

March 2011

2011 TAX FILING

IRS Dealt with Challenges to Date but Needs Additional Authority to Verify Compliance



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Abbreviations

CADE	Customer Account Data Engine
E-file	Electronic filing
EITC	Earned Income Tax Credit
FDIC	Federal Deposit Insurance Corporation
IRS	Internal Revenue Service
IVR	Interactive voice response
MEA	math error authority
MeF	Modernized e-File
SMS	Short messaging service
TCE	Tax Center for the Elderly
TIN	Taxpayer identification number
Treasury	Department of the Treasury
VITA	Volunteer Income Tax Assistance

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United States Government Accountability Office
Washington, DC 20548

March 29, 2011

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate

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

Every tax filing season is a large-scale undertaking during which the Internal Revenue Service (IRS) interacts with taxpayers by processing returns, issuing refunds, answering telephone calls, and providing other services, both face-to-face and on its Web site. As part of processing returns and before refunds are issued, IRS uses its statutory authority to automatically correct errors. This allows IRS to avoid costly and burdensome audits and taxpayers to be made aware of additional taxes owed before being required to pay interest and penalties. For the 2011 filing season, IRS is administering a number of complex tax law changes, including the Residential Energy Property Tax Credit and provisions enacted in December 2010 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (commonly known as the tax extenders).¹

Other changes for the 2011 filing season include paid preparer regulations and expanded efforts to provide refunds on debit cards. In 2011, for the first time, paid preparers must register with IRS. In the future, certain paid preparers will be subject to competency tests and continuing education

¹I.R.C. § 25C and Pub. L. No. 111-312, respectively.

requirements to be allowed to prepare tax returns.² This year IRS is offering refunds on debit cards to taxpayers at almost all of its roughly 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. Also, the Department of the Treasury (Treasury) is pilot testing whether offering refunds on debit cards on a larger scale would be feasible.

As part of our ongoing assessment of IRS's 2011 filing season being conducted at your request, on March 23 and 24, 2011, we briefed the offices of the Senate Committee on Finance and the Subcommittee on Oversight, House Committee on Ways and Means, respectively, on IRS's performance to date. This report includes updated materials presented at the briefing in appendix I.

Based on discussions with your offices, our objective was to provide an interim assessment of IRS's performance during the 2011 filing season, including its efforts to streamline returns processing, conduct pre-refund compliance checks, improve taxpayer service, and issue refunds on debit cards.

Scope and Methodology

To accomplish our objective, we

- obtained and analyzed data from IRS related to processing returns, telephone service, Web site performance, and debit card refund offers;
- reviewed documentation to identify areas where additional statutory authority to conduct automated pre-refund compliance checks would benefit taxpayers or IRS;
- obtained and analyzed Treasury data on its 2011 debit card initiative and plans to evaluate it and also interviewed Treasury officials;
- interviewed representatives of tax preparation and tax software firms about challenges IRS faced during the 2011 filing season;
- interviewed IRS officials on various aspects of filing season performance, including ongoing efforts to provide refunds on debit cards at VITA and TCE sites and efforts to evaluate the program; and
- interviewed Treasury Inspector General for Tax Administration officials about IRS's 2011 filing season.

We interviewed IRS and Treasury officials and determined that the data presented in our briefing were sufficiently reliable for our purposes. We

²We plan to issue a report on paid preparer regulations in March 2011.

conducted this performance audit in March 2011 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.

Background

IRS is making major changes to how it processes individual income tax returns. IRS initiated its current Customer Account Data Engine (CADE) in 1999 to provide a modernized system for processing tax returns, which proved to be more complicated than IRS expected. As a result, IRS created a new strategy referred to as CADE 2, which it expects to deliver in three phases—one in 2012, one in 2014, and one at a yet to be determined date. IRS is finalizing plans to deliver the first phase of CADE 2 for the 2012 filing season, and, if effectively implemented, IRS expects it should provide many benefits, including providing faster refunds and IRS with more timely account information. IRS's Modernized E-file (MeF) system is expected to replace the legacy electronic filing (e-file) system, which IRS is scheduled to retire in October 2012. MeF provides taxpayers with a faster acknowledgment that their returns have been accepted and better information on why electronically filed returns are rejected.

In the past, Congress has granted IRS statutory authority, called math error authority (MEA), to correct calculation errors and check for obvious noncompliance, such as claims above income and credit limits. In some cases, MEA allows IRS to use prior year tax return information to verify compliance before issuing refunds. These automated and relatively low-cost compliance checks (compared to audits) can prevent erroneous refunds and avert the need to try to recover such payments. Congress must grant IRS specific authority to use MEA for purposes beyond computational errors. For example, in 2009, Congress gave IRS MEA following our suggestion that IRS should be authorized to determine whether taxpayers claimed the First-Time Homebuyer Credit more than once.³ For more discussion of IRS's and taxpayers' responsibilities and

³Congress enacted the First-Time Homebuyer Credit to assist the struggling housing market and help taxpayers purchase their first homes. GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Improve Enforcement for the 2010 Filing Season*, GAO-09-1026 (Washington, D.C.: Sept. 23, 2009).

rights under MEA, see our 2010 report.⁴ IRS's 13 existing MEAs are described in appendix II.

