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Requesters

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May 2010

# INTERNAL REVENUE SERVICE

## Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency



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Accountability \* Integrity \* Reliability

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Accountability \* Integrity \* Reliability

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United States Government Accountability Office  
Washington, DC 20548

May 26, 2010

The Honorable Richard J. Durbin  
Chairman  
The Honorable Susan Collins  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
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 financing of the federal government depends importantly on the effectiveness of the Internal Revenue Service's (IRS) ability to administer the tax laws, including achieving its goals of providing taxpayer services to make voluntary compliance easier and enforcing tax laws to ensure everyone meets their obligations to pay taxes. The President requested \$12.6 billion to fund IRS's fiscal year (FY) 2011 operations, including \$5.8 billion for enforcement, \$4.1 billion for operations support, and \$2.3 billion for taxpayer services. Another \$387 million is for IRS's Business Systems Modernization (BSM) program, IRS's ongoing effort to improve the agency's tax processing systems. In addition to its annual appropriation, IRS projects that it will also collect and have available to use about \$339 million in offsetting collections, including user fees and reimbursable programs.

*IRS's Strategic Plan 2009-2013* guides budget and program decisions and emphasizes IRS's goals. It recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges. With all of these competing priorities for spending in IRS programs, limited resources make it important for Congress and other stakeholders to have sound and transparent information on how proposed spending is related to IRS achieving its goals and whether there are opportunities to revise its plans so that resources expended achieve maximum impact on desired service and enforcement results.

Budget transparency refers to the disclosure of relevant fiscal information in a timely and systematic manner. It recognizes that the trade-offs inherent in a budget should be made clear, salient, and understandable to budget decision makers and the public. Our prior work has emphasized the importance of transparency in federal agencies' budget presentations and its critical role in congressional oversight.<sup>1</sup> However, budget transparency and detailed presentation must be balanced against the need for flexibility and discretion to focus on the more significant or important components of a budget.

Based on your requests, our objectives were to

- (1) describe IRS's budget and staffing trends for FY 2007 through FY 2011, including funding from other budgetary resources;
- (2) assess the transparency of IRS's FY 2011 budget justification presentation;
- (3) assess efficiencies and savings projections in IRS's FY 2011 budget justification;
- (4) determine how program initiatives and legislative proposals in the budget justification could help IRS address the tax gap and improve taxpayer services;
- (5) compare the performance goals in the FY 2011 budget justification to performance of prior years;
- (6) determine whether there is an explicit connection between initiatives in the FY 2011 budget justification and IRS's strategic documents, including the Taxpayer Assistance Blueprint (TAB), the Advancing E-file Study, and the report, Reducing the Federal Tax Gap;
- (7) describe the justification for the proposed Business Systems Modernization (BSM) funding, including information security; and
- (8) highlight GAO's open matters for congressional consideration and recommendations for executive action that could result in potential savings or increased revenues.

To address these objectives, we compared IRS's appropriations from FY 2007 through FY 2010 to the President's FY 2011 budget request; reviewed and analyzed various documents, including supporting budget and strategic planning documents; and interviewed IRS officials. Our BSM work was based, in part, on our annual report on IRS's expenditure plan.<sup>2</sup> Based on previous tests of the major data systems IRS uses to prepare its budget request, we determined the data in those systems were sufficiently reliable for our purposes. We conducted this performance audit from January 2010 through May 2010 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 that reasonable basis. For a more detailed discussion of our scope and methodology, see enclosure I.

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<sup>1</sup> GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

<sup>2</sup> GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2010 Expenditure Plan*, GAO-10-539 (Washington, D.C.: May 10, 2010).

On May 14, 2010, we briefed Senate and House committee staff separately on our observations of IRS's FY 2011 budget request. This report transmits updated materials we used at the briefings, which are reprinted in enclosure II.

## **Background**

The President's FY 2011 budget request for IRS is detailed in a series of documents. Among them are two key documents: (1) the Congressional Budget Justification, which provides a detailed justification of proposed IRS spending, and (2) the President's Appendix for the Department of the Treasury, which, among other things, includes proposed text of appropriations language, describes IRS appropriations in detail, and provides summary-level object classification, or account level, information as prescribed by the Office of Management and Budget (OMB).

In general, there are three levels to IRS's budget presentation. First, there are the five IRS *appropriation accounts*, including Taxpayer Services, Enforcement, Operations Support, BSM, and Health Insurance Tax Credit Administration (HITCA). The second level includes the *budget activities* for each appropriation account, which divide the appropriation accounts into more basic functions. For example, for the Taxpayer Services appropriation there are two budget activities, Pre-filing Taxpayer Assistance and Education as well as Filing and Account Services. For each budget activity there are multiple *program activities*. For example, in the Filing and Account Services budget activity there are currently eight program activities, such as Submission Processing, Electronic Tax Administration, and the Joint Operations Center, IRS's central call routing center.

IRS's budget presentation also includes *program initiatives* and legislative proposals. Program initiatives are actions that IRS is proposing to achieve its goals and are based on its existing legislative authority. In the FY 2011 budget, there are eight new program initiatives, one of which is to improve telephone level of service.

## **Summary**

In summary, we made the following major points:

- The President's FY 2011 budget request for IRS is a 4 percent, or \$487 million, increase over the FY 2010 appropriation. About 51 percent of the increase is for enforcement initiatives. In addition to its FY 2011 budget request, IRS funding includes multi-year appropriation balances carried forward from previous years. IRS also has budget authority to use amounts collected from user fees and reimbursable programs.
- IRS provides funding information at the appropriation account and budget activity levels, and for new initiatives, but only descriptions of the program activities. OMB guidance indicates that agencies should provide funding information for program activities in the justification when possible. However, according to IRS officials, due to current restrictions in appropriations law, providing dollar amounts for program activities would limit its flexibility to

reprogram funds once the budget is adopted.<sup>3</sup> Still, IRS could provide additional qualitative information that could highlight new program activities or those that are proposed for either expansion or reduction to increase transparency and demonstrate the agency's priorities to congressional decision makers.

- The budget request includes \$191 million in projected savings to offset increases from pay raises and inflation; however, actual savings may differ substantially. In the year following the budget's implementation, IRS does not provide Congress and other stakeholders a comparison of actual savings to the original projections. This may be challenging as factors may change and data may be initially incomplete since savings may take several years to fully realize. However, without such information, the extent to which IRS realized all or part of its \$191 million projection is unknown.
- Under the proposed budget request, over \$247 million is for program initiatives aimed at reducing the tax gap by nearly \$2 billion and \$45.9 million is for program initiatives to increase access to IRS telephone assistors and improve IRS's Web site. IRS has provided some return on investment (ROI) projections since FY 2008, and officials are considering options to collect actual ROI data, as we previously recommended.<sup>4</sup> Further, the FY 2011 budget justification cites 24 legislative proposals that target the tax gap and could generate nearly \$26 billion over the next 10 years. While Treasury has projected revenues for the proposals if adopted, the budget justification does not provide Congress with an indication of the costs or resource needs associated with implementing any of the proposals—information that could lead to more informed congressional decision making.
- The budget justification includes 33 performance measures used to evaluate the agency's progress toward important goals; however, IRS does not provide even brief definitions for the measures, which could improve clarity and assist users in the interpretation of results. Further, while IRS links funding to substantive changes in some performance measures, it does not do so for others. When applicable, these linkages could help Congress determine how funding contributes to operational goals and how targets align with resources.
  - The President's budget requests \$20.9 million to achieve a 75 percent Customer Service Representative Level of Service (LOS) target for FY 2011. However, based in part on a 14 percent decrease in assistor call volumes during the FY 2010 filing season, IRS is already achieving a 75 percent LOS without the \$20.9 million. Should assistor call volume remain lower than anticipated, IRS has the opportunity to either increase the LOS target or redirect funding to other priorities.

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<sup>3</sup> See, for example, the Financial Services and General Government Appropriations Act, 2010, Pub. L. No. 111-117, div. C, title VI, § 608, 123 Stat. 3034, 3202 (Dec. 16, 2009), which restricts IRS from reprogramming funds within its appropriation accounts for various reasons without committee approval.

<sup>4</sup> GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request*, GAO-09-754 (Washington, D.C.: June 3, 2009).

- IRS does not make explicit and transparent linkages between initiatives in the budget justification and its strategic documents, which direct and prioritize the use of resources to improve taxpayer service and enforcement. Congress and others have expressed considerable interest in IRS's strategies, and we have previously noted the importance of linking goals in strategic plans with cross-cutting initiatives. IRS officials agreed that such linkages could be more explicit.
- The budget requests \$387 million in funding for the BSM program, a 47 percent increase from FY 2010. About \$152.1 million of the \$387 million request is to begin implementing the new Customer Account Data Engine (CADE 2), IRS's new strategy for managing individual taxpayer accounts. The budget requests \$39.1 million to continue the development of Modernized Electronic Filing (MeF), which has benefits to taxpayers and IRS, such as providing a format that improves IRS's ability to provide taxpayers more timely information on the status of their returns.
- Several of our open matters for congressional consideration or recommendations for executive action have the potential to increase revenues or savings by \$3.9 billion if implemented. Details on selected open matters and recommendations are provided in enclosure III.

