

GAO

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Status of the 1989 Tax Return Filing Season

Statement of
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Tax Policy and Administration Issues

Before the
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives



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1989 TAX RETURN FILING SEASON

SUMMARY OF STATEMENT JENNIE S. STATHIS DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES

GAO's monitoring of the first 2 months of the 1989 tax return filing season indicated that IRS has not encountered any serious problems in processing returns and refunds. Some service centers, however, have fallen behind last year's processing pace which could, if the trend continues, cause problems during the latter part of the filing season. There are some positive aspects of the filing season--the proportion of returns involving preparation errors by taxpayers or processing errors by IRS has decreased and the proportion of taxpayers filing simpler returns has increased. GAO identified two aspects of the filing season, however, that are less positive--the high rate of incorrect responses by IRS assistors to GAO's test telephone calls and the unavailability of many tax forms and publications.

GAO reviewed the availability and accuracy of IRS' telephone assistance program. Between February 21 and March 3, 1989, GAO made 922 test calls to 29 IRS call sites and received 824 responses to test questions. GAO's results show that IRS' accessibility declined somewhat from last year. GAO reached an IRS assistor on the first call 69 percent of the time this year as compared to 76 percent in 1988. However, GAO reached an assistor within five calls 92 percent of the time this year--about the same success as in 1988. The overall accuracy of assistors' answers to individual tax law questions remained about the same as last year--64 percent in 1988 compared to 66 percent this year. When comparing the accuracy of assistors' answers to all but one of the questions GAO used in both years, accuracy also appears to be about the same. Accuracy on the other question, dealing with the earned income credit, declined this year compared to last.

GAO visited 35 IRS walk-in sites in 10 states to check the availability of 79 tax forms and publications each site was required to stock. No site had all 79 items, and 15 of the sites had 10 or more items missing. Among the items missing at several sites were a form for reporting underpaid estimated tax and publications on contributions, tax rules for children and dependents, and individual retirement arrangements. Taxpayers can also order tax materials by phone or mail from three IRS distribution centers. GAO tested that system by placing random phone and mail orders. Of 39 orders received, 21 had items missing with no explanation as to why nor any indication that the missing items had been back ordered as IRS requires.

GAO will continue to monitor IRS' answers to telephone questions and the availability of forms and publications for the rest of the filing season.

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 1989 tax return filing season.

My testimony makes five points:

--First, IRS still needs to improve the accuracy of its answers to tax law questions. Our test shows an accuracy rate of 66 percent.

--Second, taxpayers may be having difficulty obtaining the tax forms and publications they need.

--Third, IRS appears to be processing returns smoothly and more taxpayers are filing simpler tax forms. Some service centers, however, have fallen behind last year's processing pace which could cause problems later.

--Fourth, the percentage of filed returns that contain taxpayer errors or that IRS erroneously processed is lower than last year, but taxpayers are still making many of the same kinds of errors as they did last year.

--Fifth, of the various service center inventories, one that appears to have increased substantially compared to last year is the inventory of cases that require IRS to update taxpayer files

because of such things as name changes and changes to accounting periods.

TELEPHONE ASSISTANCE

At your request, we tested the accuracy and availability of IRS' telephone assistance. Between February 21 and March 3, 1989, we made 922 test calls to 29 IRS call sites.

This year, taxpayers may experience more difficulty telephoning IRS. During our 2-week test, we reached an assistor on the first attempt 69 percent of the time compared to 76 percent last filing season. The rate increased to 92 percent within five attempts, which was about the same as last year's rate.

How accurately IRS answers taxpayers will depend on the questions they ask. For our 22 test questions answered in 824 calls, we received correct responses 66 percent of the time. The other 34 percent were answered incorrectly. Last year, using 20 test questions, we had 64 percent answered correctly and 36 percent incorrectly. This year, we also computed an accuracy rate that reflects how often taxpayers ask questions similar to those in our test. Using this weighting, the accuracy rate declined slightly to 65 percent.

Eleven of this year's 22 questions were also in our test last year allowing a more direct comparison of results between the 2 years. The accuracy of assistors' answers to these questions declined--from 72 percent last year to 64 percent this year. The difference was primarily caused by one question on the earned income credit. For 10 of the 11 questions, the accuracy of assistors' answers appears to be about the same this year as last.

Although it has improved, probing by assistors continues to be a problem. Assistors need to determine enough about a taxpayer's situation to provide correct responses. This year, assistors had the greatest difficulty responding to questions about the earned income credit, deductions for individual retirement arrangements, and miscellaneous deductions on Schedule A.

