

United States General Accounting Office

GAO

Report to the Chairman, Subcommittee  
on Commerce, Consumer, and Monetary  
Affairs, Committee on Government  
Operations, House of Representatives

September 1989

# TAX ADMINISTRATION

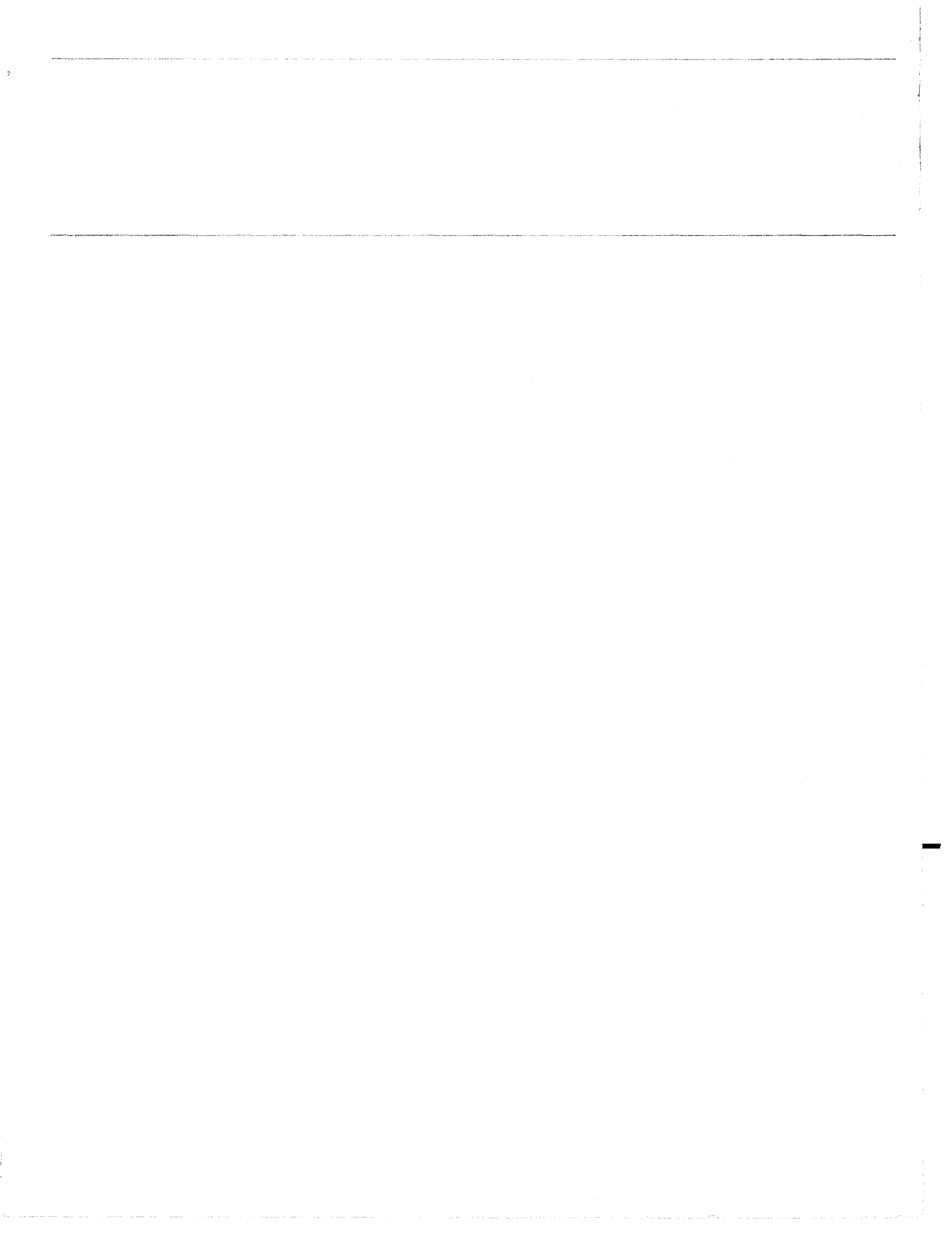
## Missing Independent Contractors' Information Returns Not Always Detected



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General Government Division

B-229469

September 8, 1989

The Honorable Doug Barnard, Jr.  
Chairman, Subcommittee on Commerce,  
Consumer, and Monetary Affairs  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This report responds to your January 1988 request that we determine whether Internal Revenue Service (IRS) examinations effectively identify businesses that fail to file information returns for payments made to independent contractors. As part of business income tax examinations, revenue agents do compliance checks to ensure that businesses have filed required information returns. These information returns are IRS' primary source for detecting taxpayers' unreported income, such as that of independent contractors. IRS officials estimate that billions of tax dollars are owed the government because independent contractors do not report all of their income.

