

September 2009

**TAX
ADMINISTRATION**

**Opportunities Exist
for IRS to Enhance
Taxpayer Service and
Enforcement for the
2010 Filing Season**



GAO

Accountability * Integrity * Reliability

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Abbreviations

AGI	adjusted gross income
DOB	date of birth
EIC	Earned Income Tax Credit
EIN	employer identification number
ERC	error reject code
ETAAC	Electronic Tax Administration Advisory Committee
IRS	Internal Revenue Service
PIN	personal identification number
SEQ	sequence number
SSA	Social Security Administration
SSN	Social Security number
TIGTA	Treasury Inspector General for Tax Administration

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United States Government Accountability Office
Washington, DC 20548

September 23, 2009

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

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

Preparing for the tax filing season is a significant undertaking for Internal Revenue Service (IRS). The filing season is when most individuals file their tax returns, receive refunds, and contact IRS if they have questions.¹ As returns are received, IRS begins a series of automated compliance checks to correct errors on tax returns and ensure that refunds are justified. For example, IRS rejects electronically filed returns with basic errors requiring taxpayers to correct and resubmit them. It uses what is called “math error authority” to automatically correct obvious noncompliance such as violations of limits on deductions or credits, which allows IRS to avoid costly audits.² As we reported earlier to you, from

¹Most taxpayers filed their 2008 tax returns from January 1 to April 15, 2009, which is the deadline for filing individual income tax returns. For the 2009 filing season, IRS began accepting electronic returns on January 16. However, millions of taxpayers receive extensions from IRS, which allowed them to delay filing until as late as October 15.

²Over the years, Congress granted IRS legal authority to cover 11 areas through its math error authority so the agency could correct return errors during processing, including calculation errors and entries that are inconsistent or exceed statutory limits. If it is not specified in the statute, IRS cannot pursue assessment and collection activities without issuing a statutory notice of deficiency. IRS was granted math error authority in 26 U.S.C. § 6213(b) and it can only be used as specified in 26 U.S.C. § 6213(g)(2). An example of a math error correction would be where IRS can automatically correct a return by disallowing a child tax credit if the filer fails to provide the correct taxpayer identification number. Prompt compliance checks are important because as unpaid taxes age, the likelihood of collecting all or part of the amount owed decreases.

January 1 through May 15, 2009, IRS had processed over 120 million returns, issued over 100 million refunds, received 66 million telephone calls, and answered 20 million calls using nearly 12,000 assistors.³

IRS must begin preparing for each filing season months in advance and preparations include the following.

- Revising tax forms and publications to implement tax law changes. Recent major law changes that affected the 2009 filing season include the
 - Economic Stimulus Act of 2008, which contained the recovery rebate credit allowing taxpayers who did not receive the full economic stimulus payment last year to claim some or all of the unpaid credit on their 2008 returns;⁴
 - Housing and Economic Recovery Act of 2008 (Housing Act), which included a first-time homebuyer credit of up to \$7,500;⁵ and
 - American Recovery and Reinvestment Act of 2009 (Recovery Act), which increased the maximum credit to \$8,000 and eliminated the payback provision of the first-time homebuyer credit for homes purchased before December 1, 2009.⁶
- Reprogramming and testing computer systems to incorporate tax law changes.
- Hiring and training telephone assistors, many of whom are temporary hires employed for the filing season.
- Coordinating with the paid preparer and tax software industries, which serve as important intermediaries between IRS and taxpayers and prepare

³GAO, *Tax Administration: Interim Results of IRS's 2009 Filing Season*, [GAO-09-640](#) (Washington, D.C.: June 3, 2009). IRS answered 23 million calls through its automated service and nearly 23 million taxpayers abandoned their calls, received busy signals, or were disconnected by IRS.

⁴Economic Stimulus Act of 2008, Pub. L. No 110-185, 122 Stat. 613 (2008).

⁵Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, 122 Stat. 2654 (2008).

⁶American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009). While many of the provisions of the two credits are the same, a major difference is that the 2008 first-time homebuyer credit has to be paid back over a 15-year period, while the 2009 credit does not.

close to 90 percent of all returns and all electronically filed returns.⁷ IRS also coordinates with a network of volunteer tax return preparers who help elderly individuals and others prepare their tax returns at over 12,000 volunteer sites.

Because of the magnitude and importance of the filing season, you requested that we review IRS's 2009 filing season performance. As part of that review, we looked for opportunities to improve service and enhance enforcement in time for the 2010 filing season, which this report addresses. On September 1, 2009, we briefed Subcommittee on Oversight, House Committee on Ways and Means, and Senate Committee on Finance staff on opportunities for IRS to enhance taxpayer service and enforcement for the 2010 filing season. This report transmits the updated briefing materials, which are reprinted in appendix I. Our report on IRS's 2009 filing season performance will be issued in November.

