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The 1988 Tax Return Filing Season
and
IRS' Fiscal Year 1989 Budget

Statement of
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Committee on Ways and Means
House of Representatives



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1988 TAX RETURN FILING SEASON
AND
IRS' FISCAL YEAR 1988 BUDGET

SUMMARY OF STATEMENT
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GAO's monitoring of the 1988 tax filing season indicated that IRS has not encountered any serious problems in processing returns. At the point GAO last checked, however, about 49 million returns still had not been filed so IRS must remain diligent. One aspect of the filing season that remains troubling is the high rate of incorrect responses to GAO's test telephone calls. The weighted results of 1,369 test calls GAO completed as of April 1 show that it received correct responses about 62 percent of the time. That problem, plus other quality problems involving taxpayer correspondence and returns processing, provide evidence of the importance of IRS' current emphasis on quality.

The 1989 budget appears to include enough staff for returns processing and taxpayer service to provide the same level of service next year as has been provided this year. What is unknown, however, is whether there are sufficient resources to improve the quality of that service. There are some initiatives in IRS' 1989 budget directed at improving IRS' service to taxpayers but none that are specifically identified as addressing the problems noted above. The answer to those quality problems may or may not require additional funds depending on the root causes. IRS needs to identify those causes and to determine whether additional funds are needed to address them.

Another issue associated with the 1989 budget is that, unlike 1987 and 1988, it includes no initiatives directed at increasing revenues. Several were included in the submission to the Office of Management and Budget but were deleted to be consistent with last year's Bipartisan Budget Agreement. Included among the deleted initiatives was the third installment of a 3-year Examination initiative. That initiative would have provided IRS with 2,500 additional Examination positions. According to IRS, this initiative would allow it to do 244,000 more audits in fiscal year 1989 with an associated increase in assessed tax, penalties, and interest of \$2.8 billion, of which \$347 million would be realized in fiscal year 1989. Revenue initiatives represent attractive vehicles for increasing government revenues. GAO emphasizes, however, that if Congress adds resources to this year's budget request it should do so in anticipation of generating the most additional resources in succeeding years.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into the status of the 1988 filing season and IRS' budget request for fiscal year 1989. My testimony makes the following points:

- Our test calls to IRS' telephone assistance call sites have shown little improvement in the accuracy of IRS' answers since we testified in February.
- IRS has not encountered any unusual problems in processing tax returns this year--the first in which IRS and taxpayers had to implement many of the changes in the Tax Reform Act of 1986.
- Since our February testimony, the availability of forms and publications at over-the-counter distribution sites has improved.
- Taxpayers we interviewed are generally satisfied or very satisfied with assistance provided at IRS' walk-in offices.
- Although IRS' fiscal year 1989 budget includes no initiatives directed at increasing revenues, several were proposed in the submission to the Office of Management and Budget. At the Subcommittee's request, we have some comments on three of those initiatives.

- Information technology accounts for most of the increase in the 1989 budget.

- Other than information technology, IRS' budget includes few program changes. Although we support the thrust of those changes, we have some questions about IRS' contemplated approach to the largest one, which is directed at providing more information to taxpayers on interest and penalty computations.

- We support IRS' recent emphasis on quality. We believe, however, there is room for further improvement in the quality of returns processing and taxpayer assistance. Additional resources may be needed to achieve that end.

I would now like to discuss our monitoring of the 1988 filing season.

THE 1988 FILING SEASON

On February 23, 1988, we testified before this Subcommittee on the status of the 1988 filing season. Since then, we have continued to monitor IRS' telephone assistance, returns processing, forms distribution, and walk-in assistance.

Telephone assistance

As of April 2, 1988, IRS statistics show that its 32 call sites had answered about 15.7 million telephone calls from taxpayers, or 62.6 percent of the total calls (25.2 million) received since the first of the year. The number of calls answered is 12.6 percent more than last year, but 7.8 percent less than IRS had expected. Using its formula for converting the total number of calls coming into the call sites (including those resulting in busy signals) to an estimate of taxpayer demand for telephone service and comparing that to the number of calls answered, IRS has determined that its cumulative level of service through April 2, 1988, was 84.8 percent. That result is consistent with IRS' objective of 85 percent and is above the 77.4 percent level IRS says it achieved at the same point in time last year.

