

Highlights of [GAO-09-297](#), a report to the Committee on Finance, U.S. Senate

**Why GAO Did This Study**

Individual taxpayers used commercial tax software to prepare over 39 million tax returns in 2007, making it critical to the tax administration system. The majority were then filed electronically, resulting in fewer errors and reduced processing costs compared to paper returns.

GAO was asked to assess what is known about how pricing of tax software influences electronic filing, the extent to which the Internal Revenue Service (IRS) provides oversight of the software industry, and the risks to tax administration from using tax software. To do so, GAO analyzed software prices, met with IRS and software company officials, examined IRS policies, and reviewed what is known about the accuracy, security, and reliability of tax software.

**What GAO Recommends**

GAO’s recommendations include that IRS require a software package identifier, ensure taxpayer surveys ask specifically about the effects of 2009 price changes, implement a plan to monitor compliance with recommended security standards in 2010, and determine whether using tax software creates any security or compliance risks.

In response, the IRS Deputy Commissioner agreed with all of GAO’s recommendations and outlined the actions that IRS would take.

To view the full product, including the scope and methodology, click on [GAO-09-297](#). For more information, contact James White, (202) 512-9110, [whitej@gao.gov](mailto:whitej@gao.gov).

**TAX ADMINISTRATION**

**Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks**

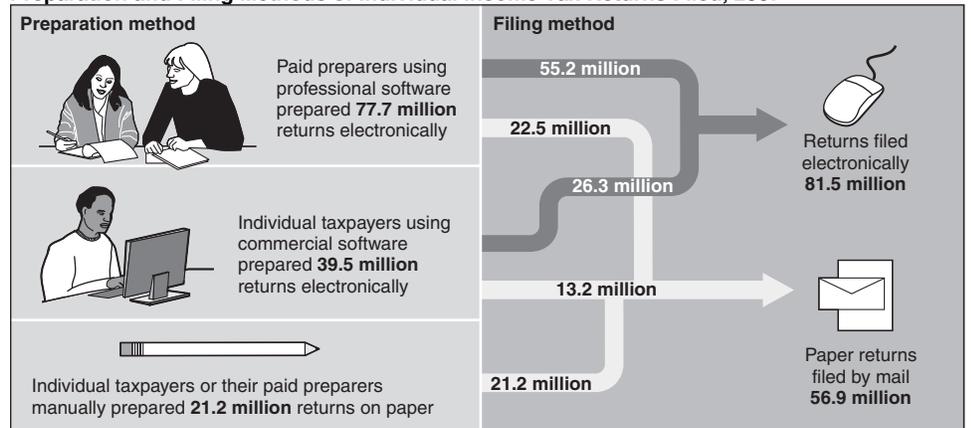
**What GAO Found**

IRS has little information about how the pricing of tax software affects taxpayers’ willingness to file tax returns electronically. In 2009, the two largest tax software companies eliminated separate fees to file federal tax returns electronically when using software purchased from retail locations or downloaded from a Web site. As a result, IRS has an opportunity to study whether this and other changes are effective in increasing electronic filing. Additionally, IRS would benefit from being able to identify which software package the taxpayer used to better target research and efforts to increase software use and electronic filing.

IRS provides some oversight of the tax software industry but does not fully monitor compliance with established security and privacy standards. Further, IRS has not developed a plan to monitor compliance with new standards, which are optional in 2009 but may be mandatory in 2010. Without appropriate monitoring, IRS has limited assurance that the standards are being implemented or complied with.

IRS has not conducted an assessment to determine whether taxpayers’ use of tax software poses any risks to tax administration. Risks include that IRS may be missing opportunities to systemically identify areas to improve software guidance and enhance information security. IRS officials said the likely benefits of an assessment would not warrant the costs but have not determined either the benefits or costs of such an assessment. Moreover, IRS has also said that it is in the agency’s best interest to ensure that taxpayers can rely on commercial software to make electronic filing accurate, easy, and efficient. Further, if even small improvements in the accuracy of tax returns could be made by clarifying the guidance in tax software, the effect on revenue could be substantial. Without a risk assessment, IRS does not know whether its existing oversight of the tax software industry is sufficient or needs to be expanded.

**Preparation and Filing Methods of Individual Income Tax Returns Filed, 2007**



Source: GAO analysis of IRS data.