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2011 TAX FILING

Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools

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Why GAO Did This Study

The tax filing season is an enormous undertaking in which the Internal Revenue Service (IRS) processes millions of tax returns, issues billions of dollars in refunds to taxpayers, corrects taxpayers' errors, and provides service to millions of taxpayers through telephones, website, and face-to-face assistance. Among other things, GAO was asked to assess (1) IRS's performance processing returns and issuing refunds, and providing telephone assistance, and (2) IRS's plans to expand self-service options on its website. To conduct the analyses, GAO obtained and compared data from 2007 through 2011, reviewed IRS documents, interviewed IRS officials, observed IRS operations, and interviewed tax-industry experts, including from tax preparation firms.

What GAO Recommends

GAO recommends that IRS develop a new refund timeliness performance measure to better reflect current capabilities, create an automated telephone line for taxpayers seeking information about amended returns unless IRS has a convincing cost-benefit analysis suggesting the costs exceed the benefits, assess the costs and benefits of automating a TAC/VITA locator line, and finalize a strategy for determining which self-service tools to provide on its website.

IRS agreed with three of GAO's recommendations, but said that resources are not available to automate the TAC/VITA line. GAO believes a review of the costs and benefits would better inform IRS decisions about how to allocate scarce resources.

View [GAO-12-176](#). For more information, contact Jim White at (202) 512-9110 or whitej@gao.gov.

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What GAO Found

During the 2011 filing season the following occurred:

- Electronic filing (e-filing) increased to nearly 80 percent of the 140 million individual returns filed. The benefits of e-filing include that it is more accurate, faster, and less expensive for IRS than processing returns filed on paper.
- Due to the increase in e-filing, new systems, and IRS's performance in recent years, its refund timeliness measure and goal are outdated. The measure only relates to the 22 percent of returns filed on paper. IRS's goal is to issue refunds for paper-filed returns within 40 days. In 2012, IRS expects to issue most refunds within 4 to 6 days of processing a return (paper and e-filed), meaning the current goal does not reflect current performance and capabilities.
- The percent of callers seeking live assistance who receive it remained much lower than in 2007 and the average wait time for callers continued to increase. Providing live telephone assistance is expensive. However, IRS can shift some assistor-answered calls to less costly tools. Two such opportunities include creating self-service phone lines for taxpayers seeking to identify the (1) status of their amended return—a source of high call volume—and (2) location of a Taxpayer Assistance Center (TAC) or Volunteer Income Tax Assistance (VITA) site, where IRS employees and volunteers prepare returns, respectively. IRS officials expect the benefits of the amended return line to exceed the costs, but have not studied the costs and benefits of adding a TAC/VITA locator line.

IRS Return Processing, Phone Service, and Website Use, 2007 through 2011 Filing Seasons

	2007	2008	2009	2010	2011
Processing (fiscal year)					
Returns processed (in millions)	135	151	139	137	140
Percent e-filed	58	59	67	71	78
Phone service (as of June 30, each year)					
Percent of callers seeking live assistance who receive it	81	57	68	76	72
Average wait time (in minutes)	4.6	8.6	8.4	9.5	11.7
Website (as of July 31, each year)					
Visits (in millions)	168	292	235	239	250
Searches (in millions)	106	125	263	277	312

Source: GAO analysis of IRS data.

The use of IRS's website is growing, particularly the number of searches, which IRS officials attribute, in part, to taxpayers having difficulties locating information. Having an easily searchable website is important for IRS because it reduces costly phone calls. IRS has begun spending a planned \$320 million on its website over 10 years. However, IRS's initial strategy for providing new self-service tools online does not include allowing taxpayers to access account information and is missing fundamental elements, including a justification for new services and time frames. Doing so would provide Congress and taxpayers with a better understanding of the online services IRS plans to provide with its significant investment on its website.

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Abbreviations

BSM	Business System Modernization
CADE	Customer Account Data Engine
CSR	customer service representative
DDb	Dependent Database
EFDS	Electronic Fraud Detection System
EITC	Earned Income Tax Credit
ERS	Error Resolution System
FTE	full-time equivalent
GMF	Generalized Mainline Framework
IMF	Individual Master File
IRS	Internal Revenue Service
MEA	math error authority
MeF	Modernized e-File
PDF	portable document format
PIN	personal identification number
RAC	Refund Anticipation Check
RAL	Refund Anticipation Loan
RRP	Return Review Program
TAC	Taxpayer Assistance Center
TCE	Tax Counseling for the Elderly
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
Treasury	Department of the Treasury
VITA	Volunteer Income Tax Assistance

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G A O

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United States Government Accountability Office
Washington, DC 20548

December 15, 2011

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The Honorable Charles E. Grassley
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Every tax filing season is a large-scale undertaking during which the Internal Revenue Service (IRS) interacts with millions of taxpayers and tax preparers by processing tax returns, issuing refunds, answering telephone calls, and providing other services, both face-to-face and on its website. IRS's information systems also begin checking tax returns for compliance with the tax laws during processing. These automated checks correct many errors before refunds are issued, benefiting IRS by avoiding costly audits and taxpayers by preventing interest and penalties from accruing.

In recent years IRS has taken or proposed a number of steps to gain efficiencies and provide better service to taxpayers. For example, IRS has been automating more of its higher-cost taxpayer services, including telephone assistance provided by IRS employees, with more self-service tools such as automated phone and online applications. In addition, the Commissioner of Internal Revenue has articulated a long-term vision for employing more prerefund compliance checks to reduce the costs and delays associated with traditional "back end" checks such as audits. In the short term, IRS is upgrading key information systems, and plans to

develop others that could begin increasing prerefund compliance check opportunities.

Further, taxpayers have decreased their use of controversial Refund Anticipation Loans (RAL)—high-interest-rate, short-term loans from tax preparers or banks that give quicker access to tax refunds—while increasing their use of Refund Anticipation Checks (RAC)—temporary bank accounts set-up by tax preparers allowing them to subtract tax preparation and other fees from taxpayers' refunds. At the same time, the Department of the Treasury (Treasury) has taken action to identify lower-cost alternatives to paper check refunds that can be delivered to taxpayers faster, including direct deposits and debit cards.

In this context, you asked us to

- (1) assess IRS's performance in processing returns, delivering refunds, and providing telephone service and face-to-face assistance in comparison to its goals and prior years' performance;
- (2) describe trends in the use of IRS's website and assess IRS's plans to add self-service tools to the website;
- (3) report on the status of changes to IRS's prerefund compliance checks, including system upgrades and process changes; and
- (4) report on trends in the use of RACs and RALs and efforts to provide refunds to taxpayers in a low-cost manner.

To meet our objectives we did the following:

- Reviewed and analyzed IRS documents and data, including performance and workload data, reports, testimonies, budget submissions, and internal studies of programs, and compared these to IRS's goals and prior years' performance to identify trends and anomalies.
- Reviewed various other criteria, including industry standards, federal requirements, and best practices, to assess IRS's performance in key areas.
- Observed operations at IRS's Joint Operations Center (which manages telephone services) and listened to calls from taxpayers with telephone assistors, and observed examiners performing correspondence examinations. We also viewed operations at an IRS walk-in site and a Volunteer Income Tax Assistance (VITA) site in

both Atlanta, Georgia, and Washington, D.C. Additionally we visited the Submission Processing Center in Atlanta, Georgia. We selected these particular offices from IRS offices located around the country for a variety of reasons, including the location of IRS call centers, correspondence examiners, and relevant IRS managers.

- Reviewed IRS's strategy to upgrade its website against various criteria, including federal guidelines and other best practices.
- Obtained documentation and interviewed officials from two states that have developed interactive websites.
- Reviewed prior GAO reports and Treasury Inspector General for Tax Administration (TIGTA) reports and interviewed TIGTA officials about IRS's performance and initiatives.
- Interviewed IRS officials responsible for tax return processing, taxpayer services, online services, and examination and compliance activities about prerefund compliance checks.
- Collected data from and interviewed key external stakeholders who frequently interact with IRS on key aspects of the filing season, including representatives from major tax preparation firms and other organizations responsible for providing refund products (e.g., RACs and RALs) to taxpayers.
- Collected data from and interviewed Treasury officials responsible for developing a pilot program to deliver tax refunds on debit cards.
- Interviewed Urban Institute officials about evaluation plans for Treasury's debit card program and its recent review of RACs and RALs, both of which were conducted at the request of Treasury.¹

When data were available, we compared IRS's 2011 performance to its performance from fiscal years 2007 through 2010. IRS officials noted that since 2008 varying degrees of tax law changes have affected the agency's performance.

This report discusses numerous filing season and performance measures and data covering the quality, accessibility, and timeliness of IRS's services. To the extent possible, we corroborated information from interviews with documentation and data, and where not possible, attributed the information to IRS officials. We reviewed IRS documentation, interviewed IRS officials about computer systems and data limitations, and compared those results to our standards of data

¹The Urban Institute is a research organization that aims to build knowledge about the nation's social and fiscal challenges.

reliability.² Data limitations are discussed where appropriate. We consider the data presented in this report to be sufficiently reliable for our purposes. We conducted our work primarily at IRS headquarters in Washington, D.C., and at the Wage and Investment Division headquarters in Atlanta, Georgia, as well as other sites mentioned earlier.

We conducted this performance audit from February 2011 through December 2011 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 audit objectives.

Background

Primarily through its telephone, website, and, to a much lesser extent, face-to-face operations, IRS provides tax law and account assistance, limited tax return preparation assistance, tax forms and publications, and outreach and education.

- Taxpayers can call IRS to speak directly with a customer service representative (CSR), or use automated telephone lines to obtain information quickly. IRS has 10 automated telephone lines, which allow, for example, taxpayers to interactively inquire about the status of a refund, order a transcript of their return or account information, and request a personal identification number (PIN) to file electronically. IRS's 149 Teletax lines provide prerecorded messages on tax law topics ranging from alternative filing methods to what a taxpayer can itemize.
- CSRs are also responsible for responding to paper correspondence. IRS tries to minimize the percent of overage paper correspondence (generally correspondence that is more than 45 days old).
- IRS staff provides face-to-face assistance at 401 walk-in sites or Taxpayer Assistance Centers (TAC) where taxpayers can get basic tax law questions answered, review their accounts, and have returns prepared if their annual income is \$49,000 or less.
- IRS also has volunteer partners that staff over 12,000 volunteer sites. Volunteers at these Volunteer Income Tax Assistance (VITA) and Tax

²GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-09-680G](#) (Washington, D.C.: July 2009).

Counseling for the Elderly (TCE) sites prepare tax returns for traditionally underserved taxpayers, including the elderly, low-income, disabled, and those with limited English proficiency. These sites also provide other services such as helping taxpayers without a bank account get into the banking system and financial literacy education.

In addition to the services IRS provides to taxpayers during the filing season, paid tax preparers and tax software development companies play an important role answering taxpayers' questions and filing tax returns. In 2011, for the first time, paid preparers who expected to prepare 100 or more returns were generally required to file the returns electronically.³

As part of IRS's Business System Modernization (BSM) program, over the next few years IRS plans to make major changes to how it processes individual income tax returns to facilitate faster refund processing and maintain more up-to-date account information.⁴ For example,

- IRS is replacing the legacy Individual Master File (IMF) and current Customer Account Data Engine (CADE) systems that it uses to process individual income tax returns with CADE 2. IRS plans to implement its CADE 2 program in three phases beginning in 2012. The first phase includes two projects: (1) processing tax returns daily, rather than weekly, using the IMF (known as IMF daily); and (2) implementing the CADE 2 database.⁵
- IRS is also replacing its legacy e-filing system with the Modernized e-File (MeF) system, and it plans to retire the legacy e-file system in October 2012. IRS cannot accept electronically filed returns directly from taxpayers. Rather, IRS authorizes e-file providers, such as large

³GAO- *E-Filing Tax Returns: Penalty Authority and Digitizing More Paper Return Data Could Increase Benefits*, [GAO-12-33](#) (Washington, D.C.: Oct. 5, 2011).

⁴IRS's BSM program is a long-term, multibillion-dollar, highly complex effort that involves the development and delivery of a number of modernized systems that are intended to replace the agency's aging business and tax processing systems. The program is critical to transforming the agency's manual paper-intensive business operations, fulfilling its obligations under the IRS Restructuring and Reform Act of 1998, and providing more reliable and timely financial management to allow IRS to better justify resource allocation decisions and budgetary requests. See, GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2011 Expenditure Plan*, [GAO-12-26](#) (Washington, D.C.: Oct. 6, 2011).

⁵GAO, *Taxpayer Account Strategy: IRS Should Finish Defining Benefits and Improve Cost Estimates*, [GAO-11-168](#) (Washington, D.C.: Mar. 24, 2011).

tax preparation firms, to transmit returns to IRS electronically using either the legacy e-file or MeF system.⁶ The benefits of MeF include accepting or rejecting individual tax returns faster, providing a clearer explanation of why a return was rejected, and accepting prior-year returns. The system also allows taxpayers to attach portable document format (PDF) files to their tax returns (the legacy e-filing system cannot accept additional documentation, requiring such returns to be submitted on paper).

Last year we reported that IRS has been taking actions to improve its website by identifying steps to enhance taxpayer service.⁷ As part of this effort, IRS plans to spend \$320 million to upgrade and maintain its website over the next 10 years. These plans include introducing a new website by the 2013 filing season.

- IRS's 5-year strategic plan for improving service to taxpayers identified five website-management control gaps, such as content management, website design and usability, and frequently asked questions.⁸
- IRS has three existing web portals accessible to the public at large, registered users, and IRS employees, respectively.⁹ According to IRS, its new portal environment investment will replace the current environment that has reached the end of its useful life, and provide streamlined, web-based services to taxpayers, business partners, IRS employees, and other government agencies. IRS plans to begin phasing in the new portal environment in 2012.