Why has IRS had quality problems in this aspect of taxpayer service, especially given that IRS did not have to hire as many new assistors as last year? IRS converted to full-time status many assistors who were temporary hires last year. Thus, these assistors have received additional training and are more experienced than they were a year ago.

One reason for the quality problems may be the fact that in some areas of the country, especially large metropolitan areas, IRS has found it difficult to compete with private industry in hiring

employees. As a result, potential recruits in these areas are not as well qualified as those in other areas; and many of those hired either fail or drop out of training classes. In Los Angeles, for example, 35 percent of those hired for a February 1989 training class dropped out or failed the course. High turnover rates increase IRS' training costs and make it more difficult to hire and adequately train replacements for the filing season.

The quality of training IRS provides its assistors can also affect the quality of their answers. We have just begun to review that training. Early indications are that the course materials may need to be improved.

As you know Mr. Chairman, we are also monitoring the test calls IRS is making to measure the accuracy of assistors' answers to individual tax law questions. During the past year, we have worked with IRS to develop its testing system. A major part of our effort has been spent in developing a set of 62 questions and reaching agreement with IRS on the answers that would warrant a correct score for each question. Last week, IRS released statistics on the accuracy of answers for 29 of the 62 test questions based on more liberal scoring of responses to certain questions than we had agreed on. Using the agreed on scoring for the same time period and the same set of questions would show that assistors correctly responded 60.4 percent of the time

rather than the 69.2 percent figure IRS reported. For several reasons, we do not think IRS should revise its scoring after having gone this far into the test period.

AVAILABILITY OF FORMS

AND PUBLICATIONS

This year and last, IRS engaged in a media campaign designed to encourage early filing. To file early, taxpayers need the necessary forms and publications. Last year, we reported to the Subcommittee that some forms and publications were not available during the first part of the filing season although the situation improved as the filing season progressed.

IRS made several changes this year in an attempt to improve the availability of tax materials. For example, IRS established a list of 79 forms and publications that each walk-in distribution site is to stock and developed a course on inventory management for personnel at those sites. Despite these efforts, tax materials have not been more readily available than last year.

In late January and February, we checked on the availability of the 79 forms and publications at 35 walk-in sites in 10 states. None of the sites had all 79 items. Fifteen of the sites had 10 or more items missing; one of those sites did not have 41 items. Among the items missing at several sites were Form 2210, which is

used to report underpayments of estimated tax, and publications dealing with charitable contributions, individual retirement arrangements, business and moving expenses, tax rules for children and dependents, and supplemental medicare premiums.

According to IRS personnel at the walk-in sites, materials were unavailable either because (1) the site's supply had run out and replenishments had not been ordered, (2) replenishments had been ordered but not yet received, (3) the site had not received its initial supply of the document, or (4) the site had never intended to stock the document even though it was on the list of required items.

Another reason for continuing problems with the availability of tax materials may be the fact that several employees had not taken the inventory management training even though the filing season was well underway. IRS developed this course for personnel responsible for ordering and distributing tax materials at the walk-in sites. Of the 35 people primarily responsible for inventory management at the sites we visited, 19 had received the training by the time of our visit and 16 had not. Even where training had been received, however, inventory management procedures were not always being followed. At several such sites, for example, stocks of one or more of the forms and publications were at or below their reorder points but no additional supplies had been ordered.

We will revisit some of the walk-in sites several times during the filing season to see if the availability of materials changes. As of March 3, 1989, we had visited 10 of the 35 sites a second time and found that the number of available forms and publications had increased substantially since our first visit.

Taxpayers can also order tax materials by mail or phone from one of three IRS distribution centers. In order to evaluate that ordering system, we placed random mail and phone orders in late January and February. If our results are any indication, taxpayers may be having trouble getting what they order from the distribution centers.

Each of our orders was for 10 items selected randomly from IRS' most recent list of available forms and publications. Each of the 39 orders we had received as of March 3 was received within 10 days, which is IRS' goal for filling mail and phone orders. Only 4 of our orders, however, contained all 10 items we ordered. The other 35 orders lacked from 1 to 4 of the 10 items.

According to IRS officials responsible for the forms distribution program, if an ordered item is out of stock, the distribution center is supposed to back order the item and let the taxpayer know. Of the 70 items missing from the 39 orders we received, we were advised by the distribution center that 26 had been back ordered and 2 were obsolete. The other 42 items, involving 21

orders, were missing with no explanation as to why and no indication that they had been back ordered.

We will pursue the reasons for both the walk-in and mail-order problems as we continue our review for the Subcommittee.

RETURNS PROCESSING

Although IRS appears to be processing tax returns smoothly this year, some service centers have fallen behind last year's processing pace. If that trend continues, it could cause processing problems later on.