To identify opportunities to make improvements for 2010, we obtained and analyzed IRS's performance and production data and compared them to annual goals and prior years' performance; viewed IRS operations; reviewed relevant external documentation including our reports and reports of the Treasury Inspector General for Tax Administration; and interviewed IRS officials and representatives of paid preparers and tax software developers. We conducted our work primarily at IRS Headquarters in Washington, D.C., and division and field offices, including those in Atlanta, Georgia. We previously assessed IRS's filing season performance data for reliability. For example, we considered filing season performance measures and data that cover the quality, accessibility, and timeliness of IRS's services to be objective and reliable based on that 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. To the extent possible, we corroborated information from interviews with documentation and data, and where this was not possible, we report the information as attributed to IRS officials. We conducted this

⁷As we have reported, the number of returns they prepare and the advice and support paid preparers and software companies provide to taxpayers make these intermediaries a critical component in the tax system. See, for example, GAO, *Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks*, [GAO-09-297](#) (Washington, D.C.: Feb. 25, 2009), and *Tax Preparers: Oregon's Regulatory Regime May Lead to Improved Federal Tax Return Accuracy and Provides a Possible Model for National Regulation*, [GAO-08-781](#) (Washington, D.C.: Aug. 15, 2008).

performance audit from January 2009 through September 2009 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 objectives.

Results

IRS may be missing opportunities to improve taxpayer service and enhance compliance for the 2010 filing season for the following reasons.

- IRS lacks a strategy for preventing and resolving errors that cause electronically filed returns to be rejected. Without a strategy that documents, for example, its objectives, the role of external stakeholders, and schedules for specific actions, IRS may be missing an opportunity to make electronic filing less cumbersome for taxpayers.
- IRS does not fully leverage the expertise of external stakeholders in its efforts to reduce rejected electronic returns, according to industry representatives, the Treasury Inspector General for Tax Administration, and an IRS advisory group. IRS has established an internal working group to reduce rejects and simplify error codes, but that group does not include industry representatives. Without soliciting the expertise of these stakeholders, IRS may be missing an opportunity to better understand why rejects occur and what can be done to prevent them.
- IRS acknowledges that its codes for errors on electronically filed tax returns are not very useful for helping taxpayers resolve the errors and has established the reject working group, but IRS does not have an action plan for implementing improvements. Without such an action plan, the working group risks being less effective in developing more useful reject codes.
- The electronic acknowledgments that IRS sends to paid preparers, software providers, and taxpayers about rejected electronic returns are confusing and unclear. Unclear notices frustrate taxpayers and increase IRS's costs because such notices generate phone calls from taxpayers (see app. II for more information on the common error reject codes in 2009 and IRS's electronic acknowledgments).
- According to IRS, its assistors answered 3 million calls from taxpayers needing authentication to file electronically, nearly 10 percent of all assistor calls, at a cost of \$36 million through June 2009. Instead of relying on assistors to provide taxpayers with this information, IRS recently began

developing an automated application for authenticating electronic filers, which could increase efficiency by diverting some calls currently answered by IRS telephone assistors. The new application is scheduled to launch on January 18, 2010. As of August 26, 2009, IRS officials reported that they were on schedule. If IRS were to experience any slippage in the launch date, it would be missing an opportunity to reduce call volume at the beginning of the filing season.

- IRS lacks an automated means for helping taxpayers locate its 12,000 volunteer tax preparation sites or their hours of operation. In the 2009 filing season, taxpayers contacting IRS for this information had to call IRS and speak to an IRS assistor. Assistors have a list of volunteer site locations and hours that is updated twice a week. However, that information is not on IRS's Web site. Low-cost options, such as posting IRS's existing list of volunteer sites on its Web site, could eliminate some calls currently being answered by IRS assistors.
- IRS lacks math error authority, which must be provided by statute for specific purposes, to verify compliance with two aspects of the first-time homebuyer tax credit. First, IRS would have to use labor-intensive audits to ensure compliance with the repayment provision of the 2008 credit—according to IRS, 1.2 million taxpayers claimed the 2008 credit for a total of \$8.6 billion that must be repaid. Similarly, IRS has to use audits to ensure taxpayers do not claim the credit for both 2008 and 2009. Because math error checks are automated and could substitute for burdensome audits, IRS could check all returns at relatively low cost with such authority.