⁶Tax professionals accepted into the electronic filing program are called Authorized IRS e-file Providers. They are the Electronic Return Originator that transmits tax return information to the IRS.

⁷GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

⁸IRS identified its 5-year strategic plan in the 2007 Taxpayer Assistance Blueprint.

⁹The publicly available portal, also known as IRS.gov, is IRS's Internet portal that provides unrestricted public access to nonsensitive materials and applications, including forms, instructions, news, and tax calculators. The portal for registered users is IRS's external portal that allows registered individuals and third-party users to interact with selected tax processing and other sensitive systems, applications, and data. The portal for IRS employees is the internal IRS portal that allows IRS employees to access IRS data and systems.

While processing returns, IRS validates key pieces of information and corrects returns before issuing refunds, which allows it to avoid auditing taxpayers after returns have been processed and refunds sent to taxpayers.¹⁰ Such audits, which are costly to IRS and burdensome for taxpayers, may result in the assessment of interest and penalties, and may require IRS to collect amounts due. Correcting errors may result in taxpayers receiving larger refunds. Prerefund compliance checks help ensure that taxpayers submit required information to the IRS with their returns. In conducting prerefund compliance checks, IRS does the following:

- Completes automated and relatively low-cost (compared to audits) checks using its math error authority (MEA).¹¹ Math error checks increase the likelihood of IRS collecting the correct amount of tax owed. However, Congress must grant IRS specific authority to use MEA for purposes beyond computational errors. IRS can generally close uncontested (meaning that the taxpayer does not challenge the error identified by IRS) MEA cases much faster than correspondence audits (audits by mail)—the average cycle time for all correspondence audits is about 175 days (each requires an average of 2 hours of an examiner’s time). Appendix I shows a list of IRS’s 13 existing MEAs. Appendix II shows other areas where both we and TIGTA have suggested that additional MEA could be useful.
- Identifies errors on tax returns for which it does not have MEA to correct. Corrections for those errors are generally made through correspondence audits. Appendix III provides a more detailed explanation of some of the key systems used for prerefund compliance checks, including the
 - Generalized Mainline Framework System (GMF), which performs a variety of validation and consistency checks;
 - Dependent Database (DDb), which matches dependents with filers, among other things;
 - Error Resolution System (ERS), which corrects returns on which math errors have been detected and IRS has MEA; and

¹⁰GAO, *Tax Refunds: Enhanced Prerefund Compliance Checks Could Yield Significant Benefits*, [GAO-11-691T](#) (Washington, D.C.: May 25, 2011).

¹¹MEA is statutory authority granted to IRS by Congress to correct calculation errors and other obvious instances of noncompliance, such as claims above income and credit limits, and assess additional tax based on such errors without having to issue a statutory notice of deficiency.

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- Electronic Fraud Detection System (EFDS), which detects returns at a high risk for fraud. IRS is currently replacing EFDS with the Return Review Program (RRP).

In addition, millions of taxpayers may choose to obtain their tax refunds through a RAC or RAL, which are offered to taxpayers by paid preparers or banks in connection with federal or state tax refunds, or both.¹² RACs are a refund delivery option where refunds are directly deposited into a temporary bank account set up by a financial institution or tax preparer on behalf of the taxpayer. The tax return preparation fee, along with other fees, is generally withheld from the refund and the remaining funds are available to the taxpayer. RALs are short-term, high-interest-rate bank loans that allow taxpayers to get their refunds faster and also allow taxpayers to pay return preparation and other fees out of their refunds. In contrast to RALs, RACs are not loans.

During 2011, taxpayers also could choose to receive their tax refund from IRS through (1) their banks' direct deposit program, (2) paper checks, or (3) debit cards, which could be obtained from a participating bank, through Treasury's pilot program on debit cards, or at VITA/TCE sites. Since 2009, IRS has worked with partner organizations at VITA/TCE sites to encourage taxpayers not requesting a direct deposit of their refund to opt to receive it on a debit card sponsored by a participating financial institution. Last year we reported that less than 3 percent of eligible taxpayers at VITA/TCE sites elected to receive refunds on debit cards. Separately, in 2011, Treasury launched a pilot program offering about 800,000 low-income taxpayers tax refunds on debit cards. Although targeting the same demographic group, the VITA site offers are made in person and the Treasury offer was made through the mail. Even though both programs are relatively small in scale, they are important because they are intended to identify ways to reduce the cost of delivering refunds to taxpayers, provide faster refunds compared to paper checks, reduce transaction costs, and provide individuals who might not otherwise have access to a bank account with banking services.

¹²We previously reported that fees associated with RALs may amount to an annual percentage interest rate of over 500 percent. GAO, *Refund Anticipation Loans*, [GAO-08-800R](#) (Washington, D.C.: June 5, 2008).

Processing of Returns Was Timely, but Opportunities to Improve Taxpayer Service Exist

During the 2011 filing season, the percentage of returns e-filed increased considerably and IRS expects new systems to speed refunds to taxpayers. As a result of these improvements, IRS's refund timeliness measure and goal, which relates only to paper returns, is outdated. In addition, the high call volume and amount of paper correspondence highlight the need to improve taxpayer service through providing additional self-service tools. Although fewer taxpayers receive face-to-face assistance than in other ways, IRS is taking steps to improve service at TAC and VITA sites.

E-Filing Increased and the Shift to New Processing Systems Continues

IRS processed about 140 million returns and almost reached its e-file goal of 80 percent (78 percent of individual returns were e-filed and 22 percent filed on paper), established by Congress in 1998.¹³ E-filing increased about 13 percent compared to last year, as table 1 shows. E-filing has many benefits for taxpayers, such as higher accuracy rates and faster refunds, and it also provides IRS with significant cost savings through eliminating the need for manual transcription of paper returns, which is labor intensive and introduces errors. According to IRS, in fiscal year 2010, it cost 17 cents to process an e-filed return and \$3.66 for returns filed on paper. IRS officials and representatives from major tax preparation firms attributed the increase in the e-file rate to factors including the e-filing requirement for paid preparers and the fact that IRS did not mail out hard-copy tax forms to taxpayers.¹⁴ In addition, nearly half the states also have e-file mandates, which may also encourage taxpayers to e-file federal returns. Further, IRS met all eight returns processing goals, summarized in appendix IV.

¹³In March 2011, we reported that IRS had to delay processing for certain returns until mid-February, highlighting the need for IRS to complete new systems. See GAO, 2011 *Tax Filing: IRS Dealt with Challenges to Date, but Needs Additional Authority to Verify Compliance*, [GAO-11-481](#) (Washington, D.C.: Mar. 29, 2011). Once IRS was capable of processing all returns, it cleared the backlog.

¹⁴[GAO-12-33](#).

Table 1: Processing Data for Filing Seasons 2007 through 2011

Numbers	2007	2008^a	2009	2010	2011	Percentage change from 2010 to 2011^b
Returns processed (in millions)	135	151	139	137	140	2
Electronic (in millions)	79	89	94	97	109	13
Paper (in millions)	56	62	45	40	30	-24
Percent e-filed	58	59	67	71	78	n/a ^c
Refunds issued (in millions)	103	105	109	107	107	0
Dollar amount of refunds issued (in billions)	\$234	\$248	\$298	\$312	\$303	-3
Average refund amount	\$2,259	\$2,350	\$2,725	\$2,915	\$2,836	-3

Legend: n/a = not applicable.

Source: GAO analysis of IRS data.

Notes: Data are from January 1 through: September 28, 2007; October 3, 2008; October 2, 2009; October 1, 2010; and September 30, 2011.

^aThe Economic Stimulus Act of 2008 mandated that IRS send stimulus payments to over 100 million households, many of which would not otherwise have needed to file a tax return.

^bNumbers in the table are rounded, but percentage change calculated using exact values. Therefore, in some cases, the percentage change is slightly different than it would be if it were calculated using the rounded values in the table.

^cNot applicable because we calculate the percent change in e-filed and paper returns in the table using the actual number of paper and e-filed returns, not the percentages.

As figure 1 shows, IRS used current CADE to process about 40 million returns in 2011—about the same as last year. As part of its transition to CADE 2, IRS transferred all accounts on CADE back to the IMF in June 2011 and plans to retire CADE at the end of December 2011.

Going forward, consistent with its plans for transitioning to CADE 2, IRS plans the following:

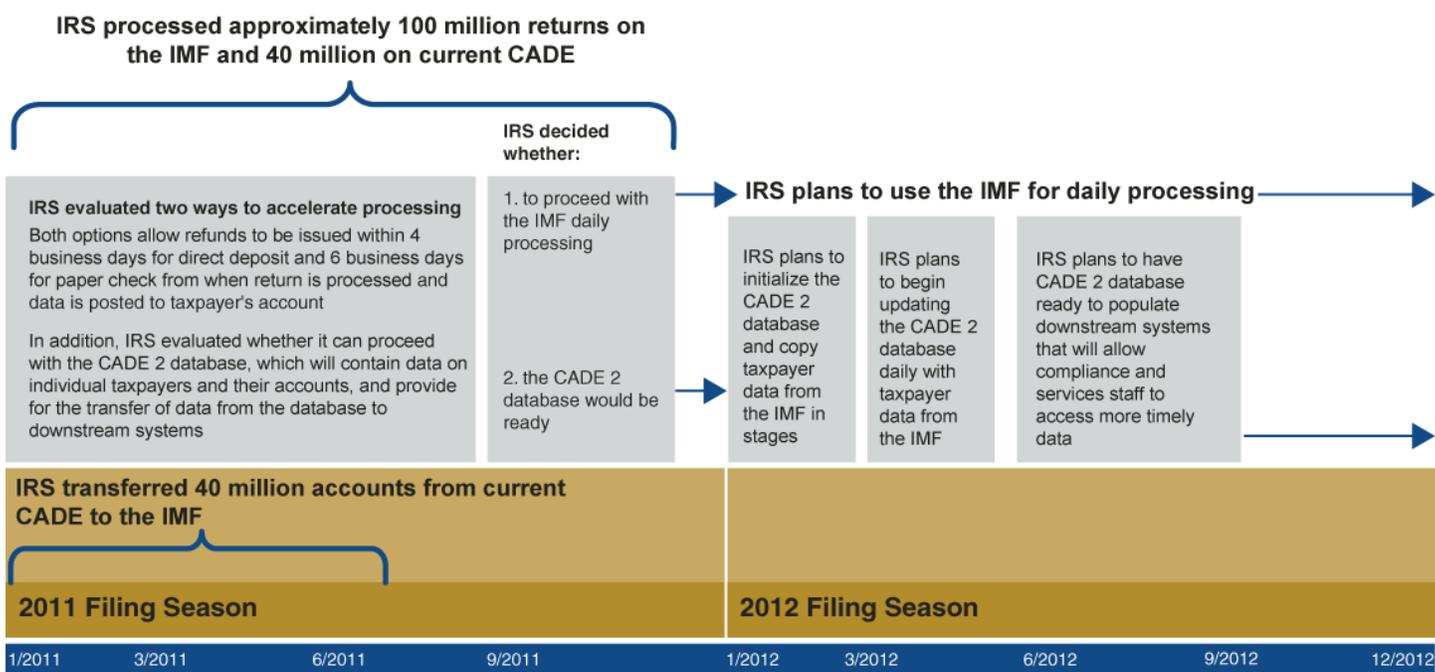
- Beginning in January 2012, IRS intends to use the IMF to process most returns on a daily, rather than weekly, basis. Refunds generally are expected to be issued in 4 business days for direct deposit and 6 business days for paper checks after IRS processes the return and posts the return data to the taxpayer’s account.¹⁵ IRS also plans to begin loading and validating all taxpayer account data from the IMF into the CADE 2 database.

¹⁵For 2012, IRS plans to process returns on a daily basis, and, for returns without errors, IRS expects to post the return data to taxpayer accounts about 2 days after processing.

- Beginning in March 2012, IRS plans to begin updating the CADE 2 database with IMF daily data.

Beginning in 2014, IRS had planned to finish modifying key compliance and taxpayer service systems to use information from the CADE 2 database (second phase of CADE 2). However, IRS reported that it did not receive fiscal year 2011 funding to allow it to meet the 2014 time frame.¹⁶

Figure 1: IRS Timeline for Implementing CADE 2



Source: GAO analysis of IRS data.

IRS officials responsible for MeF implementation believe that the agency remains on schedule to turn off the legacy e-file system in 2012 and replace it with MeF. Although the use of MeF increased significantly compared to last year—IRS accepted over 10.2 million returns in fiscal year 2011 on MeF compared to about 1 million in 2010—the number of

¹⁶IRS officials reported that it had completed planning activities associated with the second phase of CADE 2 and that additional progress would be contingent upon the availability of planned funding and resources.

returns fell far short of the 30 million IRS expected or the 80 million IRS officials said MeF was capable of handling.

IRS faces two key challenges to increasing MeF use. First, return transmitters must use the MeF system. Although return transmitters reported that the MeF system was more stable than in 2010, not all transmitters eligible to use it did so in 2011. According to IRS officials, the major return transmitters are committed to using MeF in the future. Second, states must have the capability to download state returns from the MeF system, but not all currently do. Presently, transmitters submit federal and state returns through the legacy e-file system, and states then retrieve their state tax returns. However, 11 states that will need to retrieve returns from MeF beginning in 2013 are not yet capable of doing so. If they do not gain such capability by October 2012, when the legacy e-file system is scheduled to be turned off, the burden on affected taxpayers or transmitters submitting tax returns would increase.¹⁷ As appendix V shows, if all states follow through with their current plans, they should be prepared to download their state's tax returns from MeF during the 2013 filing season.