With IRS' cooperation, we analyzed over 900 examinations completed in fiscal year 1988 in 7 IRS districts. This was done to determine how well revenue agents do compliance checks.

## Results in Brief

IRS examinations of business tax returns did not always identify businesses that failed to comply with information return reporting requirements. We estimate that in 467, or 50 percent, of 932 business examinations we reviewed in 7 IRS districts, revenue agents did not identify businesses that failed to file required information returns. These businesses failed to file an estimated 1,261 information returns, which involved about \$6.2 million in payments they made to independent contractors.

Businesses file about 11 million income tax returns annually, but IRS revenue agents closed only about 154,000 business income tax examinations in fiscal year 1988. Since we found that noncompliance with information return reporting requirements was often not identified in this limited number of examinations, examinations will be less of a deterrent and large numbers of payments will continue to go unreported.

While IRS' written policies recognize the importance of business examination compliance checks for information returns and require that revenue agents do them, these checks are given a low priority in actual practice. IRS Examination Division managers said that they did not stress the importance of these checks because other issues prompting the return's selection for examination at the outset, such as overstated deductions, take higher priority during examinations. In addition, since IRS managers were not enforcing workpaper standards that require revenue agents to document the scope and depth of the checks, they did not know the extent to which the checks were made. Further, procedures on how to do compliance checks are vague, and data that could assist revenue agents in doing these checks are not being used.

IRS agrees that compliance checks need to be done more effectively. To do so, IRS plans to establish minimum requirements for revenue agents to meet in doing compliance checks. Moreover, IRS field managers and quality reviewers will be required to stress the importance of doing compliance checks as well as enforce workpaper standards to ensure that the scope of the checks is sufficient. Further, IRS is looking into the reasons why information that summarizes businesses' information return filings is not being used by revenue agents in doing the checks.

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## Background

The Internal Revenue Code of 1986 requires businesses and nonprofit organizations to report annually payments of \$600 or more made for services provided by independent contractors who are either sole proprietors or partnerships. Department of the Treasury regulations also exempt most payments for material goods, such as supplies, as well as those made to most corporations. Payments that should be reported to IRS include commissions, fees, wages, and other forms of compensation for services.

As your Subcommittee has stressed over the years, filing information returns is important to promote voluntary compliance. IRS studies have shown that when information returns are filed, taxpayers report on their tax returns 97 percent of the income reported on the information returns. When these information returns are not filed, taxpayers report only 83 percent of the income that should have been reported.

Further, IRS uses information returns to detect unreported income. To detect unreported income of independent contractors who are organized as sole proprietorships, IRS' computer matches their information returns

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with their tax returns. If the computer match indicates that the independent contractor (1) did not report and pay tax on all income reported on the information returns or (2) failed to file a tax return, IRS generally contacts the independent contractor to resolve the discrepancy and secure any unpaid taxes and unfiled returns. IRS is exploring the feasibility of developing a comparable matching program for detecting unreported income of partnerships and corporations.

IRS' revenue agents have many responsibilities in their examinations of business income tax returns. While their primary responsibility is to determine the businesses' correct tax liability, revenue agents are also required to include a compliance check for filing of required information returns in every business income tax examination. This is done to ensure that information returns and other federal tax returns have been properly filed. When doing compliance checks, revenue agents are to inspect the businesses' copies of information returns and compare them with the businesses' expense accounts to determine whether a more detailed examination is warranted. For example, if a business did not provide copies of information returns related to significant expenditures for consulting services, the agent would review the business' consulting expense accounts to determine whether information returns should have been filed. When revenue agents detect noncompliance, they are to obtain any type of delinquent return and consider assessing penalties against the nonreporting businesses.

In fiscal year 1988, IRS revenue agents completed about 154,000 business income tax return examinations. The majority of these examinations involved sole proprietorships and corporations.

