

April 2007

**TAX  
ADMINISTRATION**

**Telephone Excise Tax  
Refund Requests Are  
Fewer Than Projected  
and Have Had Minimal  
Impact on IRS  
Services**





Highlights of [GAO-07-695](#), a report to the Committee on Finance, U.S. Senate

## TAX ADMINISTRATION

# Telephone Excise Tax Refund Requests Are Fewer than Projected and Have Had Minimal Impact on IRS Services

### Why GAO Did This Study

The Internal Revenue Service (IRS) is implementing three tax system changes during the 2007 filing season that potentially could impact compliance by taxpayers as well as IRS's service to taxpayers. These changes are (1) the telephone excise tax refund (TETR), which can be requested by all individuals and entities that paid the excise tax regardless of whether they have an obligation to file a tax return, (2) the option to deposit refunds into up to three accounts, hereafter referred to as the split refund option, and (3) the extension of some tax provisions that had expired, hereafter referred to as the extender provisions. Because the 2007 filing season may be complicated by these changes, the Committee asked GAO to determine the effects of these changes on compliance and taxpayer service including (1) the number of individuals or entities affected by these changes, (2) how the changes were expected to affect compliance and the results of compliance activities to date, and (3) the impact of the changes on returns processing and taxpayer service. GAO analyzed IRS documents and data from IRS databases and interviewed IRS officials.

### What GAO Recommends

GAO is making no recommendations in this report. IRS provided technical comments and we incorporated them as appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-07-695](http://www.gao.gov/cgi-bin/getrpt?GAO-07-695).

To view the full product, including the scope and methodology, click on the link above. For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

### What GAO Found

IRS has received fewer TETR requests and fewer taxpayers have used the split refund option than expected. IRS projected up to 181 million individuals and entities would request TETR and about 3.8 million individuals would use the split refund option. As of March 24, 2007, about two-thirds of the individual taxpayers who had filed their tax returns requested TETR and IRS had received 2 percent of the projected 10 to 30 million TETR requests from individuals without a tax filing obligation. As of March 3, 2007, about 48,000 individuals had used the split refund option. Currently, there are no data on the number of taxpayers using the extender provisions; however, IRS expects about the same number of claims as last year.

Of the three tax system changes, only TETR creates new compliance concerns for IRS and through March 25, 2007, IRS has selected over 9,900 individual and over 550 business TETR requests for audit. Four of the individual audits are completed and the individuals agreed to accept the standard amount (\$30-\$60) instead of the amount they originally requested. The split refund option does not create compliance concerns since it relates to where refunds are deposited rather than to compliance with tax provisions. The extender provisions could be used by taxpayers to prepare previous years' tax returns and IRS does not anticipate new compliance issues related to 2006 returns.

Early data show that the impact of the tax system changes on returns processing and taxpayer service has been minimal. IRS projected significant increases in returns processing, telephone assistance, and walk-in sites' workloads from TETR, but they have not materialized. For example, as of March 3, 2007, IRS had only received about 4.8 percent of the 6.8 million TETR calls expected. IRS's planned returns processing volume from the split refund option has not materialized and IRS did not anticipate significant workload from the extender provisions.

Telephone Excise Tax Refund Data for Individual Returns

Eligible TETR filers		Projected number of filers	Total number of filers	Number of TETR requests	Percentage <sup>a</sup>
Individuals	Tax return filers	135 million	69.1 million	47.3 million	68.5 percent of actual filers
	No tax filing obligation	10-30 million	334,054	332,963	1.7 percent of projected filers <sup>b</sup>

Source: GAO analysis of IRS data.

<sup>a</sup>Week ending January 20, 2007, through week ending March 24, 2007.

<sup>b</sup>Based on 20 million projected filers-midpoint of estimated range.

