronic filing with direct deposit, and improving refund timeliness.

Table 7 shows that 8 million taxpayers applied for RALs from banks or other financial institutions, a decline of 20 percent compared to last year.

³¹GAO, *Agencies' Strategic Plans Under GPR: Key Questions to Facilitate Congressional Review*, GAO/GGD-10.1.16 (Washington, D.C.: May 1997).

³²GAO-08-800R.

One reason for this decline may have been reluctance by some lenders to offer RALs early in the filing season due to taxpayer errors related to recovery rebate credit claims.³³ Because taxpayer's anticipated refund is the collateral for a RAL, lenders could not be certain the collateral existed when many refund claims were in error. In contrast, the number of RAC requests increased by 10 percent to 11 million. RACs are less risky for the return preparer because the taxpayer receives no money until the preparer receives the refund and deducts associated fees.

Table 7: RALs and RACs Requested by Taxpayers, 2007 through 2009

Amounts in millions				
	2007	2008	2009	Percentage change from 2008 to 2009
RALs	10	10	8	-20
RACs	9	10	11	10

Source: GAO analysis of IRS data.

Note: Data from January 1 through April 15.

IRS's 2006 RAL report to Congress provides valuable information on

- taxpayer use of RALs and RACs,
- benefits of improving refund timeliness on reducing taxpayers' reliance on RALs and RACs,
- the cost associated with RALs and RACs, and
- information on RAL alternatives offered by both IRS and tax preparers.³⁴

However, IRS has not released this report to the public nor has IRS updated it. Further, according to IRS officials, there is no requirement to do so. By not public releasing and updating the report, IRS is missing an opportunity to provide Congress and taxpayers with important information on how tax law changes, such as the economic stimulus package, might have affected taxpayers' reliance on RALs and RACs and potentially reduce taxpayers' reliance on them.

³³GAO, *Tax Administration: Interim Results of IRS's 2009 Filing Season*, GAO-09-640 (Washington, D.C.: June 3, 2009).

³⁴Report to Congress (2006). The report was submitted in response to a directive from Congress in the fiscal year 2006 Treasury Appropriation Act conference report.

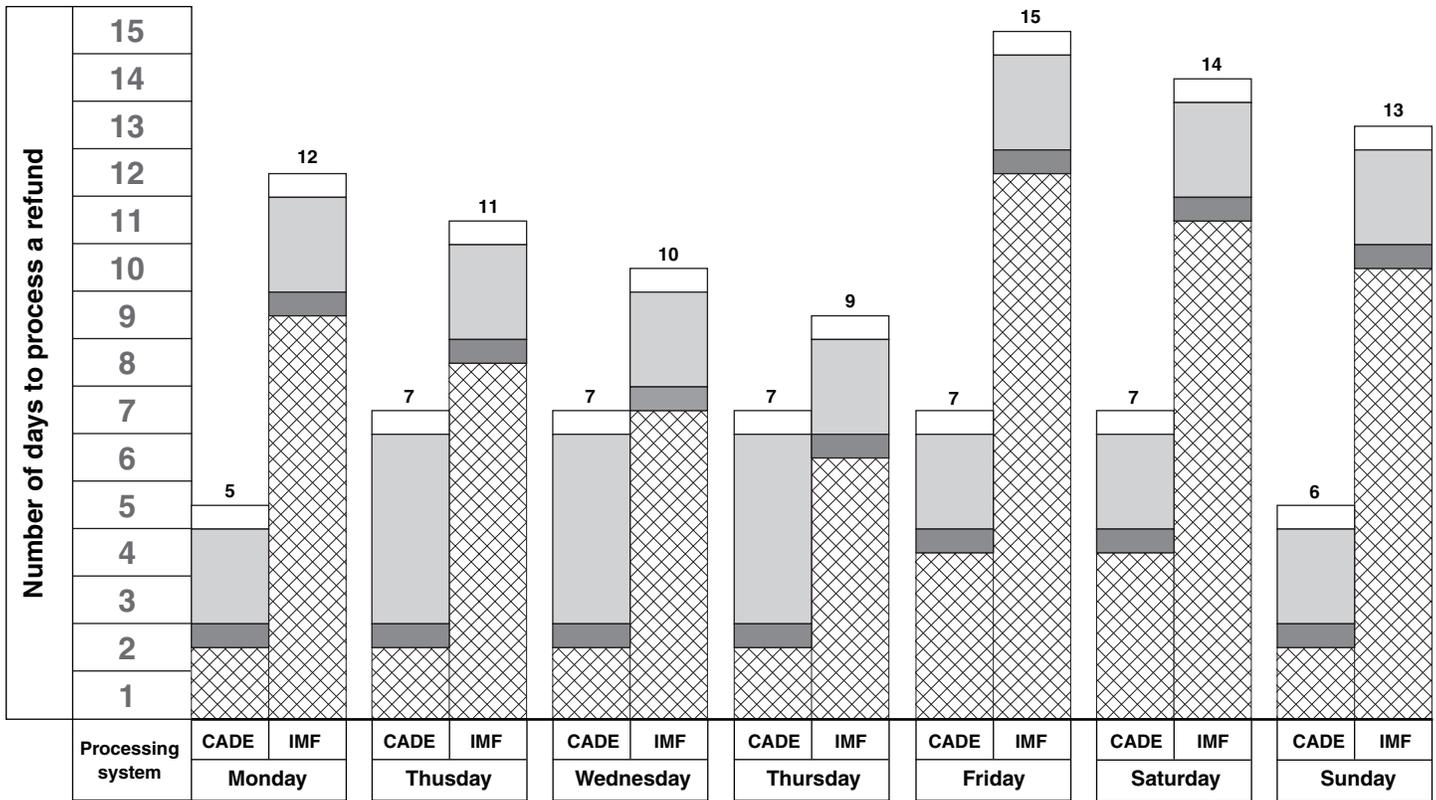
IRS and Other Entities Share Responsibility for Issuing Refunds, and More Could Be Done to Improve Refund Timeliness

Most refunds are claimed on electronically filed returns and then electronically deposited because taxpayers and preparers know that electronic filing and depositing speeds up refund processing. Refunds take 5 to 15 days, as shown in figure 1. Figure 1 also shows that

- refund processing time varies by day of the week and is shorter for refunds processed on CADE than on IRS's legacy individual master file,
- three entities—IRS, Treasury's Financial Management Service (FMS) and Automated Clearing House (ACH)—share responsibility for issuing refunds (see table 8 below).³⁵ IRS runs pre-refund tax law compliance checks, FMS checks for non tax debt owed to the federal government, and ACH distributes the funds.
- IRS accounts for a varying proportion of the total processing time. In a number of cases, IRS accounts for less than half the time it takes to process and issue a refund.