Conclusions

As part of its preparations for the 2010 filing season, IRS has the opportunity to improve service to millions of taxpayers and reduce its own costs by reducing electronic filing rejects and providing more automated services. If IRS were to take advantage of these opportunities, it may be able to reduce the volume of taxpayer phone calls, which would improve taxpayer access to IRS assistors.

To realize maximum benefit for the 2010 filing season from its new automated applications for authenticating electronic filers, IRS will need to adhere to its schedule of implementation by January 18, 2010. The beginning of the filing season is when many taxpayers file returns electronically in order to receive their refund. Any slippage in the schedule means that taxpayers wishing to file electronically will have little option but to contact an IRS assistor. Missing this early window in 2010 could

also delay potential benefits to both taxpayers and IRS of an improved authentication system for early filers until the 2011 filing season.

We also identified two opportunities for Congress to provide IRS with additional authority to improve compliance for the 2010 filing season and beyond and reduce its costs by extending math error authority to cover two aspects of the first-time homebuyer tax credit. Compared to audits, automated math error checks provide a low-cost option that may be particularly useful as IRS confronts the challenges of ensuring compliance with new tax law provisions.

Matters for Congressional Consideration

In order to provide a low-cost option that helps ensure compliance with recent legislation, we suggest that Congress consider providing IRS with math error authority to (1) use the prior year's tax return information to automatically verify taxpayers' compliance with the 2008 first-time homebuyer credit payback provision, and (2) ensure that taxpayers do not improperly claim the credit in multiple years.

Recommendations for Executive Action

We recommend that the Commissioner of Internal Revenue take the following five actions.

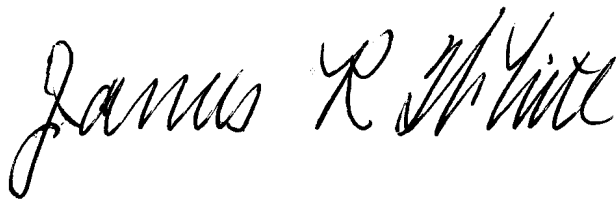
- Develop and document a strategy to prevent and resolve errors causing electronically filed returns to be rejected.
- Involve stakeholders from the paid preparer and tax software industries in IRS's current reject working group.
- Develop an action plan for its reject working group that includes such elements as the scope of responsibility, a plan for testing changes, and a schedule for implementing changes.
- Provide paid preparers and software providers with clearer descriptions of why returns are rejected.
- Implement a low-cost automated method for providing volunteer site locations and hours of operation to taxpayers.

Agency Comments

In commenting on a draft of this report, the IRS Commissioner for Wage and Investment stated that based on the allotted response time that IRS neither agrees nor disagrees with the recommendations contained in this report.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies 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 will be 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. GAO staff who made contributions are listed in appendix IV.



James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Updated Slides from the September 1, 2009, Briefing



Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season

**Prepared for the
Committee on Finance
U.S. Senate
and the
Subcommittee on Oversight, Committee on Ways and Means,
House of Representatives**

Sept. 1, 2009 (Updated)

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Background

- The Internal Revenue Service's (IRS) preparation for the filing season, which begins months in advance, includes: updating forms, guidance, and processes to reflect tax law changes; hiring and training staff including part time staff who answer telephones; and programming and testing IRS's computer systems.
 - IRS has been challenged in recent filing seasons with having to implement major tax law changes, such as the stimulus-related 2008 Housing Act and 2009 Recovery Act provisions, which provided and extended the new first-time homebuyer credit.
 - As of June 30, 2009, IRS received 78 million phone calls, 26 million of which were answered by assistors. Quick access to IRS telephone assistors contributes to accurate returns by reducing taxpayers' confusion about their tax obligations.
 - Taxpayers used paid preparers or tax preparation software to prepare 85 percent of all individual income tax returns in 2008. In addition to preparing tax returns, these stakeholders provide advice and other assistance to taxpayers, thus sharing the costs of administering the tax code with IRS. Taxpayers who file electronically must do so through such intermediaries.
 - As of August 14, 2009, taxpayers filed over 90 million tax returns electronically (68 percent of all returns), which continues to expedite refunds and save IRS resources.
-

Background

- IRS begins checking taxpayer compliance as it receives tax returns.
 - IRS's electronic filing system has automated validity checks to help ensure the accuracy of returns and correct mistakes in a timely manner, benefiting taxpayers and reducing IRS's costs. These automated checks look for errors, such as incorrect Social Security numbers (SSNs) for dependents, incorrect birth dates, and invalid zip codes, at the time the return is submitted electronically.
 - IRS automatically rejects electronic returns with these errors, associates them with one of about 600 possible reject codes and sends taxpayers, through their intermediaries, electronic acknowledgements giving the error code. Taxpayers are responsible for correcting the errors and resubmitting the returns.
 - For paper returns, these validity checks are done after returns are accepted.
 - After returns are accepted, IRS's math error program identifies calculation errors and checks for obvious noncompliance such as claims above income and credit limits. IRS corrects these errors during processing, which avoids the need for audits.
-