## **Conclusions**

The budget justification may be the single most important policy document because it is where policy objectives are reconciled and depicted in concrete terms. As a result, its transparency is critical. Budget transparency is most effective when it is balanced with the flexibility to focus on significant components of the budget and not minute details. While IRS's current budget justification clearly emphasizes such things as where the agency seeks funding for new program initiatives and highlights their projected ROI, opportunities exist to enhance the transparency of IRS's budget request, thus increasing the utility of the document for Congress and other budget decision makers as well as accountability to the public. This report makes seven recommendations, most of which are aimed at increasing the transparency of IRS's budget while striking the necessary balance.

## **Recommendations for Executive Action**

To enhance the transparency of IRS's budget request, we recommend the Commissioner of Internal Revenue to direct agency officials to:

- provide additional information, which could be qualitative if necessary to avoid losing existing reprogramming flexibility, about the program activities in the budget justification to better indicate IRS's priorities;
- provide Congress with information comparing projected savings to actual savings in the year following the budget's implementation;
- coordinate with Treasury and provide more information about possible costs or resource needs for legislative proposals in future budget justifications;

- provide brief definitions of the performance measures that are included in the budget justification;
- explain in the budget justification noteworthy changes in performance goals that reflect changes from previous performance and describe the impact on funding;
- continue to closely monitor assistor call volumes and, if demand is projected to remain lower than original predictions, either increase the LOS target or redirect some or all of the requested increase in funding for telephone services to other priorities within the bounds of IRS's authority; and
- make explicit linkages between initiatives and proposals in the budget and strategic documents.

### **Agency Comments and Our Evaluation**

IRS's Chief Financial Officer provided comments on our report via email on May 21, 2010. She stated that IRS disagreed with our first recommendation to provide additional information about the program activities in the budget justification. She stated that the budget justification already provides detailed information about funding increases and presents performance measures used to evaluate IRS's progress towards its goals. We agree that IRS provides information about requested funding increases, which are often for new initiatives. However, as our report notes, there is no crosswalk showing how the funding increases would translate into changes in budget categories, including program activities. Further, decreases in program activities are not indicated. Similarly, performance data is not linked to program activities and does not provide sufficient information to indicate the agency's priorities or when a program is being expanded or reduced. Because the budget activities can be as large as \$5 billion, providing additional information, qualitative if necessary, would help the Congress or other stakeholders make more informed decisions about IRS's use of resources.

Regarding our remaining six recommendations, IRS generally agreed with each of them. However, for half of these the Chief Financial Officer stated she was unclear as to what specific additional information was needed in the justification to address the recommendation.

- Regarding our recommendation that the budget justification describe noteworthy changes in performance goals that reflect changes from previous performance and describe the impact on funding, she stated that IRS already provides in each initiative request for additional funds the increases to performance measures. IRS does describe expected results for its new initiatives, such as return on investment projections. However, as we reported, not all performance measures, which are listed separately from initiatives in the budget justification, were linked to funding. Without an explanation of the changes to performance goals, especially when the changes are noteworthy, Congress does not know the extent to which funding could affect performance outcomes.
- Regarding our recommendation about the requested funding increase for telephone LOS, she stated that IRS already monitors call volumes and

reallocates resources as needed. We agree that IRS officials monitor call volumes; however, our recommendation was specific to either redirect some or all of the requested funding increase or increase the LOS goal should call volume remain lower than anticipated.

- Regarding our recommendation that IRS make explicit linkages between initiatives and proposals in the budget and strategic documents, she stated that IRS already does this, but that they would consider expanding upon it in the future. As we reported, there is no clear link between IRS's strategic documents and its budget justification. Making these linkages more explicit would allow Congress and other stakeholders to better understand the priority that IRS is giving to its efforts to improve service and enforcement.

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We plan to send copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending 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. Copies are also available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions or wish to discuss the material in this report further, please contact me at (202) 512-9110 or [WhiteJ@gao.gov](mailto: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 members who made major contributions to this report are listed in enclosure IV.



James R. White  
Director, Tax Issues  
Strategic Issues

#### Enclosures

- I: Scope and Methodology
- II: Updated Briefing for Senate and House Committees
- III: Selected Open Matters for Congressional Consideration and Recommendations for Executive Action with a Potential Financial Impact for IRS as of March 31, 2010
- IV: GAO Contact and Staff Acknowledgments

## Enclosure I: Scope and Methodology

To assess the President's fiscal year (FY) 2011 budget request for the Internal Revenue Service (IRS), we analyzed IRS's budget justification and supporting documents. To address our eight objectives, which were previously cited, we did the following.

- (1) We compared IRS's appropriations from FY 2007 through FY 2010 to the budget request for FY 2011, and identified and examined funding and other changes and reasons for changes via IRS interviews and documentation reviews.
- (2) We evaluated the budget presentation to identify opportunities for enhanced transparency, confirming requirements with officials in the Department of the Treasury. We also reviewed Office of Management and Budget (OMB) guidelines and previous GAO work.
- (3) We interviewed IRS officials, checked for savings resource plans, and used OMB and GAO guidance to analyze the efficiencies and savings estimates provided in the budget justification.
- (4) We determined how initiatives and proposals in the budget justification could help IRS address the tax gap and improve taxpayer services by applying GAO's Budget Justification Review framework, which is a guide to review and evaluate an agency's budget request. Additionally, we analyzed return on investment (ROI) calculations and compared investments with expected returns, and used prior GAO work and OMB guidance to identify information IRS could provide to enhance its legislative proposals. We also met with officials in the Department of the Treasury to gain a broader understanding of their revenue proposals in the General Explanations of the Administration's FY 2011 Revenue Proposals and how certain proposals were highlighted in IRS's justification.
- (5) We compared IRS's FY 2011 performance goals in the budget justification to performance and goals in previous years and examined the extent to which changes in performance were linked to changes in requested funding.
- (6) We analyzed IRS's strategic documents, such as Phase 1 of the Advancing E-File Study, the Taxpayer Assistance Blueprint (TAB), Phase 1 and Phase 2, and the Reducing the Federal Tax Gap report. We also interviewed officials and other stakeholders on the consistency between initiatives in IRS's strategic documents and those in the budget justification.
- (7) To provide information on Business Systems Modernization (BSM) funding and information security, we relied primarily on our recent BSM expenditure plan review, but also interviewed cognizant IRS officials and reviewed various documents, particularly pertaining to the new Customer Account Data Engine (CADE 2).<sup>5</sup>
- (8) Our open matters for congressional consideration and recommendations for executive action came from our *GAO High Risk and Other Major Government Challenges: Major Cost Saving Opportunities* Web page and were reconciled to our public open recommendations database.<sup>6</sup> We interviewed IRS and internal

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<sup>5</sup> GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2010 Expenditure Plan*, GAO-10-539 (Washington, D.C.: May 10, 2010).

<sup>6</sup> For the *GAO High Risk and Other Major Government Challenges: Major Cost Saving Opportunities* Web site see <http://www.gao.gov/highrisk/> and for the public open recommendations database see <http://www.gao.gov/recommendations/>.

stakeholders to determine the status of our open matters and recommendations and their possible impact on IRS's budget.

We also interviewed officials at IRS's National Office, including officials in the Office of the Chief Financial Officer; the Office of Research, Analysis, and Statistics; the Modernization, Information Technology, and Security Services; and the headquarters of the Wage and Investment Division in Atlanta. Based on previous tests of the major data systems IRS uses to prepare its budget request, we determined the data in those systems were sufficiently reliable for our purposes.

We conducted this performance audit from January 2010 to May 2010 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.

## Enclosure II: Updated Briefing for Senate and House Committees

### FY 2011 Budget Request for IRS Is \$12.6 billion, a 4 Percent Increase Over the FY 2010 Budget

## IRS's Budget and Staffing Trends, FY 2007 through FY 2011

### Our Objective

Describe IRS's budget and staffing trends for FY 2007 through FY 2011, including funding from other budgetary resources.

The President's FY 2011 budget request is a 4 percent increase over its FY 2010 appropriation (see table 1). The increase includes \$454.7 million for program changes and \$32.4 million for pay raises and inflation adjustments. About 51 percent of the increase is for enforcement initiatives, such as addressing offshore tax evasion and noncompliance among corporate and high-wealth taxpayers.

Funding for IRS's BSM program is proposed to increase by 47 percent in FY 2011 and funding for HITCA is proposed to increase by 22 percent in FY 2011.