³⁵Treasury's Financial Management Service is the primary disbursing agent for payments to individuals and businesses on behalf of federal agencies. The Automated Clearing House network is a funds transfer system governed by a specific set of rules that provides for the interbank clearing of electronic entries for participating institutions.

Figure 1: Income Tax Refund Processing Time Line for Electronically Filed Returns with Direct Deposit by Processing Component



Day of submission for electronically filed returns received by 11:00 a.m.

- Direct deposit
- ACH processing time
- FMS processing time
- IRS processing time

Source: GAO analysis of IRS data.

Improving refund timeliness is a goal of IRS, with the effort focused on shifting tax return processing to CADE. Figure 1 suggests that another approach would be to try to reduce the time taken by the other two entities involved in issuing refunds, particularly ACH. While IRS officials reported that they meet at least annually with FMS officials to discuss issues related to refunds and communicate intermittently to address issues as needed, they also said that they have not aggressively explored with the

other two entities whether opportunities exist to shorten refund processing time.³⁶ This is a timely issue because as IRS has shifted 40 million of tax returns to CADE, the IRS proportion of overall refund processing time has decreased.

IRS Has Not Studied the Use of Debit Cards for Unbanked Taxpayers

While IRS offers paper check and direct deposit options for delivering refunds to taxpayers, it has not studied the feasibility of distributing refunds electronically through debit cards.³⁷ Further, IRS has not determined the costs of issuing debit cards nor the benefit for taxpayers. Although tens of millions of taxpayers receive paper checks, they are less secure than electronic distribution of benefits. Further, many unbanked taxpayers may not have the benefit of faster refunds associated with direct

³⁶FMS provides a variety of options to federal agencies for collecting and issuing payments. While IRS uses ACH to deliver most individual tax refunds, which takes 2 to 4 days, it uses FedWire to deliver refunds of more than \$1 million, which are processed and delivered within the same day. While issuing refunds through FedWire costs slightly more per refund than ACH, the often high interest rates for RALs and RACs may make the increased cost of using FedWire a viable option for taxpayers. In addition to FedWire and ACH, FMS provides debit cards and other electronic methods that agencies use to process payments. However, IRS officials stated that because of the high costs involved, FMS discourages issuing FedWire payments less than \$1 million. These costs occur because IRS must manually key enter the information to arrange FedWire payments and there is no large volume processing capability for payments. However, IRS officials reported that there is potential to automate and work with FMS to enhance the manual refund process for Fedwire.

³⁷In 2009, IRS partnered with JP Morgan Chase and other partners to pilot a refund debit card program at a limited number of volunteer sites. IRS did not cosponsor the Chase debit card program, nor did it advocate for any specific financial institution or debit card, but did share information with Chase to target cities with high RAL and RAC use. Further, individual volunteer sites had the option of not participating in the program. According to IRS officials, while the pilot program was characterized as a success—with 6 partners participating and 958 debit cards issued at 19 volunteer sites—no additional data about the program's success were collected. Further, the program will not be expanded. Instead, IRS reported that it will provide outreach and education, but it will be the responsibility of the partnering sites to establish and maintain relationships with financial institutions and IRS will not facilitate any kind of program nor advocate for any particular product.

deposit and, instead, receive their tax refund by checks, often incurring transaction costs, such as check cashing fees.³⁸

Debit card programs are well established in a variety of state and federal government programs. For example, FMS's Direct Express debit cards allow beneficiaries to receive their benefits as quickly as direct deposit while avoiding transaction fees associated with receiving check payments. Similarly, debit cards could provide taxpayers with a low- or no-cost refund option for receiving refunds quickly. According to a recent survey conducted by TIGTA, 63 percent of RAL applicants indicated a preference for receiving a debit card from IRS instead of purchasing a RAL. Finally, in its RAL report to Congress, IRS noted that transitioning unbanked taxpayers to debit cards would allow them to receive their refund in the same amount of time as taxpayers that have direct deposit.³⁹

Without researching the benefits and costs of debit cards, IRS does not know whether direct distribution of cards is a viable option to distribute refunds, improve refund timeliness and reduce taxpayer reliance on RALs, and provide electronic payment options for unbanked taxpayers.

We have previously reported that Treasury's role as the federal government's leader for payments and its experience with electronic payment methods suggests that it could provide valuable information and assistance to IRS, particularly when working with other entities to improve service.⁴⁰ However, without aggressively collaborating with FMS and ACH to improve refund timeliness and explore other refund options,

³⁸Currently, individuals without an account at a bank, savings and loan, credit union or other financial institutions, sometimes referred to as the "unbanked," receive their tax refunds by checks mailed to their homes. While IRS has no plans to develop or deploy a debit card system, it has reported that payments made to debit cards could be sent over the same electronic network and direct deposits and thus would move at the same speed. However, to be as fast as direct deposit, debit cards would need to be in the possession of and activated by taxpayers at the time their refunds are made. Further, debit cards could offer unbanked taxpayers some of the same benefits of having a bank account. The balance of the taxpayer's refund after fees could be accessed by using the debit card at ATM machines and points of sale. Just before our report was issued, the Federal Deposit Insurance Corporation (FDIC) published an estimate of the number of unbanked households. FDIC estimated that 9 million households were unbanked (see FDIC, *National Survey of Unbanked and Underbanked Households* (Washington, D.C.: December 2009).

³⁹Report to Congress (2006).

⁴⁰GAO, *Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use*, [GAO-08-645](#) (Washington, D.C.: June 23, 2008).