Objectives, Scope, and Methodology

- Our objective was to identify opportunities for IRS to provide better service and enhance enforcement in time for the 2010 filing season.
 - We analyzed IRS performance and production data, observed IRS operations, attended IRS production meetings, reviewed Treasury Inspector General for Tax Administration (TIGTA) and Electronic Tax Administration Advisory Committee (ETAAC) reports, and interviewed IRS officials and external stakeholders about performance issues and anomalies.
 - We previously assessed IRS's filing season performance data for reliability. We considered performance measures and data that cover the quality, accessibility, and timeliness of IRS's service to be objective and reliable based on that work.
 - We conducted our work at IRS headquarters in Washington, D.C. and division and field offices, including those in Atlanta, from January through August 2009 in accordance with generally accepted government auditing standards.
 - We prepared this briefing because, in the course of our ongoing filing season work, we identified several opportunities where immediate action could be taken in time to improve the 2010 filing season.
-

Results in Brief

IRS may be missing opportunities to improve service to taxpayers and enhance enforcement for the 2010 filing season because it

- lacks a strategy for preventing and resolving errors that cause electronically filed returns to be rejected;
 - does not fully leverage the expertise of paid preparers and the tax software industry in its efforts to prevent and resolve rejected electronically filed returns;
 - does not have an action plan for implementing improvements to the error reject codes;
 - sends electronic acknowledgments to preparers and software providers about rejected returns that are confusing and unclear;
 - is developing an automated application for authenticating electronic filers, but is not scheduled to launch it until after the date electronic filing begins;
 - lacks an automated means for helping taxpayers locate volunteer sites; and
 - lacks math error authority to check compliance with two aspects of the first-time homebuyer tax credit.
-

IRS Lacks a Strategy for Preventing and Resolving Errors That Cause Electronically Filed Returns to Be Rejected

- According to IRS's September 2008 Advancing E-file study, electronic validation aids taxpayers by helping ensure that returns are accurate, but it can sometimes be cumbersome for taxpayers to understand and correct errors. Paid preparers and tax software industry representatives that we spoke with during the 2009 filing season said this remains an issue.
- While IRS has some efforts under way to make dealing with rejects less cumbersome, IRS lacks a coordinated strategy for preventing and resolving rejects. It lacks a documented strategy that describes, for example, overall objectives, the role of external stakeholders, schedules for specific actions, and needed resources. According to ETAAC, IRS has made progress on an ad hoc basis, but addressing the reject issue must be a permanent, structured process.¹
- Without a strategy, IRS may be missing an opportunity to increase electronic filing, reduce paper filing, and reduce taxpayer burden.

¹ Electronic Tax Administration Advisory Committee, *Annual Report to Congress* (Lanham, Md., June 2009).

IRS Could Further Leverage the Expertise of External Stakeholders in Its Efforts to Prevent and Resolve Rejects

- Tax industry representatives we spoke with said that IRS is missing opportunities to leverage industry expertise in order to prevent and resolve rejects. TIGTA and ETAAC have made the same point.²
 - Recent experience with the recovery rebate credit shows the value of working with stakeholders. Early in the 2009 filing season, IRS realized that millions of taxpayers were making errors claiming the credit. IRS consulted with industry representatives to develop a successful approach for preventing more of these errors.
- Stakeholder involvement can be particularly important for agencies that operate in a complex environment, such as tax policy, and where issues can best be addressed by soliciting the views of stakeholders with specialized expertise.³
- Without soliciting the expertise of these stakeholders, who assist 85 percent of taxpayers in filing their returns, IRS may be missing an opportunity to better understand why rejects occur, work with stakeholders to prevent rejects, and help taxpayers correct errors in a less cumbersome way.

²Treasury Inspector General for Tax Administration, *A Self-assistance Option Would Reduce Burden and Costs Associated with Resolving Rejected Electronic Tax Returns*, Reference No. 2007-40-128 (Washington, D.C.: June 17, 2008).

³GAO, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, GAO/IGD-10.1.16 (Washington, D.C.: May 1997).