Since 2009, IRS has worked with partner organizations at VITA and TCE sites to encourage taxpayers not requesting a direct deposit of their refund to opt to receive it on a debit card sponsored by a participating financial institution. Separately, in 2011, Treasury launched a pilot program which offers low-income taxpayers tax refunds on debit cards. Although targeting the same demographic group, the VITA site offer is made in person and the Treasury offer is made through the mail. Both the IRS and Treasury initiatives are intended to reduce the cost of delivering refunds to taxpayers, provide faster refunds compared to paper checks, reduce transaction costs, and provide individuals who might not otherwise have access with an ongoing financial account to obtain banking services.⁵

Interim Filing Season Results

- As of March 18, 2011, IRS had processed about 73 million returns and issued about 65 million refunds totaling close to \$193 billion.
- The percentage of e-filed returns continues to grow, which remains important because it significantly reduces IRS's costs and speeds refunds. For fiscal year 2009, IRS reported that it costs 19 cents to process an e-filed return compared to \$3.29 for a paper return.
- Late tax law changes in 2010 resulted in IRS not being able to accept certain returns until mid-February 2011 because of the time it took to complete programming changes. According to officials from IRS's Business Modernization Office, when CADE 2 and MeF are fully implemented, IRS will be able to reprogram its computers more efficiently.
- IRS's inability to accept certain returns until mid-February also affected paid preparers and tax preparation software providers. Representatives from those groups told us that some taxpayers believed that the delay applied to all tax returns and delayed filing as a result, effectively condensing the filing season. According to IRS data,

⁴GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010). In this report, we suggested that Congress should provide IRS with broader MEA.

⁵We previously recommended that IRS examine the feasibility of offering refunds on debit cards. See, GAO, *2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Service Remained Low, and Taxpayer Service and Enforcement Could Be Improved*, [GAO-10-225](#) (Washington, D.C.: Dec. 10, 2009), and *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) (Washington, D.C.: Nov. 15, 2006).

IRS received about 21 percent fewer returns through mid-February 2011 compared to mid-February 2010. Those same representatives also expressed some concerns about the new paid preparer registration process.⁶

- IRS has rejected about 13 percent of e-filed returns for reasons such as incorrect personal identification numbers. According to IRS officials, when returns are rejected through MeF, taxpayers receive better information on why returns are rejected and MeF allows taxpayers to submit additional documentation electronically, both of which reduce IRS's costs.
- IRS lacks MEA to review prior year tax returns to verify compliance with lifetime limits on amounts that can be claimed. For example, IRS does not have MEA to verify that the Residential Energy Credits claimed for 2009 and 2010 do not exceed the lifetime credit limit of \$1,500. According to IRS officials, evidence exists that some taxpayers may be claiming Residential Energy Credits beyond the limit. Without MEA, IRS must ensure compliance through audits, which are time consuming for taxpayers and too costly to conduct in large numbers.
- Total telephone call volume increased by nearly 13 percent compared to volume during the same time period last year. Wait times to speak to an assistor averaged about 10 minutes, slightly longer than last year.
- The number of visits to IRS's Web site has increased by about 9 percent compared to visits during the same time period last year.
- It is too early to tell the extent to which the various debit card offers are being accepted by taxpayers. Both IRS and Treasury officials said they will evaluate their programs after the filing season.⁷

Conclusion

IRS has had to deal with several challenges this filing season, including late tax law changes and an increase in the volume of telephone calls. IRS's inability to accept certain returns until mid-February highlights the importance of fully implementing new systems to modernize returns processing, particularly CADE 2 and MeF. According to IRS officials, these systems should allow IRS to more easily accommodate tax law changes and issue refunds faster.

⁶Our forthcoming report on paid preparer regulations will discuss IRS's efforts to implement the program.

⁷IRS designed the evaluation based in part on a recommendation we made in 2010 for IRS to include the full range of stakeholders in its analysis of the debit card program. See GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

Additional MEA to verify compliance with lifetime limits on credits and deductions has advantages, compared to audits, for both taxpayers and IRS. For example, taxpayer errors can be caught and corrected before they result in penalties. This, in turn, would allow IRS to use its expensive auditors' time on more significant compliance problems.

Matter for Congressional Consideration

To ensure that IRS can adequately enforce certain tax provisions, Congress should provide IRS with MEA to use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable.