IRS may be missing an opportunity to further reduce the time taxpayers wait for refunds and taxpayers' reliance on RALs.

During Returns Processing IRS Could Reduce Taxpayer Confusion and Better Ensure Compliance with Higher Education Tax Benefits

We identified higher education tax benefits as one area where an expansion of MEA and revisions to information returns might reduce taxpayer confusion and increase compliance (see app. V). Millions of taxpayers claim the Hope and Lifetime Learning tax credits to offset qualified education expenses. However, these tax provisions are complicated and may lead taxpayers to under claim benefits or unknowingly claim more benefits than they are entitled to claim.⁴¹

IRS faces challenges ensuring compliance with the eligibility requirements of the higher education credits. IRS relies on audits and limited MEA to ensure compliance. However, audits may not be an efficient method for enforcement in this case. Audits are labor intensive, and therefore costly, for IRS. According to IRS officials, the maximum amount most taxpayers can claim per student each year—\$1,800 per student for the Hope credit and \$2,000 per return for the Lifetime learning credit for tax year 2008—may not yield sufficient revenue to justify expanded enforcement.⁴² Because of the relatively high costs and small revenue gain, IRS does relatively few audits of the millions of education credit claims.

IRS has MEA to verify compliance with some of the higher education credit eligibility requirements. However, IRS lacks the statutory authority to use MEA to verify compliance with the limit on the number of years that taxpayers can claim the Hope credit.⁴³ If IRS had authority to use information from prior years' returns to check taxpayers' eligibility, it could correct claims during processing, before refunds are issued, and enhance compliance.

⁴¹On taxpayers under claiming tax benefits, see, for example, GAO, *Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families through Title IV Student Aid and Tax Preferences*, [GAO-05-684](#) (Washington, D.C.: July 29, 2005).

⁴²Special rules apply to students attending qualified education institutions in a Midwestern disaster area. Also, under the Recovery Act of 2009, for tax years 2009 and 2010, the Hope credit the maximum allowable amount most taxpayers can claim is increased from \$1,800 to \$2,500.

⁴³Under the Recovery Act of 2009, for tax years 2009 and 2010, the Hope credit was expanded from a 2-year to a 4-year limit (see app. V for details).

Eligible educational institutions are required to report information on qualified expenses for higher education to both taxpayers and IRS so that taxpayers can determine the amount of educational tax benefits that can be claimed (see app. V).⁴⁴ However, the information currently reported by educational institutions on tuition statements sent to IRS and taxpayers (on Form 1098-T) may be confusing for taxpayers who use the form to prepare their tax returns and not very useful to IRS.⁴⁵

IRS requires institutions to report on Form 1098-T either the (1) amount of payments received, or (2) amount billed for qualified expenses. IRS officials stated that most institutions report the amount billed and do not report payments. However, the amount billed may not equal the amount that can be claimed as a credit.⁴⁶ For example, the amount billed may not account for all scholarships or grants the student received. In such cases, the Form 1098-T may overstate the amount that can be claimed as a credit, confusing taxpayers. Conversely, if institutions are not providing information on other eligible items, such as books or equipment, taxpayers might be understating their claims.⁴⁷

In addition to confusing taxpayers, the existing Form 1098-T is not very useful to IRS in its enforcement efforts. According to IRS officials, because the amount billed may not be the amount taxpayers are eligible to claim as a credit, IRS does not compare tuition statement information to the information reported on a tax return. IRS officials stated that a change in legislation, which TIGTA recommended in a recent report, would be

⁴⁴Qualified expenses are tuition and fees a student must pay to be enrolled at or attend an eligible educational institution, and other course-related fees and expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

⁴⁵26 U.S.C. § 6050S requires educational institutions to provide information to taxpayers and IRS to assist both in determining the amount of qualified tuition and related expenses for which an education tax benefit is allowable.

⁴⁶Currently, educational institutions are required to report information on the form 1098-T for qualified tuition expenses as well as information on the institution itself and the student. These requirements include, for example, reporting name, address, and taxpayer identification number (TIN) of the institution; name, address, and TIN of the student; and amount of payments received or the amount billed for qualified expenses during the calendar year.

⁴⁷Under the Recovery Act of 2009, for tax years 2009 and 2010, the Hope credit was expanded to include as qualified tuition and related expenses any expenditures for course materials. These expenditures include books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

needed to require institutions to report only the amount paid. However, IRS does not currently use some of the more basic information from the tuition statement to verify eligibility for the credit.⁴⁸ For example, a tuition statement includes the student's SSN that could be matched to tax return information. Additionally, IRS does not use the location of the institution to determine whether it is located in a federal disaster area, which substantially increases the amount of the eligible credit. Using IRS's compliance computer matching systems to automatically compare information on statements to taxpayers' claims could be a low-cost enforcement tool for IRS to verify certain aspects taxpayers' eligibility for of the credit.

While changing the requirements for how higher education institutions report qualified expenses on tuition statements would likely impose some burden on those institutions, the additional burden could be low because the institutions are already required to fill out Form 1098-T. Further, this form could be revised to more clearly provide additional information about qualified expenses, such as for books, supplies, and equipment—information institutions might already collect—and potentially reduce taxpayer confusion and noncompliance.

Conclusions

IRS met many of its 2009 filing season goals. The major exception was telephone service, where, for a second year in a row, unanticipated increases in call volume significantly reduced performance, in part, because of inquiries related to tax law changes. However, IRS does not have a research plan for conducting analyses of its telephone contacts that could identify areas for more automated services. The declines in telephone performance also highlight the importance of TAB, which is intended to provide the strategy for improving service to taxpayers, and how TAB is integral to IRS's overall strategic plan.

Millions of taxpayers continue to use expensive RALs and RACs. By not coordinating more closely with FMS and ACH, IRS may be missing opportunities to improve refund timeliness and expand options for refund delivery, both of which might reduce taxpayers' demand for RALs and RACs. Further, by not updating its RAL report and studying the feasibility

⁴⁸In a recent report, TIGTA recommended that IRS be provided with math error authority to disallow claims for the Hope Credit that are taken for more years than allowed by law. See TIGTA, *Improvements Are Needed in the Administration of Education Credits and Reporting Requirements for Educational Institutions*, Reference No. 2009-30-141 (Washington, D.C.: Sept. 30, 2009).

of debit card options, IRS may be missing other opportunities to reduce the transaction costs imposed on taxpayers, particularly low income taxpayers, when they receive tax refund payments.

