

# GAO Highlights

Highlights of [GAO-13-480](#), a report to the Committee on Finance, U.S. Senate

## Why GAO Did This Study

One way IRS works to understand taxpayer compliance is by operating NRP, which conducts audits or examinations of individual tax returns in a research sample. NRP examinations are fewer in number but more detailed than IRS's regular, operational examinations, which focus on the tax returns most likely to have substantive noncompliance. GAO was asked to study whether NRP procedures could improve IRS's operational examinations.

In this report, GAO (1) describes the lessons on examination procedures that IRS learned from conducting NRP examinations; and (2) assesses whether additional improvements could be made to operational examinations based on IRS's NRP experience.

GAO reviewed documentation on NRP procedures and interviewed relevant officials. GAO did structured interviews with IRS examiners on ideas for improving operational examinations, reviewed IRS documents, and compared the potential impacts of the ideas to criteria, such as whether the changes would make examinations more efficient or accurate.

## What GAO Recommends

GAO recommends that IRS transcribe additional data from paper-filed returns, use all electronically filed data, clarify guidance on saving examination case files electronically, and develop guidance on when examiners can work NRP cases. IRS generally agreed with the recommendations but did not specifically comment on transcribing more data from paper-filed returns.

View [GAO-13-480](#). For more information, contact James R. White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

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## TAX ADMINISTRATION

### IRS Could Improve Examinations by Adopting Certain Research Program Practices

#### What GAO Found

The Internal Revenue Service's (IRS) National Research Program (NRP) has helped test or develop practices that have been used in operational examinations of individual tax returns, according to IRS officials. These practices include, for example, helping test IRS's remote learning system and helping IRS adopt new examination support software.

However, examiners GAO interviewed cited four additional ways NRP practices could improve operational examinations.

The first two concern using more data in classification—IRS's initial review of tax returns to select issues for examination. Operational classifiers do not have access to as much tax return data as NRP classifiers. NRP transcribes more data from paper-filed tax returns. Without the additional data, operational examiners cannot make optimal decisions about what issues to classify, raising the risk of needlessly examining compliant taxpayers. To make data in operational classification better match NRP levels, examiners suggested:

- transcribing more data from paper-filed returns, and
- using all data from electronically filed returns.

However, additional transcription imposes costs. For example, IRS estimated that it would cost \$8 million annually to transcribe more expense data from individual business tax returns. The magnitude of this type of item (for example, an estimated \$103 billion was claimed in 2010 for "other expenses" alone) and the high rate of non-compliance (55 percent in the most recent data) make it likely that better targeted examinations could bring in enough added revenue to justify the cost.

Additionally, IRS could acquire more data for classification by revising its policy of treating electronically and paper-filed returns the same. However, the change would only affect classification and not examination. Examinations of paper-filed returns and electronically filed returns are based on all the data. Using more data from electronically filed returns in classification would likely reduce the chances IRS would conduct unnecessary examinations of compliant electronic returns.

The third way involves clarifying how to save examination case files electronically. Operational examiners have less specific guidance on saving case files than NRP examiners. Clarifying the key files to be saved electronically would be a way to minimize costs and could help make case sharing and other examiner duties more efficient.

The fourth way concerns leveraging NRP for examination staff development. Compared to operational examinations, NRP examinations require more detailed documentation and are broader in scope. Examiners told GAO that such NRP experiences help develop the skills of relatively new staff. However, IRS has no official guidance specifically on when NRP examinations could be used to help develop staff.