**Table 1: FY 2007 through FY 2011 Appropriated and Proposed Funding (Dollars in Millions)**

Appropriation	FY 2007 enacted	FY 2008 enacted <sup>a</sup>	FY 2009 enacted <sup>b</sup>	FY 2010 enacted	FY 2011 requested
Enforcement	\$4,686	\$4,780	\$5,117	\$5,504	\$5,797
Taxpayer Services	2,138	2,191	2,293	2,279	2,322
Operations Support	3,545	3,841	3,867	4,084	4,108
BSM	213	267	230	264	387
HITCA	15	15	15	16	19
<b>Total</b>	<b>\$10,597</b>	<b>\$11,095</b>	<b>\$11,523</b>	<b>\$12,146</b>	<b>\$12,633</b>

Source: IRS data.

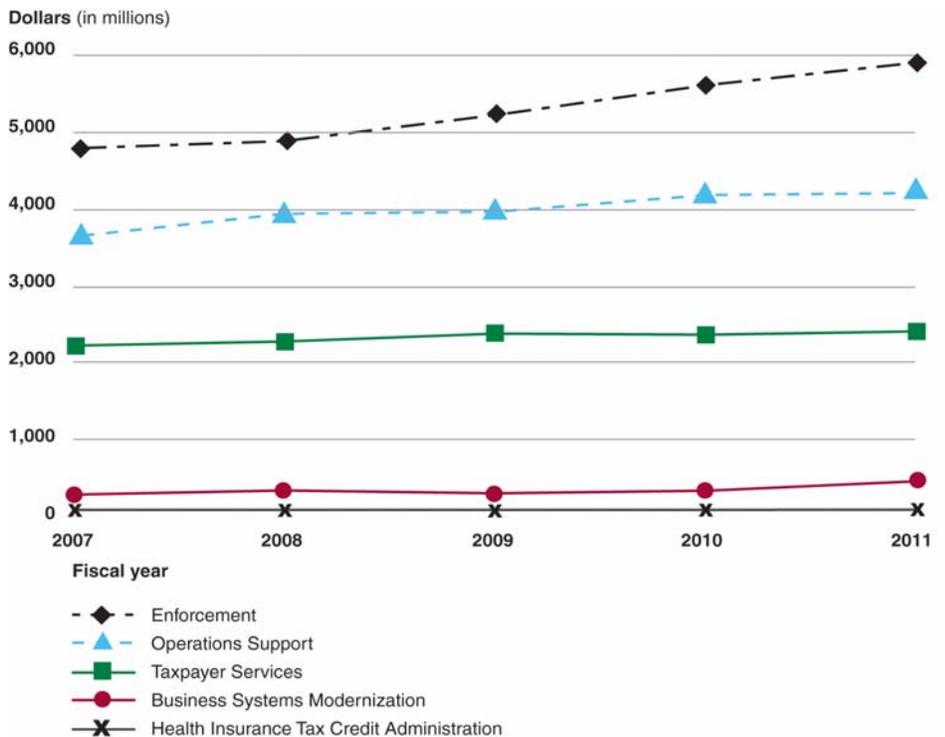
Note: Dollars are nominal and not adjusted for inflation and numbers may not add due to rounding.

<sup>a</sup>FY 2008 includes supplemental funding of \$202.1 million for Economic Stimulus payments.

<sup>b</sup>FY 2009 excludes \$118 million the Department of the Treasury received to implement the American Recovery and Reinvestment Act (Recovery Act), Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

Budget trends for each IRS appropriation account, from FY 2007 through FY 2011, are shown below.

**Figure 1: Appropriated and Proposed Funding for IRS in Nominal Dollars, FY 2007 through FY 2010 Appropriated and FY 2011 Requested (Dollars in Millions)**



Source: IRS data.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

# IRS's Budget and Staffing Trends, FY 2007 through FY 2011, *continued*

## Our Objective

Describe IRS's budget and staffing trends for FY 2007 through FY 2011, including funding from other budgetary resources.

## Total Full Time Equivalents (FTEs) Have Increased Since FY 2007

Total FTEs declined in FY 2008, but have since increased by an average of nearly 1 percent (see table 2). FTEs for Taxpayer Services have decreased since FY 2009, in part due to efficiency savings generated from electronic filing.

Table 2: IRS FY 2007 through FY 2010 FTEs and FY 2011 Projected FTEs

Appropriation funding FTEs	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 projected
Enforcement	48,307	47,596	48,952	51,200	52,863
Taxpayer Services	31,557	31,949	32,622	31,206	30,668
Operations Support	12,890	12,495	12,267	12,316	12,384
BSM	317	358	333	333	489
HITCA	17	17	15	15	15
<b>Total</b>	<b>93,088</b>	<b>92,415</b>	<b>94,189</b>	<b>95,070</b>	<b>96,419</b>

Source: IRS data.

## IRS's Total Resources Available for Obligation Include Budget Authority to Use Funding from User Fees and Reimbursable Programs

In addition to annual appropriations, IRS funding includes multi-year appropriation balances carried forward from previous years. Congress also provided IRS with budget authority to use offsetting collections from:

- user fees, such as enrolled agent, offer-in-compromise, installment agreement, and other service fees; and
- reimbursable programs, such as providing training and support to other government agencies.

As shown in table 3, user fees account for \$194 million, or 1.5 percent, of the total funding available to IRS. Reimbursable programs account for \$145 million, or 1.1 percent, of the total. Combined, these two resources account for \$339 million, or 2.6 percent, of the total.

Table 3: IRS Total Resources Available for Obligation for FY 2011 (Dollars in Millions)

Appropriation account	Budget amounts requested	Carryover balance	User fees	Reimbursable programs	Total
Enforcement	\$5,797	\$0	\$0	\$62	\$5,859
Taxpayer Services	2,322	8	127	34	2,491
Operations Support	4,108	65 <sup>a</sup>	67	49	4,289
BSM	387	144 <sup>b</sup>	0	0	531
HITCA	19	0	0	0	19
<b>Total</b>	<b>\$12,633</b>	<b>\$217</b>	<b>\$194</b>	<b>\$145</b>	<b>\$13,189</b>

Source: FY 2011 President's Budget, Appendix for the Department of the Treasury.

<sup>a</sup>This is the amount in the budget justification. IRS officials confirmed that the amount reported in the President's Appendix, \$67 million, was an error due to rounding.

<sup>b</sup>This is the amount in the President's Appendix. IRS officials confirmed that the amount reported in the justification, \$32 million, was an error.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

**IRS's Budget and Staffing Trends, FY 2007 through FY 2011, continued**

**Our Objective**

Describe IRS's budget and staffing trends for FY 2007 through FY 2011, including funding from other budgetary resources.

Table 4 shows the balances that IRS projects to carry forward into FY 2012. Of the appropriations projected to be carried forward, \$226 million, or 76 percent, is devoted to BSM. BSM appropriations are available for 3 years.

**Table 4: IRS Projected Balances Carried Forward to FY 2012 (Dollars in Millions)**

	<b>Appropriations</b>	<b>User fees</b>
<b>Balance carried forward to FY 2011</b>	<b>\$217<sup>a</sup></b>	<b>\$205</b>
Inflow (new budget authority)	12,633	218
Outflow (new obligations or account transfers)	-12,551	-194
<b>Balance carried forward to FY 2012</b>	<b>\$299</b>	<b>\$229</b>

Source: FY 2011 President's Budget, Appendix for the Department of the Treasury.

<sup>a</sup>This is the total carryover balance in table 3. IRS officials confirmed that the total reported in the President's Appendix, \$219 million, was an error due to rounding.

User fee collections are available for use for a variety of purposes until expended to supplement IRS's appropriation accounts and therefore can be carried forward to future years. The user fee carryover balance for FY 2012 is projected to increase from \$143 million in FY 2009 and \$205 million in FY 2010.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

## Budget Presentation

### Our Objective

Assess the transparency of IRS's FY 2011 budget justification presentation.

### What GAO Recommends

IRS should provide additional information, which could be qualitative if necessary to avoid losing existing reprogramming flexibility, about the program activities in the budget justification to better indicate IRS's priorities.

## IRS's Justification Does Not Show Priorities at the Program Activity Level

Within the five appropriation accounts listed previously, IRS provides the total funding for each budget activity, but provides only descriptions of the program activities that comprise them. For example, as shown in table 5, IRS identifies 17 different program activities within the Exam and Collections budget activity and provides brief descriptions of each of them. However, IRS does not report how the \$5 billion will be distributed among the 17 program activities, some of which are likely to have substantive funding.

**Table 5: Enforcement Budget Request for FY 2011 (Dollars in Millions)**

Budget activities under Enforcement Appropriations Account		FY 2011 request
Investigations		\$652
	5 program activities, including Criminal Investigations and International Investigations	No funding data provided
Exam and Collections		\$4,975
	17 program activities, including various payment and reporting compliance programs, international exams and collections programs, and appeals and litigation programs	No funding data provided
Regulatory		\$171
	5 program activities, including General Legal Services, Rulings and Agreements, and Office of Professional Responsibility	No funding data provided
<b>Total</b>		<b>\$5,797</b>

Note: Numbers may not add due to rounding.