Finally, steps could be taken by Congress to provide IRS with the statutory authority to automatically verify some aspects of higher education credits claims and by IRS to improve and better utilize information reported by higher education institutions. Without such steps, taxpayers may remain confused by the information reported to them, and IRS will not make use of some low-cost, less intrusive tools for helping ensure compliance.

Matters for Congressional Consideration

Congress should consider providing IRS with MEA to use prior years' tax return information to automatically verify taxpayers' compliance with the limit on the number of years the Hope credit can be claimed.

Recommendations for Executive Action

Related to improving IRS's performance during the filing season, the Commissioner of Internal Revenue should

- Develop as soon as possible an analysis plan for using the data IRS captures through Contact Analytics; and
- Explicitly integrate the TAB in strategic planning documents.

To further improve refund timeliness and reduce reliance on RALs and RACs, IRS should

- Update and publicly release a report on RAL and RAC use;
- Work more proactively with FMS and ACH to help improve refund timeliness; and
- Determine the feasibility of offering debit cards for refunds.

To reduce taxpayer confusion and enhance compliance with the eligibility requirements for higher education benefits, IRS should

- Determine the feasibility of using current information reported on Form 1098-T, such as school location and taxpayer identification number or SSN, in IRS's compliance programs; and
- Revise Form 1098-T to improve the usefulness of information on qualifying education expenses.

Agency Comments and Our Evaluation

In written comments on a draft of this report (which are reprinted in appendix I), the IRS Deputy Commissioner for Services and Enforcement explicitly agreed with five of our recommendations and described the steps IRS is taking with respect to our two other recommendations. IRS officials also provided technical comments which we incorporated as appropriate.

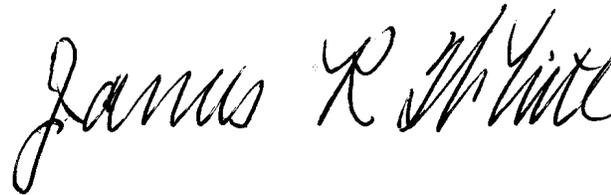
IRS agreed to develop a comprehensive and detailed evaluation plan for Contact Analytics, work to define the scope and objectives for potentially updating and releasing a RAL/RAC report, and work with FMS and ACH to improve refund timeliness. IRS also agreed to consider the feasibility of using current information on Form 1098T in its compliance programs, and develop a plan to address possible changes to that form.

With respect to our recommendation to explicitly integrate TAB in strategic planning documents, the Deputy Commissioner said that although they are not repeated verbatim in IRS's Strategic Plan, TAB's guiding principles resonate throughout the document. We acknowledged IRS's position in making our finding and recommendation. However, TAB is not mentioned once by name in IRS's strategic plan. Without an explicit and transparent connection between TAB and IRS's other planning documents, Congress and other stakeholders may not be able to understand the priority that IRS is giving to improving taxpayer service.

Concerning our recommendation to determine the feasibility of offering a debit card option for refunds, the Deputy Commissioner said that the agency is exploring options for debit card use including an option to provide debit cards directly. Because the Deputy Commissioner's letter does not provide any detail on what exploring options means, we want to reiterate the basis for our recommendation. A small debit card pilot program was conducted at several volunteer sites around the country, but that pilot did not provide information on the benefits or costs of IRS issuing debit cards directly. Given the large number of unbanked taxpayers, we believe IRS should determine the feasibility of directly issuing debit cards.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and

the Director of the Office of Management and Budget. The report also will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions or wish to discuss the material in this report further, please contact me at (202) 512-9110 or at whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions are listed in appendix VI.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive, flowing style.

James R. White
Director, Tax Issues
Strategic Issues Team

Appendix I: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Mr. James R. White
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. White:

I reviewed your draft report entitled *2009 TAX FILING SEASON: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could be Improved*. I appreciate your recognition of our significant achievements in successfully delivering the 2009 filing season, which you note was particularly challenging due to the impact of implementing complex tax law changes, including economic stimulus policies that resulted in unexpected increases in call volumes and created new taxpayer compliance challenges and workload.

Processing – We again had an outstanding filing season, successfully implementing significant and sometimes extremely late tax law changes. These included the late change to the First-Time Homebuyer Credit in the American Recovery and Reinvestment Act (ARRA), the Recovery Rebate Credit (RRC), and the provisions of the Emergency Economic and Stabilization Act, which included the additional standard deduction for state and local sales taxes or disaster losses. For the Calendar Year, through October 2, 2009, we processed over 139 million individual income tax returns and issued over 109 million refunds, totaling approximately \$298 billion.

Electronic filing grew again this year with 93.9 million, or 67 percent, of individual taxpayers filing electronically. The remaining 45.4 million were filed on paper. The number of returns filed electronically increased 6 percent over last year, which exceeds the 5.1 percent increase we projected in the fall of 2008 for all of 2009.

The most significant increase in e-file occurred again in the number of taxpayers who filed from their home computer. Nearly 32 million returns were filed from home computers, a 19.5 percent increase from the prior year. Three million taxpayers took advantage of the free online filing services offered by the Free File Alliance. Also notable is the fact that all 93.9 million taxpayers electronically signed their electronic returns, further increasing the efficiency of e-file.

2

Successful implementation of the Customer Account Data Engine (CADE) continued during 2009, with Release 4.2 being successfully deployed in January 2009. Release 4.2 increased functionality, including the ability to accept last name changes, and the ability to accept and post incoming tax returns with full payment. In addition, the CADE processed estimated tax payments and extensions of time to file, both with and without remittances. As of September 30, 2009, CADE posted over 40 million returns and disbursed over 34.9 million refunds totaling more than \$58.6 billion. In addition, CADE processed and posted 7.1 million payments totaling \$9.3 billion.