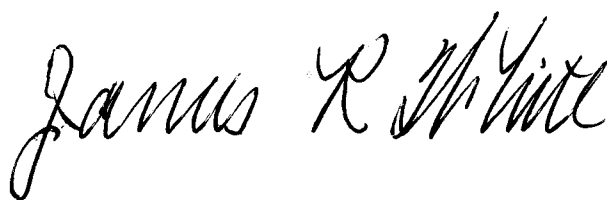
Agency Comments and Our Evaluation

IRS officials provided us with technical comments on this report, which we incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 2 days from the report date. At that time, we will send copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget.

The report also is available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions or wish to

discuss the material in this report further, please contact me at (202) 512-9110 or at whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, stylized initial "J".

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Updated Slides from the March 23 and March 24, 2011, Congressional Briefings



2011 Tax Filing: IRS Dealt with Challenges to Date but Needs Additional Authority to Verify Compliance

**Senate Committee on Finance and Subcommittee on
Oversight, House Committee on Ways and Means,
March 23 and 24, 2011**



Objective

Based on discussions with your offices, our objective was to provide an interim assessment of the Internal Revenue Service's (IRS) performance during the 2011 filing season, including:

- its efforts to streamline returns processing;
- conduct pre-refund compliance checks;
- improve taxpayer service; and
- issue refunds on debit cards.



Results in Brief

- To date, for the 2011 tax filing season:
 - IRS processed about 73 million returns and issued about 65 million refunds and the percentage of taxpayers filing electronically continues to grow, which is important because it reduces IRS's costs.
 - IRS's inability to process certain returns until mid-February highlights the need for IRS to complete new systems.
 - IRS lacks statutory authority to review prior year tax returns for provisions with lifetime limits on the amount that can be claimed.
 - Total call volume increased by about 13 percent and the average wait time to reach a live assistor was about 10 minutes.
 - The number of visits to IRS's Web site has increased by about 9 percent.
 - It is too early to tell the extent to which debit card offers are being accepted by taxpayers. Both IRS and Treasury officials said they will evaluate their programs this year.



Scope and Methodology

- To accomplish our objective, we
 - obtained and analyzed data from IRS related to processing returns, telephone service, Web site performance, and debit card offers;
 - reviewed debit card refund offers;
 - reviewed documentation to identify areas where additional statutory authority to conduct automated pre-refund compliance checks would benefit taxpayers or IRS;
 - obtained and analyzed Department of the Treasury (Treasury) data on its 2011 debit card initiative and plans to evaluate it and also interviewed Treasury officials;
 - interviewed representatives of tax preparation and tax software firms about challenges IRS faced during the 2011 filing season;
 - interviewed IRS officials on various aspects of filing season performance, including ongoing efforts to provide refunds on debit cards at Volunteer Income Tax Assistance (VITA) and Tax Center for the Elderly (TCE) sites and efforts to evaluate the program; and
 - interviewed Treasury Inspector General for Tax Administration (TIGTA) officials about IRS's 2011 filing season.
- As part of our ongoing work on IRS's 2011 filing season performance, we conducted this performance audit in March 2011 in accordance with generally accepted government auditing standards. We interviewed IRS and Treasury officials and determined that the data presented in this briefing were sufficiently reliable for our purposes.



Background

- IRS is making major changes to how it processes individual income tax returns.
- IRS initiated its current Customer Account Data Engine (CADE) in 1999 to provide a modernized system for processing tax returns, with the intention of ultimately replacing the Individual Master File (IMF), the authoritative source for individual taxpayer accounts. However, developing the system was more complex and taking longer than IRS expected.
 - As a result, IRS created a new strategy to replace the current CADE, referred to as CADE 2, which it expects to deliver in three phases—one in 2012, one in 2014, and one at a yet to be determined date.
 - If effectively implemented, CADE 2 should provide many benefits, including providing faster refunds and IRS with access to more timely account data for use in compliance and resolution of taxpayer questions or issues.



Background, Cont'd

- IRS's Modernized E-file (MeF) system is expected to replace the legacy electronic filing (e-file) system and be fully operational for the 2012 filing season. IRS began accepting some individual tax returns on MeF in 2010 and expects to retire the legacy e-file system in October 2012.
- According to IRS officials:
 - MeF provides taxpayers with a faster acknowledgment that their returns have been accepted and better information on why returns are rejected.
 - MeF currently provides IRS with the ability to accept additional documentation electronically through portable document files. Without MeF, IRS must accept certain returns on paper.



Background, Cont'd

- Taxpayers and IRS rely heavily on paid preparers and tax preparation software providers. About 90 percent of returns are prepared by individual taxpayers or paid preparers using tax preparation software. Additionally, in 2010, over 70 percent of taxpayers electronically filed their tax returns, which has benefits for IRS.
- In 2011, paid preparers must register with IRS, and in the future, certain paid preparers will be subject to competency tests and continuing education requirements to be allowed to prepare tax returns.
 - We plan to issue a report on paid preparer regulations at the end of March 2011.



