



TAX ADMINISTRATION

Taxpayer Input Could Strengthen IRS's Online Services

Accessible Version

December 2019

Why GAO Did This Study

IRS recognizes that taxpayers want more choices in how they interact with IRS, including through online services. GAO was asked to review IRS's online services—those which allow IRS and individual taxpayers to exchange personalized information electronically. This report (1) examines what is known about how IRS's current online services are meeting taxpayers' needs, and provides information about selected foreign and state revenue agencies' online services; (2) evaluates the extent to which IRS's strategy for identifying and prioritizing the development of new online services is consistent with relevant requirements and leading practices; and (3) examines how IRS is addressing key challenges in providing online services.

GAO assessed IRS's online services against relevant requirements, agency goals, and leading practices; interviewed IRS officials; and identified additional services and practices from six foreign and state revenue agencies selected for offering multiple online services for exchanging personalized information with taxpayers.

What GAO Recommends

GAO is making seven recommendations to IRS, including measuring and reporting on the effect of online services on satisfaction and taxpayer burden and setting a target for reducing burden, considering taxpayer input when prioritizing new online services, and ensuring that any renewal of the Free File agreement reflects benefits and costs. IRS agreed with six recommendations, but disagreed on setting a target to reduce burden. GAO continues to believe IRS should set such a target.

View [GAO-20-71](#). For more information, contact Jessica Lucas-Judy at 202-512-9110 or lucasjudyj@gao.gov

TAX ADMINISTRATION

Taxpayer Input Could Strengthen IRS's Online Services

What GAO Found

The Internal Revenue Service's (IRS) online services for individual taxpayers primarily provide taxpayers one-way communication of key information derived from their tax return, such as when an anticipated refund should arrive, or allow taxpayers to pay money owed or make payment arrangements. IRS has done little research or reporting on the extent to which its online services are satisfying taxpayers' needs. Also, IRS has not set a target for using online services to help reduce taxpayer burden. Selected foreign and state revenue agencies' online services have developed online filing and communication capabilities, such as filing a tax return on the agency's website and offering electronic chats between revenue agency employees and taxpayers (see figure).

The U.S. Internal Revenue Service's and Three Foreign Revenue Agencies' Online Services

Category of Online Service	Australia	New Zealand	United Kingdom	United States
Information	✔	✔	✔	✔
Payment	✔	✔	✔	✔
Filing	✔	✔	✔	✘
Communication	✔	✔	✔	P

✔ Service integrated within a taxpayer's online account ✘ Service not currently available
 P Pilot projects underway

Source: GAO analysis of the websites of the Australian Taxation Office, New Zealand's Inland Revenue Department, the United Kingdom's Her Majesty's Revenue and Customs, and the United States' Internal Revenue Service. | GAO-20-71

IRS has long-term planning documents which detail online services it intends to develop, which include services to communicate digitally with taxpayers, to achieve its goal of modernizing the taxpayer experience. However, GAO found that IRS has not sufficiently considered taxpayer input in the prioritization process for these new services and instead prioritizes services primarily based on the potential benefit to IRS operations or how quickly a service might be developed. Without considering taxpayer input on user needs and preferences, IRS risks developing services that taxpayers do not use.

A group of private sector tax preparation companies known as Free File, Inc., has a long-standing agreement with IRS in which the companies provide free electronic tax preparation and filing services to eligible taxpayers in exchange for IRS not offering its own filing capability. However, few taxpayers use these services and GAO found that IRS has given inadequate consideration to the full benefits and costs of the Free File agreement to all parties. Not considering these costs and benefits has implications for the future evolution of IRS's online services, including helping taxpayers electronically file amended returns.

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Abbreviations

ANAO	Australian National Audit Office
ATO	Australian Taxation Office
EITC	Earned Income Tax Credit
FFF	Free Fillable Forms
GPRAMA	GPRA Modernization Act of 2010
HMRC	The United Kingdom's Her Majesty's Revenue and Customs
IT	Information Technology
IDEA Act	The 21st Century Integrated Digital Experience Act
IRD	New Zealand's Inland Revenue Department
IRS	Internal Revenue Service
Modernization plan	IRS's Integrated Modernization Business Plan
NAO	The United Kingdom's National Audit Office
OAG	New Zealand's Office of the Auditor General
OIRA	Office of Information and Regulatory Affairs

OMB	Office of Management and Budget
OLS	Office of Online Services
OECD	Organization for Economic Cooperation and Development
RAAS	Research, Applied Analytics, and Statistics
SB/SE	Small Business/Self Employed
TAS	Taxpayer Advocate Service
TDC	Taxpayer Digital Communications
TIGTA	Treasury Inspector General for Tax Administration
Treasury	The Department of the Treasury
W&I	Wage and Investment

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December 19, 2019

The Honorable Chuck Grassley
Chairman
Committee on Finance
United States Senate

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
House of Representatives

Technology is reshaping views about how citizens and government agencies should be able to interact with each other. The growth of online banking and e-commerce has heightened the public's expectations that federal agencies will provide high-quality online services that facilitate transactions. The Department of the Treasury's (Treasury) Internal Revenue Service (IRS) interacts with tens of millions of Americans each year. IRS's *Strategic Plan for Fiscal Years 2018-2022* recognizes that taxpayers want more choices in how they interact with IRS, including expanded online services.¹ In prior work, we found that IRS had not articulated a long-term strategy for online services and that IRS has made uneven progress in its efforts to improve customer service.²

You asked us to review IRS's efforts to identify, develop, and implement new online services for individual taxpayers. This report: (1) examines what is known about how IRS's current online services are meeting taxpayers' needs, and provides information about online services offered

¹Internal Revenue Service, *IRS Strategic Plan for Fiscal Years 2018-2022* (Washington, D.C.: 2018).

²GAO, *2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency* (working title), [GAO-20-55](#) (Washington, D.C.: Forthcoming); *2018 Tax Filing: IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes*, [GAO-18-471](#) (Washington, D.C.: Sept. 10, 2018); *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, [GAO-16-151](#) (Washington, D.C.: Dec. 16, 2015); *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, [GAO-15-84](#) (Washington, D.C.: Oct. 24, 2014); and *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013).

by selected foreign and state revenue agencies; (2) evaluates the extent to which IRS's strategy for identifying and prioritizing the development of new online services is consistent with relevant requirements and leading practices; and (3) examines how IRS is addressing key challenges in providing online services.

For purposes of this report, online services are defined as those which allow IRS and individual taxpayers to exchange personalized information electronically.³ For our first objective, we reviewed descriptions on irs.gov concerning the capability of each online service, data showing usage of each service, surveys administered to irs.gov users and IRS's summaries of the feedback received, the section of Treasury's congressional budget justification and performance plan and report describing IRS's performance, and information about how IRS estimates taxpayer burden.

For our second objective, we reviewed the section of IRS's *Integrated Modernization Business Plan* (which we will refer to as the modernization plan) for improving the customer experience and planning documents describing IRS's process for developing new online services, the section of the Treasury's congressional budget justification and performance plan and report describing IRS's performance for documentation of setting targets to improve satisfaction with online services and reducing taxpayer burden, and IRS documents describing pilots to develop electronic communication capabilities between taxpayers and IRS employees.

For our third objective, we reviewed IRS's agreement with industry to provide electronic filing services to eligible taxpayers, and IRS documents describing plans to enable electronic filing of amended tax returns. We also interviewed the officials who lead the consortium of companies which made this agreement with IRS, and reviewed written responses they provided about what they believe to be the benefits of this agreement and their views on the future evolution of IRS's online services as they relate to electronic filing.

To inform sections of all three objectives, we reviewed quantitative data IRS compiled: The numbers of taxpayers using the different online services IRS offers, IRS's summary of the feedback received from taxpayers using one of IRS's online services, the number of taxpayers

³The terms online and digital are used interchangeably by IRS and other organizations. Our report will use online, which is consistent with the terminology IRS uses to refer to its office tasked with leading its efforts in this area.

participating in electronic communication pilots, and the numbers of taxpayers using different methods to file their tax return. For all quantitative data, we reviewed IRS documents describing the data and interviewed IRS officials about the quality control procedures used. We concluded that the data were sufficiently reliable for our purposes.

In addition, we reviewed our prior work assessing IRS's performance during the filing season, verifying the identity of users of online services, and efforts to build a high performing workforce and these reports are cited as relevant in our report. We also reviewed reports prepared by the Treasury Inspector General for Tax Administration, the National Taxpayer Advocate, and IRS's Advisory Council which are cited in the relevant sections of our report. We interviewed IRS officials from the Office of Online Services (OLS), the Office of Information Technology, relevant business operating divisions, and other supporting offices identified in the relevant sections of our report.