Telephone Performance – We delivered a successful filing season despite challenges of higher than expected call demand for Adjusted Gross Income (AGI) generated by the elimination of the Form 8453-OL, *U.S. Individual Income Tax Declaration for an IRS e-file Online Return*, the RRC, and the ARRA of 2009. The IRS took aggressive and timely actions to address this additional call demand. These actions included:

- Identification of, and special processing for, RRC math error calls.
- Diversion of staff from other programs during peak demand periods to handle calls requesting the prior year AGI, needed for identity verification purposes when obtaining a Personal Identification Number (PIN) for e-file.
- Redesign of the Economic Stimulus Payment Hotline to include information on both new ARRA legislation and the 2008 RRC.

As a result, more than 41.8 million taxpayers were assisted in the three and one half months that represent the core filing season, including 21.3 million taxpayers that received automated services. The IRS provided 20.5 million services by live assistors, surpassing the 2008 filing season by 1.9 million assistor services, and exceeding the 2009 plan by more than 1 million services. Customer Accuracy and Customer Satisfaction also remained high during the filing season. Customer Accuracy for Toll-Free services, including Tax Law and Accounts, was 94.1 percent, while Customer Satisfaction for the filing season was 94 percent for customers using the Toll-Free service.

The Customer Service Representative Level of Service for the Fiscal Year (FY) was 70 percent compared to 52.8 percent for the same period in the prior year. Also this FY, Assistor Calls Answered of 39.0 million exceeded the goal of 36.2 million; Assistor Services Provided of 45.1 million exceeded the goal of 42.4 million; and Automated Calls Answered of 29.0 million exceeded the goal of 27.6 million. Caller Wait Time was less than planned by 98 seconds (526 seconds vs. 624 seconds). Considering all channels (telephones, paper correspondence, and web), Customer Contacts Resolved per Staff Year (12,154) was 124 percent of plan, and the Self Service Participation rate (69.3) was 107 percent of plan.

Walk-In Assistance - During the FY 2009 filing season, IRS continued to provide services at all 401 Taxpayer Assistance Centers (TACs). Contact Recording (CR), an automated system that records the audio portion of the assistor/taxpayer interaction and synchronizes it with computer screen activity, was utilized to better measure the accuracy of Tax Law and Account Assistance. During the filing season, CR was operational at 327 of the 401 TACs and, by the end of FY 2009, it was operational at 341 TACs.

Quality data obtained from the CR system was used to identify areas for improvement and training. This filing season, the TACs achieved an 86 percent Accounts Accuracy rate, exceeding the goal of 84 percent, and a Tax Law Accuracy Rate of 75 percent, exceeding the goal of 70 percent. We expect continued improvement in the accuracy of responses provided by TAC employees in FY 2010, by focusing on a successful initial planning period (October through December 2009), targeting improvement efforts on high volume topics, enhancing managerial review skills, and aligning resources with the questions generating the most errors.

For the FY 2009 filing season, the IRS also expanded the number of tax law topics covered by the Interactive Tax Law Assistant (ITLA), a tax law decision support tool. Emphasis on front-line engagement, improving communication skills (targeting, listening, and paraphrasing), and correct use of ITLA will continue to play a primary role in our ability to reach 2010 goals.

Volunteer Assistance - During the FY 2009 filing season, 82,653 IRS supported volunteers prepared nearly 3.1 million Federal tax returns and more than 2.1 million State tax returns at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. These returns were primarily prepared for low income, elderly, disabled, and limited English-proficient taxpayers. While this represents a slight decrease from FY 2008, it is primarily due to the large volume of economic stimulus payment-only returns prepared in 2008, for taxpayers who normally did not have a filing requirement.

In December 2007, Congress appropriated \$8 million in a matching funds grant in support of the VITA Program. More than 350 applicants from 49 states, Puerto Rico, and the District of Columbia, applied to receive these grant funds for 2009 filing season operations. The VITA grants, in the amount of \$7.44 million, were awarded to 111 applicants, with sites in all 50 states and the District of Columbia. More than 750,000 returns were prepared at more than 2,500 sites, supported through these grant funds. We recently announced VITA grant recipients for the FY 2010 filing season and expect even greater results as this program continues to grow.

Enclosure

Related to improving IRS's performance during the filing season, IRS should

Recommendation

Develop as soon as possible an analysis plan for using the data IRS captures through Contact Analytics;

Comment

Though the technology had not yet been fully deployed at the time of this audit, we agree with this recommendation. The Center of Excellence has been established as the new organization charged with managing this technology and is developing a formalized process for requesting data through Contact Analytics as part of its stand-up activities, as well as determining an appropriate methodology for fulfilling requests for data. As the processes evolve, we will develop a comprehensive and detailed evaluation plan based on experience and input from internal stakeholders.

Recommendation

Explicitly integrate the TAB in strategic planning documents.

Comment

Though not repeated verbatim in the IRS Strategic Plan, the Taxpayer Assistance Blueprint (TAB) guiding principles resonate throughout the document. Rather than specifically repeating the findings and objectives outlined in the TAB, the Strategic Plan complements and often expands upon the work accomplished in the TAB. For example, Strategic Goal Number One indicates that the IRS will "Improve service to make voluntary compliance easier." The first TAB guiding principle describes how, "The primary goal of service for individual taxpayers is to facilitate compliance with federal tax obligations." Clearly these two statements mirror the common objective of facilitating compliance by providing exemplary taxpayer service. Similarly, the Strategic Plan reflects the strong influence of the TAB guiding principles relative to tax practitioners and preparers. Where the TAB suggests that the IRS will, "look for opportunities to assist these third parties in helping taxpayers understand and meet their tax obligations",¹ per the IRS Strategic Plan, the IRS will "Strengthen partnerships with tax practitioners, tax preparers, and other third parties in order to ensure effective tax administration."² Other objectives within the Strategic Plan dealing with outreach and issue resolution are also clearly, if not explicitly, related to the guiding principles of the TAB.

Beyond the overarching IRS Strategic Plan, the IRS maintains linkages to the precepts of improving taxpayer service from the taxpayer perspective. Internal planning documents and budget proposals are linked to the IRS Strategic Plan. Insofar as the Strategic Plan embodies the goals and objectives of the TAB, these documents maintain reference to taxpayer-centric understanding and administration of taxpayer service first explored by the TAB and adopted in the IRS Strategic Plan.