Background, Cont'd

- Complex tax law changes enacted in December 2010 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010—commonly referred to as the tax extenders (Pub. L. No. 111-312)—caused IRS to be unable to process returns until February 14, 2011, for taxpayers
 - filing a Schedule A, because of the extension of the state and local general sales tax deduction;
 - claiming the higher education tuition and fees deduction on Form 8917; or
 - claiming the educator expense deduction, for K-12 educators with out-of-pocket classroom expenses.
- In addition, IRS is administering the Residential Energy Property Credit (I.R.C. § 25C). This credit allows taxpayers to receive 30 percent of the cost of improvements with a maximum lifetime credit limit of \$1,500 for the combined 2009 and 2010 tax years (Pub. L. No. 111-5, § 1121).
 - In 2011, the limit drops to 10 percent of the cost of improvements with a \$500 credit limit (Pub. L. No. 111-312, § 710).



Background, Cont'd

- As part of its pre-refund compliance checks, Congress has granted IRS 13 specific math error authorities (MEA). MEA allows IRS to correct calculation errors and check for obvious noncompliance, such as claims above income and credit limits. Congress
 - must grant MEA to IRS for purposes beyond correcting computational errors.
 - has granted MEA to use information from prior year returns to determine compliance. This was the case following our Matter for Congressional Consideration on the First-Time Homebuyer Credit.¹ IRS's existing MEA is described in appendix II of our report
- When IRS has MEA, it does not have to provide the taxpayer with a statutory notice of deficiency to correct a return.
- Correcting errors before issuing refunds allows IRS to avoid costly and burdensome audits and taxpayers may receive larger refunds or be made aware of additional taxes owed before they are required to pay interest and penalties.
- We previously suggested that Congress should provide IRS with broader MEA.² Congress has yet to provide IRS with this authority.

¹ GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Improve Enforcement for the 2010 Filing Season*, GAO-09-1026 (Washington, D.C.: Sept. 23, 2009).

² GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010).



Background, Cont'd

- Since 2009, a small number of VITA sites have encouraged taxpayers not requesting a direct deposit to opt for a debit card sponsored by a participating financial institution.
 - In 2010, IRS partnered with three large financial institutions to offer debit cards at 20 VITA sites. However, only about 3 percent of eligible taxpayers elected to receive the cards, down from 8 percent of eligible taxpayers in 2009.³
 - Taxpayers may sign up for the card at a participating VITA site.
- In 2011, Treasury launched a pilot program that offers low-income taxpayers and taxpayers without bank accounts debit cards to receive their refunds at a low cost.
 - Treasury informed taxpayers of this program through targeted mailings.

³GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, GAO-11-111 (Washington, D.C.: Dec. 16, 2010).



Background, Cont'd

- These debit card initiatives are intended to
 - reduce the cost of delivering refunds to taxpayers, provide faster refunds compared to paper checks, and reduce transaction costs and
 - provide banking services to individuals who might not otherwise have access to an ongoing financial account.
- We previously recommended that IRS examine the feasibility of offering refunds on debit cards.⁴ IRS stated that they were exploring a range of options to deliver refunds to unbanked taxpayers, including providing refunds on debit cards.

⁴GAO, *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), and *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, GAO-07-27 (Washington, D.C.: Nov. 15, 2006).



Processing: Percentage of E-Filed Returns Continues to Grow

Table 1: Tax Returns Processed through Mid-March (in Thousands)

	2007	2008	2009	2010	2011	Percentage change from 2010 to 2011
Number of returns processed	70,194	74,139	74,806	70,937	73,342	3.4%
Electronic	53,053	57,702	61,110	60,764	65,275	7.4
Paper	17,141	16,437	13,696	10,173	8,067	-20.7
Percentage electronically filed ^a	75.6	77.8	81.7	85.7	89.0	N/A
Number of refunds issued (millions)	63.0	64.7	66.9	63.3	64.7	2.2
Amount of refunds (dollars in billions)	\$152.8	\$161.3	\$183.3	\$190.0	\$193.1	1.6
Average refund amount ^b	\$2,427	\$2,492	\$2,740	\$3,004	\$2,985	-0.6

Source: GAO analysis of IRS data.

Note: Data are from January 1 of each year through March 23, 2007; March 21, 2008; March 20, 2009; March 19, 2010; and March 18, 2011.

^aThe percentage of electronic returns filed is for returns filed early in the filing season and is likely to decline before the filing season is over. In 2010 taxpayers filed about 71 percent of all individual returns electronically.

^bAverage refund amount is in actual dollars, not thousands.