IRS's Refund Timeliness Measure and Goal Do Not Reflect Processing Performance and Capabilities

IRS's current refund timeliness measure and goal, which it routinely uses in budget justification documents and to assess its performance, do not include e-filed returns. The IRS Restructuring and Reform Act of 1998 requires IRS to report to Congress on how it has maintained processing times of 40 days or less for paper returns, in addition to implementing a plan to increase electronic filing, and IRS maintains a goal of issuing refunds for returns filed on paper within 40 days.¹⁸ Due to improvements in the percentage of e-filed returns (nearly 80 percent of returns are now filed electronically) the measure does not apply to the majority of returns filed by taxpayers. IRS last made significant changes to the refund timeliness measure in 2003. Since that time IRS has made important changes to facilitate faster refund processing. For example, the number of e-filed returns has more than doubled, IRS implemented new systems

¹⁷The federal/state program allows IRS to share information with the states, including filed tax returns. In the federal/state electronic filing program, both federal and state income tax returns can be filed at the same time. IRS functions as an electronic post office for the participant state, which receives and processes the state electronic return.

¹⁸Pub. L. No. 105-206, title II, § 2001, 112 Stat. 685, 723 (July 22, 1998).

including current CADE, and, in 2012, IMF daily processing should allow IRS to issue refunds within 4 business days for direct deposit and 6 business days for paper checks after it processes the return and posts the return data to the taxpayer's account. As a result, the goal of issuing 97 percent of refunds within the 40 days for paper returns does not give IRS a meaningful indicator of how quickly it is disbursing refunds.

According to IRS officials, the refund timeliness goal captures the percentage of refunds issued for returns filed on paper within 40 days, which is 5 days before IRS generally must begin paying interest on the refund. However, as we previously reported, performance measures and goals should provide useful information for decision-making to track how programs can contribute to attaining the organization's goals and mission.¹⁹ We have also stressed that agencies need to consider differing needs of various stakeholders, including Congress, to ensure that performance information will be both useful and used.²⁰ IRS has a variety of options for updating its refund timeliness measure. For example, more meaningful measures could include identifying the percentage of refunds issued during given periods (such as the percentage of refunds issued in 10 or 20 days) or creating separate measures for returns filed on paper and returns filed electronically. Doing so would not preclude IRS from continuing to meet its requirement of reporting the percentage of refunds for returns filed on paper issued within 40 days. Without developing a new refund timeliness measure and goal to more appropriately reflect current capabilities, IRS is missing opportunities to better measure its actual performance and provide useful information to Congress for decision-making purposes.

High Call Volume Drives the Need to Expand Self-Service Telephone Lines

Since 2007, IRS has struggled to respond to high call volume, which has adversely affected access to telephone service. In 2011, IRS received 83 million calls as of June 30, compared to about 57 million through the same date in 2007 (see app. VI). Over the same years, as table 2 shows, taxpayers' ability to gain access to CSRs, IRS's live telephone assistants,

¹⁹GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) (Washington, D.C.: Nov. 22, 2002).

²⁰GAO, *Government Performance: GPRM Modernization Act Provides Opportunities to Help Address Fiscal, Performance, and Management Challenges*, [GAO-11-466T](#) (Washington, D.C.: Mar. 16, 2011).

deteriorated. In 2011, 72 percent of taxpayers seeking live telephone assistance got through to a CSR, compared to 81 percent in 2007. The deterioration in access is also reflected in the length of time taxpayers must wait before speaking to a CSR. In 2011, average wait time was almost 12 minutes; in 2007 it was less than 5 minutes. IRS officials attribute the higher call volume over the years to a number of factors including tax law changes made very late in the year that generated a lot of taxpayer questions

Table 2: IRS Telephone Service Goals and Performance, 2007 through 2011 Filing Seasons

Access measures		2007	2008	2009	2010	2011	Percent change from 2010 to 2011 ^a
Percent of callers seeking live assistance who received it	Actual	81	57	68	76	72	-5
	Goal	82	82 ^b	77 ^c	71	71	0
Average wait time (in minutes)	Actual	4.6	8.6	8.4	9.5	11.7	23
	Goal	4.3	4.5	10.4 ^d	11.6	11.6	0
Accuracy measures^e							
Tax Law Rate (in percent) ^f		90.7	90.3	92.5	92.4	93.4	1
		+/-0.9	+/-0.9	+/-0.8	+/-0.8	+/-0.6	
Account Accuracy Rate (in percent) ^f		93.2	93.5	95.1	95.6	96.0	0
		+/-0.5	+/-0.4	+/-0.4	+/-0.4	+/-0.3	

Source: GAO analysis of IRS data.

Notes: Actual data are from January 1 through June 30, while goals are for the entire fiscal year. We believe comparing performance during the filing season to fiscal year goals is appropriate as IRS's filing season performance is an indicator of its performance for the entire year.

^aNumbers in the table are rounded, but percentage change was calculated using exact values. Therefore, in some cases, the percentage change is slightly different than it would be if it were calculated using the rounded values in the table.

^bIRS revised its original fiscal year goal of 82 percent down to 74 percent because of high call volume due to economic stimulus-related calls.

^cIRS revised its original fiscal year goal of 77 percent down to 70 percent because of high call volume from taxpayers requesting e-filing authentication information and asking stimulus—related questions.

^dIRS determines its wait time goal based on anticipated call volume and resource availability. IRS significantly raised its wait time goal for 2009 compared to 2008 in light of anticipated increased call volume related to tax law changes.

^eBased on representative samples selected by IRS from January 1 through June 30.

^fThe percentage of calls in which CSRs provided accurate answers for the call type and took the appropriate actions, with a 90 percent confidence interval.

Table 2 also shows that, as performance declined, IRS reduced its goals for access to CSRs and increased its goal for telephone wait time. Despite less chance of getting through to CSRs and longer wait times, this year IRS met its goal for providing live assistance and almost met it

for wait time. IRS sets its telephone performance goals based on the expected volume and complexity of calls (complexity affects the time required to respond to a taxpayer), resource availability, and the anticipated volume of paper correspondence that CSRs handle. Even though IRS has reduced its goals for phone service, the number of full-time equivalents (FTE) dedicated to answering the phones has actually increased from about 8,000 in fiscal year 2007 to about 8,800 in fiscal year 2011.²¹

A positive aspect of IRS's telephone service in 2011 was the accuracy of CSRs answers. As shown in table 2, IRS's accuracy rate estimates for CSR answered calls remained well over 90 percent. In the past we have reported that IRS officials attribute these high accuracy rates to automated interactive tax law assistance tools that CSRs use to provide answers to taxpayers.²² IRS also attributes the high accuracy rate to the use of contact analytics—a tool used to identify reasons why taxpayers call IRS and evaluate how CSRs interact with taxpayers.

Key to improving telephone access, given the high volume of taxpayers calling the IRS and resource constraints, is shifting as many calls as appropriate to self-service tools, such as interactive automated telephone lines or the IRS website. Providing automated answers to taxpayer questions reduces the demand to speak to a CSR and also reduces IRS's costs. In 2011, through June 30, CSRs answered over 22 million calls at a cost of about \$30 per call, for a total of about \$660 million. Conversely, IRS said this year it cost \$0.36 to answer an automated phone call.

We identified two types of calls that could likely be answered through automation, but are instead answered by CSRs—calls about the status of amended tax returns and callers asking for the location of a TAC or VITA site.

Generally, taxpayers checking on the status of their tax refunds can either call IRS's toll-free refund automated line or go to IRS.gov to use the

²¹Full-time equivalent is a measure of the staff hours equal to those of an employee who works 40 hours per week in 1 year.

²²GAO, *2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved*, [GAO-10-225](#) (Washington, D.C.: Dec. 10, 2009).

Where's My Refund online self-service tool. However, taxpayers who filed an amended return must speak to a CSR.

Last year, IRS assessed the need to create an automated telephone line that gives taxpayers the status of their refund if they filed an amended return, similar to the current *Where's My Refund* automated line. IRS officials do not track the exact number of calls they receive related to amended returns, but believe it to be a significant number. IRS received over 4.3 million amended returns in fiscal year 2011 alone, and according to IRS's assessment, an automated self-service tool for checking on the status of a refund from an amended return could potentially serve as many as 5 million taxpayers annually.²³ IRS officials acknowledged that creating this line would free up CSRs to answer other lines, and submitted an internal request to create such an automated line to allow taxpayers to determine the status of their amended return refund, which has yet to be funded. IRS officials were uncertain exactly how much it would cost to develop the line but said that it would probably cost less than \$1 million.

In addition, from January 1 through June 30, 2011, CSRs answered over 60,000 calls from taxpayers inquiring about the location of a TAC or VITA site. During the same time period last year, IRS received over 35,000 calls to the lines and, in 2009, IRS received more than 60,000 calls to these lines. However, IRS does not have an automated telephone line for those taxpayers to call. As a result, taxpayers must go online or call IRS and wait to speak to a CSR.

Without offering an automated phone line for taxpayers inquiring about the status of their amended return or the location of a TAC or VITA site, CSRs will continue to answer calls that could be addressed through automation. In determining whether to create additional automated lines and which lines to prioritize, IRS would need to compare the up-front costs associated with creating such applications with the projected benefits over time. IRS is unsure how much it would cost to automate the amended return telephone line, but IRS's preliminary estimates suggest that the benefits may outweigh the cost. IRS officials acknowledged they have not determined whether the cost of automating the TAC and VITA

²³According to IRS, on the basis of a sample of 300 refund-related calls, about 10 percent related to amended returns.

locator lines would be worth the benefits. As a result, IRS may be missing opportunities to provide taxpayers with more self-service tools, save resources, and provide better access to taxpayers.

IRS Has Received about the Same Amount of Paper Correspondence as in 2010, but Overage Paper Correspondence Increased

Managing the trade-offs between responding to paper correspondence and providing live telephone service illustrates the challenges IRS faces in improving taxpayer service. In 2011, IRS dedicated about 4,700 FTEs to providing paper correspondence. We previously reported that the age of taxpayer paper correspondence had risen steadily since 2005, and recommended that IRS establish a performance measure that includes providing timely correspondence service to taxpayers.²⁴ IRS agreed, but the recommendation has not been fully implemented. Table 3 shows that the overall amount of paper correspondence is about the same as last year and the percentage of overage inventory (paper correspondence older than 45 days) increased again in 2011. The volume and percentage of overage paper correspondence further highlight the need to provide additional automated services and maximize resources.

Table 3: IRS Taxpayer Correspondence Performance, Fiscal Years 2005 through 2011

	Fiscal year							Percent change from fiscal year 2010 to 2011 ^a
	2005	2006	2007	2008	2009	2010	2011	
Correspondence received (in millions) ^b	15	15	16	18	19	20	20	0
Average percentage of taxpayer correspondence overage ^c	12	17	17	23	25	27	35	30

Source: GAO analysis of IRS data.

Note: Aggregate data are from Accounts Management and Submission Processing, which jointly respond to IRS's taxpayer correspondence.

^aNumbers in the table are rounded, but percentage change was calculated using exact values.

^bData cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

^c2005 through 2008 data do not include overage data for correspondence processed by submission processing as submission processing began tracking overage data in 2009.

²⁴GAO-11-111.

IRS Continues to Implement Programs to Improve Service at TAC and VITA/TCE Sites

Although far fewer taxpayers visit TAC and volunteer sites than call IRS or use its website, these sites represent an important service. As of April 30, 2011, IRS received 2.85 million taxpayer contacts at its 401 TACs, compared to about 2.78 million contacts during the same period last year. The accuracy of accounts and tax law assistance provided at TACs stayed about the same as last year, as table 4 shows.

Table 4: IRS Walk-in Site Accuracy, 2008 through 2011 (in percent)

	2008 actual	2009 actual	2010 actual	2011 actual	2011 goal
Accounts assistance	85 +/-2.30	86 +/-1.93	91 +/-1.66	89 +/-1.42	91
Tax law assistance	66 +/-2.73	76 +/-1.97	81 +/-1.83	82 +/-1.50	82
Return preparation assistance	n/a	n/a	82 +/-3.82	82 +/-2.95	84

Legend: n/a = not applicable.

Source: GAO analysis of IRS data.

Note: Actual data are from January 1 through April 30. IRS does not have comparable accuracy data available for the years prior to 2008.

IRS is implementing service improvements, including self-service tools, at TAC sites intended to increase access, reduce wait time, and extend the effectiveness of its employees. IRS expanded its pilot program of extended Saturday and evening hours to 36 TACs to increase taxpayer access. IRS officials said they would like to expand this program but need to renegotiate a letter of understanding with the National Treasury Employees Union so they can adjust employee schedules without incurring overtime costs. To reduce wait time and improve customer service, IRS officials told us there were 100 Facilitated Self Assistance kiosks located at 37 TAC sites to encourage clients with less complex questions to use them. For 2011, the number of taxpayer contacts at the TAC kiosks more than doubled to about 21,500 from about 9,550 in 2010.

For 2012, as part of IRS's efforts to increase self-service and improve the productivity of its employees, IRS is piloting a virtual assistance program at 12 TACs that would allow employees to interact with walk-in clients through a video terminal at other sites when the employee is not occupied

at their home site. Also beginning in 2012, IRS will be able to measure wait time at TAC sites on a nationwide basis.²⁵

Highlights of VITA/TCE site performance include the following:

- The number of volunteers at VITA/TCE sites increased slightly to over 88,500, up from about 87,600 last year.
- Volunteers prepared 3.2 million tax returns, up from 2.9 million last year.
- Return preparation accuracy by volunteers increased to 87 percent, a gain from 85 percent in 2010.²⁶
- IRS placed employees at 31 VITA sites to assist with return preparation and answer questions from about 6,800 taxpayers, up from 27 sites and about 5,500 taxpayers in 2010. Due to budgetary constraints, IRS does not plan to expand the number of IRS employees or sites supported in 2012.