OMB guidance indicates that agencies should provide funding information for program activities in the justification when possible.<sup>1</sup> As we have previously reported, program-level information increases Congress's ability to understand priorities and make more informed decisions about the use of resources.<sup>2</sup>

IRS officials told us that due to current restrictions in the appropriations act, providing dollar amounts for program activities would limit IRS's flexibility to reprogram funds once the budget is adopted.<sup>3</sup> However, additional information about priorities could be provided without listing dollar amounts. For example, IRS could provide qualitative information that highlights new program activities or those that are proposed for either expansion or reduction.

<sup>1</sup> Office of Management and Budget Circular A-11, *Part 2 Preparation and Submission of Budget Estimates* (Washington, D.C.: November 2009).

<sup>2</sup> GAO, *Army Corps of Engineers: Budget Formulation Process Emphasizes Agencywide Priorities, but Transparency of Budget Presentation Could Be Improved*, GAO-10-453 (Washington, D.C.: Apr. 2, 2010).

<sup>3</sup> IRS is restricted from reprogramming funds within its appropriation accounts without committee approval, if, among other reasons, the reprogramming will augment existing programs, projects, or activities in excess of \$5 million or 10 percent, whichever is less. See, for example, the Financial Services and General Government Appropriations Act, 2010, Pub. L. No. 111-117, div. C, title VI, § 608, 123 Stat. 3034, 3202 (Dec. 16, 2009).

## Efficiencies and Savings Projections

### Our Objective

Assess efficiencies and savings projections in IRS's FY 2011 budget justification.

### What GAO Recommends

IRS should provide Congress with information comparing projected savings to actual savings in the year following the budget's implementation.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

## IRS's Justification Includes Proposed Efficiencies and Savings Projections of \$191 Million

IRS proposes to reduce costs by \$191 million through efficiencies and savings, such as:

- reducing costs through process improvements in Information Technology (IT) infrastructure (\$75 million);
- reducing nonrecurring, one-time costs associated with the FY 2010 enforcement initiatives (\$33 million);
- improving the effectiveness of existing acquisition practices and reducing the cost of contracts (\$25 million);
- increasing electronic filing, leading to fewer returns filed on paper (\$23 million). IRS proposes to reinvest \$3 million of this savings to fund one-time separation costs associated with the closure of the Atlanta submission processing site; and
- eliminating selective mailings of forms and publications (\$20 million).

The proposal also includes other savings, such as reducing printing, travel and training, amounting to \$15 million. Savings included in the budget justification are targeted to offset increases in non-pay inflation, pay, and benefits.

## IRS's Justification Does Not Report How Actual Savings Compare to Projected Savings

IRS does not provide Congress and other stakeholders a comparison of actual savings to original projections in the year following the budget's implementation. IRS officials said they employ a conservative approach to projecting savings and noted that the economy, legislation, or assumptions used to project savings may change. For these reasons, IRS's conservative approach is consistent with our guidance on projecting savings.<sup>4</sup>

OMB guidance suggests that agencies determine whether anticipated benefits or costs of programs have been realized.<sup>5</sup> We acknowledge that this may be challenging as factors may change and data may be initially incomplete since savings may take several years to be fully realized. However, without actual savings information, Congress and other stakeholders will not know whether IRS realized all or part of the \$191 million in savings it projected for FY 2011 and the extent to which funding is available or needed for other uses. Also, by understanding the reasons for discrepancies between projected and actual savings, IRS might be able to improve the accuracy of future savings projections.

<sup>4</sup> GAO, *GAO Cost Estimating and Assessment Guide*, GAO-09-3SP (Washington, D.C.: March 2009).

<sup>5</sup> Office of Management and Budget Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs* (Washington, D.C.: Oct. 29, 1992).

## Program Initiatives and Legislative Proposals

### Our Objective

Determine how program initiatives and legislative proposals in the budget justification could help IRS address the tax gap and improve taxpayer services.

## Program Initiatives Aim to Address the Tax Gap and Improve Taxpayer Services

IRS requests over \$247 million to fund initiatives aimed at reducing the tax gap by nearly \$2 billion (see table 6). Tax law enforcement has been on our high-risk list for many years.<sup>6</sup> While we did not assess the efficacy of the specific initiatives in the proposed budget, we have previously stated that multiple strategies are needed to address the tax gap and IRS should continue to pursue a wide range of initiatives. Further, the three biggest initiatives are addressing known areas of noncompliance. However, our past compliance work indicates that not all strategies are successful.<sup>7</sup> Thus, it is important to compare results with initial projections to determine the effectiveness of the initiatives.

**Table 6: Program Initiatives, Costs, and Expected Benefits, Including ROI**

Program initiative	Costs (\$/FTE)	Expected benefits/ROI <sup>a</sup>
Address business and individual international compliance	\$121.1 million/ 781 FTE	4,864 additional examinations and \$812.2 million in additional revenue. Projected ROI: 8.0 to 1
Reduce the reporting compliance tax gap	\$77.7 million/ 700 FTE	305,600 additional audits and \$659.6 million in additional revenue. Projected ROI: 10.0 to 1
Reduce the nonfiling and underpayment tax gap	\$38.2 million/ 406 FTE	166,500 additional case closures and \$474.4 million in additional revenue. Projected ROI: 14.2 to 1
Support for increased enforcement activities	\$5 million/ 65 FTE	Help taxpayers resolve issues faster, improve customer satisfaction. No projected ROI
Maintain Recovery Act staffing	\$5.5 million/ 31 FTE	Extend IRS staffing resources received in the Recovery Act to administer ongoing Recovery Act bond provisions. No projected ROI

Source: IRS data.

<sup>a</sup>Expected benefits are estimates determined by IRS.

The budget request includes \$45.9 million to fund initiatives aimed at increasing telephone level of service and improving the IRS.gov Web site (see table 7). (The telephone, or Customer Service Representative, level of service initiative is discussed in greater detail later in this report.) Our recent filing season report highlighted deterioration in telephone service and the importance of improving IRS's Web site to provide a very low cost alternative for answering taxpayers' questions.<sup>8</sup>

**Table 7: Program Initiatives, Costs, and Expected Benefits**

Program initiative	Costs (\$/FTE)	Expected benefits <sup>a</sup>
Improve IRS.gov	\$25 million/ 0 FTE	Replace infrastructure that has reached its end-of-life or end of support period; allow IRS.gov to meet changing needs and rising customer expectations, and increase customer satisfaction; and establish user experience standards and techniques to make improvements to the content and applications in the new Web environment.
Increase Telephone Level of Service (LOS)	\$20.9 million/ 0 FTE	Improve access to IRS telephone assistors and help address the increasing demand for services.

Source: IRS data.

<sup>a</sup>Expected benefits are estimates determined by IRS. Unlike enforcement-related initiatives, IRS has not developed ROI data for taxpayer services initiatives in the FY 2011 budget justification.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

<sup>6</sup> Our high-risk list is available at: <http://www.gao.gov/highrisk/>.

<sup>7</sup> GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

<sup>8</sup> GAO, *Tax Administration: Interim Results of IRS's 2009 Filing Season*, GAO-09-640 (Washington, D.C.: June 2009).

## Program Initiatives and Legislative Proposals, *continued*

### Our Objective

Determine how program initiatives and legislative proposals in the budget justification could help IRS address the tax gap and improve taxpayer services.

### IRS Is Considering Options for Collecting Actual ROI Data

Beginning in FY 2008, IRS provided ROI information about projected costs and potential revenues of new enforcement initiatives. In the FY 2011 budget justification, IRS provided actual ROI data from its combined enforcement programs from FY 2002 through FY 2009. IRS is also considering options to collect actual ROI data to compare with projections, as we previously recommended.<sup>9</sup> However, IRS has yet to provide ROI data for existing enforcement programs.<sup>10</sup> Such ROI information provides important benchmarks against which to assess the effectiveness of new initiatives.

### IRS's Justification Does Not Provide Estimates for Costs or Resource Needs for Legislative Proposals

IRS's FY 2011 budget justification includes 24 legislative proposals provided by the Department of the Treasury that aim to reduce the tax gap and could generate nearly \$26 billion over the next 10 years.<sup>11</sup> Our past work is directly tied to 3 of these legislative proposals, as shown in table 8. We did not evaluate each legislative proposal, and some may be more effective than others. As previously stated, it is important to compare actual results with initial projections to determine the effectiveness of any adopted proposals.

According to OMB guidance, agencies should include estimates of the costs of implementing or administering any proposed legislation in their budget justifications; however, IRS does not provide such information in its justification.<sup>12</sup> Further, without any information on the administrative costs of implementing the proposals, Congress is left at a disadvantage when weighing proposals.