We compared IRS's activities and performance against relevant criteria drawn from the following five sources: (1) requirements set in laws, executive orders, and guidance that require or direct IRS, or federal agencies more generally, related to providing a high-quality experience for taxpayers and other agencies' customers; (2) leading performance management practices of setting measurable performance goals and regularly reporting on their performance to external audiences, as embodied by the GPRA Modernization Act of 2010 (GPRAMA); (3) the 21st Century Integrated Digital Experience Act's (IDEA Act) requirement that agencies ensure public facing applications and services are made available in digital format to the extent practicable; (4) IRS's long-standing goals for improving online services and reducing taxpayer burden; and (5)

leading practices our prior work identified for effectively piloting new government services.⁴

For our first objective, but also to inform our other objectives, we conducted case studies of the online services offered by six selected revenue agencies. We selected three countries—Australia, New Zealand, and the United Kingdom—and three states—Alabama, California, and New York—because they offer multiple online services that allow revenue agencies and taxpayers to exchange personalized information electronically and for other considerations.⁵ We also consulted with each country and state’s audit office on our methodology and on any relevant evaluations their audit offices have done of the revenue agencies’ online services and appendix I summarizes the national audit offices’ evaluations. Appendix I also describes the filing requirements in the three foreign countries and how taxpayers may be able to use the revenue agency’s online services to fulfill these requirements. Our review of the selected three states was supplemented by reviewing the websites of the revenue agencies of the remaining states with income taxes (40 states and the District of Columbia) to determine if taxpayers had the option of filing a tax return on those websites. The findings from our case studies

⁴Taxpayer First Act, Pub. L. No. 116-25, § 1101, 133 Stat. 981, 985–986 (July 1, 2019); 21st Century Integrated Digital Experience Act, Pub. L. No. 115-336, § 3–4, 132 Stat. 5025–5027 (Dec. 20, 2018); Exec. Order No. 13571, § 2, *Streamlining Service Delivery and Improving Customer Service*, 76 Fed. Reg. 24339 (Apr. 27, 2011); Exec. Order No. 12862, *Setting Customer Service Standards*, 58 Fed. Reg. 48257 (Sept. 11, 1993); Office of Management and Budget, *Memorandum 17-06* (Washington, D.C.: 2016); 31 U.S.C. §§ 1115(b), 1116; Pub. L. No. 115-336, § 4(b); for more specific information about IRS’s strategic goal in these areas, see pp. 10-12 of IRS’s strategic plan; and GAO, *Identity Theft: Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud*, [GAO-18-20](#) (Washington, D.C.: Nov. 28, 2017); and *Section 5 Pilot Design Issues Need to Be Addressed to Meet Goal of Reducing Recipient Reporting Burden*, [GAO-16-438](#) (Washington, D.C.: Apr. 19, 2016).

⁵The three countries were selected from among a group of countries participating in the Organization for Economic Cooperation and Development’s (OECD) Forum on Tax Administration—an international forum intended to share leading practices among revenue agencies. To select individual countries, we considered recommendations from forum staff and also considered the availability of documentation in English. While this forum allows countries who do not belong to the OECD to participate, we excluded non-OECD countries from consideration because of contextual differences with the United States, such as nondemocratic forms of government in some of those countries. The three states were selected after we reviewed the revenue agency websites of the 43 states with income taxes or taxes on dividends and interest income, and were selected because they offer online services IRS does not offer and for variation in geographic location and population.

are not generalizable to all foreign and state revenue agencies, but provide illustrative examples of the types of online services available.

We conducted this performance audit from March 2018 to December 2019 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

IRS.gov

IRS began posting information on the internet in the 1990s. In the early 2000s, IRS launched its first two interactive services which allowed taxpayers to (1) check on the status of a refund, and (2) set up a payment plan to pay taxes they may owe over time.⁶ Since then, irs.gov has expanded to include other online services, such as personal informational accounts and tax transcript request services. In addition to online services, the irs.gov website contains information on various topics, including forms and publications offered on static web pages. While these static web pages do not provide taxpayers with personalized support or information, taxpayers seeking more targeted information may consult online calculators irs.gov offers (e.g., a tax withholding estimator). Two distinctions between these calculators and the online services our report examines are that taxpayers do not have to establish their identity before using a calculator and the calculators can be used to explore hypothetical tax planning situations. IRS reports that its website, which includes online services, static web pages, and calculators received more than 600 million visits in fiscal year 2018.

IRS Offices Responsible for Online Services for Individual Taxpayers

With respect to taxpayer services, OLS is tasked with leading IRS's business transformation efforts related to online services and improving

⁶Internal Revenue Service, "IRS History Timeline," (Washington, D.C.: March 2019).

the online experience for taxpayers. To improve online services for individual taxpayers, OLS primarily works with IRS's relevant business operating divisions—Wage and Investment and Small Business/Self-Employed—which assist individual taxpayers in fulfilling their tax obligations.⁷ On the operations support side, Information Technology is responsible for delivering services and solutions related to technology and one of its responsibilities is to support IRS's online services. IRS's Research, Applied Analytics, and Statistics division conducts research related to taxpayer burden, which is defined as the time and money taxpayers spend complying with their tax obligations.⁸

Customer Service and User Experience Requirements

Both Congress and presidential administrations have set the expectation that agencies provide high-quality customer service. Starting in the 1990s, they required agencies to develop plans for improving their services and regularly report on the progress they are making.⁹ In recent years, Congress and the executive branch have emphasized the importance of improving online services. In December 2018, Congress passed and the President signed the 21st Century Integrated Digital Experience Act (IDEA Act) that includes requirements for agencies when they are creating or redesigning a website or digital service that is intended to be used by the public. Among these requirements are to design the website or digital service around user needs, with data-driven analysis influencing management and development decisions, using qualitative and quantitative data to determine user goals, needs, and behaviors.¹⁰ The IDEA Act also requires agencies to ensure that any paper form related to serving the public is made available in a digital format by December 2020.¹¹

In July 2019, the Taxpayer First Act became law. It includes a requirement that the Secretary of the Treasury (or designee) submit a

⁷OLS works with other business operating divisions on improving online services intended for other groups of taxpayers, such as corporations.

⁸The money taxpayers may pay the government in taxes is not part of taxpayer burden.

⁹The history of these efforts is summarized on pp. 5-10 of [GAO-15-84](#).

¹⁰Pub. L. No. 115-336, § 3(a)(6).

¹¹Pub. L. No. 115-336, § 4(c).

comprehensive customer service strategy to Congress by July 2020 including, among other things, a plan to provide assistance to taxpayers that is designed to meet reasonable taxpayer expectations. This plan is to include online services. The act also requires this customer service strategy to identify metrics and benchmarks for quantitatively measuring progress in implementing it.¹² Similarly, the administration has established a cross-agency priority goal called “improving customer experience with federal services” intended to improve the usability and reliability of the most important online services, which contains requirements related to IRS’s online services that will be discussed in more detail later in this report.¹³

In addition to these expectations for a high quality user experience, the GPRA Modernization Act of 2010 (GPRAMA) requires, among other provisions, strategic plans identifying Treasury’s and other cabinet departments’ and other executive agencies’ most important goals. It also requires annual performance plans that identify specific targets and reports to Congress and the public on results achieved.¹⁴ While GPRAMA is applicable to the department or agency level (e.g., Treasury), we have previously reported that these requirements should serve as leading practices at other organizational levels, such as component agencies, offices, programs, and projects, and are therefore applicable to IRS.¹⁵

IRS Agreement with Industry to Provide Electronic Tax Preparation and Filing Services

IRS requires taxpayers whose income, filing status, and age fall within specified parameters to file a tax return.¹⁶ Taxpayers have five choices for

¹²Pub. L. No. 116-25, § 1101(a)(1), (5).

¹³The terms customer service and user experience have similar meanings. OMB has recently placed more emphasis on the latter term. Our report will generally use the term taxpayer experience. For more information about the cross-agency priority goal, see <https://www.performance.gov/CAP/cx>.

¹⁴For more specific information, see our Key Issue page on managing for results, https://www.gao.gov/key_issues/managing_for_results_in_government/issue_summary.

¹⁵GAO, *Coast Guard: Actions Needed to Enhance Performance Information Transparency and Monitoring*, GAO-18-13 (Washington, D.C.: Oct. 27, 2017).

¹⁶Department of the Treasury: Internal Revenue Service, *Dependents, Standard Deduction, and Filing Information: For Use in Preparing 2018 Returns*, Publication 501 (Washington, D.C.: Dec. 31, 2018).

filing a return: (1) hire a tax practitioner to file a return on their behalf with IRS, which the practitioner generally does electronically; (2) obtain tax preparation and filing services on the internet or download software, which allows for assisted preparation in addition to online filing; (3) file on paper for free; (4) use the Free File program; or (5) seek assistance from IRS's Volunteer Income Tax Assistance or the Tax Counseling for the Elderly programs in which IRS provides funding to IRS-certified volunteers who meet in person with eligible taxpayers to help them prepare their return and the completed return is filed electronically.

To encourage taxpayers to file electronically, IRS advertises that it will deliver refunds more quickly to those who file electronically than those who file on paper. In 2002, IRS signed a memorandum of understanding (which we will refer to as an agreement) with a consortium of tax preparation companies now known as Free File, Inc.¹⁷ Initially, the participating companies agreed to provide free electronic tax preparation and filing services for eligible taxpayers.¹⁸ In return, IRS stated that it would not offer its own free, online tax return preparation and filing services.¹⁹ This agreement has been periodically renewed, most recently in October 2018, when IRS and Free File, Inc. extended the terms of the agreement to October 2021. This requirement that IRS not offer its own online filing services has remained the same.²⁰

The income limit for taxpayers to participate has evolved over time. In 2005, IRS and the consortium of tax preparation companies amended the agreement to provide for coverage for 70 percent of taxpayers based on the taxpayers' adjusted gross income beginning in filing season 2006. They further agreed that while the percentage of taxpayers covered would remain the same throughout the agreement, the income limit for taxpayers would be adjusted each filing season. For the 2020 filing season—which IRS expects will begin in January 2020—taxpayers will be required to have an income below \$69,000 and meet other eligibility requirements to use the participating companies' preparation and filing

¹⁷The organization's former name was the Free File Alliance, LLC.