IRS is supporting its volunteer site partners as they work with taxpayers to promote financial education and asset building, which includes efforts to bring taxpayers without a bank account into the banking system. The number of taxpayers requesting direct deposit at VITA sites has risen in each of the last 5 years, and by a total of about 50 percent since 2007 (from about 970,000 in 2007 to about 1.5 million in 2010).²⁷ Later in this report, we discuss the options available for taxpayers, particularly those without bank accounts, to receive refunds.

²⁵Currently, IRS can measure wait time at certain TAC sites but not on an aggregate level nationwide. IRS officials said that they generally tried to serve 80 percent of taxpayers within 30 minutes of arriving at a TAC site.

²⁶Return-preparation accuracy is a measure of the accuracy of volunteer return preparation at volunteer sites and compliance with IRS's return-preparation procedures. This measure is an indication that tax law is being applied properly to critical items on tax returns, resulting in the proper application of tax law and the correct determination of tax obligations.

²⁷According to IRS, the number of taxpayers requesting direct deposits is a good measure of the success of the financial education and asset building program at bringing taxpayers who visit VITA sites into the banking system because it is a potential indicator that taxpayers are opening bank accounts and entering the banking system.

Website Use Continues to Grow, but IRS Does Not Have a Comprehensive Internet Strategy

Visits to IRS's website (www.irs.gov) and the use of self-service tools continue to increase since last year, as table 5 shows.

Table 5: Website Use from 2007 through 2011

	2007	2008	2009	2010	2011	Percent change from 2010 to 2011 ^a
Total visits (in millions)	168	292	235	239	250	4
Downloads (in millions)	121	136	137	157	166	6
Searches (in millions) ^b	106	125	263	277	312	13
Volunteer site list (in thousands) ^c	n/a	n/a	n/a	48	152 ^d	214 ^e
Self-service tools						
<i>Where's My Refund?</i> (completions in millions)	31	38	53	64	73	15
Electronic Filing Pin Request (completions in millions)	n/a	n/a	n/a	5	10	112
Online Payment Agreement (completions in thousands)	13	19	34	43	26 ^f	-39
Interactive Tax Assistant Tools (completions in thousands)	n/a	n/a	n/a	42 ^g	164 ^h	n/a ⁱ

Legend: n/a = not applicable.

Source: GAO analysis of IRS data.

Notes: Data are from January 1 to July 31 for all years unless otherwise noted.

^aNumbers in the table are rounded, but percentage change was calculated using exact values. Therefore, in some cases, the percentage change is slightly different than it would be if it were calculated using the rounded values in the table.

^bPage views; includes both successful search results and search results not found.

^c2010's listing was on 1 page, with an index at the top. This year's listing has been split into 52 pages; one for each state, the District of Columbia, and Puerto Rico.

^dData are through June 30, 2011.

^ePercent change was calculated using 2011's rounded value.

^fThere was a programming error that led to a decrease in the number of completed agreements.

^gData are from March 7 through July 31, 2010.

^hData are from January 2 through July 30, 2011.

ⁱIRS did not introduce interactive tax assistance tools until March 2010, and IRS added more such tools for 2011. As a result, the time frames and available services are not comparable.

IRS officials believe that the increase in the use of the search tool over the years is due in part to site visitors not being able to easily locate the

information they are seeking. IRS acknowledged that the existing manner in which IRS manages content on its website contributes to more searches because of duplicative and outdated information. Currently, content is developed on IRS's website by about 300 employees throughout IRS, and Content Area Administrators provide oversight. In September 2011, IRS developed a draft business case for a new content management strategy that is expected to significantly reduce duplication and greatly improve user search results. According to IRS, centralizing certain elements of content management is a key piece of its Internet strategy, and removing old content should make the site more efficient and improve content consistency, quality control, and the user experience.

IRS Is Developing an Internet Strategy, but Fundamental Elements Are Missing

As we noted earlier, IRS has begun spending a planned \$320 million on its website over a 10-year period.²⁸ IRS awarded the contract for the new website in August 2011 and has begun developing the website, which it plans to introduce in 2013. IRS's investment plans include, among other things, introducing new, more secure portals for taxpayers to access information. However, IRS does not have concrete plans that define what additional online services the new website will ultimately provide and how much the services will cost. To their credit, IRS officials have begun developing a roadmap that identifies some online services they would like to provide, and IRS has periodically added new online services in the past. However, the roadmap omits several fundamental elements. For example, it does not include an assessment of the costs and benefits for new services identified, time frames for when these online services would be created and available for taxpayer use, or specific plans to periodically revisit the strategy and make revisions based on IRS's priorities. Online tools, much like automated telephone lines, are a partial substitute for calling IRS and perhaps speaking to a CSR. The extent to which taxpayers can be diverted to the web will allow IRS to assist them at a much lower cost and more quickly.

²⁸IRS reported that about \$68 million of this is for new investments in the website and the rest is for annual costs, such as operations and maintenance.

Federal guidance suggests that a strategy to guide website development within an agency is important.²⁹ For example, the guidance states that

- a strategic plan is an essential part of web management;
- performance goals and time frames are necessary elements to be included within the strategic plan;
- cost estimates are necessary to support decisions about funding one program over another, evaluate resource requirements at key decision points, and develop performance measurement baselines; and
- agencies should also revisit plans periodically and update them to reflect changes in priorities and capabilities.

Recent organizational changes within IRS, including the addition of a Director of Online Services at the agencywide level and a reorganization of IRS's online management team, offer opportunities to develop a more comprehensive approach to website development. The Director of Online Services told us that he plans to further develop the strategy based on taxpayers' needs and develop online services in an iterative manner. However, IRS has not yet developed an initial schedule for implementing online services and it is not clear the IRS plans to develop a more comprehensive Internet strategy.

Without a comprehensive Internet strategy in place that IRS revisits on a regular basis, IRS risks not getting the greatest possible benefits from the \$320 million and any additional funding for online services that it proposes to spend. In addition, taxpayers and Congress do not have complete information about the online services IRS intends to provide in return for making these investments.

²⁹We identified these criteria by reviewing Howto.gov, a federal website managed by the General Services Administration that compiles information on best practices for managing government websites; the Government Performance and Results Act Modernization Act of 2010; and GAO's Cost Estimating and Assessment Guide. See, GAO, *Cost Estimating and Assessment Guide*, [GAO-09-3SP](#) (Washington, D.C.: March 2009).

Federal Taxpayers Are Unable to Access Account Information Online

Unlike online services offered by two states we identified, taxpayers who visit IRS's website cannot view and update personal tax account information online.³⁰ Online services are a substantially less expensive means for IRS to conduct business with taxpayers compared to telephone or paper correspondence, making it important for IRS to promote interactive website services.³¹ Table 6 compares online services offered by tax agencies in New York and California compared to IRS. New York and California state tax officials said they expect taxpayers to increasingly transition from the phones to the web for information, driving down their operating costs. In addition, officials from New York also reported that the anticipated savings greatly outweigh the up-front costs in their case.³²

Table 6: Comparison of IRS, New York, and California Interactive Online Services

Online service	IRS	New York	California
View tax account balance and recent payments		√	√
Make extension payments		√	√
Respond to department notices		√	√ ^a
Order tax return or tax account transcript	√		
Estimate personal tax account payment		√	√
Determine eligibility for tax credits ^b	√	√	√
Pay taxes online	√	√	√
Check the status of a refund online	√	√	√
Change taxpayer address		√	√

Source: GAO analysis of IRS, New York, and California data.

Notes: This is not a complete list of services available on IRS, New York, and California tax websites.

^aCalifornia provides taxpayers with the ability to respond to a limited set of notices.

^bTaxpayers can determine their eligibility for a limited number of tax credits using these web features.

³⁰Viewing and updating personal account information includes, for example, the ability to view tax account balance and recent payments.

³¹Other countries, such as Finland, have implemented online services that provide taxpayers with information on their tax accounts. Providing enhanced electronic services has been widely recognized in Finland as an approach for improving taxpayer service while reducing costs. See, GAO, *Tax Administration: Information on Selected Foreign Practices That May Provide Useful Insights*, GAO-11-439 (Washington, D.C.: May 24, 2011).

³²State officials we interviewed also said they expect to see a shift in call volume from tax-specific calls to account registration questions, which one state believes are easier calls to handle and take less time than more complex calls about account information.

According to IRS officials, they have not allowed taxpayers to view and update elements of their personal tax account online because of outdated technology and federal regulations requiring secure access to account information.³³ However, IRS has recently taken steps that may allow it to meet federal requirements for electronically authenticating (e-authenticating) users online so that taxpayers can access information securely. By 2013, IRS plans to have online security features in place that would allow taxpayers to access more account information online.³⁴ Nevertheless, IRS has not assessed the need for allowing taxpayers to view and update elements of their personal account information online nor has it conducted an assessment of the risks associated with doing so—all of which could be completed in conjunction with the development of a more comprehensive Internet strategy discussed above. Without making these determinations, IRS is missing opportunities to reduce costs and provide the most beneficial online services to taxpayers.

³³According to National Institute of Standards and Technology Special Publication 800-63 and Office of Management and Budget Circular 04-04, federal agencies are required to develop security features that allow people to access information based on the level of risk associated with information being accessed.

³⁴On February 1, 2010, IRS's Privacy Office approved the use of e-authentication—the process of confirming an online user's identity when he or she electronically attempts to log in to a remote information system. IRS plans to deliver the first release of e-authentication in July 2012, which is expected to provide level-two identity proofing, which, according to industry standards, would require users to input their username and password to access secure information online. IRS officials told us that they are in the planning stages for level-three authentication, which allow users to access information with higher risks associated.

Expanding Prerefund Compliance Checks Appears Feasible, but Depends on System Upgrades and Process Changes

In April 2011, the Commissioner of Internal Revenue said that IRS should develop a long-term vision to perform more prerefund checks of returns by requiring earlier submission of information provided by third parties to match the data with taxpayer returns.³⁵ He acknowledged that implementing such a strategy would require a fundamental shift in how IRS conducts its business and would likely need to take place over a significant period of time. In more recent remarks in October 2011, the Commissioner stated that after conducting an initial review of the steps IRS would need to take to achieve his long-term vision, he believes that implementing the vision may be even more feasible than initially thought.

Figure 2 illustrates IRS's current prerefund process for e-filed and paper returns. As we mentioned earlier, the key information systems that support the process are further outlined in appendix III.

³⁵IRS, *Prepared Remarks of IRS Commissioner Doug Shulman at the National Press Club* (Apr. 6, 2011).

Interactive graphic

Figure 2: IRS Processes for Conducting Prerefund Compliance Checks on Tax Returns for 2011 Filing Season

Directions:

[[Click](#) ] tabs below to see IRS processes for conducting prerefund compliance checks for all individual tax returns, electronically filed tax returns only, and paper filed tax returns only.

Source: GAO analysis of IRS information.

As IRS develops this strategy, it is also undertaking shorter-term initiatives, including upgrading information systems, expanding data collection, and identifying areas where it could use additional MEA or make changes to existing processes to enhance prerefund compliance checks.

- **Upgrading Information Systems:** In 2012, IRS plans to implement IMF daily processing and, in 2013, to make MeF the sole system for accepting electronic returns, and transition to CADE 2 for returns processing at a future date. IRS also plans to replace the EFDS—which applies specific fraud criteria to tax returns filed with the IRS to identify questionable tax returns with refunds—with RRP. RRP is a more modern database that IRS views as a critical piece in its prerefund compliance activities because it will allow IRS to more effectively identify fraudulent schemes early in the filing season. Although IRS believes that EFDS is obsolete and too risky to maintain past 2014, procurement delays and a change in vendors will likely result in extending the implementation of RRP beyond 2014. We plan to further assess RRP’s progress as part of our annual budget and information systems reviews.
- **Expanding Data Collection:** We reported earlier that IRS does not transcribe all data from paper filed returns due to cost constraints.³⁶ As IRS only runs automated compliance checks on data present in both e-filed and transcribed paper returns, the amount of data for enforcement activities is limited. In October 2011, we reported that because an increasing percentage of returns are e-filed, IRS could be at the point where the benefits of digitizing additional data from paper returns are greater than costs.³⁷
- **Identifying Additional MEA or Process Changes:** IRS works with Treasury on a case-by-case basis to identify areas where it may need MEA. Although we have suggested that granting IRS broader MEA would help ensure compliance before refunds are issued, we recognize that MEA may not always be the most effective or appropriate prerefund compliance tool (see apps. I and II for a list of current and proposed MEA for IRS). For example, in our October 2011 report on IRS’s administration of the adoption tax credit, we

³⁶GAO-12-33.

³⁷GAO-12-33.

recommended that IRS determine whether existing processes could be used to reduce the number of costly audits conducted rather than obtain MEA.³⁸

Although these short-term efforts to enhance prerefund compliance checks are important, the potential long-term benefits of matching information provided to IRS by third parties to tax return data during the filing season may generate benefits to taxpayers and IRS that far exceed those from current prerefund compliance checks.