We have been assessing the accuracy and accessibility of IRS' telephone assistance since mid-February. As of April 1, 1988, we had attempted 1,523 of the 1,927 test calls we will be making to 29 IRS call sites. The weighted results of the 1,369 calls for which we got answers show that we received correct responses to about 62 percent of our calls. The other 38 percent were answered incorrectly. We were able to reach an assistor on the first try 77 percent of the time. The rate increased to 93 percent within five tries.

Returns processing

IRS statistics and our work at 5 of 10 service centers indicate that IRS is processing tax returns at about the same rate as last year. As of April 1, IRS had processed about 47 million, or 81 percent, of the 58 million individual income tax returns it had received. Those numbers are about the same as this time last year. IRS expects to receive a total of 107 million individual income tax returns during the 1988 filing season (3.7 million more than last year), leaving a little less than half of the total yet to be received. The large number of returns yet to be received and processed is typical of past filing seasons and IRS does not expect any unusual processing delays.

Although IRS has not experienced any major processing difficulties in 1988, we identified a few areas where opportunities seem to exist to improve the effectiveness of future filing seasons. We plan to continue analyzing these areas and possible solutions as we complete our monitoring of the filing season.

-- Some taxpayers are not filing the simplest tax returns possible. For example, an IRS sample of form 1040s filed at the Austin Service Center this year showed that 14.1 percent of the taxpayers could have filed a form 1040A or

1040EZ. Those forms are less costly to process and should be easier for taxpayers to prepare.

-- About 40 percent of the returns filed through April 1, 1988, including about 45 percent of those completed by tax preparers, were filed without the preaddressed label furnished by IRS. This is a slight improvement over last year when about 41 percent of the returns, including about 47 percent of those from practitioners, had no IRS label. IRS statistics show that the most predominant causes of individual income tax returns not posting to taxpayer accounts are errors made either by taxpayers in manually entering information on the return that is already printed on the label or by IRS in transcribing the manually-entered information. Using the label eliminates the need for taxpayers to fill in that part of the return and for IRS to transcribe it, thus enabling IRS to process the return faster, at less cost and with less chance of error.

-- Taxpayers and IRS staff are making errors on about 20.7 percent of the returns filed this year, about 1.4 percentage points higher than last year. Although IRS expected that error rates would increase as taxpayers and returns processing staff adjusted to changes in tax forms and filing requirements, the amount of the increase has been less than expected. Nonetheless, some sections of the

revised tax forms seem to cause more problems than others. For example, filers of 1040EZ returns are not always indicating on line 4 whether they can be claimed as a dependent on another person's return. Another source of errors has been taxpayer failure to claim the proper standard deduction on 1040A and 1040EZ returns. Such errors cause additional IRS processing and may delay refunds.

-- IRS service centers are not able to fully use automated optical character recognition equipment to process 1040EZ returns. Each service center had planned to process the returns on two types of automated equipment which, if used, would speed the processing of these returns and reduce processing costs. Two service center directors told us they are not using either type because one is tied up processing higher priority payments made through the Federal Tax Deposit system while the other has not performed satisfactorily. To avoid delaying refunds, the service centers are relying on more labor-intensive processing methods.

Distribution of forms and publications

On February 23, 1988, we testified that some of the 233 forms and publications on an IRS ordering list were unavailable to taxpayers at six over-the-counter distribution sites. Following our testimony, IRS' national office issued a directive that field

offices follow proper restocking procedures. We have continued to check on the availability of the 233 documents at distribution sites across the country. Although the availability of documents continues to vary from site to site, in part due to the limited space each site has to stock documents, it appears that overall availability has improved since our testimony. For the 4-week period ended April 8, the number of out-of-stock documents at five of the same six sites ranged from 2 to 22 compared to a range of 11 to 41 in February.

Many taxpayers also order forms and publications by mail or phone. As of April 1, 1988, IRS statistics show that its three central distribution centers had filled about 98 percent of the approximately 8 million mail and phone orders. IRS advises taxpayers that they can expect to receive documents within 7 to 10 work days after the phone call. To validate that, we placed nine orders for documents explaining tax law changes that IRS estimates will affect 3 million or more taxpayers. The seven orders we received so far were all filled in 7 days or less. Two other orders had not been filled as of April 8--9 and 12 days after we placed them.