¹⁸Internal Revenue Service, *Free Online Electronic Tax Filing Agreement* (Washington, D.C.: 2002).

¹⁹Ibid.

²⁰Internal Revenue Service, *Eighth Memorandum of Understanding on Service Standards and Disputes: Between the Internal Revenue Service and Free File, Incorporated* (Washington, D.C.: October 2018).

services.²¹ For married taxpayers, the \$69,000 threshold applies to their combined income if the two individuals file a joint return. Taxpayers whose income exceeds \$69,000 are ineligible to use the participating companies' software for free, but are allowed to use Free Fillable Forms (FFF), a service provided by one of the Free File, Inc. participating companies each year, with a link on irs.gov. FFFs are designed to be the online equivalent of paper forms, on which users can type information into a fillable field corresponding to each line item on the paper form. IRS.gov explains that to use FFFs, users "must know how to do your taxes yourself" and states that "only basic guidance" is provided. After a taxpayer completes the FFFs, the Free File, Inc. participating company that provides this service electronically transmits the return to IRS.

IRS Primarily Offers One-Way Information Services Online and Measures of Taxpayer Experience Are Limited

IRS's Online Services Are Concentrated in Information and Payment Services

IRS provides 10 online services for individual taxpayers (see table 1). We organized these online services into four categories based on common interactions between individual taxpayers and revenue agencies.

Table 1: IRS's Online Services for Individual Taxpayers as of October 2019

Category	Name	Description
Information	View Your Account Information	Electronically view payoff amount, balance owed by tax year, up to 24 months of payment history, and information from the current year tax return. Taxpayers can access separate online services for payment options and transcripts without logging in again.
Information	Where's My Refund?	Electronically view the current status of an anticipated refund and personalized date of delivery once IRS has processed the return and approved the refund.
Information	Where's My Amended Return?	Electronically view the current status of an amended return submitted on paper.

²¹For example, some of the participating companies only serve taxpayers whose age falls within certain parameters and some companies have more restrictive income limits than the \$69,000 threshold discussed above. An IRS static web page helps taxpayers determine which companies' services they may be eligible for.

Letter

Category	Name	Description
Information	Get Transcript Online	Electronically view the five different types of tax transcripts IRS offers: (1) A tax return transcript with adjusted gross income and most other line items from the originally filed return; (2) a tax account transcript with additional information (e.g., marital status, and changes made after the original return was filed); (3) a record of account transcript which combines the tax return and account transcripts; (4) a wage and income transcript with information IRS received from third parties (e.g., employers); and 5) a verification of nonfiling letter, which is proof that IRS received no tax return for a particular year.
Information	Get Transcript by Mail	Electronically order paper copies of the tax return and tax account transcripts described above.
Information	Data Retrieval Tool (another transcript service)	Students and parents who filed a tax return can electronically transfer the tax return information needed to complete the Free Application for Federal Student Aid from IRS to the Department of Education. Users may also apply for income-driven repayment plans for student loans the taxpayer previously obtained.
Information	Direct Pay: Payment Lookup	Taxpayers who have made a payment through Direct Pay (described below) can electronically view the payment history or modify or cancel a scheduled payment.
Information	First-Time Homebuyer Credit Account Look-up	Taxpayers who claimed the First-Time Homebuyer credit can electronically view the total amount of the credit or the amount they must repay, if they are required to repay the credit. In general, the credit was allowed for taxpayers who purchased a qualifying home between April 8, 2008 and May 1, 2010.
Payment	Direct Pay with Bank Account	Electronically transfer money from a checking or savings account to pay money to IRS, such as estimated quarterly income taxes, additional income taxes IRS determines the taxpayer owes, and penalties IRS may have levied.
Payment	Online Payment Agreement Application	Taxpayers or their authorized representatives can apply online to create or review payment plans (including installment agreements) if the taxpayer owes taxes. Taxpayers may be charged a fee to set up a payment plan.
Filing	<i>Filing service not provided on irs.gov.</i>	na
Communication	<i>Secure communication service not presently provided on irs.gov for individual taxpayers. IRS is piloting communication services with invited taxpayers and taxpayers setting up online payment agreements as of October 2019.</i>	na

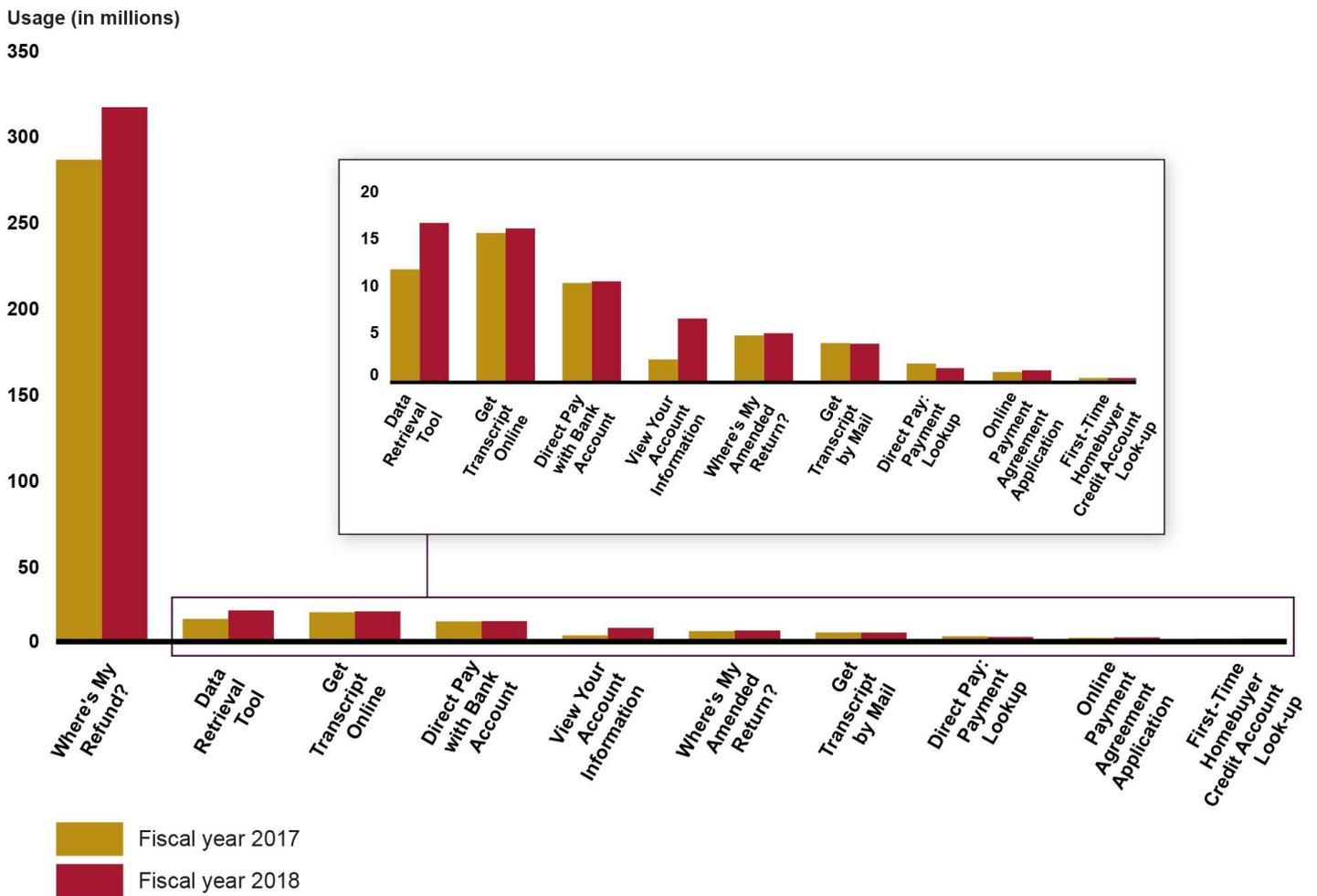
Source: GAO analysis of information from irs.gov. | GAO-20-71

Note: We excluded two online services intended to assist victims of identity theft because IRS invites taxpayers to use these online services. The "Identity Verification Service" relates to tax returns for which IRS determines additional checks are needed to verify that a legitimate taxpayer filed the return. IRS may mail a letter to taxpayers whose names are on a return IRS has questions about and these taxpayers may be able to use the online service to verify their identity. The "Identity Protection Personal Identification Number" online service is limited to taxpayers invited by IRS to participate or to taxpayers who filed a return with an address in certain states.

IRS officials told us and we verified that all services are accessible from personal computers and nondesktop devices, such as smart phones and

tablets. IRS also offers an app for mobile devices which taxpayers can use as a portal for accessing “Where’s My Refund” and for making payments. Usage across all online services in fiscal year 2018 was overwhelmingly concentrated within “Where’s My Refund?” (see figure 1).

Figure 1: Usage Data for IRS Online Services for Individual Taxpayers in Fiscal Years 2017 and 2018



Source: GAO presentation of IRS data. | GAO-20-71

In 2018, taxpayers completed more than 300 million queries on “Where’s My Refund?”, IRS’s most used online service, attempting to determine when their anticipated refunds would arrive. To put this figure in perspective, IRS processed approximately 150 million individual tax returns and approximately 120 million individual income tax refunds in

fiscal year 2018, meaning that some taxpayers are making multiple online inquiries about their refund. IRS.gov directs taxpayers to use this online service to follow up on their refund and suggests that taxpayers only call IRS in certain circumstances.