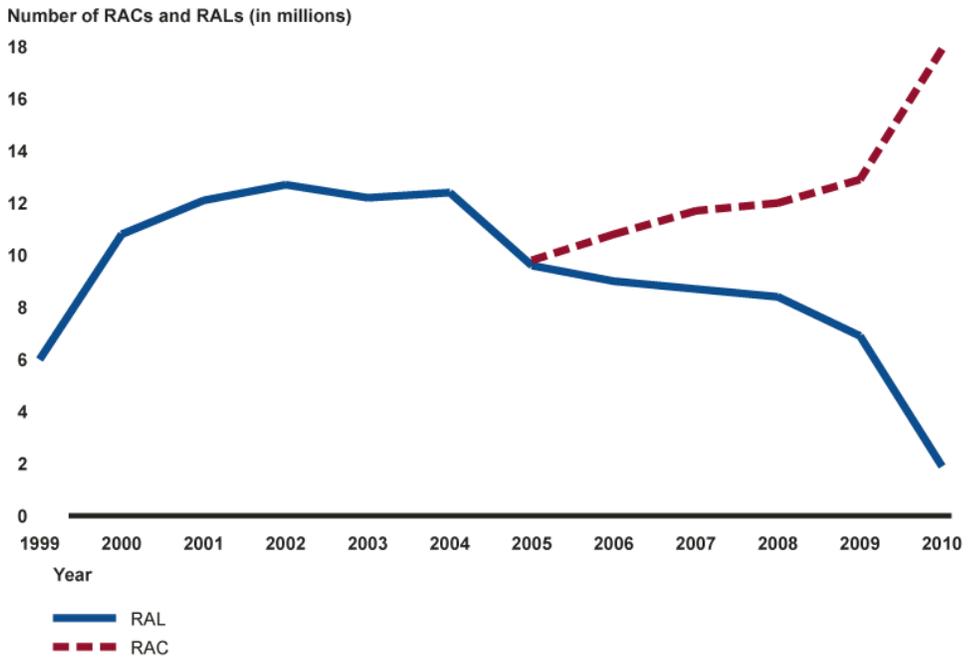
RACs Have Largely Replaced RALs, and Treasury Is Continuing to Study Alternatives for Providing Refunds

In 2010 (the last year with data available), RACs greatly outnumbered RALs, 18 million to 2 million, as shown in figure 3. Since 2005 the total number of RACs and RALs issued has not changed much but the distribution has.³⁹

³⁸GAO, *Adoption Tax Credit: IRS Can Reduce Audits and Refund Delays*, [GAO-12-98](#) (Washington, D.C.: Oct. 20, 2011).

³⁹In 2011, IRS eliminated allowing return preparation companies to view the debt indicator that allowed the preparer to observe whether taxpayers had other debts to the federal government and would likely receive the full anticipated refund from IRS. As a result, most banks stopped funding RALs this year when banking regulators determined them to present too much risk to participating banks.

Figure 3: Number of RACs and RALs, 1999-2010



Source: GAO analysis of Urban Institute and IRS data.

Note: Data on the number of RACs are not available before 2005.

Although less is known about RACs than controversial RALs, some have expressed concerns that RACs have similar features to RALs and are used by the same categories of taxpayers. For example, consumer advocacy groups have noted that the fees associated with a RAC may be high, lack transparency, and taxpayers may not always fully understand the refund product to which they are agreeing—similar to concerns previously raised with respect to RALs.⁴⁰ A 2010 Urban Institute report developed at the request of Treasury noted that RAC and RAL usage is common across similar population groups. For example, RAC and RAL usage is highly concentrated in America’s poorest communities, and RAC and RAL users frequently do not have bank accounts to receive direct deposits. RAC and RAL users also tend to be similar to consumers of other alternative financial services, including pawnshop loans and payday

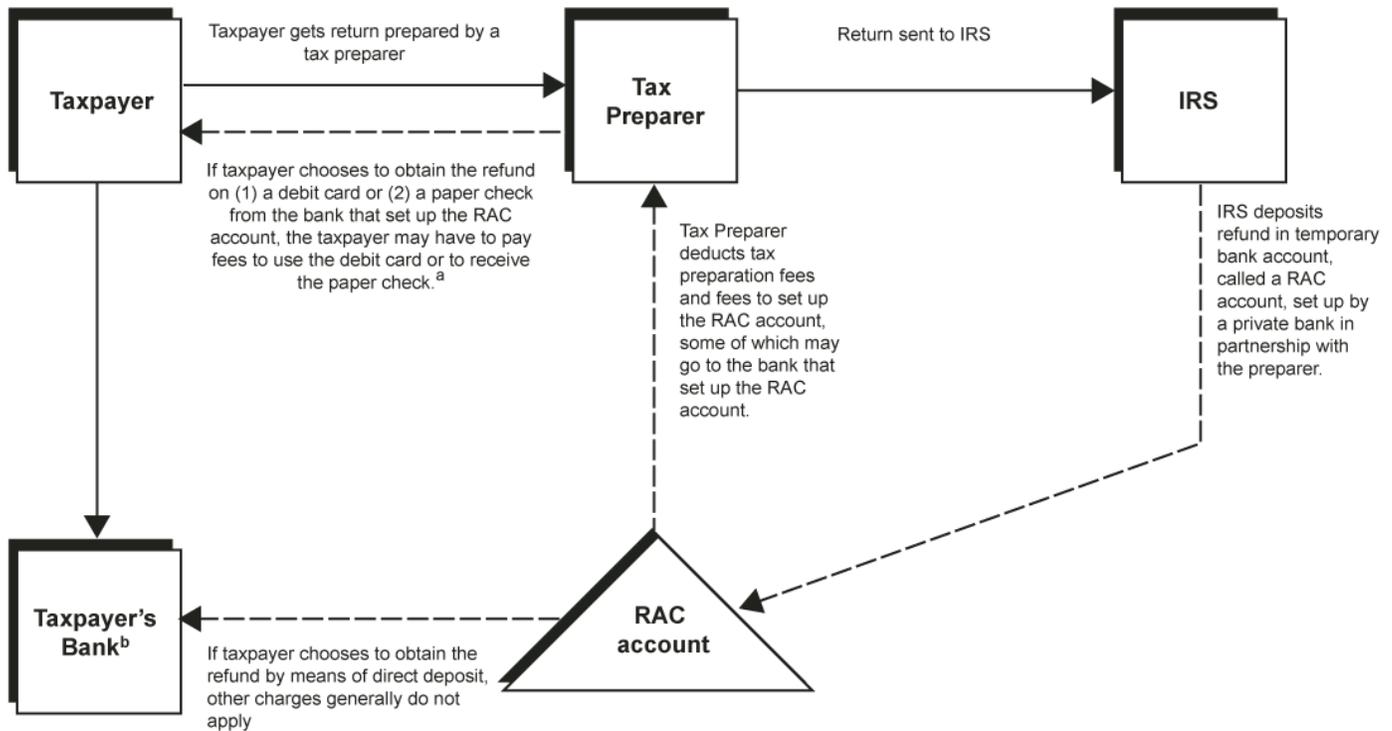
⁴⁰National Consumer Law Center, *End of the Rapid Rip-Off: An Epilogue For Quickie Tax Loans* (February 2011).

loans.⁴¹ The high use of RACs and RALs in low-income areas may be explained, in part, by the fact that allowing the return preparer to deduct tax preparation fees from the refund (as opposed to being paid for out-of-pocket when the return is prepared) is the primary benefit of a RAC.

The total average cost of a RAC is difficult to calculate because pricing varies considerably across providers, and fees beyond the flat fee for setting up the RAC account are difficult to calculate. Figure 4 provides an example of potential fees incurred by taxpayers when filing a return and receiving a refund through a RAC. For example, most tax preparers we observed charge a flat fee of about \$30 to \$35 for setting up a RAC account. Tax preparers may also charge an additional fee for issuing a paper check and taxpayers may incur fees when using debit cards supplied by tax preparers. In addition, preparers charge standard fees for tax preparation, including for document preparation and e-filing. Taxpayers may also incur other fees not charged by the preparer, such as check-cashing fees.

⁴¹Urban Institute, *Who Needs Credit at Tax Time and Why: A Look at Refund Anticipation Loans and Refund Anticipation Checks* (Washington, D.C.: November 2010).

Figure 4: Example of How a Taxpayer Receives a RAC and When Fees May Be Incurred



Source: GAO analysis.

^aTaxpayers with bank accounts can generally cash or deposit their refund check without charge. If not, they may use an alternative provider and pay a fee to have check cashed.

^bMany taxpayers who receive RACs may not have bank accounts, which is one of the primary reasons they request their refund by means of a debit card or a paper check.

Despite the fact that many taxpayers still need to pay for tax preparation services out of their refunds, the fees associated with RACs and the concerns noted above raise questions about whether taxpayers understand the benefits and all the fees of RACs. Federal rules require tax preparers to inform taxpayers that they are receiving a RAC or a RAL, and some states have issued additional regulations requiring more disclosures that must be provided to taxpayers when signing up for a RAC. For example, Arkansas, California, Maine, and Maryland require preparers to post a RAL and RAC fee schedule.

One step that could help taxpayers make more informed decisions about RAC use is improving the relevance of IRS's refund timeliness performance measure, which we previously discussed. A refund

timeliness measure that gave taxpayers a clearer picture of how long it normally takes to get a refund from IRS could help them decide whether it is worth paying RAC fees.

Treasury and IRS Are Exploring Lower-Cost Options to Deliver Refunds to Taxpayers

In part to address concerns about costly refund delivery mechanisms, in January 2011 Treasury launched a pilot program that offers low- and medium-income taxpayers the option to receive their federal tax refund on a debit card, which could be delivered to taxpayers more quickly and at a lower cost to IRS. In part, the program was intended to measure whether providing such options to taxpayers would reduce reliance on costly refund products and offer safer and more secure refunds to taxpayers without bank accounts. Treasury designed the program to test a variety of fee structures and marketing techniques to determine whether taxpayers would likely use the cards if the program were expanded on a national basis.⁴² The preliminary results indicate that taxpayers are most sensitive to pricing of a refund debit card, opting for the card with no fees the most frequently. The Urban Institute is working on the final assessment of the Treasury program, which is scheduled to be released in December 2011.

According to a Treasury official, because the program was a pilot to test taxpayers' responsiveness to different debit card offers, Treasury does not expect to continue the program in 2012. However, it is exploring other options to test out products in future filing seasons. Treasury is also determining whether refunds could be deposited on Direct Express cards—cards on which citizens already receive federal benefit payments—at a future date.

Separately, IRS is trying to encourage taxpayers who may not have an account at a bank or other financial institution to receive their refunds through direct deposit on a debit card issued by one of IRS's four national bank partners.⁴³ In 2011, refunds on debit cards were available at all VITA sites and IRS's national banking partners issued just over 6,000 prepaid cards—a small percentage of potentially eligible taxpayers. In

⁴²Treasury extended eight different offers to evaluate different program structures.

⁴³IRS facilitates the relationship between national bank partners and volunteer site partners interested in offering the debit cards at their sites. According to IRS officials, other than bringing banks and volunteer site partners together, IRS has no direct role in promoting or facilitating the distribution of debit cards at sites.

August 2011, IRS completed a study to determine how to appropriately market debit cards and other services provided at VITA sites. IRS concluded that, among other things, low-cost options, such as continuing to work through VITA/TCE partners to promote the cards, exist to increase the use of debit cards at VITA/TCE sites.

IRS officials anticipate that these two efforts may result in reduced taxpayer use of RACs and RALs by providing taxpayers without bank accounts a low-cost or no-cost option to receive refunds quickly.

Conclusion

IRS is processing tax returns in a rapidly changing environment. In 2011, IRS met a number of its filing season performance goals, and e-filing increased to nearly 80 percent—a target that IRS has worked to reach over more than a decade. Moving forward, new systems, including CADE 2 and MeF, should allow IRS to issue refunds much more quickly and provide other benefits. In this context, opportunities exist for IRS to revisit how it measures its performance in processing tax returns and refunds and make related goals more meaningful.

The continued low level of telephone service combined with the high cost of assistor answered calls highlights the importance of implementing additional self-service tools for both IRS's telephones and its website. This is especially important in an era of tight budgets when federal agencies will be expected to do more with less. By developing an Internet strategy and implementing e-authentication, IRS is taking important steps to identify and provide additional online services, including starting to spend a planned \$320 million on its website over 10 years. However, developing a more comprehensive strategy should help ensure that IRS gets the most benefit for taxpayers from this investment.

Recommendations for Executive Action

We recommend that the Commissioner of Internal Revenue take the following four actions:

- develop a new refund timeliness measure and goal to more appropriately reflect current capabilities;
- offer an automated telephone line that gives taxpayers the status of their amended tax return, unless IRS has a convincing cost-benefit analysis to suggest that the costs exceed the benefits;
- assess the costs and benefits of automating the TAC/VITA location telephone lines, and automate these lines if the benefits exceed the costs; and

-
- complete an Internet strategy that
 - provides a justification for the implementation of online self-service tools and includes an assessment of providing online self-service tools that allow taxpayers to access and update elements of their account online;
 - acknowledges the cost and benefits to taxpayers of new online services;
 - sets the time frame for when the online service would be created and available for taxpayer use; and
 - includes a plan to update the strategy periodically.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue. In written comments on a draft of this report (which are reprinted in app. VIII) the IRS Deputy Commissioner for Services & Enforcement agreed with three of our four recommendations.

IRS agreed that automating the ability to locate TAC and VITA sites could enhance service and convenience, but said that resources are not currently available to support it. We acknowledge that IRS is facing tough choices in an environment of constrained resources. However, we recommended that IRS assess the costs and benefits of automating the TAC/VITA location telephone lines, and automate these lines if the benefits exceed the costs. Since 2007, IRS telephone service has continued to suffer and we believe that a rigorous assessment of the costs and benefits of automating the TAC/VITA telephone line will give IRS better information on how to allocate scarce resources.

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. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or 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 key contributions to this report are listed in appendix IX.

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

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: IRS's Existing Math Error Authorities

Table 7 summarizes the Internal Revenue Service's (IRS) 13 areas of existing math error authority (MEA). As early as the first codification of the Internal Revenue law in 1926, Congress granted IRS MEA so that IRS does not have to provide taxpayers with a statutory notice of deficiency for math errors. A 1976 statutory revision defined the authority to include not only mathematical errors, but other obvious errors, such as omissions of data needed to substantiate an item on a return, and provided a statutory right to file a request for abatement of the assessment within 60 days after the notice is sent. In the 1990s, Congress extended the authority multiple times, and more recently it has added other provisions to help determine eligibility for certain tax exemptions and credits, such as the First-Time Homebuyer Credit.