Walk-in assistance

In February, we started an assessment of taxpayer satisfaction with services provided at IRS' walk-in offices. On 3 days each

in February and March, we surveyed a total of about 1,000 taxpayers who visited 9 walk-in offices in Maryland, Michigan, Washington, Oregon, and the District of Columbia. Our results continue to indicate, as we testified in February, that more than 80 percent of the respondents were generally satisfied or very satisfied with the timeliness and usefulness of IRS' assistance, the clarity of information they received, and the courtesy of the assistors.

When asked whether preparing their tax return this year was easier, harder, or about the same as last year

-- 48 percent of the 892 taxpayers responding to that question said it was harder or much harder,

-- 30 percent said it was about the same, and

-- 12 percent said it was easier or much easier this year.

About 10 percent of our respondents indicated that they were not sure yet how difficult preparing their returns would be.

I would now like to discuss IRS' budget for fiscal year 1989.

IRS' 1989 BUDGET

IRS' proposed budget for fiscal year 1989 totals \$5.3 billion and provides for 113,811 average positions, an increase of \$240.8 million (4.8 percent) and 1,650 positions (1.5 percent) over the authorized levels for fiscal year 1988. This increase is small compared to the increases for fiscal years 1987 and 1988.

Perhaps the most notable feature of the 1989 budget is the absence of any initiative to increase tax revenues. Of the increases in the budget, the most significant is for information technology. The rest of the program changes are generally aimed at improving IRS' responsiveness to taxpayers.

Revenue initiatives

One major aspect of IRS' budget, considering the trend in recent years, is the absence of any revenue initiative. At your request, we have some comments on three initiatives that were included in Treasury's submission to the Office of Management and Budget. Those initiatives were deleted because last year's Bipartisan Budget Agreement did not include any provision for additional revenue initiatives for IRS.

Examination

The largest revenue initiative proposed by IRS involved what was to be the third installment of a 3-year Examination initiative. As in 1987 and 1988, that initiative would have provided IRS with 2,500 additional Examination positions. IRS estimated that this initiative would allow it to do 244,000 more audits in fiscal year 1989 with an associated increase in assessed tax, penalties, and interest of \$2.8 billion, of which \$347 million would be realized in fiscal year 1989.

There were two reasons for giving IRS additional examination resources in fiscal years 1987 and 1988--to increase audit coverage and to generate more revenues. IRS' results during the 1987 phase of the initiative, however, provide conflicting evidence as to how much of an increase in coverage and revenues can really be expected. That is not surprising considering the time it takes for IRS to recruit and train new examiners to the point where they can be fully productive. Thus, if the Subcommittee is inclined to recommend that IRS be authorized additional examination resources for 1989, it should do so in anticipation of generating the most additional revenues in succeeding years.

Collection

One of IRS' proposed initiatives for fiscal year 1989 involved 533 average positions and \$22.3 million directed at the accounts receivable inventory. IRS estimated that this initiative would generate additional revenues of \$94 million in fiscal year 1989. According to IRS, the accounts receivable inventory was \$53.5 billion at the end of February 1988 compared to \$46.2 billion a year earlier. Numerous questions have been raised as to the collectibility of that inventory and IRS is in the midst of trying to identify, through an internal quality improvement project and a contract with Price Waterhouse, the makeup of the inventory and how much is truly collectible. We believe something needs to be done about the inventory. We understand that the Price Waterhouse study will be available soon. Given this, the Subcommittee may wish to pursue the study findings with IRS when deciding how many, if any, additional resources are needed to reduce the inventory.

International

Another proposed initiative called for \$6.6 million and 116 average positions to improve international tax compliance through such things as increased examination coverage and collection efforts. IRS estimated that this initiative would generate \$30 million in additional revenue in fiscal year 1989. The

initiative included 12 positions to enable IRS to match more of the information returns it receives from foreign countries. We testified on that subject in 1983 before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations. We believed then that more matching was needed and have no reason to believe otherwise now. To the extent that part of this initiative would lead to that result, we would support that part.

Budget request for
information technology

IRS is requesting about \$992 million for automated data processing (ADP) and information technology resources in fiscal year 1989. This represents about 19 percent of its total budget and is an increase of about \$137 million, or 16 percent, over the amount included in the final approved budget for fiscal year 1988.

A critical issue in this area is IRS' need to redesign the tax processing system because its current ADP systems are outdated and inefficiently designed. To this end, the 1989 budget request includes about \$92 million for five projects specifically identified as supporting IRS' long-term effort to redesign the tax processing system. The following table shows, for each of

the five projects, the amount included in IRS' 1989 budget request and the estimated costs for 1990 through 1993.

