

Highlights of [GAO-11-557](#), a report to congressional requesters

Why GAO Did This Study

Effective implementation of two 2008 laws by the Internal Revenue Service (IRS) could increase taxpayers' voluntary compliance. Those laws require reporting to IRS and taxpayers of cost basis for sales of certain securities and of transaction settlement information (i.e., merchants' income from payment cards or third party networks).

In response to a congressional request, GAO (1) assessed IRS's implementation plans for the laws; (2) determined the extent to which IRS issued timely regulations and guidance and did outreach; (3) examined how IRS will use the new data to improve compliance; and (4) analyzed IRS's plans to assess implementation and measure performance and outcomes.

GAO compared IRS's implementation plans to criteria in past GAO work and other sources; interviewed industry groups and agency officials, and reviewed rulemaking documents; examined IRS's plans to use the new data; and compared IRS's measures and evaluation plans to GAO criteria.

What GAO Recommends

GAO recommends, among other things, that IRS improve cost estimation, form volume projections, stakeholder communication, and performance management. IRS generally agreed with the recommendations, but did not describe plans to release draft form instructions or communicate target guidance release dates, both of which would aid industry implementation.

View [GAO-11-557](#) or key components. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

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INFORMATION REPORTING

IRS Could Improve Cost Basis and Transaction Settlement Reporting Implementation

What GAO Found

IRS is implementing cost basis and transaction settlement reporting through the new Information Reporting and Document Matching (IRDM) program in the Small Business/Self Employed (SB/SE) and Modernization and Information Technology Services (MITS) divisions. IRDM plans show several elements of effective program management, but do not document coordination with some related IRS projects such as *Workforce of Tomorrow*. IRS estimated IRDM costs, but MITS's estimate does not reflect some best practices, such as adjusting for inflation. Also, IRDM did not use substantiated tax form volume projections in some budget and risk decisions. To date, IRS spent about \$28 million on IRDM and requested another approximately \$82 million as shown below.

IRDM Actual and Requested Funding since Program Inception

Dollars in millions

Fiscal year	SB/SE IRDM actual or requested funds			MITS actual and requested funds	Total
	Cost basis reporting	Transaction settlement reporting	Other direct costs for both		
2009 through 2011, actual				\$51.0	\$51.0
2012 request	\$1.3	\$27.5	\$6.9	\$23.2	\$58.9
Total, 2009 through 2012					\$109.9

Source: Fiscal year 2012 budget request for IRS and IRDM budget documents.

Note: Other direct costs for both include handling appeals and litigating cases not resolved by audit or appeal.

IRS outreach with industry stakeholders was thorough early in the rulemaking process, but IRS missed its target dates for issuing regulations by about 1 year due, according to IRS officials, to time needed to learn the complex industries. After IRS released final regulations, industry stakeholders sought clarification of certain issues. IRS did not release additional written guidance until after the regulations' effective dates, which industry stakeholders said may affect their implementation of the new reporting requirements. Although IRS released drafts of the newly required or revised forms, they did not release draft instructions prior to the regulations' effective dates.

To use the new data, IRS is developing systems that are expected to improve IRS's existing matching of information returns to individual tax returns and expand matching to business taxpayers. The initial enhancements are to be operational in 2012. IRDM appropriately plans to conduct research and test data quality.

IRDM regularly documents lessons learned; however, IRDM has not assigned responsibility or established procedures to use them. IRDM also developed preliminary performance measures to assess the implementation and outcomes, including effects on revenue and compliance. However, IRDM has not documented a plan to finalize the performance measures, such as methodology.