“View Your Account Information” in fiscal year 2018 was IRS’s fifth most utilized online service, but it has experienced recent growth. Usage more than tripled between fiscal years 2017 and 2018. IRS has continued to add capabilities and make other improvements to “View Your Account Information” since it first launched in 2016, such as links to IRS’s online payment and transcript services. Further, officials told us in September 2019 that they plan to add information about the status of an installment agreement and additional payment history.

As of October 2019, the capabilities of “View Your Account Information” focus on providing information to taxpayers about how much money they may owe IRS and payments made. For example, taxpayers who paid their full tax bill for prior tax years may log into “View Your Account Information” and see they have a \$0 balance. Similarly, taxpayers who receive only refunds will log on and see a \$0 balance, but not information about their refund. Officials noted that even a \$0 balance may be of value to taxpayers who want reassurance that they and IRS have a common understanding of their tax situation.

Revenue Agencies in Other Countries and States Have Demonstrated Online Filing and Communication Capabilities

We identified three revenue agencies in other countries that offer online services that IRS does not: the Australian Taxation Office (ATO), New Zealand’s Inland Revenue Department (IRD), and the United Kingdom’s (U.K.) Her Majesty’s Revenue and Customs (HMRC) (see figure 2).

Figure 2: The U.S. Internal Revenue Service's and Three Foreign Revenue Agencies' Online Services

Category	Online Service	Australia	New Zealand	United Kingdom	United States
Information	Check account balance and recent payments	✔	✔	✔	✔
	Check tax return history	✔	✔	✔	✔
	Track tax refund	✔	✔	✘	✔
	Update contact information	✔	✔	✔	✘
	View electronic communications or letters	✔	✔	✔	✘
Payment	Make a payment	✔	✔	✔	✔
	Apply for a payment plan	✔	✔	✔	✔
Filing	File an individual income tax return	✔	✔	✔	✘
	File an amended return	✔	✔	✔ ^a	✘
	Apply for a tax return filing extension	N/A ^b	✔	N/A ^c	✘
Communication	Securely send documents	✘	✔	✘	✘
	Securely chat or message	✔	✔	✔	✘

- ✔ Service integrated within a taxpayer's online account
- ✔ Service available outside a taxpayer's online account
- ✘ Service not currently available

Source: GAO analysis of the websites of the Australian Taxation Office, New Zealand's Inland Revenue Department, the United Kingdom's Her Majesty's Revenue and Customs, and the United States' Internal Revenue Service. | GAO-20-71

Note: IRS is piloting electronic communication capabilities between IRS employees and taxpayers described in more detail later in this report.

^aTaxpayers in the United Kingdom who filed their original return electronically using their personal tax account may amend it electronically through their account.

^bThe Australian Taxation Office sometimes offers extensions to taxpayers living in areas affected by natural disasters, but other extensions are not offered. Taxpayers who seek an extension may call the agency.

^oHer Majesty's Revenue and Customs' (HMRC) website states that a penalty will be assessed for missing the deadline unless the taxpayer has an excuse which HMRC considers to be reasonable, e.g., the taxpayer was hospitalized.

In each of the selected countries, we found that taxpayers are offered a single online account that integrates the many different online services each revenue agency offers. As noted above, "View Your Account Information" on irs.gov provides links to other online services and taxpayers do not have to log in again to use those services. However, the remaining online services are not connected to "View Your Account Information" and taxpayers must leave the "View Your Account Information" platform to access those services. IRS officials told us that over the long term they would like to integrate additional services into "View Your Account Information," but they explained that they have prioritized the development of new online services over connecting existing services to "View Your Account Information." Further, IRS officials told us they also want taxpayers to be able to check their refund without having to establish an account.

A second difference is that taxpayers in the three countries can complete their filing obligations on the revenue agency's website. We examined the extent to which contextual differences between the U.S. income tax system and the three countries' tax systems could enable or inhibit offering electronic filing on the revenue agency's website. We found that the U.S. income tax system and the three other countries' tax systems have similar definitions of income, employers withhold income taxes employees owe, and subsidies for certain social goals are channeled through the tax system.²²

All three selected countries offer taxpayers the ability to communicate electronically with agency employees via the revenue agencies' websites. For example, Australian taxpayers who are working on preparing their return in their account can communicate through an electronic chat with ATO employees about questions they may have, such as regarding deductions and the capital gains tax. In New Zealand, taxpayers can upload documents requested by IRD to their accounts, whereas American taxpayers generally must mail these documents. IRS's pilots of electronic communication capabilities between taxpayers and its employees will be discussed later in this report.

²²Appendix I provides more specific information.

In addition to the three countries reviewed, we also selected three states that have integrated more services into a single online taxpayer account than IRS has done. Additionally, all three states provide taxpayers with two-way secure electronic communication (see figure 3). For example, Alabama and California taxpayers can log into their respective accounts for a secure electronic chat. California and New York taxpayers can share documents.

We found that two of the states—Alabama and California—offer taxpayers the capability to file their tax return on the revenue agencies' websites. However, officials in both states told us that few taxpayers have used this option. Alabama officials believed this was because many taxpayers prefer to use the same method to file their state tax return as their federal tax return, and as we have previously discussed, IRS does not currently offer this service. New York officials said they previously offered this service, but decided to stop offering it because they did not believe the benefits were sufficient to justify continuing it.

Figure 3: U.S. Internal Revenue Service’s and Selected U.S. State Revenue Agencies’ Online Services

Category	Online Service	Alabama	California	New York	IRS
Information	Check account balance and recent payments	✔	✔	✔	✔
	Check tax return history	✔	✔	✔	✔
	Track tax refund	✔	✔	✔ ^a	✔
	Update contact information	✔	✔	✔	✘
	View electronic communications or letters	✔	✔	✔	✘
Payment	Make a payment	✔	✔ ^b	✔	✔
	Apply for a payment plan	✔ ^c	✔	✔	✔
Filing	File an individual income tax return	✔	✔ ^b	✘	✘
	File an amended return	✘	✘	✘	✘
	Apply for a tax return filing extension	N/A ^d	N/A ^d	✔	✘
Communication	Securely send documents	✔	✔	✔	✘
	Securely chat or message	✔	✔	✘	✘

- ✔ Service integrated within a taxpayer’s online account
- ✔ Service available outside a taxpayer’s online account
- ✘ Service not currently available

Source: GAO analysis of the websites of Alabama’s Department of Revenue, California’s Franchise Tax Board, New York’s Department of Taxation and Finance, and the United States’ Internal Revenue Service. | GAO-20-71

Note: IRS is piloting electronic communication capabilities between IRS employees and taxpayers described in more detail later in this report.

^aNew York taxpayers can also check the status of their refund outside their account.

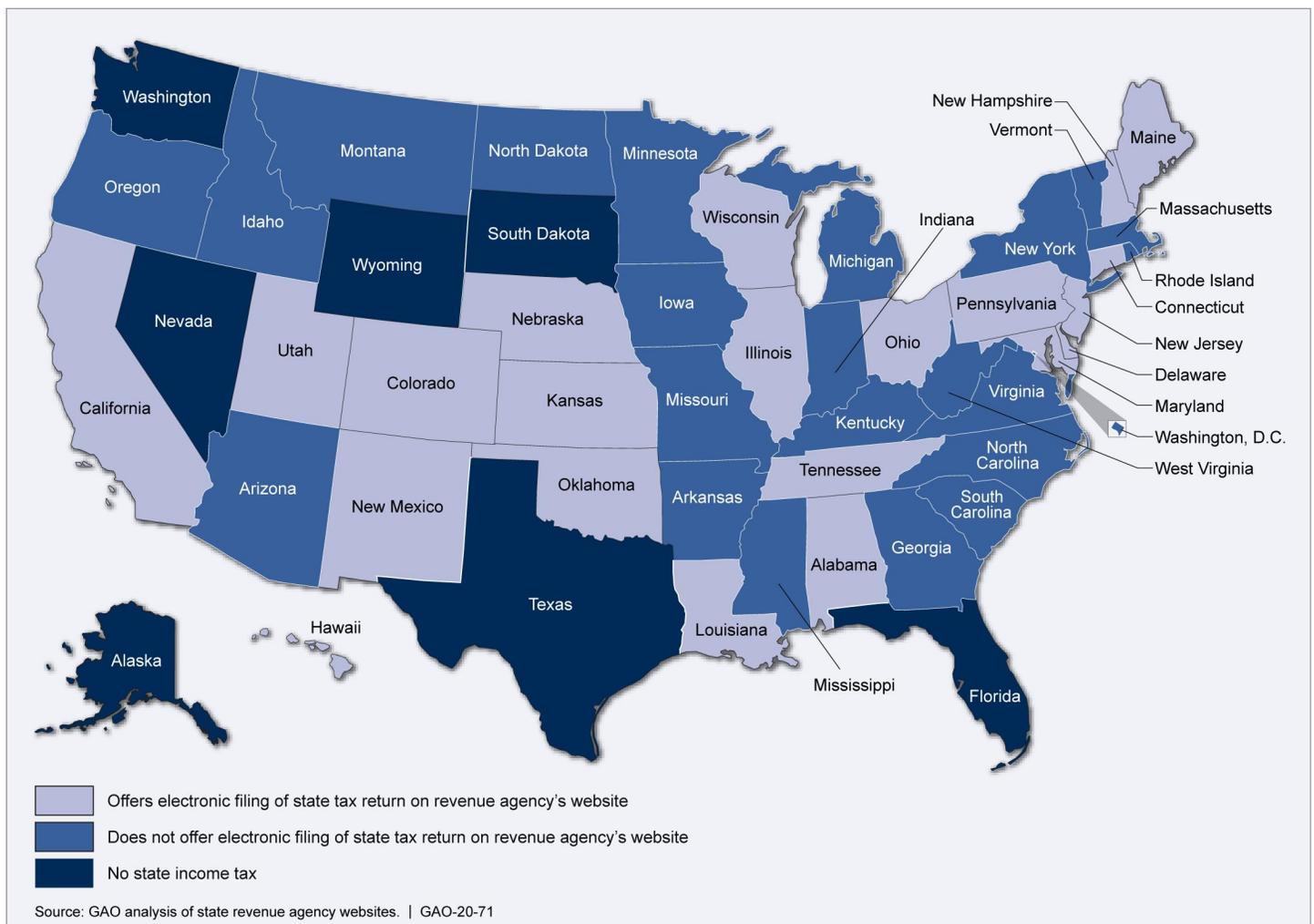
^bCalifornia officials noted that taxpayers may make payments and file a return without creating an account.