<u>Projects</u>	Fiscal year 1989 budget request (000's)	Estimated costs 1990-1993
Tax system redesign mission support	\$13,547	\$ 85,659
Full utilization of electronic filing	32,430	60,061
Long-term redesign project	26,996	442,471
Digital image and optical data storage	3,894	69,738
Automated Underreporter Program	<u>15,185</u>	<u>39,104</u>
Totals	<u>\$92,052</u>	<u>\$697,033</u>

Redesign is expected to take about 10 years to complete and cost several billion dollars. The Subcommittee should note that estimates of future costs for redesign projects in this year's budget request could change dramatically because IRS has not yet decided on a new design for the tax processing system. IRS can not determine what the redesigned system will cost until it has identified alternative designs, conducted cost-benefit analyses, and selected a final design.

Other program changes

IRS' budget contains only a few program increases beyond those for information technology. Those increases are generally directed at improving IRS' responsiveness to taxpayers.

penalty and interest explanations

One of the program changes in IRS' budget involves a request for 186 average positions and \$5.8 million to cover the costs associated with putting a statement on balance due notices sent to taxpayers telling them to write IRS if they want a detailed explanation of the penalty and interest associated with the notices. IRS issues several million of those notices annually and estimates that about 2.5 percent of the taxpayers who receive them request penalty and interest explanations. By adding a statement to the notices, IRS expects this figure to increase to 5 percent. IRS plans, eventually, to automatically include penalty and interest explanations on notices when they first go to the taxpayers, thus precluding the need for taxpayers to request that information.

Our recent work in three service centers indicates that many of the inquiries received from taxpayers relate to penalties and that some of those inquiries might not have been necessary if the taxpayers had received more information about the penalty portions of their balance due notices. We note also that a recent Taxpayer Bill of Rights approved by the Senate Finance Committee would require IRS, among other things, to more fully describe in its notices the basis for penalty assessments.

We believe, however, that it would be better for IRS to refocus this initiative toward implementing a system that will automatically include explanations on its notices. Also, after seeing a preliminary draft of what IRS might be sending taxpayers to explain penalty and interest charges, we are concerned about the level of detail IRS may be planning to send taxpayers. The draft was several pages long and potentially confusing, and could have the perverse effect of causing even more correspondence from taxpayers. We understand that IRS is working to simplify its explanations.

Problem resolution program

IRS has proposed increasing its Problem Resolution Program (PRP) by 46 average positions (to a total of 299) at a cost of \$2 million. PRP's goals are to (1) assist taxpayers in resolving problems that IRS' normal assistance channels failed to resolve; (2) serve as the taxpayers' advocate to ensure they are treated fairly and that their interests and concerns are represented when new policies and programs are being considered; and (3) conduct analyses so that the causes of taxpayer problems can be identified and corrected, thereby preventing future complaints.

In a December 1987 report¹, we concluded that PRP had been successful in achieving its taxpayer assistance objective and that taxpayers were generally satisfied with that assistance. We noted that the number of taxpayers who had their problems resolved through PRP had increased from about 79,000 in fiscal year 1977 to about 555,000 in fiscal year 1986. PRP, however, is not a program that should aspire to growth. Instead, IRS should work to lessen the need for such special assistance by improving normal assistance and by developing a more meaningful problem analysis system to identify and correct the causes of problems.

PRP officials estimate that about 90 percent of program time is spent ensuring taxpayers' problems are being addressed and resolved. They told us that a preferred balance between taxpayer assistance and taxpayer advocacy/problem analysis would be about 70 percent and 30 percent, respectively. In line with that preference, we understand, from our discussions with PRP officials, that the 1989 budget increase will be primarily directed at problem analysis and taxpayer advocacy.

We support additional PRP resources for problem analysis and taxpayer advocacy. Increased problem analysis targeted at correcting recurring problems would be a big step towards ensuring quality service up front where it belongs. This

¹Tax Administration: IRS Can Improve on the Success of Its Problem Resolution Program (GAO/GGD-88-12; December 22, 1987).

approach should also foster better taxpayer relations and minimize future taxpayer complaints. Ultimately, we would hope that more of PRP's efforts could be aimed at taxpayer advocacy and problem analysis and less at resolving specific problems.