Table 7: IRS's Existing Math Error Authorities (MEA)

Number	Description
(1)	An error in addition, subtraction, multiplication, or division shown on any return.
(2)	An incorrect use of any table provided by IRS with respect to any return if other information in the return makes the incorrect use apparent.
(3)	An entry on a return of an item that is inconsistent with another entry of the same or different item on that return.
(4)	An omission of information that is required to be supplied on the return to substantiate an entry on that return.
(5)	An entry on a return of a deduction or credit in an amount that exceeds the statutory limit for that deduction or credit, if that limit is expressed as a specific monetary amount or as a percentage, ratio, or fraction, and if the component items of that limit appear on the return.
(6)	A correct Taxpayer Identification Number (TIN) not provided on the return as required. <ul style="list-style-type: none"> • Earned Income Tax Credit (EITC), • child and dependent care credit, • personal or dependent exemption, • child tax credit, or • Hope and Lifetime Learning credits.
(7)	A return claiming an EITC for net earnings from self-employment, where the self-employment tax imposed by IRC § 1401 on those net earnings has not been paid.
(8)	An omission of information required for recertification of eligibility for the EITC.
(9)	An entry on the return of a TIN required for the EITC, the child credit, and the child and dependent care credit, when information associated with that TIN indicates the child does not meet the age eligibility requirements for those credits.
(10)	An entry on the return of a claim for the EITC where the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of that child.
(11)	A failure to reduce economic stimulus payment credit on a return related to the Economic Stimulus Act of 2008 by amounts previously advanced.
(12)	A failure to reduce the Making Work Pay credit by the amount of any payment received as a result of tax abatement resulting from the combat-related deaths of members of the Armed Forces, deaths of astronauts, and deaths of victims of certain terrorist attacks, or by the amount of any credit allowed under the American Recovery and Reinvestment Act of 2009; or a failure to submit a proper Social Security Number with the claim.

**Appendix I: IRS's Existing Math Error
Authorities**

Number	Description
(13)	A claim for the First Time Homebuyer Credit where the taxpayer has not included the required settlement statement; or where other information indicates the taxpayer is under 18 years of age; or where information from the past 2 years of returns indicates ineligibility for the credit. Additionally, IRS may correct the return where the taxpayer has failed to include the increased tax required under the recapture provision for the credit, when applicable.

Source: GAO.

Appendix II: Status of Prior GAO Matters for Congressional Consideration and TIGTA Recommendations for MEA

For almost a century, Congress has been expanding the Internal Revenue Service's (IRS) math error authority (MEA) on a case-by-case basis. In 2010, we suggested that authorizing the use of MEA on a broader basis with appropriate controls to protect taxpayer rights could help IRS address compliance problems with newly created tax credits. In the absence of broader MEA, we have also suggested that Congress expand MEA for more limited purposes as shown in table 8. The Treasury Inspector General for Tax Administration (TIGTA) also made several recommendations to IRS to request expanded MEA from Congress.

Table 8: Status of Prior GAO and TIGTA Suggestions for Granting IRS MEA

Suggestion	Report and date	Disposition
GAO matter for congressional consideration		
Use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable.	GAO-11-481 March 29, 2011	Not as yet enacted
Broaden MEA so it is not restricted to a case-by-case basis, with appropriate safeguards against misuse.	GAO-10-349 February 10, 2010	Not as yet enacted
Use prior years' tax return information to automatically verify taxpayers' compliance with the number of years the Hope credit can be claimed.	GAO-10-225 December 10, 2009	Not as yet enacted
Use prior years' tax return information to automatically verify compliance with the 2008 First Time Homebuyer Credit payback provision and ensure that homebuyers do not improperly claim the credit in multiple years.	GAO-09-1026 September 23, 2009	Enacted 2009 in Public Law 111-92
Use MEA to identify and correct returns with ineligible Individual Retirement Account "catch-up" contributions and contributions to traditional Individual Retirement Accounts from taxpayers over age 70½.	GAO-09-146 December 12, 2008	Not as yet enacted
TIGTA recommendation to IRS		
Require taxpayers to provide documentation to support eligibility for all refundable tax credits and seek legislation that would provide the IRS with MEA to deny refundable credits when supporting documentation is not provided.	2011-41-035 March 31, 2011	Not as yet enacted
Work with the Department of the Treasury to make a request for MEA from Congress to deny adoption credits if documentation is not provided.	2011-40-032 March 31, 2011 ^a	Not as yet enacted
Work with the Department of the Treasury, Office of Tax Policy, to obtain limited MEA so that the IRS can freeze refunds while contacting taxpayers with a questionable age for certain filing statuses, taxpayers shown as deceased based on Social Security Administration information, and taxpayers with questionable Earned Income Tax Credit (EITC) claims based on age difference.	2010-40-062 July 13, 2010	Not as yet enacted
Clarify whether IRS should require a valid Social Security number to pay refundable tax credits. If so, IRS should be granted MEA to disallow associated claims for the credits, such as the Additional Child Tax Credit.	2009-40-057 March 12, 2009	Not as yet enacted

Source: GAO and analysis of TIGTA data.

^aTIGTA issued an e-mail alert to IRS on October 29, 2010, advising them to seek MEA to deny adoption credits if documentation is not provided.

Appendix III: Key IRS Prerefund Compliance Check and Tax Processing Systems

Table 9 summarizes the key systems the Internal Revenue Service (IRS) uses to conduct prerefund compliance checks and process tax returns.

Table 9: Key IRS Prerefund Compliance Check Systems

System	Description
Generalized Mainline Framework (GMF)	Programs within the GMF perform validation, consistency, and math verification checks on tax return data. Paper return data are checked against National Account Profile data for the first time. Returns with errors are routed to the Input Corrections Operation. After processing, all returns go through the Dependent Database (DDb). Additionally, IRS sends all electronic returns and any paper filed return on which a taxpayer claimed a refund to the Electronic Fraud Detection System (EFDS).
Dependent Database (DDb)	DDb primarily matches dependents with filers, but IRS uses DDb's programming capability to create filters for other compliance checks, mostly for cases where IRS lacks math error authority. As part of preparing return data for posting to the Master File, IRS uses DDb to run validity checks on returns claiming the Earned Income Tax Credit (EITC), the First Time Homebuyers Credit, and other items. Generally returns go to compliance after the DDb check.
Electronic Fraud Detection System (EFDS)	EFDS applies specific fraud criteria to tax returns filed with the IRS to identify questionable tax returns with refunds. IRS plans to replace EFDS with the Return Review Program (RRP).
Error Resolution System (ERS)	ERS is part of the IRS Input Control Operation. ERS examiners check transcribed paper return data, verify and correct the errors, and send automatically generated MEA notices to taxpayers.
Return Review Program (RRP)	RRP is a modern relational database that can process returns faster, correct errors simultaneously rather than in series, and better adjust to changes in tax law and fraud patterns than EFDS. RRP was scheduled to come on line in 2014 but may be delayed.
Individual Master File (IMF)	IMF is the authoritative data source for individual tax account data. It is updated annually to incorporate new tax law procedures and changes and is critical to IRS's ability to process tax returns—all other IRS information system applications use IMF data. IRS plans to transition from IMF, a 1960s legacy system, to the CADE 2 database as part of upgrading its information systems in 2014.
Current Customer Account Data Engine (CADE)	IRS initiated the current CADE project in 1999 to replace its legacy data systems. Starting in 2005, CADE processed and recorded tax return and tax account information for millions of individual taxpayers with simple returns. But the development of the system took longer than anticipated, so IRS decided to review its information systems modernization efforts. IRS plans retired current CADE at the end of December 2011.
CADE 2 (beginning 2012)	CADE 2 is IRS's new program for replacing the IMF which it plans to implement in three phases. The CADE 2 database will be a modern relational database, which will house data on individual taxpayers and their accounts, allow IRS to issue refunds faster due to a daily rather than weekly processing cycle, and provide for the transfer of data from the database to downstream IRS financial, taxpayer service, and compliance systems.

Source: GAO analysis of IRS data.

Appendix IV: IRS's Processing Performance Relative to 2007 and 2011 Goals

As shown below in table 10, the Internal Revenue Service (IRS) met all of its processing performance goals in 2011.

Table 10: IRS Processing Performance, Fiscal Years 2007 through 2011

Measure name	Definition	Fiscal year					
		2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	2011 goal
Deposit error rate ^a	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted the overpayment credited to next year's tax bill	1.3% (+/- 0.22%)	1.1% (+/- 0.27%)	0.7% (+/- 0.20%)	0.4% (+/- .18%)	0.4% (+/- 0.13%)	1.0%
Deposit timeliness—paper—individual master file (IMF)	Interest foregone by not depositing monies the business day after receipt, per \$1 million in deposits. Measure assumes an 8 percent interest rate	\$331	\$290	\$204	\$213	\$98	\$213
Correspondence error rate (includes system errors) IMF ^{a, b, c}	The percentage of incorrect Submission Processing Masterfile notices and letters issued to taxpayers by the processing sites	4.3% (+/- 0.38%)	3.8% (+/-0.36%)	5.4% (+/-0.53%)	5.4% (+/-0.45%)	4.89% (+/- 0.50%)	5.4%
Refund error rate—individual (paper) (includes systemic errors) ^a	Percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name, Social Security number, or refund amount); includes systemic errors ^b	2.8% (+/- 0.36%)	3.4% (+/-0.52%)	2.0% (+/-0.33%)	1.4% (+/-0.28%)	1.10% (+/- 0.30%)	3.0%
Refund interest paid	Amount of refund interest IRS paid per \$1 million of refunds issued	\$39.60	\$24.16	\$15.36	\$44.12	\$14.04	\$52.00
Refund timeliness—individual (paper) ^a	Percentage of refunds issued within 40 days or less	98.9% (+/- 0.19%)	99.1% (+/-0.19%)	99.2% (+/-0.18%)	96.1% (+/-0.44%)	99.4% (+/- 0.15%)	97.0%

**Appendix IV: IRS's Processing Performance
Relative to 2007 and 2011 Goals**

Measure name	Definition	Fiscal year					
		2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	2011 goal
Productivity	Weighted volume of documents processed per staff year expended at the processing centers	34,313	37,624	47,259	47,208	45,617	44,935
IMF efficiency	Measure of Individual Master File returns processed per staff year expended	22,031	23,834	22,758	24,800	29,491	25,867

Source: GAO analysis of IRS data.

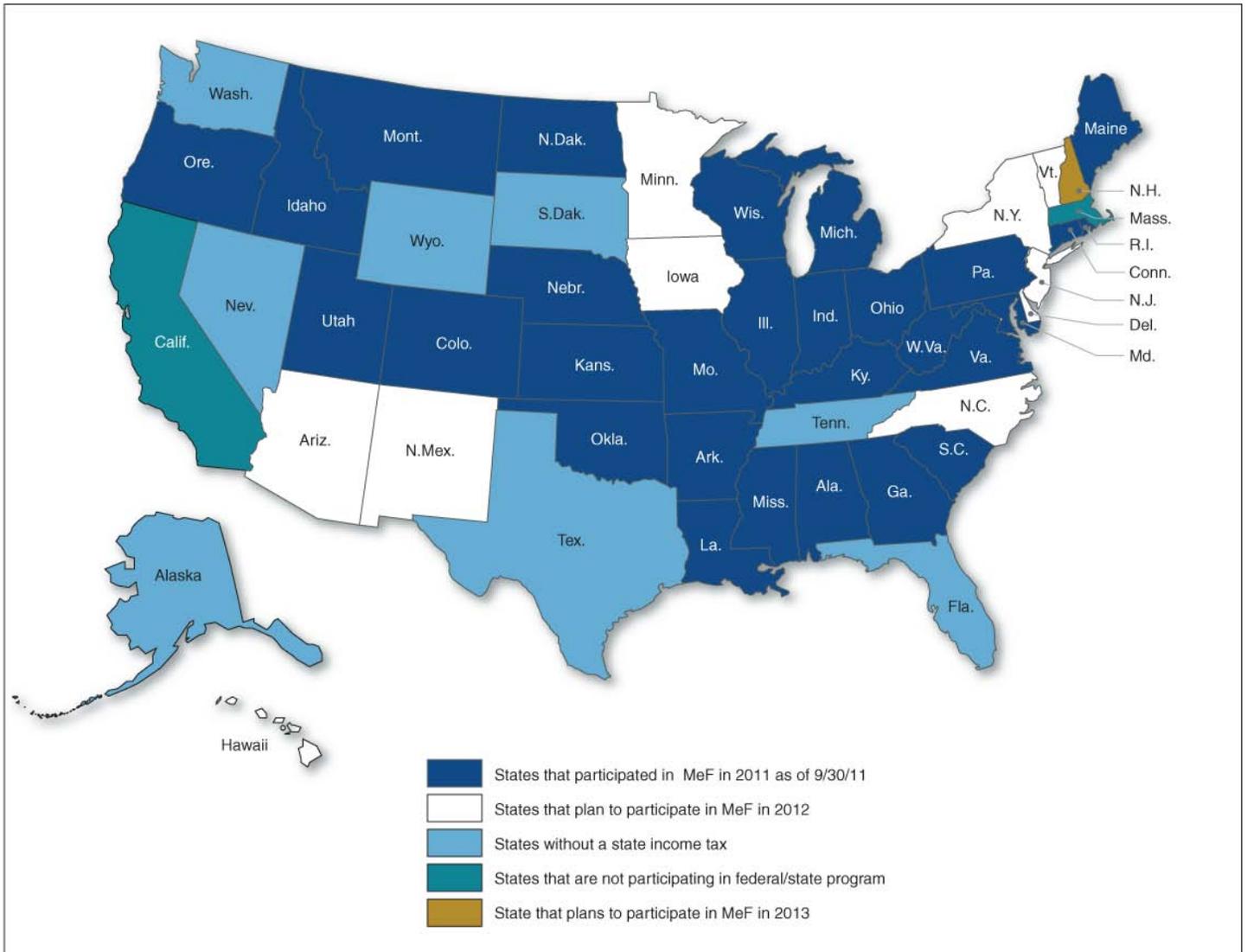
Note: Percentages are rounded to the nearest tenth.