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## Objective, Scope, and Methodology

Our objective was to determine if IRS examinations were effective in identifying businesses that failed to file information returns for payments made to independent contractors.

To accomplish this objective, we reviewed business examinations completed by revenue agents in the first 5 months of fiscal year 1988 in seven IRS district offices. These examinations included those for which records were available and that met our other criteria, such as being subject to information returns reporting. IRS Examination officials believed that the business examinations in these districts—Brooklyn, Cleveland, Greensboro, Oklahoma City, Pittsburgh, Sacramento, and Springfield (Illinois)—would be indicative of those completed in any of IRS' 63 district offices.

At our request, revenue agents followed up with businesses to review expenses we identified as appearing to be subject to information return requirements. The examinations that required IRS' follow-up were those in which the examination workpapers did not include sufficient information on whether the businesses complied with the information return requirements. The cases that IRS followed up on included (1) all examinations that met our criteria and were available in five districts and (2) a sample of those examinations in the other two districts. The results of our analyses were projected to represent all of those examinations that we reviewed in the seven districts.

We reviewed IRS' follow-up of these completed examinations to determine, among other things, whether any patterns were evident in the business examinations that had specific purposes, such as for training new revenue agents or for measuring taxpayer compliance. Appendix I provides detail on our sampling methodology.

We also discussed the information return requirements and IRS' policies and procedures with National Office and district office Examination officials, including revenue agents and managers in the seven districts we visited. We did our field work from May 1988 through March 1989 and in accordance with generally accepted government auditing standards.

## Compliance Checks Are Not Effective in Detecting Noncompliance

Compliance checks done by revenue agents were not effective in identifying businesses that failed to file required information returns on payments to independent contractors. We estimate that in 467, or 50 percent, of 932 examinations closed in 7 districts, revenue agents did not identify businesses that failed to file required information returns.

Revenue agents did not detect an estimated 1,261 information returns that businesses should have filed. These returns involved \$6.2 million in payments made to independent contractors. We were unable to determine how much of this \$6.2 million independent contractors reported as income. However, IRS records showed that an estimated 81 of these independent contractors had not filed income tax returns.

In an estimated 274, or 29 percent, of the 932 examinations, revenue agents had not identified two or more payments that required information return reporting. These missing information returns accounted for almost 90 percent of the \$6.2 million paid to independent contractors.

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Over half of the total payments relate to examinations in which revenue agents had not identified five or more missing information returns.

We recognize that it may not be reasonable for revenue agents to examine all expense accounts and to identify all missing information returns. However, for the 1,261 information returns that were not filed, we estimate that 553, or 44 percent, of these returns involved payments from businesses' expense accounts that revenue agents had reviewed during the initial examination. Further, in 84 percent of the 1,150 examinations that we reviewed,<sup>1</sup> it appeared from the workpapers that, for the most part, the compliance checks were not done—even for expense accounts with a high likelihood for having payments subject to information reporting, like rents or advertising.

Revenue agents examine only about 2 percent of the millions of tax returns that businesses file annually. As a result, it is important that compliance checks be as effective as possible in order to identify missing information returns. The limited examination coverage coupled with ineffective compliance checks could result in extensive business non-compliance with the information return reporting requirements.

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## Factors Contributing to Inadequate Compliance Checks

We could not isolate any single reason for inadequate compliance checks. However, we were able to identify several factors that have contributed to the revenue agents' failure to detect missing information returns. These factors include the following:

- Compliance checks are usually given a low priority.
- Compliance check procedures are vague.
- Data that could help revenue agents do compliance checks are not being used.

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## Compliance Checks Were Given a Low Priority

IRS policy requires that revenue agents determine, during the examination of any business tax return, whether the business has filed required information returns. The importance of this policy has been stated in IRS' Examination Guidelines over the past several years. However, this policy has not been effectively implemented.

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<sup>1</sup>We used a universe of 1,150 examination cases in which revenue agents' workpapers were available to determine whether the workpapers showed that compliance checks were done. As described in appendix I, we adjusted this universe to 932 because IRS was unable to follow up with all of the businesses to get the information we needed to determine whether revenue agents identified those businesses that did not file required information returns.

Our review indicated that information return compliance checks had a low priority and their importance had not been reinforced by Examination Division managers. According to IRS' District Office Examination officials, agents do not have time to check all expense accounts for information return compliance. These officials said that revenue agents usually concentrate their efforts on the tax compliance issues that caused the business income tax return to be selected for examination, such as unreported income and overstated deductions. Therefore, compliance checks for reporting income paid to other businesses, such as independent contractors, are done to the extent that time permits and are directed to the most significant expense accounts.