Processing: Percentage of E-Filed Returns Continues to Grow, Cont'd

- Electronic filing:
 - Is important because it reduces IRS's costs. For fiscal year 2009, IRS reported that it cost 19 cents to process an e-filed return compared to \$3.29 for a paper return.
 - Reduces errors because it eliminates the need for IRS to manually transcribe information from returns and it allows taxpayers to receive refunds faster.



Processing: IRS's Inability to Process Certain Returns until Mid-February Highlights the Need for IRS to Complete New Systems

- According to officials from IRS's Business Modernization Office, when CADE 2 and MeF are fully implemented, IRS will be able to reprogram its computers more efficiently following tax law changes.
- As of March 18, 2011, over 24 million returns have been processed using the current CADE.
 - In 2011, IRS expects to process approximately 42 million returns using the current CADE, about the same as last year.
 - IRS plans to retire the current CADE later this year and all taxpayer accounts will be shifted to accelerated processing on the IMF next year and then to CADE 2. Accelerated processing on the IMF will also result in faster refunds to all taxpayers.



Processing: IRS's Inability to Process Certain Returns Until Mid-February Highlights the Need for IRS to Complete New Systems, Cont'd.

- IRS data show that through March 27, 2011, MeF had accepted about 4.8 million individual returns (on Form 1040), up from about 281,000 returns at the same time last year.
 - Last year we noted that IRS-authorized e-file providers did not use MeF as much as IRS anticipated because of issues with the system's stability.
 - According to industry experts, the MeF system is much more stable this filing season and IRS is continuing to promote its use.
- IRS plans to fully retire the legacy e-file system in October 2012 and use MeF to accept all individual tax returns after that.



Processing: IRS's Inability to Accept Certain Returns until Mid-February Also Affected Paid Preparers and Tax Preparation Software Providers

- According to industry experts representing paid preparers and tax preparation software firms we interviewed:
 - Some taxpayers believed that the delay applied to all tax returns and not a limited number of tax returns and delayed filing as a result;
 - Delays result in tax professionals preparing and transmitting to IRS a larger volume of returns in a shorter period of time, effectively condensing the filing season. According to IRS data, IRS received about 21 percent fewer returns through mid-February 2011 compared to mid-February 2010.
 - The implementation of new paid preparer regulations caused some concerns, but did not indicate that the new rules have had a significant effect on return preparation during the 2011 filing season.
- Our forthcoming report on paid preparer regulations will discuss IRS's efforts to implement the program.



Processing: Reducing Rejected Electronic Returns Could Result in Cost Savings

- IRS automatically rejects a return and sends it back to the taxpayer when basic information provided by the taxpayer, such as verification of identity with a personal identification number (PIN) or address, does not match IRS records.
- As of March 21, 2011, IRS had a rejection rate of 13 percent for electronically filed returns.
 - According to IRS data, the most common reasons for rejection were (1) incorrect PIN information provided, (2) a dependent's Social Security number not matching the IMF, and (3) incorrect information for taxpayers claiming the Earned Income Tax Credit.⁵
- MeF provides better information to taxpayers on why returns are rejected and allows taxpayers to submit additional documentation electronically, both of which, according to IRS, reduce IRS's costs.
 - Taxpayers with rejected returns frequently call IRS to learn why and may refile on paper rather than electronically. It costs IRS about \$25 for an IRS assistor to answer a call and about \$3.10 extra to process a paper return.

⁵The Earned Income Tax Credit is a refundable tax credit for moderate and low-income working individuals and families. For refundable credits, taxpayers receive payments even when there is no tax liability.



Pre-Refund Compliance Checks: IRS Lacks MEA to Use Prior Year Information

- IRS lacks MEA to review prior year tax returns for provisions with lifetime limits on the amount that can be claimed.
 - For example, IRS does not have MEA that would allow it to review the 2009 return to see if the total amount of Residential Energy Credits claimed for 2009 and 2010 exceeds the \$1,500 lifetime limit.
 - According to IRS officials, preliminary analysis conducted by TIGTA indicates that some taxpayers may be claiming more Residential Energy Credits than they are entitled to claim.
- Without MEA, IRS must ensure compliance through audits, which are time consuming for taxpayers and costly for IRS. Resource constraints also limit the number of audits IRS can complete in a given year.



Service to Taxpayers: Total Call Volume Is Up Compared to Last Year

Table 2: IRS Call Volume from January 1 through Mid-March (in Millions)

	2007	2008	2009	2010	2011	Percentage change from 2010 to 2011
Assistor calls answered	9.4	9.5	11.4	9.6	9.6	0.0%
Automated calls answered	13.4	13.7	16.4	18.3	22.3	21.9
Abandoned calls	6.3	6.8	11.2	9.6	10.3	7.3
Busies and IRS disconnects	0.4	0.5	4.0	0.7	0.8	14.3
Total calls to IRS	29.5	30.5	43.0	38.2	43.0	12.6

Source: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to March 17, 2007; March 15, 2008; March 14, 2009; March 13, 2010; and March 12, 2011.



