INTERNAL REVENUE SERVICE

Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request

GAO found that despite initial concerns about this year’s filing season being high risk due to increased workload from TETR and other tax system changes, early data suggest that the impact has been minimal because anticipated volume has not materialized. IRS has processed over 63 million returns, most filed electronically. However, one of IRS’s key tax return processing systems became operational two months behind schedule, resulting in slower posting of returns and delayed refunds for several days for millions of taxpayers.

IRS’s 2008 budget request of $11.6 billion would increase spending by 5.6 percent and continue a trend since 2004 of shifting overall spending toward enforcement. The proposed budget provides limited information on the impact of proposed initiatives on the tax gap. Expected direct enforcement revenue to be gained is small—less than 1 percent of the net tax gap. The indirect effect of the initiatives on voluntary compliance is unknown although some research suggests that the indirect effect might be larger than the direct effect. Further, justifications for selected taxpayer service and enforcement initiatives varied. While documents for some initiatives had useful detail for assessing them, others lacked this information. For example, the initiative to determine the impact of taxpayer service on compliance lacked details such as a problem statement, a research approach, and whether there are opportunities to reduce or reallocate resources, and (3) evaluate the status of IRS’s efforts to develop and implement BSM.

Despite progress made in implementing BSM projects and improving modernization management controls and capabilities, significant challenges and serious risks remain, and IRS has more to do to fully address our prior recommendations.