The low priority also is evidenced by the lack of compliance with examination workpaper standards, which require revenue agents to document the extent of their compliance checks. Although these standards state that the workpapers should indicate the scope and depth of the compliance checks to support agents' conclusions, this was not done in 84 percent of the 1,150 examinations for which workpapers were available for our initial review.

We discussed this lack of workpaper documentation with IRS Examination managers and quality reviewers—those Examination employees responsible for independently reviewing examinations to ensure that quality standards have been met. The managers said that if the agent's workpapers have any kind of comment on a check being done, they presume that the compliance check was adequate. Quality reviewers said that they are satisfied if the agent's workpapers simply indicate that information return reporting compliance was considered.

Both managers and reviewers said that they concentrate on how well the agent documents the issues for which this business' tax return was selected, such as unreported income and overstated deductions. Without adequate documentation on the compliance checks, IRS managers or quality reviewers cannot determine the adequacy of the compliance checks and therefore cannot determine the validity of the conclusions reached.

IRS' National Office Examination officials acknowledged that resources are always a consideration in determining the extent of an examination, but said that they are concerned with the effectiveness of compliance checks, the adequacy of workpaper documentation, and the amount of income that may be going unreported. They agreed that additional emphasis needs to be placed on doing more effective compliance checks



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for missing information returns and on properly documenting the results of these checks.

During our review, IRS developed a training guide to, among other things, stress to revenue agents the importance of compliance checks. For training purposes, the guide emphasizes that information return compliance is important because (1) noncompliance contributes significantly to the amount of taxes that are owed but not voluntarily paid, otherwise known as the tax gap, and (2) IRS' computerized matching program to detect potential unreported income cannot work without the information returns. The guide also requires that agents' examination workpapers fully disclose the scope, depth, and techniques to support all conclusions so that reviewers can determine the quality of the checks. Therefore, a decision not to do a compliance check must also be documented in the workpapers.

This training guide should help to emphasize the importance of doing compliance checks and preparing adequate workpapers. However, the guide does not require managers and quality reviewers to monitor the adequacy of compliance checks and workpaper documentation. Further, the guide does not provide agents with specific procedures on how to do the checks.

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## Compliance Check Procedures Are Vague

Current IRS procedures for doing compliance checks are vague, lacking specificity on how revenue agents should do these checks. Rather, current procedures only tell the agent to do the check. As a result, revenue agents have considerable discretion on the scope of their checks and on which business expenses, if any, they will review for information returns compliance. Consequently, the extent of the compliance checks may vary significantly among revenue agents.

The lack of specific procedures may be why revenue agent trainees, who are expected to do thorough examinations as part of their on-the-job training, did not detect information returns that should have been filed. We estimate that 356, or 38 percent, of the 932 examinations we reviewed were done by revenue agent trainees. We also estimate that in over half, or 198, of the training examinations, the revenue agents did not detect about \$1.9 million in payments where 469 information returns should have been filed. According to National Office Examination officials, if compliance checks are not stressed to revenue agent trainees as part of their on-the-job training, these trainees may not do thorough compliance checks as they become more experienced agents.

The lack of specific procedures may also be the reason why experienced revenue agents doing Taxpayer Compliance Measurement Program (TCMP) examinations also missed information returns that should have been filed. Revenue agents assigned to TCMP examinations have less discretion on the scope and depth of these examinations because they are required to review every item on the tax return selected for TCMP examination. We estimate that 198, or 21 percent, of the 932 examinations we reviewed were TCMP examinations. In 79, or 40 percent, of the 198 TCMP examinations, revenue agents failed to detect almost \$700,000 in payments for which 205 information returns should have been filed. According to National Office Examination officials, the failure of agents doing TCMP examinations to identify noncompliance with information reporting requirements not only prevents IRS from detecting potentially unreported income but will also lead to IRS' underestimating the magnitude of noncompliance with information reporting requirements. TCMP is IRS' principal long-range research effort for estimating the levels and trends of taxpayer compliance with various provisions of the Internal Revenue Code.