Service to Taxpayers: Average Telephone Wait Times Remain High, and the Goal for Providing Live Assistance Remains Low

Table 3: Telephone Service Goals and Performance from January 1 through Mid-March

		2007	2008	2009	2010	2011	Percentage change from 2010 to 2011
Percentage of callers seeking live assistance who received it (in percent)	FY goal ^a	82.0	82.0 ^b	77.0 ^c	71.0	71.0	0.0%
	Actual to Date	83.3	80.0	60.9	74.2	72.6	-2.2
Average wait time (in minutes)	FY Goal ^a	4.3	4.5	10.4	11.6	11.6	0.0
	Actual to Date	4.1	5.4	9.2	9.9	10.3	4.0

Source: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to March 17, 2007; March 15, 2008; March 14, 2009; March 13, 2010; and March 12, 2011.

^aThe goal listed is for the entire fiscal year, not just the time period from January 1 through mid-March.

^bIRS revised its original fiscal year goal of 82.0 percent down to 74.0 percent because of high call volume caused by stimulus-related calls.

^cIRS revised its original fiscal year goal of 77.0 percent down to 70.0 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.



Service to Taxpayers: IRS Has Requested Additional Funding to Improve Its Level of Telephone Service

- IRS sets its annual goal for telephone level of service—the percentage of taxpayers seeking live assistance who actually receive it—based on anticipated call volume and available resources.
- IRS has requested additional funds to increase the goal for level of service to 80 percent in fiscal year 2012.
 - The level of service goal for fiscal year 2011 remains 71 percent, the same as in fiscal year 2010. IRS has asked for an additional \$20.9 million to raise this goal to 75 percent, but has not received this funding under the current continuing budget resolution.
 - In its fiscal year 2012 budget request, IRS asked for an additional \$30 million (on top of the \$20.9 million requested in 2011) to raise the level of telephone service to 80 percent.



Service to Taxpayers: Use of IRS’s Website Continues to Grow

Table 4: IRS’s Web site Visits from January 1 through Mid-March (in Millions)

	2008	2009	2010	2011	Percentage change from 2010 through 2011
Total IRS.gov visits	97.1	124.9	120.1	131.1	9.2%
IRS searches	56.5	130.9	139.0	159.0	14.4
“Where’s My Refund” visits (landing page)	21.4	34.0	37.8	40.7	7.7

Source: GAO analysis of IRS data.

Note: Data are from January 1 through March 12 for all years.



Service to Taxpayers: IRS Has Requested Funding to Expand Its E-Services

- IRS is taking steps to improve its Web site, including planning to invest \$320 million over 10 years to introduce a new Web site by the 2013 filing season.
 - For the fiscal year 2011 budget, IRS asked for \$25 million to upgrade its public user portal, which will allow for the installation of additional e-services, but has not received this funding under the current continuing budget resolution.
 - For the fiscal year 2012 budget, IRS requested \$25 million to replace both the employee and registered user portal (on top of the \$25 million requested in 2011). IRS requested an additional \$8 million to create an e-service, called E-Notices.
 - This service would allow taxpayers who have entered into installment agreements to opt for monthly electronic payment reminders.



Issuing Refunds on Debit Cards: IRS Partners with Financial Institutions to Offer Debit Cards at VITA Sites

- For 2011 IRS is partnering with J.P. Morgan Chase, PNC Bank, U.S. Bank, and Western Union (PNC and U.S. Bank also participated last year) to offer refunds on debit cards and debit cards are available to taxpayers at almost all of IRS's roughly 12,000 volunteer sites across the country. Additionally, IRS partner organizations work with financial institutions locally to provide debit cards to taxpayers.
 - Debit cards from Western Union are available through the software program used to prepare returns at nearly all VITA sites. This card includes a \$1.95 fee per ATM withdrawal and may only be used in the United States.
 - The other three partnering financial institutions offer debit cards at a limited number of VITA sites (18 sites, 154 sites, and 45 sites, respectively).
- All four options include no monthly or activation fee.
- All of the debit cards except the Western Union card include free in-network ATM withdrawals. Except for Western Union, each bank has ATMs in a limited number of states.