---

# Contents

---

<b>Letter</b>		1
	Results in Brief	3
	Agency Comments and Our Evaluation	4
<b>Appendix I</b>	<b>Briefing Slides</b>	6

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office  
Washington, DC 20548

April 11, 2007

The Honorable Max Baucus  
Chairman  
The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate

IRS is implementing three tax system changes during the 2007 filing season that potentially could impact compliance by taxpayers as well as IRS's service to taxpayers, such as telephone assistance. The first change is the telephone excise tax refund (TETR), which can be requested by all individuals and entities that paid the telephone excise tax, regardless of whether they have an obligation to file a tax return, making it possibly the most far-reaching refund in IRS history. The second change is giving taxpayers the option to deposit their refunds into up to three accounts, hereafter referred to as the split refund option. The third change is the December 2006 extension of some tax provisions that had expired, hereafter referred to as extender provisions.<sup>1</sup> The Commissioner of Internal Revenue said that these three tax system changes make the Internal Revenue Service's (IRS) 2007 filing season a "high" risk filing season.

Because the 2007 filing season may be complicated by these three tax system changes, you asked us to determine the effects of these changes on compliance and taxpayer service. Our objectives were to

- determine, based on available data, the number of individuals and entities affected by the tax system changes related to the TETR, split refund option, and extender provisions;
- determine how the tax system changes were expected to affect compliance;
- assess IRS's plans for ensuring compliance with those tax system changes that created new compliance concerns for IRS;

---

<sup>1</sup>The extender provisions were included in the Tax Relief and Health Care Act of 2006 which was signed into law in December 2006 (Pub. L. No. 109-432, Dec. 20, 2006). The provisions primarily involve three tax deductions related to state and local sales taxes, higher education tuition and fees, and educator expenses.

- 
- summarize the results of compliance activities to date for those tax system changes that created new compliance concerns for IRS; and
  - summarize the impact of the TETR, split refund option, and extender provisions on returns processing and taxpayer service.

To determine (1) the number of taxpayers affected by the tax system changes related to the TETR, split refund option, and extender provisions, (2) how the tax system changes were expected to affect compliance, (3) the results of compliance activities for the tax system changes that created new compliance concerns for IRS, and (4) the impact of the tax system changes on returns processing and taxpayer service, we analyzed IRS documents and data from IRS databases and interviewed IRS officials. In past work, we assessed IRS's filing season performance data. We considered filing season performance data on the number of individual and business returns processed and related compliance activities to be objective and reliable based on our prior work. Since the data sources and procedures for producing this year's filing season data have not significantly changed from prior years, we determined that the data were sufficiently reliable for the purposes of this report. Officials interviewed included, among others, the Commissioner of the Wage and Investment Division, the Executive-in-Charge of TETR, and the Director of Submission Processing. To assess IRS's plans for ensuring compliance with TETR, the only one of the three tax system changes that created new compliance concerns for IRS, we compared good management practices identified in our previous reports to IRS's plans for ensuring compliance with TETR.<sup>2</sup>

We conducted our work from January 2007 through April 2007 in accordance with generally accepted government auditing standards. On March 14, 2007, we briefed your staff on the results of our work. This report conveys the information provided during that briefing. A copy of the briefing document is included in appendix I with information updated through March 24, 2007.

---

<sup>2</sup>The GAO reports included a wide range of management practices. We compared those practices that related to the development of IRS's plans for ensuring compliance with TETR. See GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005), *Managing For Results: Enhancing Agency Use of Performance Information for Management Decision Making*, [GAO-05-927](#) (Washington, D.C.: Sept. 9, 2005), and *Homeland Security: Better Management Practices Could Enhance DHS's Ability to Allocate Investigative Resources*, [GAO-06-462T](#) (Washington, D.C.: Mar. 28, 2006).

---

## Results in Brief

IRS has received fewer TETR requests and fewer taxpayers have used the split refund option than expected. IRS projected that up to 181 million individuals and entities would request TETR and about 3.8 million individual taxpayers would use the split refund option. As of March 24, 2007, two-thirds of the individual taxpayers who had filed their tax returns requested TETR and IRS had received 2 percent of the projected requests for TETR from individuals who did not have a tax filing obligation. Also, as of March 3, 2007, about 48,000 taxpayers of the approximately 36 million taxpayers that had their refunds direct deposited had taken advantage of the split refund option. According to IRS officials, the late passage of the extender provisions delayed the processing of tax returns from individuals claiming the extender provisions until February 3, 2007. There are no data currently available on the number of taxpayers affected by the extender provisions, but IRS expects the volume to be similar to the number of claims made last year.