¹ Fifth TAB Guiding Principle

² IRS Strategic Plan, Goal 1, Objective 4

2

To further improve refund timeliness and reduce reliance on RALS and RACs, IRS should

Recommendation

Update and publicly release a report on RAL and RAC use;

Comment

We agree in principle with the recommendation. As the 2006 report was driven by different factors, all affected areas within IRS will need to meet with the Government Accountability Office to define the scope, objectives, and intended audience of the report prior to beginning development.

Recommendation

Work more proactively with FMS and ACH to help improve refund timeliness; and

Comment

We agree with this recommendation. The IRS and Financial Management Service already maintain a constant dialogue on issues, including refund timeliness.

Recommendation

Determine the feasibility of offering debit card options for refunds.

Comment

We are exploring a range of alternatives to deliver refunds to unbanked taxpayers. Included among those options are debit cards provided directly or through third parties, including participating partners and current industry participants.

To reduce taxpayer confusion and enhance compliance with the eligibility requirements for higher education benefits, IRS should

Recommendation

Determine the feasibility of using current information reported on Form 1098-T, such as school location and taxpayer identification number or SSN, in IRS's compliance programs.

Comment

The IRS agrees to consider the feasibility of using Form 1098-T information in Correspondence Examination. If we determine in Wage and Investment Compliance that it might be feasible, we will coordinate with Small Business/Self-Employed Division on actual use.

Recommendation

Revise Form 1098-T to improve the usefulness of information on qualifying education expenses.

3

Comment

Our Wage and Investment Compliance organization, in partnership with the Tax Exempt and Government Entities Division, will develop a plan to address possible changes to the Form 1098-T. As part of that plan, we will obtain feedback from educational institutions on changes that provide clarity and improve the usefulness of the form, including location of the educational institution.

4

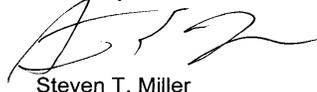
Finally, we continued to build on our Quality Review process. Since 2004, the Treasury Inspector General for Tax Administration determined the accuracy of returns prepared by our volunteers based on a judgmental sampling of a small number of VITA/TCE sites and less than 50 returns. In 2009, we worked closely with the IRS Statistics of Income Office to select a statistically valid number of VITA/TCE sites to perform return reviews. A centralized review cadre, known as the Quality Statistical Sample (QSS) reviewers, visited a statistically valid sample of VITA/TCE sites to review a sample of tax returns for accuracy. The data collected from these reviews was used to indicate an accuracy rate for all tax returns produced by the Volunteer Program. During the 2009 filing season, 679 returns were reviewed through this process, resulting in a 78.5 percent accuracy rate, with a 90 percent confidence level. We established a Quality Assurance Office for the FY 2010 filing season and will continue the QSS reviews.

Website – The IRS website, IRS.gov, is consistently one of the most heavily used government websites. As of November 8, 2009, the website had been visited more than 275 million times. These visits resulted in more than 1.5 billion page views. Website visits and page views declined during 2009 most likely due to the passage of legislation which resulted in a spike in activity during 2008. Visits are the measurements of actions beginning when a visitor views their first web page on IRS.gov and ends when the visitor leaves the website. Taxpayers and Practitioners also downloaded more than 176 million forms, publications, instructions, and other documents.

We agree the Matter for Congressional Consideration noted in your report has merit and could further increase compliance and improve taxpayer service.

Responses to your specific recommendations are enclosed. I appreciate your observations on the successful filing season for 2009. If you have any questions, please contact Robin L. Canady, Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8801.

Sincerely,



Steven T. Miller

Enclosure

Appendix II: IRS's Existing and Suggested Math Error Authority for Enhancing Compliance

Table 8 below summarizes the Internal Revenue Service's (IRS) existing math error authority (MEA) as well as authorities we recently suggested that Congress provide to enhance compliance, including for certain tax credits. In addition, last year we recommended that the IRS Commissioner use existing MEA to identify and correct child and dependent care credit claims on "Married Filing Separately" returns and assess the effectiveness of combining the Federal Case Registry and other data on taxpayer characteristics to verify the eligibility of Earned Income Tax Credit claims from noncustodial parents.¹

Table 8: IRS's Existing and Suggested MEA

IRS's Existing Statutory Authorities for Math Error Checks

An error in addition, subtraction, multiplication, or division shown on any return

An incorrect use of any table provided by the IRS with respect to any return if other information in the return makes the incorrect use apparent

An entry on a return of an item which is inconsistent with another entry of the same or different item on that return

An omission of information which is required to be supplied on the return to substantiate an entry on that return

An entry on a return of a deduction or credit in an amount which exceeds the statutory limit for that deduction or credit, if that limit is expressed as a specific monetary amount or as a percentage, ratio, or fraction, and if the component items of that limit appear on the return.

A correct Taxpayer Identification Number (TIN) not provided on the return as required for the: (1) Earned Income Tax Credit (EITC); (2) child and dependent care credit; (3) personal or dependent exemption; (4) child tax credit; (5) Hope and Lifetime Learning credits

A return claiming an EITC for net earnings from self-employment, where the self employment tax imposed by 26 IRC § 1401 on those net earnings has not been paid.

An omission of information required for recertification of eligibility for the EITC.

An entry on the return of a TIN required for the EITC, the child credit, and the child and dependent care credit, when information associated with that TIN indicates the child does not meet the age eligibility requirements for those credits.

An entry on the return of a claim for the EITC where the Federal Case Registry of Child Support Orders indicates that the taxpayer is the non-custodial parent of that child.

A failure to reduce Economic Stimulus Package credit on a return related to the Economic Stimulus Act of 2008 by amounts previously advanced.

¹The Federal Registry of Child Support Orders database includes information on non-custodial parents and other taxpayer characteristics for determining program eligibility. Also see [GAO-09-146](#).