^c“My Alabama Taxes” has a link to set up a payment plan. Officials explained that taxpayers are not required to establish an account to complete this task because many taxpayers sent to collections do not have current return information and as a result would have difficulty establishing an account.

^dAlabama and California give taxpayers who need more time automatic extensions with no application required.

Our review of the revenue agency websites for the states that have income taxes (43 states and the District of Columbia) found that 21 of the state revenue agencies, including Alabama and California, allow taxpayers to file their state tax return on the revenue agencies' website (see figure 4).

Figure 4: Electronic Tax Return Filing Capabilities Offered on State Revenue Agencies' Websites as of August 2019



Note: While New Hampshire and Tennessee do not tax wage income, residents are required to pay income taxes on interest and dividend income which can be filed and paid through the revenue agency's website.

Little Is Known about the Extent to Which IRS's Online Services Meet Taxpayer Needs

While IRS regularly surveys taxpayers who visit the static pages of irs.gov, the surveys do not provide information on the extent to which all of IRS's online services meet taxpayer needs. All three of the foreign revenue agencies we reviewed collected survey information that allowed them to more clearly explain the extent to which they believe their online services are meeting taxpayer needs. In addition, IRS has long-running research seeking to estimate the time and money taxpayers spend complying with their tax obligations, but the implications of expanding online services for taxpayer burden have not yet been assessed.

Assessing Taxpayer Experience with irs.gov and "View Your Account Information"

IRS seeks feedback from a randomly selected sample of users of the static pages of its website and we reviewed an example of feedback IRS had collected between February 28, 2019, and March 31, 2019. This feedback mechanism is not designed to measure taxpayers' experiences with individual online services or the extent to which services meet their needs.²³ The invitation to participate appears on the static pages of irs.gov, not when a taxpayer is logged into an online service. However, this does not necessarily exclude taxpayers using online services from providing feedback. IRS officials explained that it does allow IRS to capture feedback across irs.gov static pages and related applications, even though it does not provide feedback on any single online service.

A hypothetical example would be a taxpayer starts the process of applying for a student loan by logging into IRS's "Data Retrieval Tool" and then after completing that task peruses IRS's publications on tax benefits for higher education on the static pages of irs.gov and is then invited to participate. IRS officials stated that one intent of the survey is to measure a taxpayer's entire experience, including instances when a taxpayer is visiting for multiple reasons. If a user goes to a static page they may be invited to participate, however if they use the online services without

²³User is the term commonly applied to individuals who visit a website. While any person with internet access can visit the static pages of irs.gov, IRS's security checks are intended to limit entry to the secure services to legitimate taxpayers and, thus, we will use the appropriate term given the group of people to whom we are referring.

visiting a static page, they will not have the opportunity to provide feedback.

IRS officials told us that this feedback may provide insight into taxpayers who report coming to irs.gov to do a task, such as obtaining tax records, but then do not successfully complete the task. IRS told us that this information could alert IRS officials to challenges taxpayers may face in locating online services, but officials agreed that this method does not provide specific feedback on individual online services. IRS officials told us that they would like to combine this survey with surveys focused on specific online services, but face resource constraints.

In addition to the survey of users from the static web pages, IRS collects feedback from taxpayers who access “View Your Account Information.” For example, IRS selected a random sample of “View Your Account Information” users between January 2019 and March 2019 who successfully logged into their accounts. OLS officials explained that IRS updated this survey to ask four questions that Office of Management and Budget (OMB) guidance directs agencies to use in assessing their customers’ experiences with the agency’s “highest-impact customer journeys.”²⁴ IRS asked users:

1. If the online tax account tool met their needs.
2. About their overall satisfaction with irs.gov.²⁵
3. Whether this experience increased their confidence in IRS.
4. Whether they could find what they needed easily and quickly.

IRS’s summary of the results of the “View Your Account Information” taxpayer experience survey identifies potential limitations. IRS states that users who have experienced challenges logging into protected services, such as “View Your Account Information,” provide negative feedback on the survey administered to users of static pages. However, the “View Your Account Information” experience survey is not designed to capture such negative feedback because a taxpayer must log into his or her account to be selected to participate in this survey. IRS officials agreed that our analysis is accurate, but had a different view on the implications. In their view, the purpose of the “View Your Account Information”

²⁴OMB, Circular A-11, pt. 6, § 280.8 (2019).

²⁵This question is also asked of a random sample of users of irs.gov static pages.

taxpayer experience survey is to assess taxpayers' experiences using this particular service. They believe that challenges legitimate taxpayers may experience in logging into "View Your Account Information" have broader implications and affect taxpayers' experiences using other online services. And as noted above, IRS officials noted that the survey of users of static pages captures negative feedback from users who have had difficulty accessing online services. However, successfully passing the security checks is the first step in the journey legitimate taxpayers must take to use "View Your Account Information." The result is a potential knowledge gap in the extent to which "View Your Account Information" is providing taxpayers with a satisfactory experience and very little knowledge on the extent to which the other online services are meeting taxpayers' needs.

OMB has directed agencies to ask two additional questions to gauge user experience with agency services: (1) Did it take a reasonable amount of time; and (2) Does the customer believe he or she was treated fairly.²⁶ IRS asks the first question of a sample of users of static pages, but neither question is currently asked of a sample of "View Your Account Information" users. IRS told us that the first of these questions was covered by their question about whether taxpayers could find what they needed to easily and quickly, although OMB guidance considers these as separate questions. IRS does not believe the second question is relevant because its online services are automated. The OMB guidance authorizes agencies to request exemptions and modifications to the requirements.

We confirmed with OMB staff that IRS had discussed its approach with OMB and that staff concurred with it. While OMB staff said they recognize that variation presently exists across agencies in the required survey questions, they told us that they would like to continue working with agencies to bring greater consistency to surveys so that comparable data will be collected by fiscal year 2021. Both IRS officials and OMB staff told us that that IRS is participating in an interagency working group focused on consistent implementation of this guidance.

²⁶OMB, Circular A-11, pt. 6, § 280.7 (2019).

Public Reporting on Taxpayer Experience

In addition to surveying customers, OMB’s Circular A-11 section 280 establishes government-wide guiding principles for all executive branch agencies which contain the following requirement: “Agency annual performance plans should include indicators for outcomes related to customer experience.”²⁷ Our review of IRS’s congressional budget justification and performance plan and report for fiscal year 2020 found no performance measures or indicators summarizing the only taxpayer experience information that IRS collects on one of its online services—the “View Your Account Information” survey discussed above.²⁸

In regards to the “View Your Account Information” survey, IRS officials told us they are not allowed to publicly share the results because of the process they used to obtain approval to administer this survey pursuant to the Paperwork Reduction Act. The act contains requirements that agencies justify the necessity of collecting information from the public and publish notices informing the public of the planned information collection. In addition the Office of Information and Regulatory Affairs (OIRA) within OMB must review and approve planned information collections.²⁹ For authorization to administer the “View Your Account Information” survey, IRS officials used approval the Department of the Interior had obtained from OIRA for multiple agencies to administer customer satisfaction surveys for government websites. However, our review of the notice the Department of the Interior published found that while the contractor administering the survey must obtain permission from the agency before releasing the information, there is no prohibition on the agency choosing to release the information.³⁰ Further to facilitate government-wide comparisons of the customer experiences different agencies are providing, the General Services Administration published a notice in the *Federal Register* in September 2019 stating that Treasury and other agencies will be publishing relevant data on Performance.gov.³¹ This

²⁷OMB, Circular A-11, pt. 6, § 280.8 (2019).

²⁸This is part of the Department of the Treasury’s congressional budget justification and annual performance plan and report.

²⁹44 U.S.C. §§ 3501–3520. See also, GAO, *Paperwork Reduction Act: Agencies Could Better Leverage Review Processes and Public Outreach to Improve Burden Estimates*, [GAO-18-381](#) (Washington, D.C.: July 11, 2018).

³⁰83 Fed. Reg. 25041 (May 31, 2018).

³¹84 Fed. Reg. 48355 (Sept. 13, 2019).

notice does not prohibit agencies from publishing this same data in other publications (e.g., the agency's performance plan and report).

Until it collects more specific feedback on the other online services, it will not be possible for IRS to summarize and report information about the taxpayer experience with online services and the extent to which those services are meeting taxpayer needs. Without information about how effectively IRS's online services are meeting taxpayer needs, it is difficult for decision makers to appreciate the potential value of these services and help ensure IRS has the necessary resources to maintain and improve these services.