TETR is the only one of the three tax system changes expected to create new compliance concerns for IRS. TETR is new in 2007 and filers may request refunds greater than that to which they are entitled. The split refund option does not create compliance concerns for IRS since it relates to the accounts into which taxpayers want their refunds deposited rather than to complying with tax provisions.<sup>3</sup> The extender provisions could be used by taxpayers when preparing previous years' returns and IRS anticipates that any compliance concerns for 2006 returns will be the same as for previous years' returns.

IRS compliance plans for TETR were consistent with good management practices identified in our previous reports. Examples of good management practices we identified include identifying leader(s), developing a compliance plan, and monitoring compliance efforts. IRS's compliance plans for TETR included, among other things, appointing an executive to coordinate TETR plans IRS-wide, developing a compliance plan to select TETR requests for audit based on the probability that the amounts of the requests were statistically unlikely based on an analysis of telephone industry data, and monitoring compliance efforts weekly by comparing the number of TETR requests identified as potentially

---

<sup>3</sup>While there are no compliance concerns, there is a potential for errors due to taxpayers entering incorrect account numbers on Form 8888 (Direct Deposit of Refund to More Than One Account) or IRS incorrectly transcribing the account numbers or the dollar amounts to be deposited into each account.

---

erroneous to the available audit resources in order to maximize the number of TETR audits.

As of March 25, 2007, IRS had selected for audit over 9,900 individual returns and over 550 business returns that requested TETR and froze the TETR refunds. So far, IRS has closed four of the individual audits with taxpayers agreeing to accept the standard amount, and has not completed the remaining individual audits or any of the business audits. IRS reassigned about 77 full-time equivalent (FTE) staff from discretionary and earned income tax credit audits to conduct the TETR audits.

Early data show that the impact of TETR, the split refund option, and extender provisions on returns processing and taxpayer service operations has been minimal. Although IRS projected increases in workload for returns processing, telephone assistance, and walk-in site contacts from TETR, the workload IRS planned to receive has not materialized. For example, as of March 3, 2007, IRS had only received 4.8 percent of the 6.8 million TETR calls expected. Similarly, IRS's planned workload from the split refund option for returns processing has not materialized. IRS did not anticipate and has not experienced significant workload from extender provisions.

---

## Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for his review and comment. The IRS provided informal technical comments, and we incorporated them as appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Chairman and Ranking Minority Member, House Committee on Ways and Means; the Secretary of the Treasury; the Commissioner of Internal Revenue; and other interested parties. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

---

If you or your staffs have any questions, please contact me at (202) 512-9110 or at [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. Key contributors to this report were Amy Dinger, Evan Gilman, Shirley Jones, Matt Kalmuk, Frederick Lyles, Signora May, Jennifer McDonald, Neil Pinney, Lerone Reid, Shellee Soliday, and Joanna Stamatiades.

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

James R. White  
Director, Tax Issues  
Strategic Issues



---

# Appendix I: Briefing Slides



---

## 2007 Filing Season Compliance

---

Update of March 14, 2007 Briefing to the  
Senate Committee on Finance

---



---

# Briefing Contents

---

- Objectives
- Scope and Methodology
- Background
- Results



---

## Objectives

---

GAO was asked to:

1. determine, based on available data, the number of individuals and entities affected by the tax system changes related to the telephone excise tax refund (TETR), split refund option, and extender provisions,
2. determine how the tax system changes were expected to affect compliance,
3. assess IRS's plans for ensuring compliance for those tax system changes that created new compliance concerns for IRS,
4. summarize the results of compliance activities to date for those tax system changes that created new compliance concerns for IRS, and
5. summarize the impact of the TETR, split refund option, and extender provisions on returns processing and taxpayer service.