Issuing Refunds on Debit Cards: Treasury's 2011 Pilot Program Involves Testing Different Debit Card Offers

- In January 2011, Treasury mailed offers to about 808,000 taxpayers who likely make less than \$35,000 per year, and are unlikely to have bank accounts.
 - Treasury offered eight different options to different groups of taxpayers, randomly assigning which taxpayers received which offer, to test how taxpayers respond to the different offers. Program invitees may only enroll in the option they received with their offer and may not choose among offers.
 - The offers vary by monthly fee (\$4.95 or none) and whether the card includes access to a savings account. The offers also differ based on the message used to promote the card (convenience versus safety).
- All cards are provided on a Visa debit card by a contractor selected by Treasury. Card options include no acquisition fee, free in-network ATM withdrawals, and \$2.50 out-of-network ATM withdrawals.
 - According to Treasury officials, if Treasury expands the program next year they will hold a competitive bidding process to select the contractor.
- Appendix III of our report provides a more detailed comparison of the Treasury and IRS programs



Issuing Refunds on Debit Cards: Both IRS and Treasury Are Conducting Program Evaluations

- It is too early to tell what the take-up rate for the IRS program will be this year or whether any of the debit card options in the Treasury program will be widely used. Both IRS and Treasury plan to evaluate their programs after the filing season.
- IRS will apply social marketing principles and techniques to promote and increase the use of prepaid cards by different target groups.⁶
 - IRS will engage a range of stakeholders and partners to issue a program evaluation report by August 2011.
 - IRS designed its evaluation based, in part, on a recommendation we made in 2010 for IRS to include the taxpayers, volunteer site partners, and other stakeholders in its analysis of the debit card program.⁷

⁶Social marketing emphasizes listening to the needs and desires of the target audience to develop a program to benefit them.

⁷GAO-11-111.



Issuing Refunds on Debit Cards: Both IRS and Treasury Are Conducting Program Evaluations, Cont'd

- Treasury contracted with the Urban Institute, a research organization, to evaluate its debit card program. The study will compare taxpayers' responsiveness to the eight different offers and evaluate the design and execution of the program.
 - The study should be publicly released later this year, and, according to Treasury officials, will be used as one of the factors in the decision regarding the future of its debit card program.



Conclusion

- IRS has had to deal with several challenges this filing season, including late tax law changes and an increase in the volume of telephone calls. IRS's inability to accept certain returns until mid-February highlights the importance of fully implementing new systems to modernize returns processing, particularly CADE 2 and MeF. According to IRS officials, these systems should allow IRS to more easily accommodate tax law changes and issue refunds faster.
- Additional MEA to verify compliance with lifetime limits on credits and deductions has advantages, compared to audits, for both taxpayers and IRS. For example, taxpayer errors can be caught and corrected before they result in penalties. This, in turn, would allow IRS to use its expensive auditors' time on more significant compliance problems.



Matter for Congressional Consideration

- To ensure IRS can adequately enforce certain tax provisions and consistent with our previous suggestion that Congress grant MEA to IRS more broadly, Congress should provide IRS with MEA to use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable.

Appendix II: IRS's Existing Math Error Authority

Table 1 summarizes the Internal Revenue Service's (IRS) existing math error authority (MEA).

Table 1: IRS's 13 Existing MEAs

No.	Description
1	An error in addition, subtraction, multiplication, or division shown on any return.
2	An incorrect use of any table provided by IRS with respect to any return if other information in the return makes the incorrect use apparent.
3	An entry on a return of an item that is inconsistent with another entry of the same or different item on that return.
4	An omission of information that is required to be supplied on the return to substantiate an entry on that return.
5	An entry on a return of a deduction or credit in an amount that exceeds the statutory limit for that deduction or credit, if that limit is expressed as a specific monetary amount or as a percentage, ratio, or fraction, and if the component items of that limit appear on the return.
6	A correct Taxpayer Identification Number (TIN) not provided on the return as required for the following provisions: <ul style="list-style-type: none"> • Earned Income Tax Credit (EITC); • child and dependent care credit; • personal or dependent exemption; • child tax credit; or • Hope and Lifetime Learning credits.
7	A return claiming an EITC for net earnings from self-employment, where the self employment tax imposed by I.R.C. § 1401 on those net earnings has not been paid.
8	An omission of information required for recertification of eligibility for the EITC.
9	An entry on the return of a TIN required for the EITC, the child credit, and the child and dependent care credit, when information associated with that TIN indicates that the child does not meet the age eligibility requirements for those credits.
10	An entry on the return of a claim for the EITC where the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of that child.
11	A failure to reduce Electronic Stimulus Payment credit on a return related to the Economic Stimulus Act of 2008 by amounts previously advanced.
12	A failure to reduce the Making Work Pay credit by the amount of any payment received as a result of tax abatement resulting from the combat-related deaths of members of the Armed Forces, deaths of astronauts, and deaths of victims of certain terrorist attacks, or by the amount of any credit allowed under the American Recovery and Reinvestment Act of 2009, or a failure to submit a proper Social Security number with the claim.
13	A claim for the First Time Homebuyer Credit where the taxpayer has not included the required settlement statement; or where other information indicates that the taxpayer is under 18 years of age, or where information from the past 2 years of returns indicates ineligibility for the credit. Additionally, IRS may correct the return where the taxpayer has failed to include the increased tax required under the recapture provision for the credit, when applicable.