The three foreign revenue agencies reviewed all report to their parliaments on the extent to which they believe their online services are meeting taxpayer needs and use that information to help target areas for improvement:

- *Australia:* The Australian Taxation Office's (ATO) annual reports for 2015-2016, 2016-2017, and 2017-2018 tracked "community satisfaction with ATO performance," which combined more specific measures tracking satisfaction with different service channels—online, telephone, and mail—and satisfaction levels among different groups of taxpayers, such as individuals and small businesses. ATO publishes the more detailed satisfaction levels on its website with the most recent report presenting 2018 results. In its 2017-2018 report, ATO reported that the information collected showed that declining satisfaction with online services was negatively affecting its overall performance and stated that the office plans to use this feedback to improve online services. In its 2018-2019 report, ATO introduced a new measure—"community confidence in the ATO"—which it says is based on surveys of clients who have recently interacted with ATO and surveys of the general community.
- *New Zealand:* The Inland Revenue Department's (IRD) annual reports for 2018 and 2019 present detailed results of its customer satisfaction and perceptions survey, including the overall percentage of customers satisfied with online services, as well as how satisfied subgroups of individual taxpayers are with online services, such as those receiving a tax credit for working families.
- *United Kingdom:* Her Majesty's Revenue and Customs' (HMRC) annual report presents a quantitative measure of customer satisfaction with online services. HMRC has published a more

detailed explanation of how the agency measures customer satisfaction with online services.³²

Assessing the Implications of Online Services for Taxpayer Burden

IRS states that the development of new online services should reduce taxpayer burden—referring to the time and money taxpayers spend to comply with their tax obligations—and one of IRS’s strategic goals states that IRS will reduce taxpayer burden.³³ To help IRS officials and policy makers measure the progress they are making in achieving their goal of reducing taxpayer burden, IRS’s Research, Applied Analytics, and Statistics (RAAS) office has periodically surveyed taxpayers since 1984 about the time and money they spend to complete their tax obligations and uses the responses along with information from those taxpayers’ tax returns to estimate the total compliance burden for individual taxpayers.

A RAAS official told us that IRS has not conducted any burden research specifically related to online services. IRS’s *Data Book* for fiscal year 2018 describes the magnitude of the taxpayer assistance provided through online services. More than 300 million electronic transactions took place through online services for individual taxpayers.³⁴ IRS is missing an opportunity because taxpayers are already making extensive use of IRS’s online services for such tasks as setting up payment plans and obtaining records. Online services will likely continue to assist taxpayers in fulfilling their tax obligations.

Two of the case study countries’ revenue agencies—in Australia and New Zealand—have conducted research on taxpayer burden. For example, New Zealand’s IRD’s annual report for 2019 stated that it has made progress in making taxes easier and simpler for its customers. To track its progress, IRD added online services to its taxpayer burden research in 2016 and updated this study in 2018. IRD compared the 2016 and 2018 survey results to burden research conducted in 2013 prior to expanding online services. As a result of this research, IRD found that 20 percent of taxpayers who run small businesses and participated in the survey

³²HMRC’s *Customer Service-How HMRC Reports on Digital Customer Satisfaction, Post and Telephony*.

³³Taxpayer burden does not include the money a taxpayer may pay in taxes.

³⁴Internal Revenue Service, *Internal Revenue Service Data Book, 2018*, Publication 55B (Washington, D.C.: May 2019).

reported that expanded online services and an improved IRD website have overall reduced their compliance burden.³⁵ IRD's report notes that additional online services will be launched in April 2019 and a follow-up survey is planned for 2020 to compare the reported burden with the earlier surveys and, thereby, track the progress it is making.

IRS's Strategy for Expanding Online Services Is Not Fully Consistent with Key Requirements and Leading Practices

IRS's Long-Term Plan Does Not Consider Taxpayer Input for Identifying and Prioritizing New Online Services

A series of long-term planning documents establishes priorities to guide IRS decision-making and identify new online services, but does not contain evidence that taxpayer input was used to help identify the highest priority services.³⁶ In April 2019, IRS published the *IRS Integrated Modernization Business Plan* (modernization plan).³⁷ One of the plan's goals is to modernize the taxpayer experience. To do this, IRS proposes to develop new services including delivering taxpayer notices electronically, modernizing online installment agreements, and establishing omni-channel communication capabilities provided that IRS continues to receive the requested resources from Congress. IRS does not currently incorporate taxpayer input into its prioritization process because it prioritizes services primarily based on their potential to benefit IRS's operations or because they can be developed quickly.

An OMB memorandum directs agencies to understand what their customers want by engaging in research to understand their goals,

³⁵Inland Revenue Department, *2018 Study on the Time and Cost of Doing Business Taxes Incurred by NZ Small Businesses* (Wellington, New Zealand: October 2018).

³⁶In addition to the strategic plan which we have mentioned and the modernization plan we will discuss below, we also reviewed IRS's *Digital Blueprint* and documents related to a previous planning effort referred to as "Future State". IRS officials told us for a report on Future State that those ideas had been incorporated into the strategic plan. For more information on Future State, see GAO, *Tax Administration: Status of IRS Future State Vision*, [GAO-19-108R](#) (Washington, D.C.: Oct. 3, 2018).

³⁷This plan also includes a companion document which provides additional detail. We will refer to both documents as the modernization plan.

needs, and behaviors before beginning to develop new services.³⁸ Going forward, the IDEA Act requires that new digital services be “designed around user needs with data-driven analysis influencing management and development decisions”. This requirement took effect in June 2019.³⁹ IRS documents describing how new services were prioritized show that IRS did not incorporate taxpayer research or input into the score it assigns to each proposed service. Instead, IRS officials estimated the potential taxpayer value of a new service. For example, supporting documentation for one proposed project from the modernization plan to allow taxpayers to receive notices electronically states that IRS expects taxpayers to receive less paper mail and have easier online access to recent or historical notices if the project is developed. IRS expects that electronic delivery of notices will increase the timeliness of its service, which would improve the taxpayer experience.

After a new online service is selected and approved, IRS does obtain input from taxpayers during the development phase, for example, to improve usability of the service and fine-tune technical capabilities. OLS officials provided us with documentation of user experience research they conducted on how to improve specific design elements of existing online services. For example, IRS reworded a button within “View Your Account Information” to access the online payment agreement service from “Need more time to pay?” to “Go to payment plans” to improve clarity. As a result of the change, the rate of taxpayers accessing the online payment agreement service from their online account has doubled, according to data IRS provided.

While IRS’s modernization plan outlines new online services it plans to develop, the modernization plan also states that it expects additional services to be added over time as technology advances and customer expectations evolve. The Taxpayer First Act requires IRS to expand an online service—currently offered to taxpayers in nine states and the District of Columbia—to provide taxpayers with Identity Protection Personal Identification Numbers and an online platform to prepare and file a Form 1099 to report independent contractor earnings or other

³⁸Office of Management and Budget, *Memorandum 17-06* (Washington, D.C.: 2016). The memorandum was signed by the Director of the Office of Management and Budget, the Administrator of the Office of Information and Regulatory Affairs, and the Federal Chief Information Officer. It outlines policies for agency websites and digital services.

³⁹Pub. L. No. 115-336, § 3(a)(6).

miscellaneous income.⁴⁰ In May 2019, IRS officials told us that they will continue to reprioritize new service development based on available resources. As IRS reprioritizes the new services it plans to develop, IRS runs the risk of developing online services which may be of lower priority to taxpayers or that taxpayers do not utilize if IRS does not include input from taxpayers on what new services IRS should prioritize.

By contrast, the United Kingdom's HMRC has conducted taxpayer research to understand user needs and taxpayer preferences. For example, HMRC conducted taxpayer research in 2016 to inform decisions about which services to include in development of the "Personal Tax Account" which as noted above provides taxpayers with integrated access to various online services. HMRC's research included workshops and interviews with taxpayers who use online services as well as an online survey of 4,000 taxpayers. The online survey asked taxpayers to rank the top five services they would like HMRC to develop from a list of 14 potential services and asked taxpayers to explain their rationale. HMRC then assessed preferences among taxpayers and concluded that secure electronic messaging was one of the services most highly sought, according to the report. As a result, HMRC incorporated taxpayer input into its new service prioritization process and began developing services that it knew taxpayers desired and were more likely to use.⁴¹

IRS's Plans for Expanding Online Services Do Not Set Specific Targets for Improving Taxpayers' Experiences or for Decreasing Taxpayer Burden

IRS's modernization plan states that IRS intends to measure the success of its efforts to improve taxpayers' experience consistent with the administration's government-wide goal to improve customer experience with federal services. OMB's guidance to agencies on this topic states that they should measure customer perceptions of the ease, efficiency, and equity in the process of obtaining the service. The modernization plan also states that IRS will measure taxpayer burden hours, which would capture changes in the amount of time taxpayers spend doing their taxes as a result of the modernization of information services and the

⁴⁰Pub. L. No. 116-25, §§ 2005, 2102.