^aWhere the estimates are the result of a probability sample, IRS has provided the margin of error based on a 95 percent confidence interval. See the +/- numbers in parentheses after the estimate.

^bThe reported Correspondence Error Rate result is a weighted combination of the results of the Letter and Notice Error Rate Measures. The weights are based on the actual volumes of letters and notices (as reported in letter and notice weighted reports).

^cSystemic errors are computer-generated errors over which a particular processing center would have no control.

Appendix V: Status of Modernized E-Filing (MeF) by State

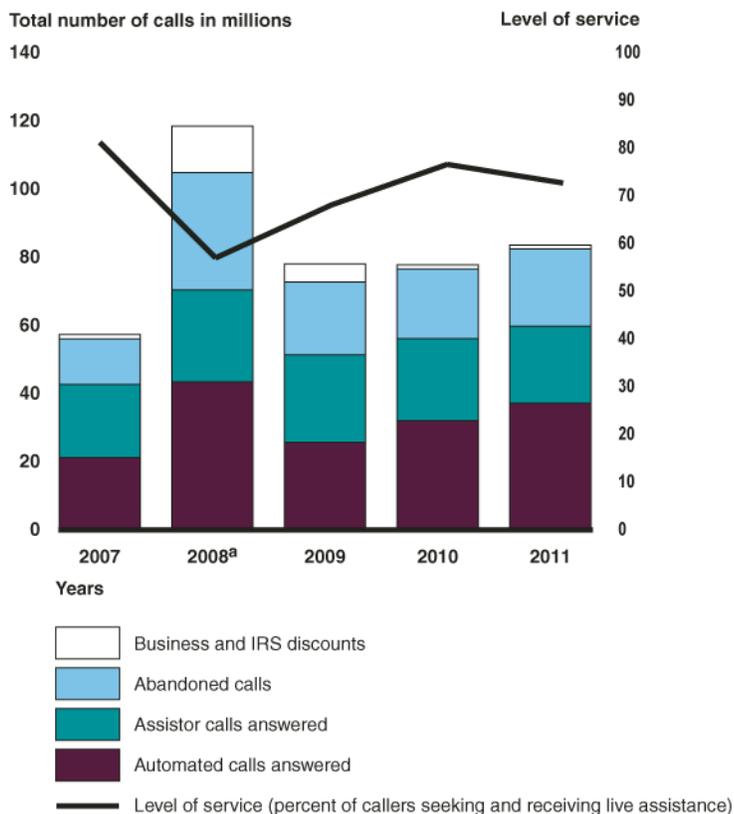


Source: GAO analysis of IRS data (data); map resources (map).

Appendix VI: Call Volume, Composition, and Level of Service, 2007 through 2011

The Internal Revenue Service (IRS) receives millions of phone calls each year, some of which are answered by live assistors and some of which are handled through automated services, as figure 5 shows. In 2011, IRS received 83 million calls as of June 30 compared to about 57 million through the same date in 2007.

Figure 5: Call Volume, Composition, and Level of Service, 2007 through 2011



Source: GAO analysis of IRS data.

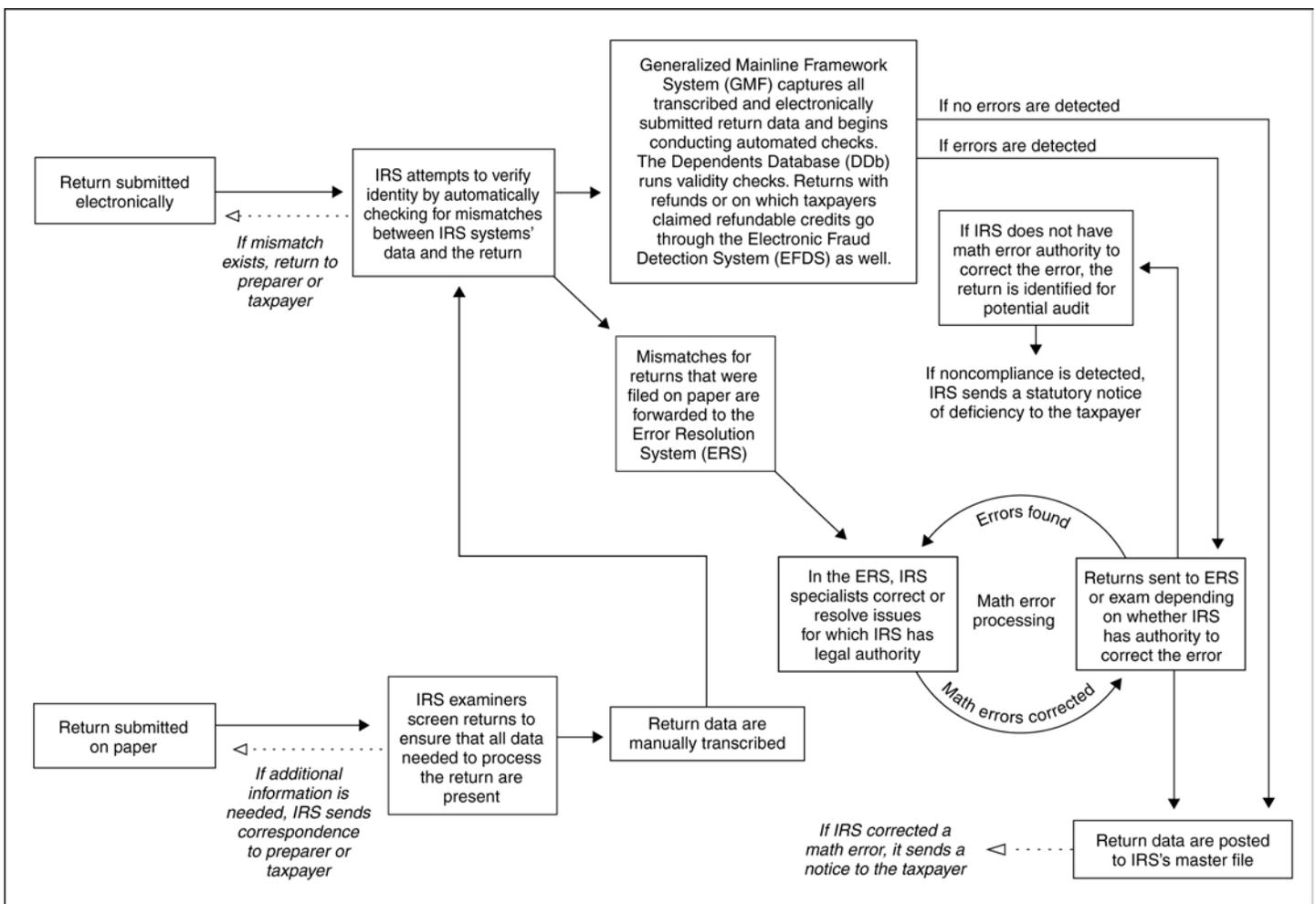
Notes: Data are from January 1 to June 30 for all years.

^aMuch of the increase is due to the Economic Stimulus Act of 2008 that mandated IRS send economic stimulus payments to over 100 million households, many of which would not otherwise have needed to file a tax return.

Appendix VII: IRS's Prerefund Compliance Process

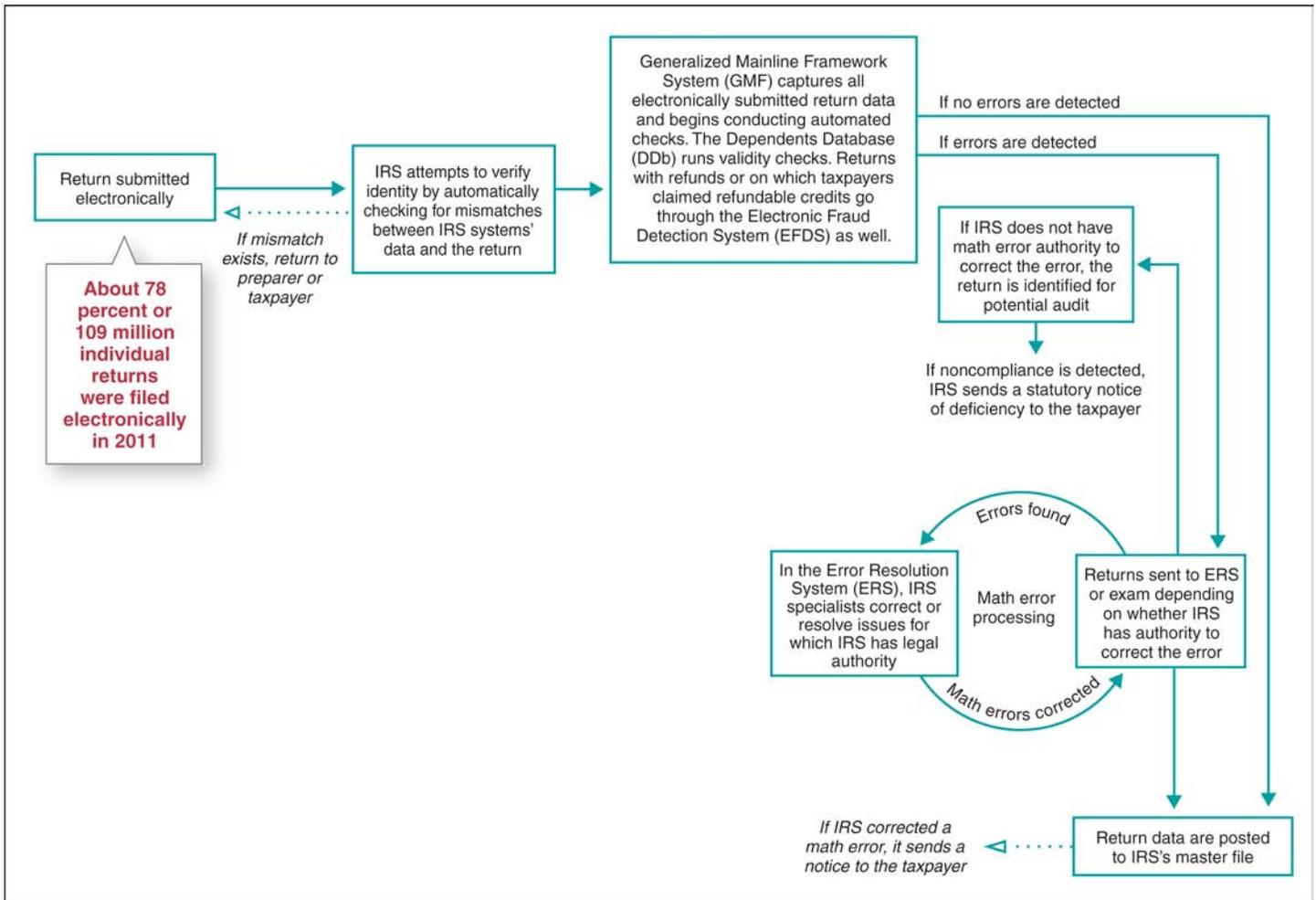
Figures 6 through 8 show the Internal Revenue Service's (IRS) process for conducting prerefund compliance checks for all individually filed tax returns, returns filed electronically, and returns filed on paper, respectively. An interactive graphic illustrating this process is shown in figure 2 of this report.

Figure 6: IRS Processes for Conducting Prerefund Compliance Checks on Tax Returns



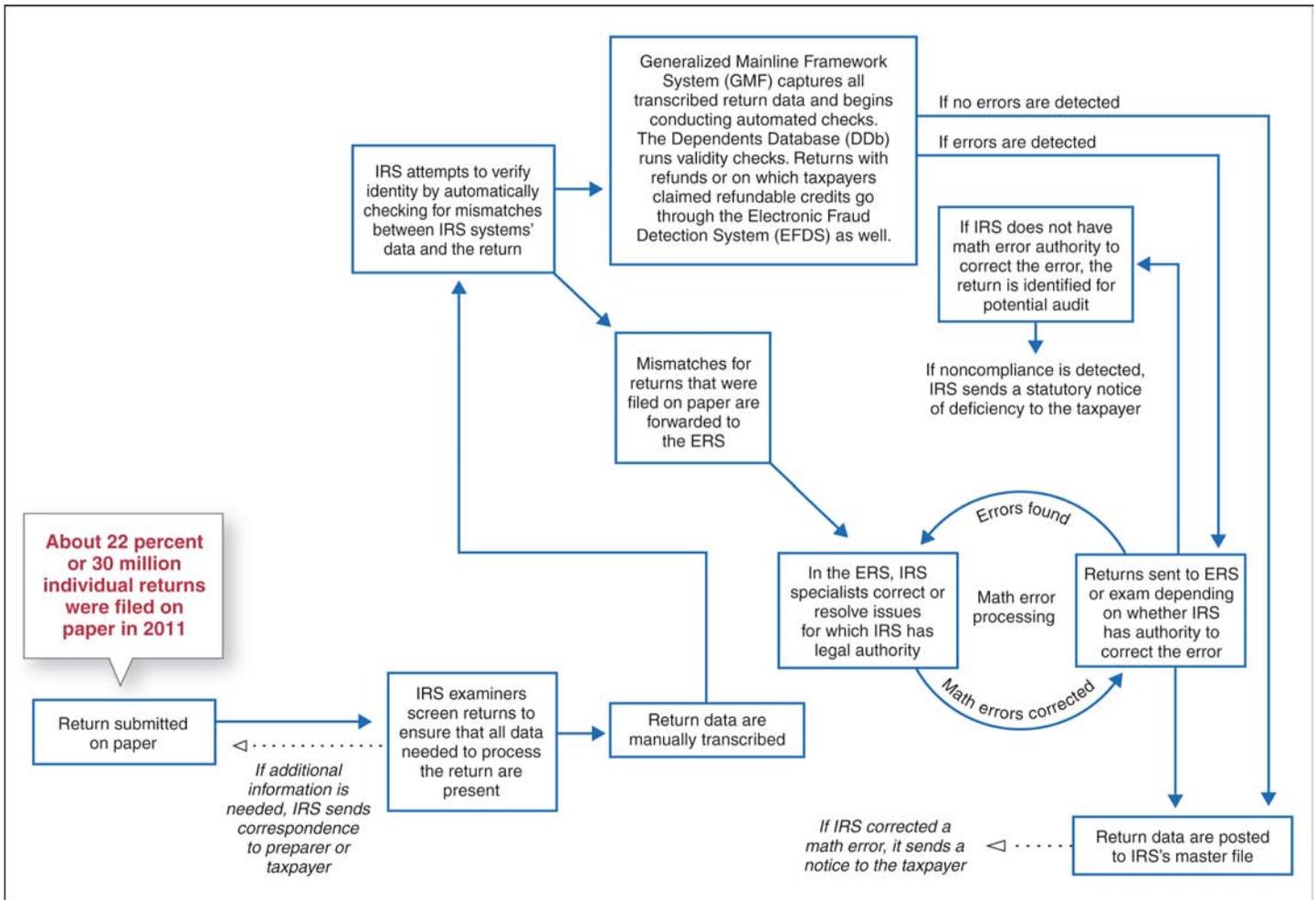
Source: GAO analysis of IRS information.