IRS Has a Working Group to Simplify Error Reject Codes, but Does Not Have an Action Plan for Implementing Changes

- IRS has over 600 error reject codes, but they are not very useful. Of the 600 codes, 13 account for 81 percent of all rejected electronically filed returns. Paid preparer and software industry representatives said that some codes are very general and cover multiple issues, while others are so narrow that they are rarely used. IRS and TIGTA similarly reported that the rejection codes are often not useful in determining why the return was rejected.⁴
- IRS acknowledges that error reject codes are a problem and has established a working group to simplify the codes. However, IRS's internal working group does not include industry representatives nor at the time we completed our work did IRS have an action plan that included elements such as the scope of responsibility of the working group, a plan for testing changes, and a schedule for implementing changes.
- Without such an action plan, the working group risks being less effective and timely at developing more useful reject codes.

⁴ See Internal Revenue Service, *Advancing E-file Study, Phase 1 Report*, Document Number 0206.0210, Sept. 30, 2008).

Electronic Acknowledgments That IRS Sends Preparers and Software Providers About Rejects are Confusing and Unclear

- According to paid preparers and software providers, the error codes included in IRS's electronic acknowledgments too often do not clearly indicate the line on a return where an error was made or the precise nature of the error. They said that they are unable to provide an explanation of some error codes to taxpayers and that taxpayers must call IRS for help.

Table 2: Common Error Reject Codes and Descriptions Sent to Paid Preparers and Software Providers

Error reject code number	Description
0029	Tax return record identification page 1 – EFIN of originator (SEQ 0008B) must be for a valid electronic filer.
0500	Tax Form – Primary SSN (SEQ 0010) and Primary Name Control (SEQ 0050) of the Tax Form must match data from the IRS Master File.
0502	Employer Identification Number (SEQ 0040) of Form W-2 and/or W-2GU, Payer Identification Number (SEQ 0026) of Form W-2G, and Payer Identification Number (SEQ 0050) of Form 1099-R and Company or Trust Identification Number (SEQ 0120) of Form 2439, and Employer EIN (SEQ 0200) of 499R-2/W-2PR Record must match data from the IRS Master File.

Source: IRS.

- IRS recently placed clearer descriptions and possible solutions for 13 common electronic reject codes on its Web site. However, IRS did not change the electronic acknowledgments. IRS officials said that IRS's Modernized E-file program is supposed to provide clearer acknowledgments, but also said that the program will not be fully implemented until 2012.
- Unclear acknowledgments create frustration for taxpayers and expense for IRS because confused taxpayers call IRS.

Answering AGI Calls Cost IRS Millions of Dollars Because It Lacked an Automated Method for Providing That Information

- During the 2009 filing season, taxpayers had to provide their last year's adjusted gross income (AGI) or personal identification number (PIN) to authenticate their identity in order to electronically file.
 - Taxpayers who did not know their AGI or PIN and tried to get them from IRS had to call an assistor or visit an IRS walk-in site.
- As of June 30, 2009, IRS had answered 3 million calls from taxpayers requesting their AGI, over 10 percent of the calls answered by assistors.
- Counting calls not answered, IRS received over 5 million AGI-related calls, contributing to increased wait times. Taxpayers waited an average of 8 minutes to be connected to an IRS assistor and millions of taxpayers abandoned their calls or were disconnected by IRS while waiting.
- According to IRS, AGI authentication-related calls cost nearly \$36 million through June 30, 2009.

IRS is Developing an Automated Application to Authenticate Electronic Filers, but the Launch Date Is in 2010

- Although initially reluctant, in August 2009, IRS officials informed us that they took action and were developing Web and automated telephone applications for the 2010 filing season for taxpayers who do not have their prior year's AGI or PIN. The officials said that the new application will provide taxpayers with an alternative number that will allow them to file electronically.
 - IRS officials showed us plans that included costs, milestones and a launch date of January 18, 2010, 3 days after the date electronic filing begins. As of August 26, 2009, the officials reported that they were on schedule.
 - Meeting the launch date is important for IRS to realize the full benefits of its efforts, since taxpayers expecting a refund tend to file early and file electronically. Therefore, any delay could leave taxpayers with little option but to call IRS and speak with an assistor.
 - Successful implementation in time for the 2010 filing season has the potential to significantly reduce the burden on IRS's telephone assistors and improve taxpayer service. However, IRS has just begun developing these applications, testing is scheduled to continue up to the launch date, which is just after electronic filing begins, and there is no time for schedule slippage.
-

Taxpayers Seeking Information from IRS on the Location and Hours of Volunteer Sites Must Speak to an IRS Assistor