**Table 8: Selected Legislative Proposals from the FY 2011 Budget Justification Consistent with Prior GAO Recommendations and Their Projected Revenue, FY 2011 through FY 2020 (Dollars in Millions)**

Selected proposals	Projected revenue
Require information reporting on payments to corporations <sup>a</sup>	\$9,154
Increase certainty with respect to worker classification <sup>b</sup>	\$7,343
Require information reporting for rental property expense payments <sup>c</sup>	\$3,120

Source: Department of the Treasury, General Explanations of the Administration's Fiscal Year 2011 Revenue Proposals (Washington, D.C.: February 2010).

<sup>a</sup>See GAO, *Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements*, GAO-09-238 (Washington, D.C.: January 2009). This proposal was recently enacted in the Patient Protection and Affordable Care Act, Pub. L. No. 111-148, § 9006, 124 Stat. 119 (Mar. 23, 2010).

<sup>b</sup>See GAO, *Employee Misclassification: Improved Coordination, Outreach, and Targeting Could Better Ensure Detection and Prevention*, GAO-09-717 (Washington, D.C.: August 2009).

<sup>c</sup>See GAO, *Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance*, GAO-08-956 (Washington, D.C.: August 2008).

<sup>9</sup> GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request*, GAO-09-754 (Washington, D.C.: June 3, 2009).

<sup>10</sup> 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).

<sup>11</sup> Treasury selects certain legislative proposals from its General Explanations of the Administration's FY 2011 Revenue Proposals, or "Green Book," to highlight proposals in IRS's justification that are related to improving tax administration or reducing the tax gap.

<sup>12</sup> Office of Management and Budget Circular A-11, *Part 2 Preparation and Submission of Budget Estimates* (Washington, D.C.: November 2009).

## **Program Initiatives and Legislative Proposals, *continued***

### **Our Objective**

Determine how program initiatives and legislative proposals in the budget justification could help IRS address the tax gap and improve taxpayer services.

### **What GAO Recommends**

IRS should coordinate with Treasury and provide more information about possible costs or resource needs for legislative proposals in future budget justifications.

Developing precise cost estimates for legislative proposals may be premature, particularly for proposals early in design. However, in these cases other meaningful information could still be provided, such as a preliminary, approximate cost estimate or a description of resource needs (e.g., new information systems, additional staff, or specialized training). When costs are expected to be nominal, such information would be useful as well.

For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

## IRS Performance Goals

### Our Objective

Compare the performance goals in the FY 2011 budget justification to performance of prior years.

### What GAO Recommends

IRS should provide brief definitions of the performance measures that are included in the budget justification.

## IRS's Justification Includes Selected Performance Measures

The budget justification lists 33 performance measures IRS officials and other stakeholders use to evaluate the agency's progress toward its goals of improving service and compliance. The justification includes a comparison of IRS's performance to previous years. Performance measures showing noteworthy variations in performance are in table 9.

**Table 9: Selected IRS Performance Measure Trends, FY 2009 through FY 2011**

Performance measure	Definition (not included in budget justification) <sup>a</sup>	FY 2009 actual	FY 2010 planned	FY 2011 planned
Customer service representative level of service (LOS)	Number of toll-free callers that either speak to a CSR or receive automated informational messages divided by the total number of attempted calls	70.0%	71.0%	75.0%
Customer contacts resolved per year	Number of customer contacts resolved in relation to staff years expended	12,918	9,398	10,181
Percent of individual returns processed electronically	Percentage of electronically filed individual tax returns divided by the total individual returns filed	65.9%	70.2%	81.0%
Taxpayer self-assistance rate	Percentage of taxpayer assistance requests resolved using self-assisted automated services	69.3%	61.3%	62.7%
Automated underreporter (AUR) efficiency	Total number of cases closed divided by the total FTEs	1,905	1,868	1,945
Tax-Exempt/Government Entity (TE/GE) determination case closures	Number of closures in the Employee Plans or Exempt Organizations Determination programs	96,246	140,465	99,491

Source: IRS and other data.

<sup>a</sup>We obtained the definitions from <http://www.treas.gov/irsob/measures/>.

## IRS's Justification Lacks Definitions for Performance Measures

Definitions for IRS's performance measures are not included in the budget justification and must be obtained from other sources. Our previous work indicates that a key attribute of a successful performance measure is that it is clearly stated and the name and definition are consistent with the methodology used to calculate it.<sup>13</sup>

According to IRS officials, definitions were omitted from the budget justification based on concerns about the length of the document, but brief definitions could be added. Measures that do not provide clear information about program performance might lead to misinterpretation of results or expectations as well as failure to take proper action to resolve performance problems.

<sup>13</sup> GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

## IRS Performance Goals, *continued*

### Our Objective

Compare the performance goals in the FY 2011 budget justification to performance of prior years.

### What GAO Recommends

IRS should explain in the budget justification noteworthy changes in performance goals that reflect changes from previous performance and describe the impact on funding.

In addition, IRS should continue to closely monitor assistor call volumes and, if demand is projected to remain lower than original predictions, either increase the LOS target or redirect some or all of the requested increase in funding for telephone services to other priorities within the bounds of IRS's authority.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

## Half of Performance Measures Reviewed Were Linked to Funding in FY 2011 Justification

Of the six performance measures we reviewed, three were clearly linked to funding and three were not. This lack of consistency is important when goals reflect noteworthy changes from previous performance levels and funding is impacted. Those that were linked to funding include:

Customer Service Representative LOS - The FY 2011 LOS target is a 5.6 percent increase over 71 percent in FY 2010. IRS projects that an additional \$20.9 million will enable it to achieve a 75 percent LOS goal. This improvement is linked to an increase of \$11.9 million (without which the LOS target would be 72 percent) and a \$9 million reallocation from the Taxpayer Advocate Service and the Low Income Tax Credit, Tax Counseling for the Elderly, and Volunteer Income Tax Assistance programs (without which the target would be 74 percent).

Percent of Individual Returns Processed Electronically - The FY 2011 target is a 15.4 percent increase over 70.2 percent in FY 2010. IRS projects that increased electronic filing will generate a savings of \$22.8 million as a result of the enactment of the Worker, Homeownership, and Business Assistance Act of 2009.<sup>14</sup>

AUR Efficiency - The FY 2011 target is a 4.1 percent increase over 1,868 cases closed in FY 2010. IRS is requesting an investment of \$10.6 million and 116 FTEs for the AUR program and projects that an additional 234,000 individual return audits will generate \$225.7 million in revenue once new hires reach their full potential in FY 2013.

Three performance measures not linked to funding are: (1) Customer Contacts Resolved Per Staff Year; (2) Taxpayer Self-Assistance Rate; and (3) TE/GE Determination Case Closures.

According to IRS and Treasury officials, performance measures that focus on assisted rather than automated services are more easily linked to the budget justification. However, clear linkages between performance goals and funding can help determine how funded activities contribute to operational goals and specific measures. These linkages can also illustrate how targets align with funding and how efficiently resources are used. As the budget currently reads, Congress does not know the extent to which funding will affect performance outcomes. However, according to IRS officials, changes to performance measures may not impact funding in all cases. In these circumstances, IRS could provide a brief explanation of the performance change, indicating that funding was not a factor.

### Opportunity to Revise Performance Target or Redirect Funds

When funding is clearly linked to performance measures, it facilitates the ability of management to monitor and take action when circumstances change. IRS projects that \$20.9 million will enable it to achieve a 75 percent LOS target for FY 2011. However, based in part on a 14 percent decrease in calls answered by live assistors during the FY 2010 filing season, IRS is already achieving a 75 percent LOS without the \$20.9 million. Should assistor call volumes remain lower than anticipated, IRS has the opportunity to either increase the LOS target or redirect some or all of the requested funding to other priorities within the bounds of IRS's authority. IRS budget officials told us that any decision to revise the target or redirect funding would be an executive management decision.

<sup>14</sup> Pub. L. No. 111-92, 123 Stat. 2984, 2996 (Nov. 6, 2009). Section 17 requires any tax return preparer responsible for 10 or more tax returns in a calendar year to file electronically.

## Strategic Documents

### Our Objective

Determine whether there is an explicit connection between initiatives in the FY 2011 budget justification and IRS's strategic documents, including the Taxpayer Assistance Blueprint (TAB); the Advancing E-File Study; and the report, Reducing the Federal Tax Gap.

### What GAO Recommends

IRS should make explicit linkages between initiatives and proposals in the budget and strategic documents.

## IRS's Justification Does Not Make Explicit Linkages between Initiatives in the Budget and Its Strategic Documents

Although initiatives in IRS's justification are guided by strategic documents such as the TAB; the Advancing E-File Study; and the report, Reducing the Federal Tax Gap, there is no clear link between initiatives in IRS's strategic documents and its budget.

According to OMB guidance and our previous work, it is important to link goals communicated in strategic plans with cross-cutting initiatives, such as those listed in IRS's TAB.<sup>15</sup> Further, Congress has expressed considerable interest in strategic documents, particularly TAB, in improving service and enforcement.