Figure 7: IRS Processes for Conducting Prerefund Compliance Checks on Tax Returns Filed Electronically



Source: GAO analysis of IRS information.

Figure 8: IRS Processes for Conducting Prerefund Compliance Checks on Tax Returns Filed on Paper



Source: GAO analysis of IRS information.

Appendix VIII: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

December 13, 2011

Mr. James R. White
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. White:

I have reviewed your draft report entitled *2011 TAX FILING: Processing Gains, but Taxpayer Assistance Could be Enhanced By More Self-Service Tools*. As noted in the report, we are processing tax returns in a rapidly changing environment while simultaneously taking steps to continue to realize improvements in our processing abilities. Further, despite the challenges presented by the late enactment of tax legislation, we delivered another successful Filing Season (FS) in 2011.

The *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (enacted December 17, 2010), required programming and processing changes that delayed the start of the FS for taxpayers claiming itemized deductions, or certain other deductions from income. We implemented all requisite changes and began accepting those returns on February 14, 2011. At that time, we received approximately 6.5 million electronic tax returns held by Electronic Return Originators. Those returns were processed by our systems both accurately and timely, as were approximately 100,000 affected paper tax returns received prior to February 14, 2011.

Processing – As of September 30, 2011, we processed almost 140 million individual income tax returns and issued over 106 million refunds, totaling approximately \$303 billion. We also issued over \$11 million dollars in refunds to 45,352 taxpayers through the U.S. Savings Bonds initiative.

In addition to successfully responding to the effects of late legislative changes, we also addressed the repayment provisions of the First-Time Homebuyers Credit (FTHBC), which generally requires the repayment of 1/15th of the FTHBC received for qualified homes purchased in 2008. As 2010 was the first year for repayments to commence, we took proactive steps to identify those returns with a missing or incorrect repayment amount. This led to error inventories that were higher than usual. As of September 30, 2011, IRS processed 956,389 returns, totaling over \$555 million in recapture of the FTHBC.

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Electronic filing increased by 13 percent over last year, with over 109.5 million individual taxpayers filing electronically (78.2 percent). The volume of paper returns declined to 30 million. Significant increases were seen in both practitioner and online returns. Over 70 million returns were prepared by tax practitioners, a 12.5 percent increase over the previous year. Taxpayers who file from a home or personal computer continue to account for the most significant increase. Over 39 million returns were self-filed electronically, a 14 percent increase from the prior year. Over 3.1 million of these taxpayers took advantage of free online filing services offered by the Free File Alliance, available through IRS.gov. This includes a 45 percent increase in the use of Free File Fillable Forms.

Customer Account Data Engine (CADE) Release 6.2 was successfully deployed within cost estimates on January 19, 2011. The functionality added in Release 6.2 incorporated legislative and filing season changes. During the 2011 FS, CADE posted a total of 40 million returns, disbursed 35.1 million refunds totaling more than \$65.7 billion, and processed 6.1 million payments totaling over \$7.2 billion. All CADE taxpayer accounts were successfully migrated to the Individual Master File, in June 2011, in preparation for CADE 2 Transition State 1. The CADE 2 Transition State 1 is on schedule to implement daily processing and initialize the CADE 2 relational database in January 2012.

As of October 15, 2011, Modernized e-file (MeF) received 12.2 million returns and accepted 10.3 million returns. We worked with transmitters to provide assistance in resolving issues with their software that impeded their ability to use MeF, and continue to engage the transmitter community by communicating the features and benefits of the MeF system. We also performed outreach through software developer conferences, industry calls, webinars, "Quick Alert" subscriber e-mail messages, other information published to IRS.gov, and IRS publications.

As of September 30, 2011, 29 States are participating in the MeF Program. There are 11 additional States that will be participating in 2012, and two more joining in 2013.

Telephone Performance - Each year, taxpayers call the IRS for assistance and, rightfully, expect prompt and accurate responses to their questions. Although we originally experienced a reduction in funding, we increased the program staffing to meet higher demand due to a general increase in complexity of questions and the impact of increased call volume attributable to late tax law changes. We exceeded our planned measurements for assisting taxpayers in Assistor Calls Answered, Assistor Services Provided, and Automated Calls Answered for the 2011 FS.

The Assistor Calls Answered measure was 17 percent over plan (16.09 million vs. 13.75 million), Assistor Services Provided was 14 percent over plan (19.3 million vs. 16.96 million) and Automated Calls Answered was 17 percent over plan (31.86 million vs. 27.14 million). The Customer Service Representative Level of Service was 74.6

percent for the FS, compared to the plan of 71.0 percent. Average Speed of Answer was 84 seconds less than plan (596 seconds vs. 680 seconds), and Average Handle Time was 640 seconds, which is 14 seconds less than the 654 planned.

Customer Accuracy and Customer Satisfaction also remained high during the FS. Customer Accuracy for Toll-Free Tax Law services was 93 percent, which exceeded the Fiscal Year (FY) goal of 92.7 percent; and Customer Accuracy for Toll-Free Accounts was 95.9 percent, compared to the FY goal of 95 percent. Considering all channels (telephone, paper correspondence, and internet), Customer Contacts Resolved per Staff Year of 15,785 was an increase over the plan of 14,421, and the Self Service Participation of 76.2 percent was higher than the 74.8 percent planned.

Volunteer Assistance - During the 2011 FS, 88,527 volunteers prepared Federal and State tax returns at 12,486 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. These volunteers prepared nearly 3.2 million Federal returns and 2.4 million State returns, which represents increases over FY 2010 of more than 3 percent and 7 percent, respectively. The returns prepared were primarily for low income, elderly, disabled, and limited English-proficient taxpayers.

The IRS awarded \$18.1 million in grant funds in support of the VITA (\$12M) and TCE (\$6.1M) programs in FY 2011. For the FS, 210 grants were awarded to organizations that provided service through more than 9,000 sites located in all 50 States and the District of Columbia. More than 2.3 million returns were prepared by these sites.

We also continued to improve the accuracy rate of returns prepared by VITA volunteers, as measured by our quality review process. The IRS Quality Program Office performed return reviews of a statistically valid sample of VITA/TCE sites. The results from these reviews were used to calculate an accuracy rate for all tax returns produced by the Volunteer Return Preparation Program with a 90 percent level of confidence. During the 2011 FS, 724 returns were reviewed and yielded an 87 percent accuracy rate, up 2.4 percent from the prior year.

In 2011, Stakeholder Partnerships, Education and Communication (SPEC) collaborated with the Electronic Tax Administration to provide on-line access to our VITA/TCE site information, which previously had only been available through the IRS Toll-Free number. There were approximately 168,000 hits to the listing on IRS.gov.

Walk-in Assistance - During the 2011 FS, the IRS continued to stress accuracy goals and once again Field Assistance met its goals for Tax Law and Accounts accuracy. We delivered several Saturday tax assistance events for taxpayers in addition to regular service. Taxpayer Assistance Centers (TACs) supported Earned Income Tax Credit (EITC) awareness by offering special Saturday assistance on January 29 and February 5 at approximately 170 TACs. Over 15,000 taxpayers were assisted and 5,131 returns were prepared - a 60 percent increase from the previous year's EITC Saturday results.

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Furthermore, the Field Assistance function collaborated with SPEC and other Operating Divisions to host TAC *Open House* events in February, March, and July, serving almost 20,600 taxpayers and preparing 5,023 returns.

The Extended Hours of Service initiative has proven to be very successful with the support of 36 participating TACs, including the Detroit TAC which offered extended Saturday hours. During the FS, over 14,105 taxpayers sought service during extended hours.

During the 2011 FS, the IRS expanded the service provided to low-income taxpayers who seek help with the preparation of their State income tax returns. We prepared income tax returns for eight additional States this year, bringing the total covered by the program to 35. The Field Assistance function continued the partnership with SPEC to provide an Individual Taxpayer Advisory Specialist (ITAS) for on-site technical support at 31 volunteer sites in 2011. Taxpayers who visit VITA sites typically do not seek services at TAC locations, so providing the ITAS support at these sites met our objective of increasing service coverage.

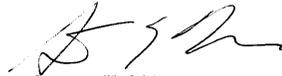
Website – We established a new Online Services organization to provide service to taxpayers via the IRS.gov website. In July 2011, IRS completed a refresh of the IRS.gov homepage which is the first step in a year-long upgrade of the website which will benefit taxpayers as it lays the foundation for increased online interactions.

Consistently, IRS.gov is one of the most heavily used Government websites. In Calendar Year 2011 (January through November 13), the website was visited more than 297 million times, resulting in more than 1.5 billion page views. This was up from 284 million visits and remained steady with 1.5 billion page views during the same period last year. An increase in visits but not in page views, indicates site visitors may have had success finding the information they needed with fewer clicks on the site. Visits are the measurement of actions beginning when a visitor views their first web page on IRS.gov and ends when the visitor leaves the website. Taxpayers and Practitioners also downloaded more than 207 million forms, publications, instructions, and other documents, as of October 31, 2011.

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Responses to your specific recommendations are enclosed. I appreciate your observations on the successful FS for 2011. If you have any questions, please contact me, or a member of your staff may contact Robin L. Canady, Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8801.

Sincerely,



Steven T. Miller
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

We recommend that the Commissioner of Internal Revenue take the following four actions:

Recommendation

Develop a new refund timeliness measure and goal to more appropriately reflect current capabilities.

Comment

We will reassess the refund timeliness measure and goal. We will consider different options including identifying the percentage of refunds issued during a given period, or create separate measures for electronic and paper returns.

Recommendation

Offer an automated telephone line that gives taxpayers the status of their amended tax return, unless IRS has a convincing cost-benefit analysis to suggest that the costs exceed the benefits.

Comment

We agree with this recommendation. Refund inquiries, including those involving amended returns, continue to use a large amount of resources. Telephone demand in the individual applications is unprecedentedly high and refund inquiries are a major contributor to this increase. The IRS monitored approximately 600 refund calls and discovered that a significant number of these calls pertain to the status of amended returns and could be addressed by automated systems, including both automated telephone and online applications. We are pursuing an automated application that will provide the taxpayer with the date the Form 1040X, *Amended U.S. Individual Income Tax Return*, was received and advise them of the processing time.

Recommendation

Assess the costs and benefits of automating the TAC/VITA location telephone lines, and automate these lines if the benefits exceed the costs.

Comment

While we agree that automating the ability to locate Volunteer Income Tax Assistance sites may increase service and convenience, the resources are not currently available to support doing so by automating the telephone service. The VITA program includes approximately 13,000 sites that are sponsored and operated by our partner organizations, and are subject to frequently changing days of service and hours of operation. In addition to automation costs, personnel costs to adequately update a telephone system would be prohibitive. During the 2011 Filing Season, we provided an online listing of local offices, Taxpayer Assistance Centers, and select VITA locations on IRS.gov. The online service included a locator search tool and provided links to third-party mapping services. The IRS intends to launch a new online VITA Site Locator application for Filing Season 2012 which will provide timely information on the

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thousands of tax sites. The automation is intended to ensure that the information presented remains timely and accurate, with current office locations, telephone numbers, hours of operation, and links to an online map.

Recommendation

Complete an internet strategy that:

- Provides a justification for the implementation of online self-service tools and includes an assessment of providing online self-service tools that allow taxpayers to access and update elements of their account online;
- Acknowledges the cost and benefits to taxpayers of new online services;
- Sets the timeframe for when the online service would be created and available for taxpayer use; and
- Includes a plan to update the strategy periodically.

Comment

We will consider online access for taxpayers, along with other online taxpayer services as part of the IRS Internet roadmap and strategic approach. The development and delivery of new online tools and services on IRS.gov will focus on two main efforts targeting the taxpaying public: a simplified online experience, and self-service transactional web applications (tools).

The IRS business roadmap and strategic approach is a living document which will evolve as new service opportunities are identified, assessed and developed in an agile environment. The initiatives in the IRS business roadmap will be assessed based on cost benefit analyses, return on investment, and potential timelines for implementation. Current best practices of many Fortune 500 companies also utilize a form of an agile developmental methodology over a rigid traditional "waterfall" development approach. The IRS expects to update its business roadmap and strategic approach periodically to confirm that taxpayers' as well as the IRS's needs are being appropriately addressed.

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

James R. White, (202) 512-9110 or whitej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director; Steven J. Berke; Abbie David; David Fox; Tom Gilbert; Matt Johlle; Inna Livits; Kirsten Lauber; Karen O'Connor; and Sabrina Streagle made key contributions to this report.

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