---

3



---

## Scope and Methodology

---

- Analyzed IRS documents and data from various IRS databases related to compliance, returns processing, and taxpayer services for the three tax system changes.
- Compared good management practices identified in previous GAO reports to IRS's plans for ensuring compliance with TETR.<sup>1</sup>
- Interviewed IRS officials with responsibilities for compliance, returns processing, and taxpayer services related to the TETR, split refund option, and extender provisions.

<sup>1</sup>The GAO reports included a wide range of management practices. We compared those practices that related to the development of IRS's plans for ensuring compliance with TETR. For additional information, see the GAO reports listed on page 28.



---

## Data Reliability

---

- We considered filing season performance data on the number of individual and business returns processed and related compliance activities to be objective and reliable based on our prior work. Since the data sources and procedures for producing this year's filing season data have not significantly changed from prior years, we determined that the data were sufficiently reliable for the purposes of this report.



---

## Background

---

### TETR

- The federal telephone excise tax was first imposed in 1898 to fund the Spanish-American War. According to the tax code, the tax is to be paid on telephone charges that are based on distance and elapsed time. Some individuals and corporations challenged the collection of the tax on long-distance services since these charges are based only on elapsed time. After five circuit court losses, on May 25, 2006, the Department of the Treasury conceded the legal dispute over the federal excise tax on long-distance telephone service. As a result, IRS will issue refunds of excise tax paid (including interest) on long-distance service after February 28, 2003 and before August 1, 2006.
- Anyone who paid the excise tax during this period may request TETR when filing their income tax returns including individuals, businesses, tax-exempt organizations, and government entities. Individuals who do not normally file tax returns but paid the tax can request the refund on Form 1040EZ-T (Request for Refund of Federal Telephone Excise Tax).



---

## Background (continued)

---

- Individuals can request a standard amount when filing their income tax return, ranging from \$30 to \$60 depending on the number of exemptions they are eligible to claim, or they can use Form 8913 (Credit for Federal Telephone Excise Tax Paid) to request the actual amount paid.
  - Businesses, tax-exempt organizations, and government entities can request the actual amount paid or use a formula developed by IRS to estimate their actual costs. They must file Form 8913 for either method.
  - Taxpayers have 3 years to file an amended return to request TETR. Individuals who have no tax filing obligation have 3 years to file a 1040 EZ-T without filing an extension.
-



---

## Background (continued)

---

### Split Refund Option and Extender Provisions

---

- Prior to 2007, taxpayers could have their tax refund directly deposited into one account. Beginning in 2007, to promote savings, taxpayers are allowed to deposit their refunds into up to three accounts with U.S. financial institutions.
- The Tax Relief and Health Care Act of 2006 signed into law in December 2006 extended some provisions that expired at the end of calendar year 2005. These changes primarily involve three tax deductions:
  - (1) state and local sales tax,
  - (2) higher education tuition and fees, and
  - (3) educator expenses.





---

## Number of Individuals and Entities Affected by Tax System Changes

---

As of March 24, 2007:

- About two-thirds of individual tax filers requested TETR.
- For individuals without a tax filing obligation, IRS has received about 2 percent of the projected number of TETR requests.



## Number of Individuals and Entities Affected by Tax System Changes

TETR could be the most far-reaching refund in IRS history—a projected 159 to 181 million (M) individuals and entities may request the refund

Eligible TETR filers		Projected number of filers	Total number of filers to date	Number of TETR requests	Percentage
Individuals <sup>b</sup>	Tax return filers <sup>a</sup>	135 M	69.1 M	47.3 M	68.5 percent of actual filers
	Individuals without a tax filing obligation	10-30 M	334,054	332,963 <sup>c</sup>	1.7 percent <sup>d</sup> of projected filers
Entities <sup>e</sup>	Businesses (C-Corporations, S-Corporations, and partnerships)	11 M	Not available	189,510	1.7 percent of projected filers
	Tax-exempt filers	1.3 M	Not available	280	0.0 percent of projected filers
	State, local government, and other non-filers	2-4 M	Not available	Not available	Not available
Total		159 – 181 M	Not available	Not available	Not available

Source: GAO analysis of IRS data.