According to IRS, its strategic documents provide guiding principles that resonate throughout the budget. Table 10 shows how IRS's strategic documents inform several initiatives in the FY 2011 budget justification. The TAB, for example, lists more than 50 initiatives for service improvement. IRS goes as far as noting those initiatives that are funded and those that are not and need additional funding to be operational. This information, even presented at a higher level, is not linked or clearly presented in the justification. IRS officials agreed that such linkages could be more explicit.

**Table 10: Linkages among Selected IRS Strategic Documents and the FY 2011 IRS Budget Justification**

IRS strategic document	Related initiatives in the FY 2011 budget justification
<p><b>Taxpayer Assistance Blueprint:</b></p> <p>Provides a plan for improving service to taxpayers and guidance for IRS budget and resource allocation decisions.</p>	<ul style="list-style-type: none"> <li>Improve IRS.gov</li> <li>Increase telephone LOS</li> </ul>
<p><b>Advancing E-File Study:</b></p> <p>Collects, synthesizes, and analyzes data on the IRS electronic file program to help IRS meet the congressionally set goal of an 80 percent electronic file rate.</p>	<ul style="list-style-type: none"> <li>81% electronic filing goal (increased 1 percent from the Advancing E-File Study goal)</li> </ul>
<p><b>Reducing the Federal Tax Gap:</b></p> <p>Outlines steps that IRS will take to increase voluntary compliance and reduce the tax gap.</p>	<ul style="list-style-type: none"> <li>Reduce the tax gap</li> <li>Continue migration from aging tax administration system</li> </ul>

Source: IRS data.

Without an explicit and transparent connection between IRS's strategic documents and the budget request, Congress and other stakeholders may not be able to understand the priority that IRS is giving to its efforts to improve service and enforcement.

For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

<sup>15</sup> GAO, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, GAO/GGD-10.1.16 (Washington, D.C.: May 1997); GAO, *2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved*, GAO-10-225 (Washington, D.C.: Dec. 10, 2009).

## Business Systems Modernization (BSM)

### Our Objective

Describe the justification for the proposed BSM funding, including information security.

### The President Requests \$387 Million in FY 2011 for IRS's BSM Program

IRS's BSM program was initiated in FY 1999. IRS received about \$3 billion for BSM between FY 1999 and FY 2010. The President is requesting \$387 million for BSM for FY 2011, which if approved, would bring the total BSM funding to date to almost \$3.4 billion. The cornerstone of this modernization effort has been the development of the Customer Account Data Engine (CADE). CADE was intended to replace the Individual Master File, which is the legacy system that contains the agency's repository of taxpayer information. Prompted by several challenges confronting CADE—including that the approach to develop the system was more complex and taking longer than initially anticipated—the IRS Commissioner initiated a study of IRS's IT systems modernization efforts. The results of the study led IRS to refocus and accelerate the completion of the modernized taxpayer account database that had been part of CADE. The resulting strategy is referred to as CADE 2.<sup>16</sup>

### About \$152.1 Million Is Requested for CADE 2

In addition to its \$40 million request to fund the implementation of tax law changes and the operations and maintenance of the current CADE, IRS requests \$152 million to begin migration of 140 million individual taxpayer accounts into CADE 2, which will serve as the new central repository of tax account information for individual taxpayers.

During the 2009 filing season, CADE processed about 40 million returns on a daily processing cycle and issued 35 million refunds. This accounted for about 29 percent of all returns processed. The remaining returns were processed by legacy systems on a weekly processing cycle. Daily processing allows IRS to:

- process returns between 1 and 8 days faster than the weekly processing of legacy systems;
- provide direct deposit refunds to individual taxpayers who file electronically in fewer than 10 days—on average 5 days faster than with legacy systems, reducing taxpayers' reliance on refund anticipation loans; and
- have more up-to-date account information to resolve account issues and make account adjustments.

By the 2012 filing season, IRS plans to have completed the initial phase of CADE 2. In this initial phase, CADE 2 is expected to create a modernized taxpayer database and move the processing of individual taxpayer accounts from a weekly to a daily cycle. At that time, IRS expects to continue to use current CADE to process about 40 million returns on a daily cycle and begin processing the remaining 100 million returns that currently are processed on the legacy system on a daily cycle as well.

For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov) or David Powner at (202) 512-9286 or [pownerd@gao.gov](mailto:pownerd@gao.gov).

<sup>16</sup> We have an ongoing review on IRS's implementation of CADE 2, including its implication on future legacy system budgets.

## Business Systems Modernization (BSM), *continued*

### Our Objective

Describe the justification for the proposed BSM funding, including information security.

### About \$39.1 Million Is to Continue the Development and Implementation of Modernized Electronic Filing (MeF)

The budget requests funding to continue development and deployment of the MeF, which is a Web-based platform that provides a standard filing structure for all IRS return types. Since 2004, IRS has made many corporate and individual tax forms available on the MeF platform. FY 2011 funding will allow IRS to start moving the 94X series of forms, which includes annual and quarterly filings, to the MeF platform. When implemented, IRS projects that more than 8 million 94X forms will be filed through MeF.

Some of the key benefits of MeF for tax preparers and taxpayers include error checking to ensure the accuracy of the tax return; explanations for rejected returns; and the ability to submit all necessary supporting documentation with tax returns. Some key benefits for IRS include eliminating the need to manually match paper tax return-related documents with electronically filed tax returns; making tax return data needed for compliance purposes available sooner; and offering tools and help-desk capabilities to provide more timely information to taxpayers on the status of their return.

### About \$155.7 Million Is for Remaining BSM Activities

IRS's FY 2011 budget justification also includes for BSM:

- **\$70.2 million** to fund the staffing for IRS's BSM plan;
- **\$38.5 million** to develop, test, deploy, operate, and monitor systems in support of BSM projects, such as CADE 2 and MeF;
- **\$37 million** to continue support of IRS's Architecture, Integration, and Management program that provides the necessary technical framework and direction for IRS's modernization effort; and
- **\$10 million** to fund a Management Reserve account to cover unanticipated costs.

### Security Weaknesses Are Still a Risk for BSM

In November 2009 and March 2010, we reported that IRS continued to make progress in correcting previously reported information security weaknesses.<sup>17</sup> However, previously and newly identified weaknesses in internal controls over information security continue to place IRS systems at risk. In addition, although IRS informed us that it had corrected about 40 percent of the previously reported weaknesses, we found that it had not fully implemented the remedial actions for at least a third of those that it considered corrected—while IRS has developed and implemented a process to address deficiencies in its information security policies, procedures, and practices, it did not sufficiently verify whether remedial actions were implemented or effective in mitigating the vulnerability. In written comments on our report, IRS stated that improving information security continues to be a priority and noted accomplishments made during FY 2009.

For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov) or David Powner at (202) 512-9286 or [pownerd@gao.gov](mailto:pownerd@gao.gov).

<sup>17</sup> GAO, *Information Security: IRS Needs to Continue to Address Significant Weaknesses*, GAO-10-355 (Washington, D.C.: Mar. 19, 2010); GAO, *Financial Audit: IRS's Fiscal Years 2009 and 2008 Financial Statements*, GAO-10-176 (Washington, D.C.: Nov. 10, 2009).

# Open Matters for Congressional Consideration and Recommendations for Executive Action

## Our Objective

Highlight GAO's open matters for congressional consideration and recommendations for executive action that could result in potential savings or increased revenues.

## Selected Open Matters for Congressional Consideration and Recommendations for Executive Action Could Result in \$3.9 Billion in Potential Revenues or Savings

The *GAO High Risk and Other Major Government Challenges: Major Cost-Saving Opportunities* Web site (<http://www.gao.gov/highrisk/opportunities/>) cites reports with matters or recommendations. The Tax Gap section of the Web site refers to selected GAO products that include 36 open matters or recommendations that, if implemented, could result in \$3.9 billion in increased revenues, increased savings, or an indirect financial benefit. Projected financial benefits computed by the Department of the Treasury are shown in table 11. A full list, with additional information, is shown in enclosure III.

**Table 11: Selected Open Matters for Congressional Consideration or Recommendations for Executive Action with a Projected Potential Financial Impact that Could Increase Savings or Increase Revenues if Implemented**

Text of matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area
To provide clarity for which taxpayers with rental real estate activity must report expense payments on information returns and to provide greater information reporting, Congress may wish to consider amending the Internal Revenue Code to make all taxpayers with rental real estate activity subject to the same information reporting requirements as other taxpayers operating a trade or business. ( <a href="#">GAO-08-956</a> )	\$3.1 billion over 10 years	Improving rental real estate compliance
If the Acting Commissioner of Internal Revenue determines that none of the options suggested in the report would be cost effective and no other remedies are viable, then the Treasury Secretary should inform Congress of this and provide Treasury's opinion about whether the AEITC should be retained. ( <a href="#">GAO-07-1110</a> )	Almost \$760 million over the next 10 years	Addressing noncompliance with advance earned income tax credit

Source: GAO data with potential financial impact from the Department of the Treasury's *General Explanations of the Administration's FY 2011 Revenue Proposals* (Washington, D.C.: February 2010).