Tax fraud investigations

IRS is requesting \$257.6 million and 4,620 average positions--an increase of \$13.8 million and 104 average positions--for tax fraud investigations. Over half of the dollar increase is related to ADP and systems modernization. Of the new positions, however, 73 are for the Special Enforcement Program, which is IRS' primary vehicle for identifying the illegal income of organized crime figures and drug traffickers.

We will soon be issuing a report on that program to the Joint Committee on Taxation. Our study showed that IRS did more Special Enforcement investigations and generated more convictions in 1985 than in 1982. We projected that about half of those investigated were convicted and two-thirds of those convicted received a jail sentence. From a tax administration standpoint, our analysis of the program cases closed for fiscal year 1982--the latest complete data available--showed that about \$2 million of the \$11 million in tax revenue generated represented taxes on illegal source income. In addition to direct revenue, IRS

expects its special enforcement efforts to have an unquantifiable deterrent effect on potentially noncompliant taxpayers.

Because specific goals or evaluation criteria have not been established for the Special Enforcement Program, we could not conclude whether the above results met Congress' or IRS' expectations. Unquestionably, the pursuit of illegal income of organized crime figures and drug traffickers is an important aspect of IRS' tax fraud investigation effort. However, the Subcommittee may want to explore with IRS how the additional resources it is requesting will be used in the short term and how they will contribute to IRS' long term strategy in this area.

Adequacy of budget for returns
processing and taxpayer service

Considering IRS' workload projections for 1989 compared to 1988 and based on IRS' performance in handling its 1988 workload, the 1989 budget appears to include enough staff for returns processing and taxpayer service to provide the same level of service next year as has been provided this year. What is unknown, however, is whether there are sufficient resources to improve the quality of that service.

During the last 2 years, IRS has been involved in a major agency-wide initiative to improve the quality of its services by

attempting to instill a "quality first" culture in every phase of its operations. Among other things, that initiative has involved development of the Commissioner's Quality Council, quality training for managers of all levels in IRS, a joint IRS-employees union agreement making the union a partner in the quality effort, and initiation of numerous quality improvement projects. We support this effort and believe that enhancing quality will not only improve IRS' service to the public but also help reduce the current cost of quality.

To date, IRS' quality initiative has had a positive impact through a number of successful quality improvement projects. Our work in the past year, however, has shown there is room for further improvement, especially in the areas of telephone assistance, correspondence with taxpayers, and returns processing.

Telephone assistance

As noted earlier, our test of IRS' telephone assistance this year indicates that 38 percent of IRS' answers were incorrect. This year's results, through April 1, are lower than the results from previous years. Although our results do not necessarily reflect the overall accuracy of IRS assistors' answers to the full range of questions asked by taxpayers, we believe the questions we asked are reasonable and among those likely to be asked by

taxpayers. One possible explanation for this year's lower accuracy rate is the fact that about 60 percent of IRS' assistors are new hires. We expect to continue working with IRS to measure trends in and identify ways to improve the quality of IRS' telephone assistance program.

Taxpayer correspondence

Each year, the Adjustments/Correspondence Branches in IRS' 10 service centers send millions of letters to taxpayers either in response to the taxpayer's inquiry or to advise the taxpayer of an adjustment to his or her account. IRS' handling of that correspondence can have a critical impact on taxpayer relations. Our review of correspondence cases closed by three service centers between May 4 and July 31, 1987, showed that IRS' letter, the adjustment discussed in the letter, and/or the action taken by IRS in response to the taxpayer's inquiry was incorrect, incomplete, unresponsive, or unclear about half of the time. In about 30 percent of the cases reviewed, we considered IRS' error critical because the case involved at least one instance in which the Adjustments/Correspondence Branch either provided incorrect information, failed to address all the taxpayer's questions, or acted incorrectly in adjusting or failing to adjust the taxpayer's account.

Besides the potentially adverse impact on taxpayer relations, such problems can significantly increase service center costs through the need to process additional correspondence as taxpayers try to get their problems resolved. Our preliminary observations indicate that improvements might be possible through better training and supervision. In addition, IRS may also need to consider whether the minimum requirements to qualify as a tax examiner in the Adjustments/Correspondence Branch have to be revised and whether the production standards being used allow for quality service. We will soon be discussing these preliminary observations with IRS.