**Appendix II: IRS's Existing and Suggested
Math Error Authority for Enhancing
Compliance**

GAO's Suggested Statutory Authorities

Verify taxpayers' compliance with the 2008 first-time homebuyer credit payback provision.^a

Claims for the first-time homebuyer credit in multiple years.^a

"Catch-up" contributions to Individual Retirement Accounts (IRA) from taxpayers who are not eligible because of their age.^b

Contributions to traditional IRAs from taxpayers who are ineligible because they are over the age of 70-½.^b

Taxpayers' compliance with the number of years the Hope credit can be claimed.^c

Source: GAO analysis and reports.

^a[GAO-09-1026](#).

^b[GAO-09-146](#).

^cSuggested in this report.

Appendix III: IRS's Processing Performance Relative to 2004 Through 2008 and 2009 Goals

As shown in table 9, the Internal Revenue Service (IRS) met or exceeded goals for six out of eight of its goals for the percentage of errors included in deposits and correspondence (which was separated into letter and notice errors in previous years); deposit and refund timeliness (i.e., interest foregone by previous years); productivity; and individual master file (IMF) efficiency.

One measure where performance was significantly below IRS's goal and below last year's level was the correspondence error rate, the percentage of incorrect notices and letters issued to taxpayers. According to IRS officials, this resulted from a high number of erroneous notices sent to taxpayers claiming the recovery rebate credit early in the filing season.¹

Table 9: IRS Processing Performance, Fiscal Years 2005 through 2009

Measure Name	Definition	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual	Fiscal year 2008 actual	Fiscal year 2009 actual (through August)	Fiscal year 2009 goal
Deposit error rate	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted the overpayment credited to next year's tax bill.	2.2% (+/-0.26%)	1.6% (+/-0.24%)	1.3% (+/-0.22%)	1.1% (+/-0.27%)	.7% (+/-0.20%)	1.0%
Deposit timeliness – paper – individual master file (IMF)	Interest foregone by not depositing monies the business day after receipt, per \$1 million in deposits. Measure assumes an 8 percent interest rate.	\$390	\$354	\$331	\$290	\$204	\$290
Correspondence error rate ^a (includes systemic errors) ^b IMF	The percentage of incorrect Submission Processing Masterfile notices and letters issued to taxpayers by the processing sites.	NA	NA	4.3 (+/-0.38%)	3.8% (+/-0.36%)	5.41% (+/-0.54%)	3.67%

¹During the 2009 filing season, the recovery rebate credit was available to taxpayers who did not receive the economic stimulus payment or who were entitled to an additional payment based on information on their Tax Year 2008 tax return. Millions of taxpayers made errors calculating credit amounts and received math error notices notifying them of the change(s) made to the return.

**Appendix III: IRS's Processing Performance
Relative to 2004 Through 2008 and 2009 Goals**

Measure Name	Definition	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual	Fiscal year 2008 actual	Fiscal year 2009 actual (through August)	Fiscal year 2009 goal
Refund error rate – individual (paper) (includes systemic errors)	Percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name, Social Security number, or refund amount); includes systemic errors ^b	5.0% (+/-0.48%)	4.5% (+/-0.46%)	2.8% (+/-0.36%)	3.4% (+/-0.52%)	1.95% (+/-0.35%)	3.3%
Refund interest paid	Amount of refund interest IRS paid per \$1 million of refunds issued.	\$29.21	\$30.12	\$39.60	\$24.16	\$16.01	\$21.00
Refund timeliness – individual (paper)	Percentage of refunds issued within 40 days or less.	99.2% (+/-0.18)	99.3% (+/-0.13)	98.9% (+/-0.19)	99.1% (+/-0.19%)	99.2% (+/-0.18%)	98.4%
Productivity 3	Weighted volume of documents processed per staff year expended at the processing centers.	31,444	32,237	34,313	37,624	47,040	45,663
IMF efficiency	Measure of Individual Master File returns processed per staff year expended.	14,965	16,124	22,031	23,834	23,596	23,692

Source: GAO analysis of IRS data.

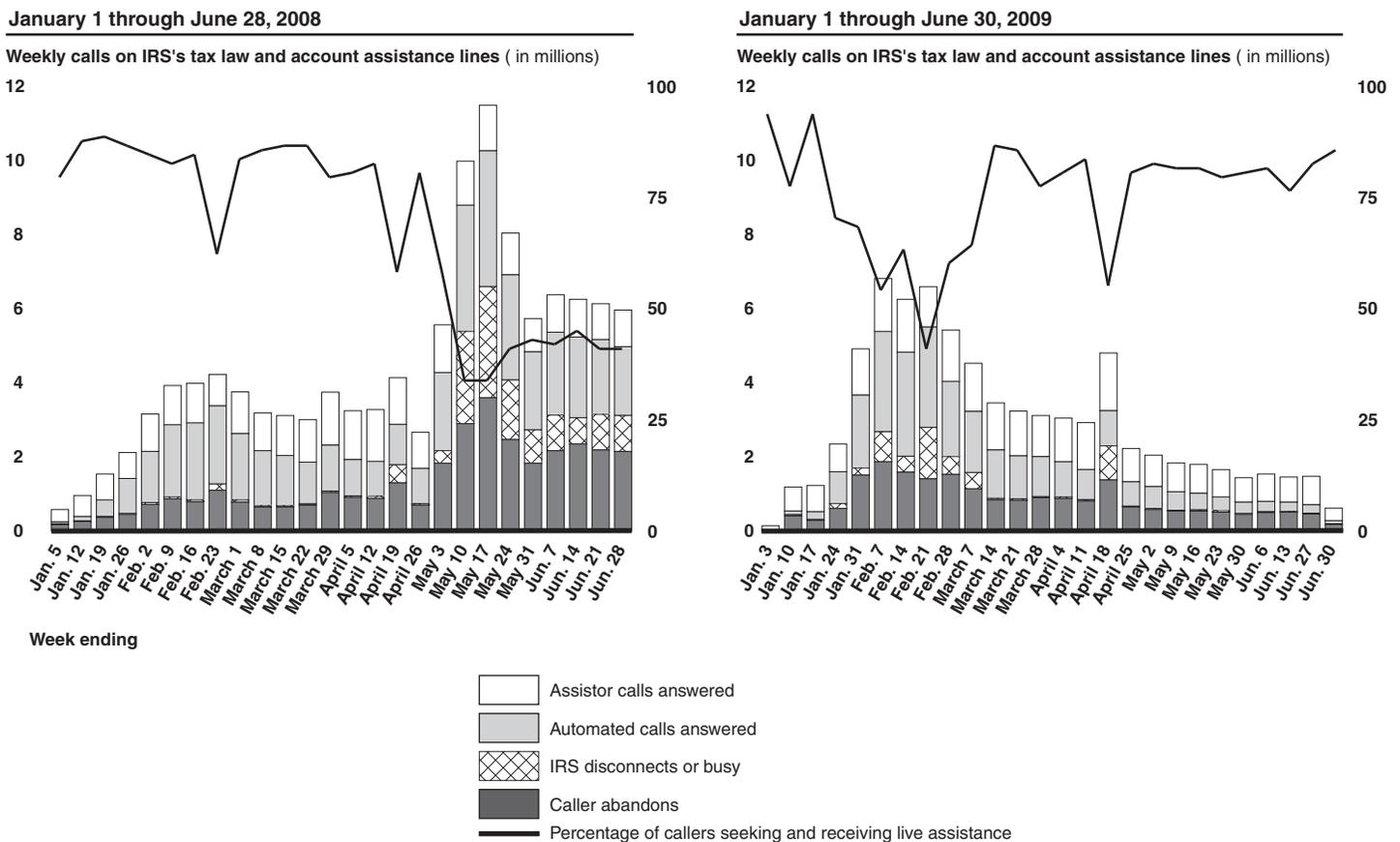
^aThe reported Correspondence Error Rate result is a weighted combination of the results of the Letter and Notice Error Rate Measures. The weights are based on the actual volumes of letters and Notices (as reported in Letter and Notice weighted reports).