<sup>a</sup>Includes 1040 series forms: 1040, 1040A, 1040EZ, and 1040NR.

<sup>b</sup>Data for the week ending January 20, 2007 through the week ending March 24, 2007.

<sup>c</sup>About 500 individual filers submitted a form 1040EZ-T but did not request TETR and 591 did not request the actual or standard amount on the respective form.

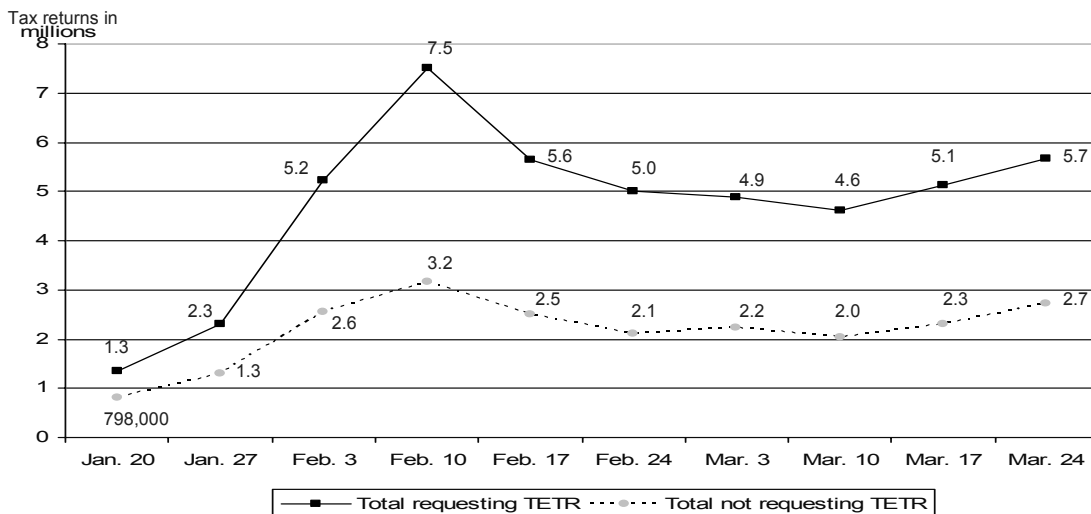
<sup>d</sup>For the actual as a percentage of estimated calculation, we used the midpoint of the estimated range: 20 M—estimated number of filers.

<sup>e</sup>Data for the week ending January 13, 2007 through the week ending March 24, 2007.



## Number of Individuals and Entities Affected by Tax System Changes

Individual tax returns requesting TETR averaged 4.7 million per week. Individual tax returns not requesting TETR averaged 2.2 million



Source: GAO analysis of IRS data.



---

## Number of Individuals and Entities Affected by Tax System Changes

About 48,000 taxpayers have used the split refund option—through early March 2007

---

### Split refund option

- IRS issued 57 million direct deposit refunds (from 136 million tax returns) as of December 15, 2006. The direct deposit refunds totaled \$149 billion.
- As of March 2, 2007, taxpayers chose to have about 36 million 2007 refunds totaling \$101.5 billion directly deposited, which is an 8.7 percent increase over the same period last year. While most taxpayers are electing to use just one account, as of March 3, 2007, about 48,000 taxpayers (.13 percent) have taken advantage of the new split refund option which allows them to use up to 3 accounts.



---

## Number of Individuals and Entities Affected by Tax System Changes

Data not available for extender provisions

---

### Extender provisions

- In 2006, about 11.2 million taxpayers claimed state and local sales taxes, about 4.7 million claimed higher education tuition and fees, and about 3.5 million claimed educator expenses.
- IRS expects a similar number of claims for each of the three deductions in 2007.
- The act including the extender provisions was signed into law in December 2006. This delayed the processing of returns claiming the provisions until February 3, 2007. No data are currently available on the number of taxpayers affected.