Returns processing

Information developed during one of our ongoing reviews of IRS showed that service centers devoted as much time in 1986 to correction and quality assurance activities in the returns processing "pipeline" (14.4 million staff hours) as it did to initially process returns. We believe the resources expended in correction will remain high this year because taxpayers and IRS staff are making errors on about 21 percent of the returns filed. These errors include those made by taxpayers as well as IRS personnel and, for the most part, are simple errors (such as math errors, a failure to enter the standard deduction, and a failure to accurately transcribe taxpayer information) rather than errors caused by tax law complexity. In keeping with IRS' emphasis on

"quality first", this is an area in which IRS may wish to pay more attention to prevention (through such things as training, taxpayer education, and more easily understood forms) in contrast to inspection and correction.

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There is nothing in the 1989 budget that is specifically identified as IRS' answer to the quality issues discussed above. There are some items in the budget, however, that could have an impact in those areas. Two information technology initiatives-- electronic filing and the Automated Taxpayer Service System-- could have a positive impact on improving the quality of returns processing and taxpayer service respectively. Statistics on electronic filing, for example, indicate that the error rate associated with returns processed through that system (8 percent) is considerably lower than the rate associated with returns processed through the traditional process (about 20 percent). To the extent better training is the answer, funds already included in the budget for that activity may be sufficient because the solution may involve using available funds to provide better training rather than getting more money for more training. Other possible solutions, however, could require additional funds. For example, if it is deemed unreasonable to expect relatively low-salaried employees to deal with the complexities involved in answering telephone inquiries and taxpayer correspondence, the

answer would seem to lie in upgrading those positions. Doing that could require an increase in IRS' budget in the short term but should, if IRS' level of quality improves, eventually lead to savings by reducing the amount of quality assurance and rework necessary.

U.S. TAX COURT

You also asked for our comments on the U.S. Tax Court's budget for fiscal year 1989. That budget totals \$29.3 million, an increase of \$1.8 million (6.7 percent) over fiscal year 1988. About two-thirds of the requested increase is for a new cooling system for the Tax Court Headquarters building. The remainder is for increased rent charges, personnel compensation and benefits, and other cost adjustments. The proposed budget requests no additional staff positions.

In fiscal year 1987, after many years of increasing inventories, the Tax Court closed more cases than it received. Thus, the closing inventory of cases for fiscal year 1987 decreased by 3 percent to a level of 81,549 cases. Through February 1988, Tax Court records show that this trend is continuing. Filings have decreased 25 percent while the number of cases closed has increased by 20 percent over the same period last year. The Tax Court's inventory was down to 72,383 cases as of the end of February 1988. Tax Court officials attribute the decrease in

filings to such things as (1) a provision in the Tax Equity and Fiscal Responsibility Act of 1982 which allows IRS to resolve tax shelter cases by dealing with the designated partner for tax matters rather than with individual investors and (2) IRS' encouragement to settle cases before a taxpayer petitions the Tax Court. The Tax Court expects that it will continue closing more cases than it receives during the rest of fiscal year 1989.

Although the Tax Court's inventory of cases is declining, it is unclear whether this trend will continue in future years. For example, the Taxpayer Bill of Rights passed by the Senate Finance Committee includes provisions expanding the jurisdiction of the Tax Court. Also, problems associated with implementing the massive changes in the Tax Reform Act of 1986 and increases in Examination staff as a result of the 1987 and 1988 revenue initiatives could have an impact on the Tax Court's workload.

CONCLUSION

In conclusion, IRS has not encountered any serious problems in processing returns this filing season. At the point we last checked, however, millions of returns still had not been filed so IRS must remain diligent. One aspect of the filing season that remains troubling is the high rate of incorrect responses to our test telephone calls. That problem, plus other quality problems

involving taxpayer correspondence and returns processing, provide evidence of the importance of emphasizing quality.

There are some initiatives in IRS' 1989 budget directed at improving IRS' service to taxpayers but none that address the problems we have been discussing. The answer to those quality problems may or may not require additional funds depending on the root causes. IRS needs to identify those causes and to determine whether additional funds are needed to address them.

Another major issue associated with the 1989 budget is the absence of any revenue initiative. Such initiatives represent attractive vehicles for increasing government revenues. We would emphasize again, however, that if Congress adds enforcement resources to this year's budget request it should do so in anticipation of generating the most additional revenues in succeeding years.

That concludes my prepared statement. We will be happy to respond to any questions.