^bSystemic errors are computer-generated errors over which a particular processing center would have no control.

Appendix IV: IRS Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance for 2009 and 2008

During the 2009 filing season, the Internal Revenue Service (IRS) received most of the calls early on, with the heaviest call volume during February (see fig. 2 below). Most of the calls were related to taxpayers' need for authentication information and tax law changes. In contrast, during the 2008 filing season IRS received most of the calls after the filing season, between April and June and were primarily stimulus-related questions.

Figure 2: Weekly Toll-free Calls and Percentage of Callers Seeking and Receiving Live Assistance from January 1 to June 28, 2009, and June 30, 2009



Source: GAO analysis of IRS data.

Note: Weekly calls are those seeking tax law and account information assistance and do not include calls to IRS's compliance division.

Appendix V: Key Facts on Selected Tax Benefits for Higher Education

Taxpayers can generally claim tax benefits to help offset qualified higher education expenses for an eligible student if the eligible student is the filing taxpayer, their spouse, or a dependent for whom they claim an exemption on a tax return.¹ Tax benefits include credits, deductions, as well as a number of other programs to help taxpayers offset qualified education expenses. Unlike other student aid programs such as federal grants that offer assistance to the taxpayer in determining their entitlements, tax benefits require the taxpayer to understand the pertinent rules and, ultimately, choose the option that provides the most benefit.²

Information reported by educational institutions on the tuition statement (Form 1098-T) assists taxpayers in determining the amount of benefits to which they are entitled. Consequently, inaccurate information on the tuition statement may contribute to taxpayer confusion and result in taxpayers making less-than-optimal claims or being unintentionally noncompliant.

Table 10 below provides information on tax benefits for education that are available to qualifying taxpayers for the 2008 and 2009 tax years.

Table 10: Select Tax Benefits for Higher Education—Tax Year 2008

Tax benefit for education	Relevant IRS form	Maximum amount of benefit	How long can benefit be claimed?
Hope credit ^a	8863	\$1,800 ^p	2 years ^c
Lifetime learning credit	8863	\$2,000 ^d	no limit
Tuition and fees deduction ^e	8917	\$4,000	no limit

Source: GAO analysis of IRS data.

¹Limitations on whether a taxpayer can claim tax benefits include the taxpayer's income level, whether the taxpayer is listed as a dependent on another return, and residency status. Further, there are limitations on the number of tax benefits that can be claimed in 1 year. For example, taxpayers cannot claim both the Hope credit and the Lifetime learning credit in 1 year.

²[GAO-05-684](#) explains how the complex rules for determining benefits may lead taxpayers to make less-than-optimal benefit claims.

**Appendix V: Key Facts on Selected Tax
Benefits for Higher Education**

^aTaxpayers cannot claim the Hope and Lifetime learning credit for the same student in the same year. The Hope credit has been changed for tax years 2009 and 2010, and referred to as the American opportunity tax credit. For example, for tax-years 2009 and 2010, generally 40 percent of the Hope credit is a refundable credit, which means that a person may be eligible to receive up to \$1,000 even if they owe no taxes. Additionally, the term “qualified tuition and related expenses” is expanded to include expenditures for “course materials,” which means books, supplies, and equipment needed for a course whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

^bThe maximum amount of the Hope credit increases to \$3,600 per student attending an eligible education institution in the Midwestern disaster areas in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, and Wisconsin. Under the American opportunity tax credit, the maximum amount increases to \$2,500 and increases to \$3,600 per student attending an eligible education institution in the Midwestern disaster areas.

^cUnder the American opportunity tax credit, for tax years 2009 and 2010, the credit was expanded from a 2-year to a 4-year limit.

^dThe maximum amount of the Lifetime Learning credit increases to \$4,000 per return for students attending an eligible education institution in the Midwestern disaster areas.

^eTaxpayers cannot take both an education credit and tuition and fees deduction for the same student for the same year.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

James R. White, (202) 512-9110 or whitej@gao.gov.

Acknowledgments

In addition to the contact named above, Joanna M. Stamatiades, Assistant Director; Vida Awumey; John P. Dell’Osso; Kara Eusebio; Melanie D. Helser; Lina Khan; Kirsten B. Lauber; Angela Leventis; Natalie Maddox; Paul B. Middleton; Karen V. O’Conor; Sabine R. Paul; Neil Pinney; Sabrina C. Streagle; and Jessica Thomsen made key contributions to this report.

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