⁴¹Her Majesty's Revenue & Customs, *Personal Tax Account Research* (London: February 2017).

development of new online services. The GPRA Modernization Act (GPRAMA) requires agencies' annual performance goals to be expressed in an objective, quantifiable, and measurable form and this principle is relevant to IRS's modernization plan.⁴²

In prior work identifying leading practices related to this requirement, we explained that expressing goals in a quantifiable form provides an objective way to assess the agency's performance.⁴³ The Taxpayer First Act, enacted in July 2019, similarly requires the Secretary of the Treasury (or designee) to identify metrics and benchmarks for IRS for quantitatively measuring progress in implementing a customer service strategy that the act requires IRS to develop. That strategy must be submitted to Congress within 1 year of enactment.⁴⁴

While Treasury and IRS are not required under the act to submit the strategy containing the metrics and benchmarks for quantitatively measuring progress until July 2020, we found that IRS's modernization plan is not well positioned to help Treasury and IRS implement this new requirement. IRS's modernization plan states that IRS intends to measure progress towards its customer experience goal through promoting ease and simplicity in taxpayer interactions. To measure that, IRS stated that it plans to increase its "American Customer Satisfaction Index" score, although IRS did not set a numerical target for improvement. The survey for this index score is administered by researchers outside the government and focuses on taxpayers' experiences filing their tax return, which is not a service offered on [irs.gov](https://www.irs.gov), making it of little use in assessing taxpayer satisfaction with IRS's online services.

IRS's modernization plan does set numerical targets for output measures such as the percentage of notices available in an electronic format for taxpayers, but these targets are not aligned with any of IRS's taxpayer experience feedback mechanisms, including those that come from the

⁴²31 U.S.C. § 1115(b)(2). GPRAMA provides for performance goals to be expressed in an alternative form when the agency, in consultation with OMB, determines it is not feasible to express the performance goal in an objective, quantifiable, and measurable form. 31 U.S.C. § 1115(c).

⁴³GPRAMA updated the Government Performance and Results Act of 1993 (also referred to as the Results Act) and this requirement remained the same across the two laws. See GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, [GAO/GGD-10.1.20](#) (Washington, D.C.: Apr. 1, 1998).

⁴⁴Pub. L. No. 116-25, § 1101.

feedback mechanism discussed above administered to users of IRS’s “View Your Account Information.”⁴⁵ For example, IRS asks a sample of “View Your Account Information” users if the online service met his or her needs, but IRS’s modernization plan does not set a target or desired level of performance for this question or for any other survey question.

Our finding that IRS lacks targets for improving taxpayer experience is consistent with our prior work. In April 2013 we reported that previous IRS planning efforts to expand online services had not set a clear target for improving taxpayer experience and we recommended that IRS establish a numerical or other measureable goal to improve taxpayer satisfaction and a time frame for achieving it.⁴⁶ While IRS neither agreed nor disagreed with this recommendation, in 2016 IRS said it would consider the development of numerical or other measurable goals related to taxpayer experience. Our current review shows that IRS has not developed such measures. We continue to believe this recommendation is valid and that the issue will continue to grow in importance along with the use of IRS’s online services.

While IRS believes that the planned online services will promote “ease and simplicity,” no target is set in the modernization plan for reductions in taxpayer burden hours. As noted above, IRS has not started to examine the implications of expanding online services on taxpayer burden. Without targets for reducing taxpayer burden, IRS cannot determine the success of new online services in helping drive progress towards this goal.

All three of the foreign revenue agencies we reviewed set numerical targets for performance measures related to improving online services and used these goals to target areas for further improvement. New Zealand’s IRD stated in 2015 that its business transformation program should improve the percentage of customers “who find it easy to comply” to between 90 and 95 percent by 2023/2024 to assess progress in its goal to reduce taxpayer burden. IRD’s annual report for 2019 states that

⁴⁵IRS’s modernization plan states that by fiscal year 2024 75 percent of taxpayer interactions are to have a digital alternative and 80 percent of annual outbound notifications are to be delivered digitally. The plan also specifies that 100 percent of high-volume notices are to be in an electronic format for taxpayers to view by fiscal year 2020, with 10 percent of taxpayers receiving the monthly installment agreement notice through “View Your Account Information” by fiscal year 2021, increasing to 25 percent by fiscal year 2024.

⁴⁶[GAO-13-435](#).

the business transformation program remains on track and is delivering benefits and this section also provides an update on the percentage of customers “who find it easy to comply.” While the annual report does not refer to the target for 2023/2024, the percentage reported in the 2019 annual report is lower than the target identified for 2023/2024. The 2019 report explains that taxpayers are “getting used to our new systems and processes” and describes additional improvements IRD is planning. In addition, the United Kingdom’s HMRC set a target for 80 percent of taxpayers to report satisfaction with online services for 2018. HMRC published performance towards its goal in its 2018-2019 annual report, finding that 80.4 percent of taxpayers reported satisfaction with online services.

IRS Pilot Programs Identify Potential Risks for Future Digital Communication Capabilities

IRS’s modernization plan states that taxpayers will be able to sign up to receive notices electronically by fiscal year 2021 and to have text or video chats with IRS employees by fiscal year 2024. IRS currently sends taxpayers notices via mail for identity verification, balance due, or if IRS needs additional information about a tax return. IRS plans to allow taxpayers to access certain notices electronically via a taxpayer’s online account. In July 2019, IRS Information Technology (IT) officials told us that they have established a team to start developing the capability to make notices available to taxpayers electronically, which is IRS’s first step towards developing full-scale digital communication capabilities. IT officials told us in October 2019 that they plan to conduct customer testing to pilot the service before it launches and gather customer feedback after launching the service.

While IRS has just begun development of full-scale digital communication capabilities, IRS has experience providing a subset of taxpayers secure messaging capabilities through two pilot programs that we reviewed. Specifically, under the coordination of OLS, IRS began testing digital communication services in December 2016 to allow for secure and

personalized correspondence between taxpayers and IRS employees through three pilot programs, as described below:⁴⁷

- An active pilot within the Small Business/Self Employed (SB/SE) business unit is testing digital messaging for examinations, which have traditionally been done by mailing questions and documents back and forth between the examiner and taxpayer. SB/SE began this pilot in fiscal year 2017 for a subset of taxpayers selected for examination for returns related to itemized deductions, the child care deduction, and education tax credits. Interested taxpayers must successfully complete security checks to verify their identity and then can exchange messages electronically with IRS employees and share requested documents through a platform accessed through irs.gov.
- A Taxpayer Advocate Service (TAS) pilot that tested the ability for taxpayers to send documents in electronic form began in fiscal year 2017 and ended in fiscal year 2019.⁴⁸ TAS designed the pilot for the purpose of helping two sets of taxpayers: (1) those who were facing the prospect of IRS seizing their property to pay a tax debt, and (2) those who were facing an audit of their claim of the Earned Income Tax Credit and had sought TAS' assistance.
- IRS officials told us that an authenticated chat pilot to assist taxpayers in completing an Online Payment Agreement was introduced in June 2019. Results for this pilot were unavailable as of October 2019.

We evaluated the SB/SE and TAS pilots against leading practices. We found that the two digital communication pilots mostly addressed leading practices our prior work identified for designing a well-developed and documented pilot program. These leading practices are to: (1) establish objectives; (2) develop an assessment plan; (3) assess scalability; (4)

⁴⁷IRS officials told us additional pilots have been done involving employees of corporations and tax professionals, which are outside this report's scope. Also, irs.gov allows website users to chat with IRS employees about technical performance issues on the website, but officials told us that service is designed to prevent taxpayers from inadvertently sharing confidential information, such as blocking the sharing of nine-digit numbers which could be Social Security numbers.

⁴⁸The Taxpayer Advocate Service is an independent organization within IRS that helps taxpayers facing challenging tax situations and is headed by the National Taxpayer Advocate.

evaluate results; and (5) ensure stakeholder communication.⁴⁹ These practices enhance the quality, credibility, and usefulness of evaluations and help ensure that time and resources are used effectively. Although we found both pilots to be generally aligned with the leading practices to develop an assessment plan, evaluate results, and ensure stakeholder communication, neither pilot fully established objectives or assessed scalability. These leading practices are also relevant for testing of future capabilities of the electronic messaging platform that IRS plans to develop.

Establish Objectives

Our leading practices state that objectives for pilot evaluations should be well defined, appropriate, clear, and measurable. We found differences in stated objectives between OLS and the participating offices. OLS set a target for the SB/SE pilot to reduce total case time from greater than 200 days to fewer than 100 days, and for the TAS pilot to improve the relief rate to taxpayers by 5 percent, which OLS officials explained were ambitious goals. However, SB/SE officials told us that they believed the magnitude of OLS's goal for reduction in case time to be unrealistic. The National Taxpayer Advocate told us that she had narrower objectives for the pilot including testing the viability of sending documents electronically and assessing taxpayer willingness to participate. Having officials from relevant offices with different understandings of the quantitative target they are trying to achieve is not fully consistent with the leading practice and makes it more difficult for officials to evaluate the performance of the pilots.

Develop Assessment Plan

We previously reported that key features of an assessment methodology include a strategy for comparing the pilot's implementation and results with other efforts; a clear plan that details the type and source of the data necessary to evaluate the pilot; and methods for data collection, including the timing and frequency.⁵⁰ Our review found that the implementing offices for both pilots developed plans to conduct periodic assessments to

⁴⁹GAO, *Identity Theft: Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud*, [GAO-18-20](#) (Washington, D.C.: Nov. 28, 2017); and *DATA ACT: Section 5 Pilot Design Issues Need to Be Addressed to Meet Goal of Reducing Recipient Reporting Burden*, [GAO-16-438](#) (Washington, D.C.: Apr. 19, 2016).

⁵⁰[GAO-16-438](#).

assess the objectives. For example, the assessment plan for SB/SE's pilot included measurements of average case time and participation levels. The TAS assessment plan also included measurements of average case time and participation levels as well as the reasons taxpayers provided for not enrolling in the online pilot.