As of March 10, 1989, according to IRS' statistics, 2.2 percent more individual income tax returns had been received than were received as of that time last year. The statistics indicate, however, that some service centers have fallen behind in processing those returns. When compared to the amount of returns they were scheduled to have processed by March 10, for example, Brookhaven and Kansas City were 11.4 percent and 10.2 percent behind schedule respectively even though they had received more returns than scheduled. IRS' Assistant Commissioner for Returns Processing told us that he viewed this as a temporary situation and did not anticipate any major problems.

None of the three service centers we contacted had experienced any unusual problems that impaired their ability to process returns this year, and each appeared sufficiently staffed for the function. If the processing workload at any of IRS' centers begins to cause problems, we would expect IRS to do what it has done in the past--divert resources from other service center functions. Although the diversion of resources would ensure sufficient processing staff, it would create the challenge of adequately training staff in a short time to process the workload accurately.

One encouraging sign in the statistics for this filing season is that a greater proportion of taxpayers are filing the simpler tax forms (1040A and 1040EZ) than did so last year. Although it was expected that passage of the 1986 Tax Reform Act would result in more Americans filing simpler returns last year, many taxpayers actually filed more difficult forms last year than their circumstances warranted.

IRS AND TAXPAYER ERRORS

ON FILED TAX RETURNS

Taxpayers and IRS are making fewer errors this year. IRS' statistics as of March 8, 1989, show that the percentage of returns that taxpayers erroneously prepared or that IRS erred in

processing was down to 15.8 percent compared to last year's 18.0 percent.

According to IRS, taxpayers made most of the errors (about 59 percent) by doing such things as forgetting to check a box, failing to enter a required piece of information, or making a mathematical error. IRS' analysis indicates that taxpayers are making many of the same types of errors as last year, even though IRS attempted to avoid some of those errors by changing the related forms or instructions. The most prevalent errors identified by IRS involved taxpayers (1) failing to enter a standard deduction or entering an incorrect standard deduction on Form 1040A, (2) erroneously claiming or computing the earned income credit, (3) figuring the refund amounts on Forms 1040EZ and 1040A incorrectly, and (4) failing to check a box on line 4 of the 1040EZ to indicate whether they can be claimed as a dependent on another person's return.

Among the changes IRS made to this year's forms and instructions in an attempt to avoid some of the errors taxpayers made last year was the addition of a note on the Form 1040EZ reminding taxpayers to check one of the boxes on line 4. IRS also printed the boxes in bold type to attract the taxpayer's attention. Although it is too soon to tell whether those changes will serve to reduce the total number of errors involving line 4, the early returns indicate that it is still a problem area.

IRS attributes most of the other errors on filed returns to mistakes made by service center staff responsible for processing tax returns. Those errors include staff failing to properly code and edit information on tax returns before entering the information for computer processing. Some of the items being improperly edited concern dependents, filing status, and withholding.

SERVICE CENTER

INVENTORY LEVELS

Inventory levels at IRS' 10 service centers can fluctuate significantly from one week to the next making it difficult to provide an overall assessment of their manageability. Our analysis of the various inventory levels indicates, however, that most are running at or below last year's levels. One exception is the inventory of cases that require IRS to update or correct taxpayer files because of name changes, address changes, changes to accounting periods, or requests for employer identification numbers. Although this inventory has increased by about 22 percent since last year, IRS officials said the inventory is still within manageable limits. They cited various reasons for this year's increase including (1) a broader definition of cases included in the inventory and (2) a build up

of cases involving taxpayer requests to change accounting periods as a result of the Tax Reform Act of 1986.

In discussing service center inventories, size is just one consideration; quality is another. In a report issued last year, for example, we noted that 31 percent of the cases closed out of the correspondence inventories in three service centers between May 4 and July 31, 1987, contained critical errors. Those errors included incorrect adjustments to taxpayers' accounts and incorrect or unresponsive letters to taxpayers. IRS is taking steps to address the problems we noted. For example, it will be implementing a new system to help service center staff compose more responsive letters and has developed a system for routinely assessing the quality of service center correspondence.

CONCLUSION

In conclusion, although IRS has not experienced any unusual delays in processing returns, some service centers appear to be falling behind in processing their workloads. Also, a large percentage of IRS' answers to test questions were inaccurate, forms and publications were not as available as they should have been during the first part of the filing season, and taxpayers have been making some of the same errors they made last year even in situations where IRS took steps to try and clarify the requirements.

We will continue to monitor telephone assistance, forms distribution, and returns processing during the rest of the filing season and will apprise the Subcommittee of our results.

That concludes my statement Mr. Chairman. We are prepared to answer any questions.