We recognize that IRS may not be able to detect all reporting noncompliance. But IRS should have procedures to provide for consistency in the scope and extent of the compliance checks that are to be done. IRS officials said that doing compliance checks as part of the examinations of businesses' tax returns does not require much revenue agent time or many resources. Specific requirements on how to do these checks, therefore, may help IRS to get more and better coverage at given resource levels. At a minimum, these requirements should include

- reviewing the procedures that the businesses used to decide whether they should file information returns on payments made to independent contractors and
- testing those procedures by reviewing only the expense accounts that are most likely to have payments that may require information returns.

### Data That Could Help Revenue Agents Do Compliance Checks Are Not Being Used

IRS maintains a computer file—commonly referred to as the payor master file—in its Martinsburg Computing Center with data on the number of information returns that businesses filed on payments made to independent contractors. The data also show the number, types, and dollar amounts of payments. Although these data could help revenue agents do better compliance checks, the agents usually did not use them.

Revenue agents and managers said that knowing the number of information returns filed, and the types and number of payments made by businesses, would be useful in planning the scope of compliance checks. For example, if the data showed that the business sent information returns for all expenses on the tax return that may require information returns, the revenue agent would have an indication that other information returns were not required to be filed. Conversely, if the data showed that the business filed fewer information returns than may be required for expenses on the tax return, the agent could focus the compliance check on accounts for which no information returns were filed for such expenses.

Revenue agents and managers also said that the data could be even more useful if the data identified independent contractors who received the payments and the amounts paid to each. For example, if revenue agents knew the names of independent contractors and the amounts each received, they could better focus their compliance checks within the various expense accounts. They would need only to check the remaining payments in the accounts for which information returns were not filed. IRS officials recognize the value of such detailed information and, to the extent resources allow, will consider ways of making this information available to revenue agents.

Starting in 1985, information return data were supposed to be made available to revenue agents to help them do compliance checks. However, we found the data only in a few of the 1,150 business examination case files that we initially reviewed.

The Examination officials said that the Martinsburg Computing Center is supposed to automatically provide these data to revenue agents when they are assigned corporate return cases for examination. These officials did not know why the closed corporate examinations that we reviewed did not have the information return data.

The Examination officials also said that the Computing Center formerly provided these data automatically on sole proprietor cases, but service center and/or district office personnel could relate only a very small percentage of the data to the specific tax returns that had been selected for examination. When IRS associates the filing of the information returns with the tax returns, IRS includes an indicator on the examination case file, which shows the revenue agent that IRS has a record of information returns having been filed by the sole proprietor being examined. The revenue agent assigned to do the examination is expected

to use the indicator to request specific payor master file data on these information returns from the Computing Center. The National Office Examination Officials did not know whether agents used this indicator to request the information return data on the sole proprietor cases we reviewed or whether they requested the data but did not receive them.

Further, both the Examination and Returns Processing officials said that the data may not have been provided because of coordination problems between the Martinsburg Computing Center, the service centers, and the district offices. They said that the data were not always generated in time to assist the revenue agent with the examination because of competing priorities for computer processing time. National Office Examination officials said that the Computing Center recently agreed to generate the data on the same day that they are requested. These officials also said that they are attempting to further identify the specific reasons for this problem so that they can take other appropriate corrective actions.

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## Conclusions

One way IRS can reduce the tax gap is to identify potentially unreported income by matching information returns issued to independent contractors to their income tax returns. If, however, businesses do not file required information returns, the computer matching cannot be done and unreported income becomes much more difficult to detect.

IRS' policies stress the importance of (1) examining businesses for information return reporting compliance and (2) preparing adequate documentation on the extent of compliance checks made. However, these policies are not always carried out. Examination managers and quality reviewers need to emphasize to revenue agents the importance of doing compliance checks, enforcing workpaper standards, and assessing the adequacy of the checks being done. IRS has recently developed a training guide to emphasize the importance of these activities. However, the guide does not provide specific procedures or require Examination managers to ensure that these activities are done.

We recognize that it may not be reasonable for revenue agents to examine all accounts for information return reporting compliance. We also believe that agents should have discretion to use their professional judgment in determining the extent of their examination. However, too much discretion may be resulting in ineffective compliance checks. To provide some consistency in doing compliance checks, we believe that IRS should set minimum requirements. These requirements should include

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(1) reviewing the business' procedures for issuing information returns and (2) testing these procedures by reviewing expense accounts that have payments that may require information returns. In addition to establishing minimum requirements, revenue agents should use available data profiling a business' information return filings when doing compliance checks.