---

## How Tax Changes Expected to Affect Compliance

TETR is the only tax change expected to create new compliance concerns for IRS

---

- TETR creates new compliance concerns for IRS. It is a new provision in 2007 and those filers requesting the actual amount may request a refund greater than the amount of TETR they actually paid. Individuals who request the standard amount will generally not be selected for audit while individuals and entities who request the actual amount of telephone excise tax paid may be selected for audit.
  - The split refund option does not create compliance concerns for IRS. It relates to the accounts into which taxpayers want their refunds deposited rather than to complying with tax provisions. While there are no compliance concerns, there is a potential for errors due to taxpayers entering incorrect account numbers on Form 8888 (Direct Deposit of Refund to More Than One Account) or IRS incorrectly transcribing the account numbers or the dollar amounts to be deposited into each account.
  - The extender provisions do not create new compliance concerns for IRS. Taxpayers could use these provisions to prepare previous years' tax returns and IRS does not anticipate new compliance issues related to 2006 returns. Also, the late passage of these provisions did not create compliance concerns that did not previously exist.
-



---

## IRS Plans for Ensuring Compliance for Tax Changes That Created New Compliance Concerns

IRS's TETR compliance plans consistent with good management practices identified by GAO

---

### IRS's plans included

- appointing an executive to coordinate TETR plans IRS-wide,
  - collaborating across operating divisions and offices on designing TETR processes, and
  - developing a TETR implementation plan that included:
    1. standard amounts that individuals could request based on a model that assessed the risks of how different standard amounts would affect the number of filers that would request the actual amount of telephone excise tax paid rather than the standard amounts and the related effect this would have on the overall cost of TETR to the government.
    2. a methodology that businesses and tax exempt and government entities could use to estimate their TETR.
-



---

## **IRS Plans for Ensuring Compliance for Tax Changes That Created New Compliance Concerns (continued)**

IRS's TETR compliance plans consistent with good management practices identified by GAO

---

### **IRS's plans included (continued)**

- developing a compliance plan to select TETR requests for audit based on the probability that the amounts of the requests were statistically unlikely based on an analysis of telephone industry data, and
- monitoring compliance efforts weekly by comparing the number of TETR requests identified as potentially erroneous to the available audit resources in order to maximize the number of TETR audits.





---

## Results of Compliance Activities for Tax Changes That Created New Compliance Concerns for IRS

---

### IRS developed plan for TETR audits

---

#### Operating divisions

- IRS reassigned about 77 full-time equivalent (FTE) staff from discretionary and earned income tax credit audits to conduct the TETR audits.
- Only the TETR portion of a refund is frozen. The TETR refund will stay frozen until the audit is completed. The amount of time this takes depends in part on how long it takes the person or entity requesting the refund to respond to IRS requests for documentation.
- IRS officials are confident, based on meetings held to discuss resources, that they will be able to complete audits of all the TETR requests selected for audit.

#### Criminal Investigations

- Criminal Investigation has spent 13 FTEs on TETR activities in fiscal year 2007.



## Results of Compliance Activities for Tax Changes That Created New Compliance Concerns for IRS

### TETR audit data for individual returns<sup>a</sup>

Data summary	Telephone excise tax refund requests <sup>b</sup>		
	Standard amount	Requested actual	Total
Total dollar amount requested	\$2 billion	\$98.8 million	\$2.01 billion
Total number of returns	47.4 million	211,247	47.6 million
Total dollar amount: selected for audit and refunds frozen	None	\$29.6 million	\$29.6 million
Total number of returns selected for audit and refunds frozen <sup>c</sup>	None	9,914	9,914
Audit disposition	None	Four (4) audits closed. All agreed to accept the standard amount.	Four (4) audits closed. All agreed to accept the standard amount.

Source: GAO analysis of IRS data.

