For one of the seven Liberty Zone tax benefits, the business employee credit, IRS is collecting but not planning to report some information about use—the number of taxpayers claiming the credit and the amount of credit claimed—nor is it planning to use this information to report the revenue loss associated with that benefit. IRS is not planning to collect or report information about the use of the other six benefits or the revenue loss associated with those benefits. According to IRS officials, the agency followed its usual procedures in determining whether to collect information about benefit use and revenue loss. IRS officials said they would collect and report these data if (1) it would help the agency administer the tax laws or (2) IRS was legislatively mandated to do so.

IRS would need to make several changes if it were to collect more information on the use of the benefits and the associated revenue loss, and this information would not be complete or lead to a verifiable measure of the reduction in federal tax revenues due to the benefits. IRS would need to change forms, processing procedures, and computer programming, which would add to taxpayer burden and IRS’s workload. IRS officials were unable to estimate the costs involved in accomplishing these actions or the number of staff needed to do so. The officials said that the earliest they could make these changes would be for tax year 2004 returns. As a result, IRS would not have information for two of the years that the benefits were in effect, which is significant because most of the benefits expire by the end of 2006. In addition, if IRS were to collect data on the use of the Liberty Zone benefits, it would be able to make an estimate, but could not produce a verifiable measure, of the revenue loss due to the benefits because, for example, IRS would have to make assumptions about how taxpayers would have behaved in the absence of the benefits.

Why GAO Did This Study
The President pledged a minimum of $20 billion in assistance to New York for response and recovery efforts after the September 11, 2001, terrorist attacks. This includes tax benefits, commonly referred to as the Liberty Zone tax benefits, that the Joint Committee on Taxation (JCT) estimated would reduce federal tax revenues by about $5 billion. The actual amount of benefits realized, however, will depend on the extent to which taxpayers and the city and state of New York take advantage of them.

GAO was asked to determine

- the extent to which the Internal Revenue Service (IRS) is collecting and reporting information about the number of taxpayers using each of the seven Liberty Zone tax benefits and the revenue loss associated with those benefits and
- if IRS is not collecting and reporting this information, what steps it would need to take and what resources would be needed to do so.

GAO is making no recommendations in this report. The Commissioner of Internal Revenue was provided a draft of this report for his review and comment. The IRS Director of Tax Administration Coordination agreed with the contents of the report.

What GAO Found
For one of the seven Liberty Zone tax benefits, the business employee credit, IRS is collecting but not planning to report some information about use—the number of taxpayers claiming the credit and the amount of credit claimed—nor is it planning to use this information to report the revenue loss associated with that benefit. IRS is not planning to collect or report information about the use of the other six benefits or the revenue loss associated with those benefits. According to IRS officials, the agency followed its usual procedures in determining whether to collect information about benefit use and revenue loss. IRS officials said they would collect and report these data if (1) it would help the agency administer the tax laws or (2) IRS was legislatively mandated to do so.

IRS would need to make several changes if it were to collect more information on the use of the benefits and the associated revenue loss, and this information would not be complete or lead to a verifiable measure of the reduction in federal tax revenues due to the benefits. IRS would need to change forms, processing procedures, and computer programming, which would add to taxpayer burden and IRS’s workload. IRS officials were unable to estimate the costs involved in accomplishing these actions or the number of staff needed to do so. The officials said that the earliest they could make these changes would be for tax year 2004 returns. As a result, IRS would not have information for two of the years that the benefits were in effect, which is significant because most of the benefits expire by the end of 2006. In addition, if IRS were to collect data on the use of the Liberty Zone benefits, it would be able to make an estimate, but could not produce a verifiable measure, of the revenue loss due to the benefits because, for example, IRS would have to make assumptions about how taxpayers would have behaved in the absence of the benefits.