- Taxpayers contacting IRS for the location and hours of the 12,000 volunteer sites must speak to an IRS assistor.
 - Assistors have a list of volunteer site locations and hours that is updated twice a week. However, that information is not on IRS's Web site, which directs taxpayers to call IRS.
 - Although IRS reported receiving a relatively small number of such calls—60,000 as of June 30—the calls do add to IRS's telephone queues. Even at half of the average assistor cost per call of \$25.75 this is nearly \$800,000 a year to answer such calls.
- IRS does post location information for its Super Saturdays, 1-day events that provide tax assistance at hundreds of sites across the country, on its Web site, IRS.gov.
- Although IRS has plans to provide a zip code locator as part of a future redesign of its Web site, that redesign has yet to be funded. In the meantime, low-cost options, such as posting IRS's existing list of volunteer sites and hours on IRS.gov, could eliminate some calls to assistors.

IRS Lacks Math Error Authority for Ensuring Compliance with Two Aspects of the First-Time Homebuyer Tax Credit

- Currently, IRS has to use labor-intensive, expensive audits to check compliance with the new first-time home homebuyer tax credit resulting from 2008 and 2009 legislation. Two aspects of the credit lend themselves to an automated approach.
 - One is the requirement that the 2008 credit be repaid in increments of up to \$500 per taxpayer for 15 years beginning in 2011. IRS estimates that 1.2 million taxpayers claimed the 2008 credit for a total of approximately \$8.6 billion.
 - The other is that a taxpayer cannot claim the first-time homebuyer credit in both 2008 and 2009.
- The number of taxpayers claiming the credit and the amounts at risk per taxpayer mean that auditing every credit claimed may not be cost-effective.
- IRS lacks math error authority, which must be provided by statute, to use taxpayers' prior year return information to check for compliance with these two provisions. Math error checks are suitable for checking compliance with these provisions because, for many tax returns, the requirement to repay and violations of the limit on multiple claims will be obvious from the prior year's return. Because math error checks are automated, with this authority, IRS could check all returns at relatively low cost.

Conclusion

- As IRS prepares for the 2010 filing season, it has opportunities to improve service to millions of taxpayers and reduce its own operating costs by reducing electronic filing reject rates and providing more automated services. If IRS were to take advantage of these opportunities, it may be able to reduce the volume of taxpayer phone calls, which would improve taxpayer access to IRS assistors.
 - To realize maximum benefit for the 2010 filing season from its new automated application for authenticating electronic filers, IRS will need to adhere to its implementation date of January 18, 2010. The beginning of the filing season is when many taxpayers file returns electronically in order to receive their refund. Any slippage in the schedule means that taxpayers wishing to file electronically will have little option but to contact an IRS assistor. Missing this early window in 2010 could also delay the potential benefits to both taxpayers and IRS of an improved authentication system for early filers until the 2011 filing season.
 - We also identified two opportunities for Congress to provide IRS with additional authority to improve compliance for the 2010 filing season and beyond and reduce its costs by extending math error authority to cover two aspects of the first-time homebuyer tax credit. Compared to audits, automated math error checks provide a low-cost option that may be particularly useful as IRS confronts the challenges of ensuring compliance with new tax law provisions.
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Matters for Congressional Consideration

Given the potential for improving compliance for the next filing season and beyond, the Congress should consider providing IRS with math error authority to use prior years' tax return information to automatically

- verify taxpayers' compliance with the 2008 first-time homebuyer credit payback provision and
- ensure that taxpayers do not improperly claim the credit in multiple years.

Recommendations for Executive Action

The Commissioner of Internal Revenue should ensure that IRS

1. develops and documents a strategy to prevent and resolve errors causing electronically filed returns to be rejected;
 2. involves stakeholders from the paid preparer and tax software industries in its current reject working group;
 3. develops an action plan for its reject working group that includes such elements as the scope of responsibility, a plan for testing changes, and a schedule for implementing changes;
 4. provides paid preparers and software providers with clearer descriptions of why electronically filed returns are rejected; and
 5. implements a low cost automated method for providing volunteer site locations and hours of operation to taxpayers.
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Appendix II: Most Common Error Reject Codes in the 2009 Filing Season and IRS Descriptions

Of the more than 600 possible error reject codes that the Internal Revenue Service (IRS) sent to taxpayers attempting to file electronically during the 2009 filing season, table 1 lists 15 of the most common. These error codes accounted for 85 percent of all error reject codes included in the electronic acknowledgments received by taxpayers through paid preparers and software providers.