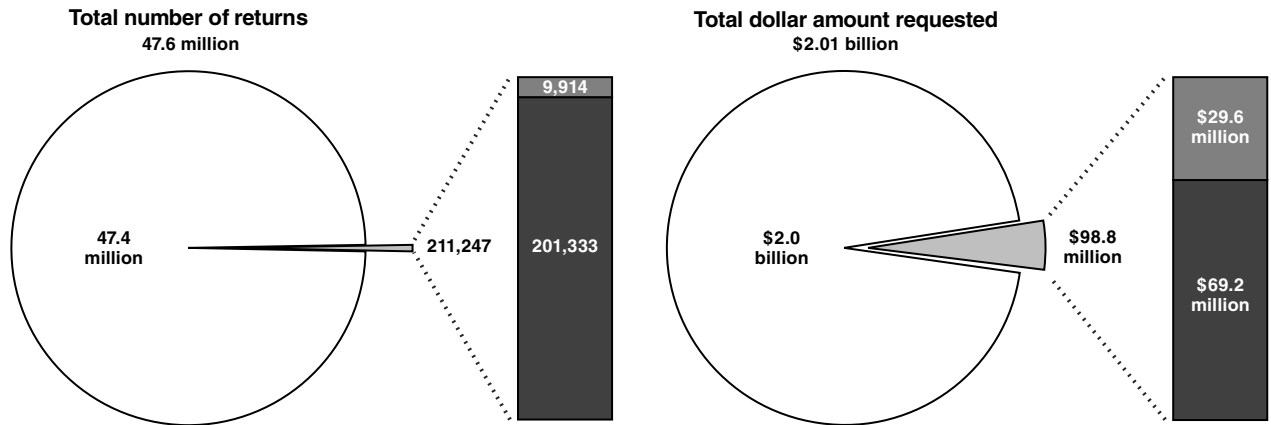
<sup>a</sup>Data for the week ending January 20, 2007 through the week ending March 24, 2007.

<sup>b</sup>Includes all 1040 Series and 1040 EZ-Ts.

<sup>c</sup>Data for the week ending January 20, 2007 through the week ending March 25, 2007.



## Individual Returns That Requested Standard Amount Represent About 95 Percent (\$2 Billion) of the Total Requested TETR Amount<sup>a</sup>



Standard (no audits conducted)
  Requested actual
  Requested actual and audited
  Requested actual and not audited

<sup>a</sup>Data for the week ending January 20, 2007 through the week ending March 24, 2007.

Source: GAO analysis of IRS data.



## Results of Compliance Activities for Tax Changes That Created New Compliance Concerns for IRS

TETR audit data for businesses and tax exempt and government entities<sup>a</sup>

Data summary	
Total dollar amount requested	\$74.7 million
Total number of returns	189,790
Total dollar amount: selected for audit and frozen <sup>b</sup>	\$5.6 million
Total number of returns selected for audit and refunds frozen	561
Audit disposition	No audits closed

Source: GAO analysis of IRS data.

<sup>a</sup>Data for the week ending January 13, 2007 through the week ending March 25, 2007.

<sup>b</sup>Includes the telephone excise tax refund plus interest.



---

## TIGTA—Ongoing TETR Audit

---

- TIGTA began reviewing the TETR program in late 2006. The review is being conducted in two phases. TIGTA plans to send a draft report covering both phases to IRS for comment in July 2007.

- Phase I:**
- (1) Assess IRS's preparation for handling TETR including the development of forms and instructions and interaction with taxpayers, including outreach efforts.
  - (2) Assess how IRS developed the standard amount and the reasonableness of the amount.
  - (3) Assess the controls IRS plans to use to ensure taxpayer compliance. TIGTA will also identify the requests for information and strategies implemented.

- Phase II:** Determine whether IRS is following its TETR plans and monitor returns being filed for potential processing problems or trends regarding questionable TETR requests.



---

## **Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal**

---

- IRS anticipated increases in the returns processing workload due to TETR and the split refund option, but the expected volume has not materialized.
  - IRS expected to receive 10-30 million Forms 1040EZ-T, but as of March 24, 2007, had only received about 335,000.
  - IRS anticipated processing 3.8 million split refund requests; however as of March 24, 2007, only 61,000 taxpayers have used the split refund option.