Regarding the 36 open matters or recommendations with a potential financial impact:

- 5 matters require congressional action and 31 recommendations require IRS executive action;
- the matters and recommendations come from 14 different reports that span from FY 2006 through FY 2009;
- 20 are enforcement-related that could reduce the tax gap and 16 are taxpayer services-related that could improve tax administration; and
- 16 are expected to increase tax revenues, 9 are expected to increase both savings to IRS and tax revenues, and 11 are expected to have an indirect financial impact by creating opportunities for action, such as through the results of additional research, but not solely as a result of implementing the matter or recommendation.

For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

**Enclosure III: Selected Open Matters for Congressional Consideration and Recommendations for Executive Action with a Potential Financial Impact for IRS, as of March 31, 2010**

The following two tables contain our selected open matters and recommendations. Open matters refer to instances where congressional action is needed for implementation and open recommendations are instances where IRS executive action would be required. These open matters and recommendations are organized by their potential impact on IRS’s Enforcement or Taxpayer Services appropriations. The tables include 36 open matters and recommendations. These matters and recommendations are grouped by report and sorted in reverse chronological order, which spans from FY 2009 to FY 2006.

For each open matter and recommendation, information is included regarding the potential financial impact the matter or recommendation could have once adopted or implemented. When possible, the potential financial impact was quantified into a specific dollar amount. However, for most of the open matters and recommendations, a specific dollar amount was not available. Nevertheless, these recommendations are categorized by type of potential financial impact, including a potential for increased savings, increased revenues, increased savings and revenues, or an indirect financial benefit. Indirect financial benefits may lead to potential financial impacts by creating opportunities for further action, such as through the results of additional research, but not solely as a result of implementing the matter or recommendation. Additional information on each matter and recommendation includes the management area that the report falls under and the title of the applicable report and the report number, which is prefaced by the fiscal year in which the report was issued.

**Table 1: Selected Enforcement-related Open Matters for Congressional Consideration or Recommendations for Executive Action with a Potential Financial Impact That Could Reduce the Tax Gap if Implemented**

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
To improve IRS's guidance to its examiners auditing the real-estate tax deduction, the Commissioner of Internal Revenue should revise the guidance to indicate that evidence of deductibility should not rely on mortgage escrow statements, Forms 1098, and cancelled checks (which can be evidence of payment), and may require more than reliance on a real-estate tax bill. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
<p>To improve IRS's guidance to its examiners auditing the real-estate tax deduction, the Commissioner of Internal Revenue should revise the guidance to require examiners to ask taxpayers to substantiate the deductibility of the amounts claimed whenever they are examining the real-estate tax deduction and they have reason to believe that taxpayers have claimed nondeductible charges that are large, unusual, or questionable. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Improving real estate tax compliance</p>	<p>Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (<a href="#">09-521</a>)</p>
<p>The Commissioner of the Internal Revenue Service should determine why U.S. withholding agents and Qualified Intermediaries report billions of dollars in funds flowing to unknown jurisdictions and to unidentified recipients. Based on this determination, IRS should take appropriate steps to recover any withholding taxes that should have been paid and to better ensure that U.S. taxes are withheld when account owners do not properly identify themselves. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-99#recommendations">http://www.gao.gov/products/GAO-08-99#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Improving withholding on income paid to offshore recipients</p>	<p>Tax Compliance: Qualified Intermediary Program Provides Some Assurance That Taxes on Foreign Investors Are Withheld and Reported, but Can Be Improved (<a href="#">08-99</a>)</p>
<p>To provide clarity for which taxpayers with rental real estate activity must report expense payments on information returns and to provide greater information reporting, Congress may wish to consider amending the Internal Revenue Code to make all taxpayers with rental real estate activity subject to the same information reporting requirements as other taxpayers operating a trade or business. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-956#recommendations">http://www.gao.gov/products/GAO-08-956#recommendations</a>)</p>	<p>\$3.1 billion over 10 years</p>	<p>Improving rental real estate compliance</p>	<p>Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance (<a href="#">08-956</a>)</p>
<p>If Congress judges that the Oregon paid preparer regulatory regime is likely to account for at least a modest portion of the higher accuracy of Oregon federal tax returns and could be implemented nationwide at a favorable cost compared to the potential benefits of improved accuracy, it may wish to consider adopting a similar regime nationwide. In light of the uncertainty about the extent to which Oregon's regime improves tax return accuracy, if Congress enacts national paid preparer legislation, it may wish to also require IRS to evaluate its effectiveness. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-781#recommendations">http://www.gao.gov/products/GAO-08-781#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Improving accuracy of paid tax-return preparers</p>	<p>Tax Preparers: Oregon's Regulatory Regime May Lead to Improved Federal Tax Return Accuracy and Provides a Possible Model for National Regulation (<a href="#">08-781</a>)</p>
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop a process to monitor collection actions taken by revenue officers against egregious payroll tax offenders to ensure collection actions appropriately utilize all available collection tools contained in the Internal Revenue Manual. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Unpaid payroll taxes</p>	<p>Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (<a href="#">08-617</a>)</p>

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should review current case prioritization and assignment practices to determine if IRS's enforcement and collection procedures could be enhanced by requiring, to the maximum extent feasible, businesses with egregious payroll tax debt and the responsible owners/officers with a Trust Fund Recovery Penalty (TFRP) assessment be treated as a single unified and coordinated collection effort assigned to a single revenue officer. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	Indirect financial benefit	Unpaid payroll taxes	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes ( <a href="#">08-617</a> )
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop and implement procedures to expeditiously file a Notice of Federal Tax Lien against property as soon as possible after payroll tax debt is identified (including cases in the queue awaiting assignment) and ensure liens are filed on both businesses with unpaid payroll taxes and owners/officers assessed a TFRP. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	Indirect financial benefit	Unpaid payroll taxes	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes ( <a href="#">08-617</a> )
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop and implement procedures to monitor and report on revenue officers' compliance with the new TFRP assessment time frames to ensure revenue officers are making TFRP determinations and assessments in a timely manner. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	Increase revenue	Unpaid payroll taxes	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes ( <a href="#">08-617</a> )
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop performance goals and measures that specifically evaluate the accumulation of unpaid payroll taxes by businesses (especially egregious businesses with over 20 quarters of payroll tax debt), the extent and timeliness of TFRP assessments, and the effectiveness of actions taken to collect unpaid payroll taxes and TFRP assessments. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	Indirect financial benefit	Unpaid payroll taxes	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes ( <a href="#">08-617</a> )

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should work with states that have developed procedures for matching financial accounts to tax debts to evaluate the potential for IRS to either develop and implement similar measures or partner with states that currently have that tool to leverage their efforts to assist revenue officers in identifying a business's leviable assets. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-617#recommendations">http://www.gao.gov/products/GAO-08-617#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Unpaid payroll taxes</p>	<p>Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (<a href="#">08-617</a>)</p>
<p>The Commissioner of Internal Revenue should extend the use of return on investment (ROI) in future budget proposals to include major enforcement programs. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-567#recommendations">http://www.gao.gov/products/GAO-08-567#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Improving accuracy of paid tax-return preparers</p>	<p>Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season (<a href="#">08-567</a>)</p>
<p>The Commissioner of Internal Revenue should develop a plan to require a single identification number for paid preparers, including the feasibility of options, benefits, and costs of those options, as well as their usefulness for enforcement and research on paid preparer behavior. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-567#recommendations">http://www.gao.gov/products/GAO-08-567#recommendations</a>)</p>	<p>Increase savings and revenue</p>	<p>Improving accuracy of paid tax-return preparers</p>	<p>Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season (<a href="#">08-567</a>)</p>
<p>In order to provide IRS with additional flexibility in combating offshore tax evasion schemes, Congress may wish to make an exception to the 3-year civil statute of limitations assessment period for taxpayers involved in offshore financial activity. Similar to Congress's approach to unreported listed transactions, Congress may wish to establish a process wherein IRS would identify the types of offshore activity to which a statute exception would apply. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-237#recommendations">http://www.gao.gov/products/GAO-07-237#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Extending time for examinations of taxpayers with offshore financial activity</p>	<p>Tax Administration: Additional Time Needed to Complete Offshore Tax Evasion Examinations (<a href="#">07-237</a>)</p>
<p>The Acting Commissioner of Internal Revenue should analyze whether any of the following options could cost effectively and significantly reduce Advanced Earned Income Tax Credit (AEITC) noncompliance: (1) sending potentially noncompliant AEITC recipients soft notices, such as to nonfilers whose Forms W-2 show that they received AEITC and filers who misreported the amount they received or whose SSN and name do not match; (2) requiring employers to verify the SSN of employees seeking AEITC; or (3) requiring employers to submit Form W-5 to IRS and IRS creating and maintaining a database for these forms. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-1110#recommendations">http://www.gao.gov/products/GAO-07-1110#recommendations</a>)</p>	<p>Increase savings and revenue</p>	<p>Addressing noncompliance with advance earned income tax credit</p>	<p>Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance (<a href="#">07-1110</a>)</p>