Table 1: Most Common Error Reject Codes and IRS Descriptions for the 2009 Filing Season

Error reject code	IRS explanations of error reject codes contained in electronic acknowledgments ^a	Clearer description found on IRS's Web site	Percentage of error incidences	Cumulative percentage
0679	Authentication Record – When the PIN TYPE Code (SEQ 0008) equals “S” or “O”, the Primary Prior Year Adjusted Gross Income (SEQ 0020) or Primary Prior Year PIN (SEQ 0025) must match the Primary Prior Year Adjusted Gross Income or Primary Prior Year PIN on the IRS Master File.	The primary taxpayer’s or spouse’s Prior Year Adjusted Gross Income (Prior Year AGI) or the Prior Year PIN entered on the Authentication Record does not match the original Prior Year AGI or Prior Year PIN entered on Form 8879, IRS e-file Signature Authorization.	19.7	19.7
0504	Dependent’s SSN (SEQ 0175, 0185, 0195, 0205) of Form 1040/1040A and corresponding Dependent Name Control (SEQ 0172, 0182, 0192, 0202) must match data from the IRS Master File. Qualifying Child SSN (SEQ +0175, 0185, 0195, 0205) of Form 1040-SS (PR) and corresponding Qualifying Child Name Control (SEQ +0172, 0182, 0192, 0202) must match data from the IRS Master File.	The last name of the dependent on the return does not match the IRS Master File and/or SSA records. This could be caused by misspelling the last name or using the wrong SSN. It can also result if the dependent has multiple or hyphenated last names.	9.1	28.8
0269b	Form 1040/1040A/1040EZ - Recovery Rebate Credit (SEQ 1220) cannot be claimed because the maximum amount has already been received based on the information contained on the 2007 tax return.	NA	8.1	36.9

Appendix II: Most Common Error Reject Codes in the 2009 Filing Season and IRS Descriptions

Error reject code	IRS explanations of error reject codes contained in electronic acknowledgments^a	Clearer description found on IRS's Web site	Percentage of error incidences	Cumulative percentage
0502	Employer Identification Number (SEQ 0040) of Form W-2 and/or W-2GU, Payer Identification Number (SEQ 0026) of Form W-2G, and Payer Identification Number (SEQ 0050) of Form 1099-R and Company or Trust Identification Number (SEQ 0120) of Form 2439, and Employer EIN (SEQ 0200) of 499R-2/W-2PR Record must match data from the IRS Master File. Note: Form 1099-R is ONLY required when federal income tax is withheld.	The Employer Identification Number (EIN) of the business reported on Form(s) W-2, W-2G, W-2GU, 499R-2/W-2PR, 1099R, or 2439 must match the EIN on the IRS Master File. This error could be caused by entering the EIN incorrectly or using an EIN that is invalid.	6.1	43.0
0522	Primary Date of Birth (SEQ 0010) in the Authentication Record of an Online Return does not match data from the IRS Master File.	The Date of Birth (DOB) of the primary taxpayer (ERC 0522) or spouse (ERC 0523) does not match the IRS Master File. The DOB is required to authenticate the taxpayer's Self-Select PIN which acts as the taxpayers' signature when filing an online return.	5.8	48.8
0507	Dependent's SSN (SEQ 0175, 0185, 0195, 0205) of Form 1040/1040A was previously used for the same purpose.	The dependent's SSN claimed on the tax return and/or Schedule EIC has been used on another tax return. This could be the result of an inadvertent data entry error or someone else has claimed this dependent.	5.7	54.5
0500	Primary SSN (SEQ 0010) and Primary Name Control (SEQ 0050) of the Tax Form must match data from the IRS Master File.	The last name for the primary taxpayer on the return does not match what the IRS and/or the Social Security Administration (SSA) have on file. This could be caused by misspelling the primary taxpayer's last name or using the wrong SSN for the primary taxpayer. It can also result if the primary taxpayer has multiple or hyphenated last names, or has changed their last name (e.g., by marriage or court order) and has not notified SSA.	5.4	59.9

Appendix II: Most Common Error Reject Codes in the 2009 Filing Season and IRS Descriptions