---

## Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal

---

- Both IRS's new tax returns processing system and its legacy system are able to process TETR requests made on 1040 forms and 1040EZ-T forms. However the new system, the Customer Account Data Engine (CADE) system, just became operational March—2 months behind schedule because of problems identified during testing.
  - IRS had originally planned to post 33 million taxpayer accounts to CADE, but as a result of the delay, now will post about 17-19 million accounts to that system. Thus, returns processing has been slowed for millions of taxpayers who would have been eligible for their accounts to be posted on CADE, because of the longer posting times for the legacy system versus CADE. Refunds for millions of those CADE-eligible taxpayers were delayed by 1-5 days for direct deposit and 4-8 days for paper checks.
  - IRS did not plan to process split refund returns on CADE this year because of IRS's concerns about including it in the programming for the current release of CADE given the timing of the legislation.



---

## **Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal**

---

- While all 19 companies participating in the Free File program—which offers free return preparation to taxpayers with an average gross income of \$52,000 or less, equating to 95 million taxpayers (70 percent of all taxpayers)—allow for TETR requests, 3 offer TETR requests via Form 1040EZ-T. As of February 22, 2007, about 2 million returns (7.9 percent down from last year) were filed via free file, with just under half requesting TETR.





---

## Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal

---

- IRS anticipated increases in its taxpayer service operations (face-to-face and telephone assistance) due to TETR. However, TETR has had minimal impact on those operations because the volume of TETR requests IRS planned to receive has not materialized.

### **For face-to-face taxpayer assistance:**

- Walk-in: As of March 10, of the approximately 1.8 million taxpayer contacts, IRS has prepared about 6,700 1040EZ-T forms, 5.3 percent of the approximate 126,000 forms it projected it would prepare in TETR requests.
- Volunteer sites: As of March 11, IRS reported that over 1.3 million returns had been prepared at volunteer sites including over 33,000 1040EZ-T forms. IRS did not develop TETR projections for volunteer sites.



---

## Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal

---

### For telephone assistance:

- TETR-related calls are a fraction of what IRS projected.
- By March 3, 2007, IRS had planned to receive over 20.5 million telephone calls for live and automated assistance. Of the almost 18.5 million calls received through that date, IRS received over 326,000 calls for assistance with TETR. This represents 1.8 percent of all calls for assistance and 4.8 percent of the 6.8 million TETR calls IRS expected to receive during the filing season.
- IRS hired 650 FTEs in fiscal year 2007, with the expectation that those hires would be used to cover anticipated attrition in 2008. Their first assignment was answering TETR telephone calls. They were also trained to handle other accounts calls should the demand for TETR assistance not materialize.
- Because TETR call volume has not materialized, staff assigned to work TETR cases are being used to work other account calls so that more experienced staff can process paper correspondence, such as amended returns, at call sites.



---

## **Impact of TETR and the Split Refund Option on Returns Processing and Taxpayer Service Has Been Minimal**

---

- IRS anticipated handling 7,000 split refund telephone calls (compared to the 70 million total calls it receives each year).
- IRS did not expect filing season service to be impacted by the extender provisions.



---

## Selected GAO Reports on Management Practices

---

- *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies.* GAO-06-15. Washington, D.C.: October 21, 2005. (Practices identified: identify a leader, collaborate across operational lines, develop implementation and compliance plans, and monitor and evaluate results in real time in order to make timely changes.)
  - *Managing For Results: Enhancing Agency Use of Performance Information for Management Decision Making.* GAO-05-927. Washington, D.C.: September 9, 2005. (Practice identified: monitor and evaluate results in real time in order to make timely changes.)
  - *Homeland Security: Better Management Practices Could Enhance DHS's Ability to Allocate Investigative Resources.* GAO-06-462T. Washington, D.C.: March 28, 2006. (Practice identified: assess risks.)
-

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to Updates."

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Gloria Jarmon, Managing Director, [JarmonG@gao.gov](mailto:JarmonG@gao.gov) (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

---

## Public Affairs

Paul Anderson, Managing Director, [AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548