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## Recommendations

To improve IRS compliance checks of information return reporting requirements, we recommend that the Commissioner of Internal Revenue

- require that field managers and quality reviewers stress the importance of doing compliance checks, enforce workpaper standards, and assess the effectiveness of the checks;
- establish minimum requirements for revenue agents to follow in doing compliance checks; and
- require that the payor master file data summarizing businesses' information return filings be made available to, and be used by, revenue agents when doing compliance checks.

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## Agency Comments and Our Evaluation

In a July 25, 1989, letter, the Commissioner of Internal Revenue provided written comments on a draft of this report, in which he agreed with our conclusions and recommendations. (See app. II.) He said that the report correctly noted that IRS has attempted to stress the importance of compliance checks as part of a business examination. He also said that it is clear from the report that there is more work to do in helping revenue agents balance the issues competing for their attention during an examination.

With respect to the report's recommendations, he said that IRS is planning to establish minimum requirements for revenue agents to follow in doing compliance checks. He also said that field managers and quality reviewers will be required to stress the importance of doing compliance checks as well as enforcing workpaper standards to ensure that the scope of the checks is sufficient. Further, IRS is looking into the reasons why information that summarizes businesses' information return filings is not being used by revenue agents in doing compliance checks.

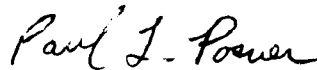
IRS' planned actions, if effectively implemented, should improve its compliance checks of information reporting requirements.

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As arranged with the Subcommittee, unless you publicly announce its results earlier, we plan no further distribution of this report until 30 days from the date of issuance. After this time, we will send copies of the report to the Commissioner of Internal Revenue and to other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix III. If you have any questions, please call me on 272-7904.

Sincerely yours,



Paul L. Posner  
Associate Director  
Tax Policy and Administration  
Issues



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Table I.1: Confidence Intervals for Compliance Checks of  
Information Return Filings in IRS Business  
Examinations Closed During October 1987 to  
February 1988

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## Abbreviations

IRS	Internal Revenue Service
TCMP	Taxpayer Compliance Measurement Program





# GAO Sampling Methodology

This appendix describes the approach we used to sample IRS examinations of business tax returns. Confidence intervals for all estimates cited in the report are presented in this appendix.

Specifically, we requested data from IRS on examinations completed in the first 5 months of fiscal year 1988 (October 1987 through February 1988) in seven IRS districts. From this data, we identified examinations on sole proprietorships with total gross receipts of \$25,000 or more and corporations with assets between \$50,000 and \$10 million that had been audited by revenue agents for tax years ending after August 1985. IRS furnished examination case files on 1,461 examinations that met these criteria.

After screening the 1,461 examinations, we eliminated 152 because the examination case files showed that they did not require compliance checks. This was mainly because the examinations addressed only a single issue on the tax return. We also eliminated 159 because complete examination case files were not available.<sup>1</sup>

The remaining 1,150 examination cases represent the relevant universe for us to determine the effectiveness of revenue agents' compliance checks for detecting reporting noncompliance. We reviewed these cases to determine whether the revenue agents' workpapers contained sufficient documentation to support their conclusions with regard to reporting requirements. We determined that 184 of the 1,150 examination case files did contain sufficient documentation and that the other 966 did not have sufficient documentation and needed to be followed up on to obtain the required documentation. Since two districts had a large number of sole proprietorship cases and limited examiners to follow up on them, we randomly sampled the sole proprietor cases in those districts.

We requested IRS to follow up on a total of 762 examinations in the 7 districts. To identify these examinations, we sampled sole proprietorship cases in two districts, selected all sole proprietor cases in the other five, and selected all corporation cases in the seven. IRS was unable, however, to follow up on 174 cases because, among other reasons, the taxpayers were uncooperative, records were not available, or IRS could not finish by our cut-off date. (See footnote 1.) To account for the sampling in the two districts, we weighted the sole proprietorship cases that

<sup>1</sup>We do not know whether these eliminated cases differed in key characteristics from those reviewed. Thus, we do not know what bias, if any, exists in our analysis because of cases that IRS did not follow up on.