Source: GAO analysis.

Appendix III: Descriptions of IRS Volunteer Income Tax Assistance/Tax Centers for the Elderly and Treasury Programs to Offer Tax Refunds on Debit Cards

Table 2 provides further details on the debit cards being offered at Volunteer Income Tax Assistance (VITA) and Tax Center for the Elderly (TCE) sites.

Table 2: Tax Refunds Offered on Debit Cards at IRS VITA and TCE Sites

	J.P. Morgan Chase	PNC Bank	U.S. Bank	Western Union
Type of card	Visa	Visa	Visa	MasterCard
Card activation	Free	Free	Free	Free
Monthly maintenance	Free	Free	Free	Free
Signature purchase	Free	Free	Free	Free
PIN Purchase	Free	Free	Free	Free
Retailer purchase with cash back option	Free	Free	Free	Free
ATM cash withdrawals	Free at Chase and network	Free at PNC and network	Free at US Bank and network	\$1.95 plus additional ATM fees could be assessed by ATM owner
Bill payment	\$0.75	Free	Free	Free
Live customer service	Free	Free	Two free per month	Free
Overdraft	No fee (\$.75 per denied transaction for insufficient funds)	No charge	No charge	No charge
Online electronic statements	Free	Free	Free	Free
Payroll direct deposit (employer must have the capabilities for direct deposits)	N/A	Free	Free	Free
Money transfer load	N/A	N/A	N/A	Free
Online/Interactive Voice Response account activity	Free	Free	Free	Free
Short Message Service account notifications (wireless provider could charge a fee)	Free	Free	\$0.15	Free
Card replacement	One free per year. Additional card \$7.50	Free	Free	Free
Cash reloads	N/A	Free at PNC branch	Free at U.S. Bank branch	\$4.95
Teller cash advance	\$10	Free	\$5	Not available
Card consecutive month inactivity fee assessed after	6 months	3 months	3 months	12 months
Relationship building with financial institution	Yes	Yes	Yes	No

**Appendix III: Descriptions of IRS Volunteer
Income Tax Assistance/Tax Centers for the
Elderly and Treasury Programs to Offer Tax
Refunds on Debit Cards**

	J.P. Morgan Chase	PNC Bank	U.S. Bank	Western Union
Federal Deposit Insurance Corporation protected	Yes	Yes	Yes	Yes
Visa/MasterCard zero liability protected	Yes	Yes	Yes	Yes
Personalized card	Yes	Yes	Yes	Yes
Geographic coverage	Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky Louisiana, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, West Virginia, and Wisconsin	Delaware, District of Columbia, Florida, Illinois, Indiana, Kentucky, Maryland, Missouri, New York, Ohio, Virginia, West Virginia, and Wisconsin	Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Iowa, Kentucky, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming	USA only

Source: GAO analysis of IRS data.

Table 3 provides additional details on the fee structures offered through Treasury's pilot program.

Table 3: Treasury Pilot Debit Card Program Offers

Service	Fee
Monthly Fee	\$0 or \$4.95 depending on offer (for offers with \$4.95 monthly fee, that charge is waived in any monthly billing cycle in which cardholder loads at least \$1,000 to the Card or makes 30 purchase transactions)
Savings Account	For those participants who are offered a savings feature, there is no charge to open or maintain the account, no minimum balance, and 0.25 percent annual percentage yield (variable rate, subject to change). Fees may apply to withdraw funds if cardholder uses an ATM outside of the MyAccountCard network. There are limitations on the number of transfers in and out of the account per month.
Card acquisition fee	Free
Unlimited ATM cash withdrawals and balance check at 15,000 participating locations nationwide (\$2.50 service fee applies for out-of-network ATM withdrawals)	Free
Transactions at U.S. merchant locations	Free
Purchases online or over the phone	Free
Cash back with purchases	Free
Online bill pay	Free

**Appendix III: Descriptions of IRS Volunteer
Income Tax Assistance/Tax Centers for the
Elderly and Treasury Programs to Offer Tax
Refunds on Debit Cards**

Service	Fee
Balance inquiries online, by phone, by text and at in-network ATMs (standard text messaging rates may apply from your wireless carrier)	Free
Add money with direct deposit	Free
Lost/stolen card replacement	\$4.95
Second card	\$4.95
Out-of-network ATM cash withdrawals	\$2.50 plus any fee the ATM owner may charge
Teller cash withdrawals	\$2.50
Balance inquiries at out-of-network ATMs	\$0.50
Add money in-person at participating locations	Up to \$4.95
Card use outside of the 50 United States	3 percent of transaction amount

Source: Treasury.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director; Steven J. Berke; Abbie David; David Fox; Tom Gilbert; Matt Johlle; Inna Livits; Karen O'Connor; and Sabrina Streagle made key contributions to this report.

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