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
To better identify the costs and implementation issues as well as the likelihood for these or other options to reduce AEITC noncompliance, where practical, the Acting Commissioner of Internal Revenue should test the options suggested in the report to make a more fully informed judgment about whether any would be worthwhile. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-1110#recommendations">http://www.gao.gov/products/GAO-07-1110#recommendations</a> )	Increase savings and revenue	Addressing noncompliance with advance earned income tax credit	Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance ( <a href="#">07-1110</a> )
If the Acting Commissioner of Internal Revenue determines that none of the options suggested in the report would be cost effective and no other remedies are viable, then the Treasury Secretary should inform Congress of this and provide Treasury's opinion about whether the AEITC should be retained. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-1110#recommendations">http://www.gao.gov/products/GAO-07-1110#recommendations</a> )	Almost \$900 million over the next 10 years	Addressing noncompliance with advance earned income tax credit	Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance ( <a href="#">07-1110</a> )
Congress may wish to consider requiring IRS to periodically adjust for inflation, and round appropriately, the fixed dollar amounts of the civil penalties to account for the decrease in real value over time and so that penalties for the same infraction are consistent over time. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-1062#recommendations">http://www.gao.gov/products/GAO-07-1062#recommendations</a> )	Increase revenue	Adjusting civil penalties for inflation	Tax Compliance: Inflation Has Significantly Decreased the Real Value of Some Penalties ( <a href="#">07-1062</a> )
The Secretary of the Treasury should ensure that the tax gap strategy includes (1) a segment on improving sole proprietor compliance that is coordinated with broader tax gap reduction efforts and (2) specific proposals that constitute an integrated package. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-1014#recommendations">http://www.gao.gov/products/GAO-07-1014#recommendations</a> )	Indirect financial benefit	Improving sole proprietors' compliance	Tax Gap: A Strategy for Reducing the Gap Should Include Options for Addressing Sole Proprietor Noncompliance ( <a href="#">07-1014</a> )
The Commissioner of Internal Revenue should conduct necessary research to determine the extent to which paid preparers live up to their responsibility to file accurate and complete tax returns based on information they obtain from their customers. In conducting this research, the Commissioner should consider whether the methodology we used would provide IRS with a more complete understanding of paid preparers' performance. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-06-563T#recommendations">http://www.gao.gov/products/GAO-06-563T#recommendations</a> )	Indirect financial benefit	Improving accuracy of paid tax-return preparers	Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors ( <a href="#">06-563T</a> )

Source: GAO High Risk and Other Major Government Challenges: Major Cost-Saving Opportunities Web site ([http://www.gao.gov/highrisk/opportunities/tax\\_gap/civil-settlements.php](http://www.gao.gov/highrisk/opportunities/tax_gap/civil-settlements.php)); and GAO's Open Recommendations Database Web site (<http://gao.gov/recommendations/>).

**Table 2: Selected Taxpayer Services-related Open Matters for Congressional Consideration or Recommendations for Executive Action That Have a Potential Financial Impact That Could Improve Tax Administration if Implemented**

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
To enhance IRS's guidance to help individual taxpayers comply in claiming the correct real-estate tax deduction, the Commissioner of Internal Revenue should place a stronger disclaimer early in the guidance to alert taxpayers to the need to check whether all charges on their real-estate tax bill are deductible. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To enhance IRS's guidance to help individual taxpayers comply in claiming the correct real-estate tax deduction, the Commissioner of Internal Revenue should clarify that real-estate tax bills may be insufficient evidence of deductibility when bills include nondeductible charges that are not clearly stated. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To enhance IRS's guidance to help individual taxpayers comply in claiming the correct real-estate tax deduction, the Commissioner of Internal Revenue should provide information or a worksheet on steps to take to get information about whether bills include nondeductible charges and about what those charges are. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to mortgage services to discuss adding disclaimers to their annual statements that some charges may not be deductible. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to local governments to explore options for clarifying charges on the local tax bills or adding disclaimers to these bills that some charges may not be deductible. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to tax-preparation software firms and other tax preparers to ensure that they are alerting taxpayers that some local charges are not deductible and that they are aware of any enhancements to IRS's guidance. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a> )	Increase revenue	Improving real estate tax compliance	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
<p>To learn more about where tax noncompliance is most likely, the Commissioner of Internal Revenue should, if such local governments are identified, obtain and use the information, including uses such as compliance research focused on nondeductible charges; outreach to such local governments to help them determine which charges are deductible charges and help affected taxpayers correctly compute the deduction; targeted outreach to the tax-preparation and mortgage-servicer industries, and targeted examinations of the real-estate tax deduction in the localities. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-521#recommendations">http://www.gao.gov/products/GAO-09-521#recommendations</a>)</p>	<p>Increase revenue</p>	<p>Improving real estate tax compliance</p>	<p>Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (<a href="#">09-521</a>)</p>
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to require tax software companies, as soon as practical, to include a software identification number that specifically identifies the software package used to prepare tax returns, which can be used in IRS research efforts. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-297#recommendations">http://www.gao.gov/products/GAO-09-297#recommendations</a>)</p>	<p>Increase savings and revenue</p>	<p>Enhancing electronic filing and improving accuracy of paid preparers</p>	<p>Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (<a href="#">09-297</a>)</p>
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to ensure that, as part of the second phase of IRS's Advancing E-file Study, surveys ask taxpayers the effect of tax software pricing changes and the opportunity to file for free using online tax forms on IRS's Web site on their decision to either file or not file tax returns electronically. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-297#recommendations">http://www.gao.gov/products/GAO-09-297#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Enhancing electronic filing and improving accuracy of paid preparers</p>	<p>Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (<a href="#">09-297</a>)</p>
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials, to the extent possible, study the effect of the 2009 pricing changes and the opportunity to file for free using online tax forms on IRS's Web site on taxpayers' use of tax software and electronic filing rates. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-297#recommendations">http://www.gao.gov/products/GAO-09-297#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Enhancing electronic filing and improving accuracy of paid preparers</p>	<p>Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (<a href="#">09-297</a>)</p>
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to determine if tax software companies that are authorized to participate in online filing are adhering to advisory security and privacy standards for the 2009 filing season. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-297#recommendations">http://www.gao.gov/products/GAO-09-297#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Enhancing electronic filing and improving accuracy of paid preparers</p>	<p>Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (<a href="#">09-297</a>)</p>
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to assess the extent to which the reliance on tax software creates significant risks to tax administration, particularly in the areas of tax return accuracy, the security and privacy of taxpayer information, and the reliability of electronic filing. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-09-297#recommendations">http://www.gao.gov/products/GAO-09-297#recommendations</a>)</p>	<p>Indirect financial benefit</p>	<p>Enhancing electronic filing and improving accuracy of paid preparers</p>	<p>Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (<a href="#">09-297</a>)</p>

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-38#recommendations">http://www.gao.gov/products/GAO-08-38#recommendations</a> )	Increase savings and revenue	Enhancing electronic filing	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine the benefits, in terms of processing costs and improved enforcement, of having all return information available electronically. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-38#recommendations">http://www.gao.gov/products/GAO-08-38#recommendations</a> )	Increase savings and revenue	Enhancing electronic filing	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine how much electronic filing would have to increase, either through electronic filing mandates or bar coding, for the benefits of transcribing all remaining paper returns to exceed the costs. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-08-38#recommendations">http://www.gao.gov/products/GAO-08-38#recommendations</a> )	Increase savings and revenue	Enhancing electronic filing	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
Given the efficiencies to be gained, Congress may wish to mandate electronic filing by paid tax preparers meeting criteria such as a threshold number of returns filed. (To see the current status of this recommendation view: <a href="http://www.gao.gov/products/GAO-07-27#recommendations">http://www.gao.gov/products/GAO-07-27#recommendations</a> )	Increase savings and revenue	Enhancing electronic filing	Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings (07-27)

Source: GAO High Risk and Other Major Government Challenges: Major Cost-Saving Opportunities Web site ([http://www.gao.gov/highrisk/opportunities/tax\\_gap/civil-settlements.php](http://www.gao.gov/highrisk/opportunities/tax_gap/civil-settlements.php)); and GAO's Open Recommendations Database Web site (<http://gao.gov/recommendations/>).

#### **Enclosure IV: GAO Contact and Staff Acknowledgments**

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In addition to the contact named above, Libby Mixon, Assistant Director; Sabine Paul, Assistant Director; Amy Bowser; Charles Fox; Carol Henn; Tom Gilbert; John Mackey; Paul Middleton; Karen O'Connor; Neil Pinney; Justin Reed; Cynthia Saunders; Joanna Stamatiades; Jessica Thomsen; and Kan Wang made key contributions to this report.

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