IRS did not follow up on, which resulted in an estimation of 218 cases that IRS did not follow up on in the seven districts. Therefore, we reduced our universe of 1,150 examinations by the 218 to arrive at our adjusted universe of 932. Consequently, our results are projected to this adjusted universe—both the cases that IRS followed up on as well as the 184 cases in which we initially determined that revenue agents had done effective compliance checks.

Table I.1 presents the confidence intervals for numbers cited in the report.

**Table I.1: Confidence Intervals for Compliance Checks of Information Return Filings in IRS Business Examinations Closed During October 1987 to February 1988**

	Estimate	95-percent confidence intervals	
		Lower	Upper
<b>IRS examinations analyzed</b>			
Training cases	356	331	381
TCMP cases	198	181	215
<b>IRS examinations not in compliance</b>			
Missed one or more information returns	467	443	491
Missed two or more information returns	274	251	297
Training cases	198	174	222
TCMP cases	79	65	93
<b>Missing and undetected information returns</b>			
Total	1,261	1,162	1,360
For accounts IRS initially examined	553	492	614
Training cases	469	381	557
TCMP cases	205	148	262
<b>Amount of payments not reported as required<sup>a</sup></b>			
Total	\$6.2	\$5.6	\$6.8
Training cases	\$1.9	\$1.3	\$2.5
TCMP cases	\$0.7	\$0.5	\$0.9
<b>Independent contractors who neither received information returns nor filed tax returns</b>			
	81	69	93

Note: Confidence intervals are computed using simple random sampling with replacement.

<sup>a</sup>Expressed in millions of dollars.

# Comments From the Internal Revenue Service



COMMISSIONER

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

JUL 25 1989

Mr. Richard L. Fogel  
Assistant Comptroller General  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on the draft report, "TAX ADMINISTRATION: IRS Does Not Always Detect Missing Information Returns for Independent Contractors".

We agree with the report's recommendations and with the report's conclusions that more could be done to make checks of businesses' compliance with information reporting requirements more effective. The IRS recognizes the importance of information reporting as a tool to encourage voluntary compliance. As the report notes, IRS already emphasizes to its agents the importance of checking compliance with information return filing requirements when examining business returns. However, it is clear from the results of this report that more can be done. Detailed comments on the report's recommendations are enclosed.

We hope you find these comments useful.

Best regards.

Sincerely,

A handwritten signature in cursive script, appearing to read "Fred T. Goldberg, Jr.", written over a printed name.

Fred T. Goldberg, Jr.

Enclosure

IRS COMMENTS ON RECOMMENDATIONS  
CONTAINED IN GAO DRAFT REPORT ENTITLED  
"TAX ADMINISTRATION: IRS DOES NOT ALWAYS DETECT  
MISSING INFORMATION RETURNS FOR INDEPENDENT CONTRACTORS"

Recommendation 1: Require that field managers and quality reviewers stress the importance of doing compliance checks, enforce workpaper standards, and assess the effectiveness of the checks;

Comment: We agree with this recommendation. Although we have made efforts in the past to stress the importance of checking to determine if businesses have filed required information returns, we will continue to emphasize the importance of these checks during an examination. In addition, we believe that proper documentation of those checks in a revenue agent's workpapers should be a requirement.

Recommendation 2: Establish minimum requirements for revenue agents to follow in doing compliance checks.

Comment: We agree that IRS should set minimum requirements to assist revenue agents in deciding what compliance checks must be completed during an examination.

Recommendation 3: Require that the Payor Master File summarizing businesses' information return filings be made available to and used by revenue agents when doing compliance checks.

Comment: We agree that that data summarizing businesses' information return filings should be made available and used by revenue agents during compliance checks. Although we have procedures in place to use this information, we are looking into the reasons why this information is not in case files or not being used and will take appropriate corrective actions.

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# Major Contributors to This Report

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**General Government  
Division, Washington,  
D.C.**

Gerald Stankosky, Assistant Director, Tax Policy and Administration  
Issues  
Mark J. Gillen, Assignment Manager  
Harriett C. Ganson, Technical Advisor

---

**San Francisco  
Regional Office**

Ralph Block, Regional Management Representative  
Gene M. Fiance, Evaluator-In-Charge  
Kathleen E. Seymour, Evaluator

---

**Dallas Regional Office**

Rita B. Neitz, Evaluator

---

**New York Regional  
Office**

Robert C. McKay, Evaluator

---

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