Error reject code	IRS explanations of error reject codes contained in electronic acknowledgments^a	Clearer description found on IRS's Web site	Percentage of error incidences	Cumulative percentage
0501	Qualifying SSN (SEQ 0015, 0085) of Schedule EIC and the corresponding Qualifying Child Name Control (SEQ 0007, 0077) must match data from the IRS Master File.	<p>The SSN and last name entered for the qualifying child does not match what the IRS and/or SSA have on file. The qualifying SSN of the dependent on Schedule EIC, Earned Income Credit, must match data from the IRS Master File.</p> <p>This could be a companion error code to Reject Code 0504. If the child does not qualify as a dependent, the child is not eligible to be a qualifying child for EIC.</p>	4.5	64.4
0680	Authentication Record – When the PIN TYPE Code (SEQ 0008) equals “S” or “O” and the Filing Status (SEQ 0130) is “2” (Married Filing Jointly) on the return, the Spouse Prior Year Adjusted Gross Income (SEQ 0050) or Spouse Prior Year PIN (SEQ 0055) must match the Spouse Prior Year Adjusted Gross Income or Spouse Prior Year PIN on the IRS Master File.	The primary taxpayer’s or spouse’s Prior Year Adjusted Gross Income (Prior Year AGI) or the Prior Year PIN entered on the Authentication Record does not match the original Prior Year AGI or Prior Year PIN entered on Form 8879, IRS e-file Signature Authorization.	4.4	68.8
0510	<p>Primary SSN (SEQ 0010) and/or Secondary SSN (SEQ 0030) where the SSN was claimed as an exemption (SEQ 0160) and/or (SEQ 0163) on the return and was also used as a Dependent’s SS Non Form 1040 or Qualifying Child on Form 1040-SS(PR) (SEQ 0175, 0185, 0195, 0205) on another return.</p> <p>Dependent’s SSN (SEQ 0175, 0185, 0195, 0205) was used as a Primary SSN (SEQ 0010) or Secondary SSN (SEQ 0030) on another return and was claimed as an exemption (SEQ 0160) on that return.</p>	<p>Normally, this error is the result of a child submitting their own tax return and claiming their own exemption. When the parent(s) file and claim the child as a dependent, the parents’ return will reject with ERC 0510.</p> <p>Example 1: A college student submits their own return and fails to indicate that they can be claimed as a dependent on another return. When the parents submit their return after the student has filed, and attempts to claim the student as a dependent, the return will reject.</p> <p>Example 2: A newly married couple files a joint return. When the parents submit their return after the couple has filed, and attempt to claim their daughter as a dependent, the return will reject.</p> <p>Using an incorrect SSN may also cause this error if the erroneous SSN matches another taxpayer or dependent.</p>	4.0	72.9

Appendix II: Most Common Error Reject Codes in the 2009 Filing Season and IRS Descriptions

Error reject code	IRS explanations of error reject codes contained in electronic acknowledgments^a	Clearer description found on IRS's Web site	Percentage of error incidences	Cumulative percentage
0503	<p>Secondary SSN (SEQ 0030) and Spouse's Name Control (SEQ 0055) of the Tax Form must match data from the IRS Master File</p> <p>or</p> <p>If filing status (SEQ 0130) equals "4" and Exempt Spouse (SEQ 0163) equals "X", then the Spouse SSN (SEQ 0030) and Exempt Spouse Name Control (SEQ 0165) must match data from the IRS Master File.</p>	<p>The last name for the secondary taxpayer on the return does not match the IRS Master File and/or SSA records.</p> <p>This can be caused by misspelling the last name or using the wrong SSN. It can also result if the spouse has multiple or hyphenated last names, or has changed their last name (e.g., marriage or court order) and has not notified the SSA.</p>	3.5	76.3
0515 ^b	Primary SSN (SEQ 0010) was used as a Primary SSN more than once.	NA	2.8	79.1
0506	Schedule EIC – Qualifying SSN (SEQ 0015, 0085) of Schedule EIC was previously used for the same purpose.	The qualifying child's SSN listed for the purpose of claiming EIC has been used on another tax return. This could be the result of an inadvertent data entry error or someone else has claimed this dependent. This is often a companion to Reject Code 0507. The qualifying child for EIC purposes must be a qualifying dependent.	2.4	81.5
0523	Spouse Date of Birth (SEQ 0040) in the Authentication Record of an Online Return does not match data from the IRS Master File.	The Date of Birth (DOB) of the primary taxpayer (ERC 0522) or spouse (ERC 0523) does not match the IRS Master File. The DOB is required to authenticate the taxpayer's Self-Select PIN which acts as the taxpayers' signature when filing an online return.	1.9	83.4
0535	Schedule EIC - Qualifying SSN (SEQ 0015, 0085) of Schedule EIC and the corresponding Year of Birth (SEQ 0020, 0090) must match data received from the Social Security Administration.	The year of birth for the qualifying child does not match what the IRS and/or SSA have on file. The qualifying SSN of the dependent on Schedule EIC, Earned Income Credit, must match data from the IRS Master File.	1.8	85.2
Total of all other error reject codes			14.8	100

Source: GAO analysis of IRS data.

Note: Data are from January 1, 2009 through August 19, 2009.

^aExceptions not shown.

^bError Reject Code does not have a simplified description on IRS's Web site.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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