Assess Scalability

The purpose of a pilot is generally to inform a decision on whether and how to implement a new approach in a broader context. Identifying criteria or standards for identifying lessons about the pilot will help inform an agency's decisions about scalability and when to integrate pilot activities into overall efforts.⁵¹ A common challenge that both of IRS's communication pilots experienced was that only a small proportion of eligible taxpayers participated. Among the taxpayers selected for an SB/SE exam for whom the pilot was offered, approximately 11 percent of taxpayers participated in the digital communication pilot and sent their exam responses and supporting documentation through a secure, electronic messaging platform while approximately 51 percent of taxpayers sent their exam responses to IRS via mail.⁵² In contrast, 1 percent of invited taxpayers participated in the TAS pilot, according to the TAS report, which found that most taxpayers opted to communicate with TAS through more traditional methods such as telephone, mail, or fax.

Officials involved in each pilot reported that additional taxpayers expressed interest in participating, but experienced challenges in getting through the identity verification requirements for enrollment. Of the potential participants in the SB/SE pilot, only 44 percent of those who began the secure enrollment process successfully enrolled. Pilot participants told TAS that they found the secure enrollment system for the TAS pilot to be too complicated to use and preferred instead to fax documents to avoid the burdensome sign up process. The National Taxpayer Advocate concluded that the participation rate was so low that it did not make sense to continue the pilot.

⁵¹[GAO-16-438](#).

⁵²Of the remaining taxpayers who were offered the SB/SE communication pilot, approximately 6 percent of taxpayers sent a response to IRS via mail that they fully agreed to the exam results and provided no further responses or supporting documentation. The remaining taxpayers (approximately 33 percent) did not provide any response to the notice informing them they had been selected for an examination.

Evaluate Results

In conjunction with a clearly articulated assessment methodology, a detailed data-analysis plan identifies who will analyze the data as well as when and how data will be analyzed to assess the pilot's performance and draw conclusions about how to improve procedures moving forward.⁵³ SB/SE's pilot report found that use of the Taxpayer Digital Communications (TDC) electronic platform did reduce the number of days to complete an examination compared to paper. However, IRS examiners spent more hours on average on exams conducted through TDC than paper exams because taxpayers sent more attachments in their electronic messages, on average, than in the mail. TAS found that those taxpayers who enrolled in the pilot were able to successfully communicate with them. TAS officials expressed optimism that enrollment in secure communication could help reduce case processing time among those seeking assistance avoiding an IRS seizure of their property to pay a tax debt.

Ensure Stakeholder Communication

A leading practice is that agencies identify who the relevant stakeholders are and communicate frequently to obtain feedback on the successes and challenges of the pilot.⁵⁴ IRS identified taxpayers and participating business units as the relevant stakeholders for each pilot. We found that both the SB/SE and TAS pilots obtained feedback from stakeholders including employees and taxpayers who participated in a pilot as well as taxpayers who chose not to participate. In January 2018, SB/SE developed a web-based survey which sends taxpayers a voluntary survey upon closing of an exam, when communication ceases with a taxpayer. In addition, SB/SE called taxpayers who did not participate in the pilot program to discuss why they chose not to participate. Of the 262 taxpayers who were successfully contacted, taxpayer reasons for not signing up included that they did not remember seeing the invitation to enroll, they could not pass the secure enrollment process, and they thought it was a scam. TAS held focus groups with employees participating in its pilot and found that many employees raised concerns that the digital communication platform was not user friendly and discouraged uptake.

⁵³[GAO-16-438](#).

⁵⁴[GAO-16-438](#).

The Office of Appeals conducted a pilot between fiscal years 2017 and 2018 using video conferencing software as a way for Appeals Officers who volunteered to participate to conduct video conferences with taxpayers in lieu of a telephone conference. The Office of Appeals concluded the pilot demonstrated the viability of this technology and allowed all Appeals officers who are willing to use this technology to offer it to the taxpayers they are working with as of October 1, 2018.⁵⁵ We did not assess the pilot against our leading practices for conducting pilots because we had recently completed a review of IRS's Office of Appeals, including its video conferencing capabilities, and the Treasury Inspector General for Tax Administration (TIGTA) recently published a review of the pilot.⁵⁶

TIGTA identified a risk related to the scalability of videoconferencing. As of September 30, 2018, Appeals' officials told us that less than 4 percent of invited taxpayers chose to participate in its pilot. They said that some of the taxpayers who declined to use videoconferencing thought it easier to have a phone call rather than go through the steps involved in setting up a videoconference. Unlike the digital communication pilots described earlier, participants in the Appeals pilot were not required to verify their identity through Secure Access, which is a multifactor authentication process for which taxpayers provide personal and financial information and then IRS verifies that the taxpayer has a mobile phone in his or her name by texting a code to the phone or mailing an activation code. Instead, Appeals officers verified taxpayer identities at the beginning of the videoconference. Despite the difference in security requirements, the participation rate for the Appeals pilot was also low. IRS's modernization plan's discussion of future video chats between IRS employees and taxpayers makes no mention of the challenges Appeals has experienced in getting taxpayers to use the videoconferences it already offers selected taxpayers.

⁵⁵We excluded this service from our scope because it is up to individual employees to decide if they wish to offer this service to the taxpayer they are working with so taxpayers are not guaranteed the opportunity to have a video conference. In addition, the service cannot be directly accessed on irs.gov.

⁵⁶GAO, *Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness*, [GAO-18-659](#) (Washington, D.C.: Sep. 21, 2018); and Treasury Inspector General for Tax Administration, "Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It." 2019-IE-R002. November 13, 2018. Washington, D.C.

The same concerns about clear objectives and scalability that we found in the TAS and SB/SE digital communication and videoconferencing pilots also have implications for the full-scale services that IRS plans to develop. The modernization plan states that one of IRS's objectives through development of an online notification service is to reduce mailing costs by sending fewer notices via mail. However, IRS officials told us in September 2019 that they plan to continue to mail all notices once an online notice service is developed. This suggests that IRS will move forward with development of an online notification service without clear objectives such as cost savings. In December 2019, IRS officials noted that while this may be true of initial deployment, future iterations could potentially allow users to change their delivery preferences.

The services outlined in IRS's modernization plan include delivery of tax credit qualification notices electronically to taxpayers, which IRS officials explained would be limited to low-income taxpayers who IRS believes to be eligible for, but not claiming, the Earned Income Tax Credit (EITC). TAS's pilot of secure messaging with a similar set of taxpayers—taxpayers subject to an audit of their EITC claim—showed that many low-income taxpayers did not have the access to technology to properly enroll. IT officials told us that they plan to conduct customer testing before and after the introduction of the new electronic notice service. Because IRS is just beginning development of its new digital communication platform, it has not yet provided evidence that it plans to consider concerns and limitations identified in prior digital communication pilots. Without developing a pilot to test its new services and incorporate the lessons learned from prior pilots, IRS risks developing a full-scale service targeted to taxpayers with a low potential for uptake.

IRS Faces a New Challenge with Private Industry as It Plans to Expand Online Services

IRS Continues to Face Security and Human Capital Challenges

Our discussions with IRS officials confirmed that they continue to address security and human capital challenges, which we have evaluated in

recent reports.⁵⁷ IRS's modernization plan states that IRS faces increasingly sophisticated and frequent efforts by cybercriminals to steal taxpayer data. For example in 2015, IRS temporarily suspended online transcript services after fraudsters used personal information obtained from sources outside IRS to pose as legitimate taxpayers and access tax return information from up to 724,000 accounts.⁵⁸ IRS relaunched this service in 2016 with the requirement that taxpayers go through Secure Access. IRS also uses Secure Access for "View Your Account Information".

The remaining online services require different levels of authentication. For example, taxpayers must provide their Social Security numbers or individual taxpayer identification numbers, filing status, and exact refund amounts to access "Where's My Refund?" The information provided is limited to tracking IRS's receipt of a return, approving the refund, and sending the refund. Users of this service cannot, for example, redirect the refund from the destination specified on the tax return or access the detailed personal information contained in transcripts. If IRS makes the authentication process too stringent, it may adversely affect legitimate taxpayers, but too easy of an authentication process presents security risks.⁵⁹

In June 2018, we recommended 11 actions IRS should take to improve taxpayer authentication, including developing a plan to fully implement new federal guidelines for online authentication and IRS agreed with our recommendations.⁶⁰ In June 2019, IRS officials stated that they have identified an approach for improving the security of online authentication consistent with new federal guidelines. However, additional work remains to fully address our recommendations. Further, the Taxpayer First Act, enacted in July 2019, requires IRS to verify the identity of any individual

⁵⁷GAO, *Identify Theft: IRS Needs to Strengthen Taxpayer Authentication Efforts*, [GAO-18-418](#) (Washington, D.C.: June 22, 2018); and *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, [GAO-19-176](#) (Washington, D.C.: Mar. 26, 2019).

⁵⁸[GAO-18-418](#).

⁵⁹[GAO-18-418](#).

⁶⁰We have identified four of the 11 recommendations from [GAO-18-418](#) as priority recommendations for the Commissioner to focus on. GAO, *Priority Open Recommendations: Internal Revenue Service*, [GAO-19-324SP](#) (Washington, D.C.: Apr. 4, 2019).

opening an “e-Services account” by January 2020 before the individual can use the e-Service tools.⁶¹

IRS also continues to face human capital challenges. The former Acting Director of OLS told us in March 2019 that her office has faced several challenges in recruiting and hiring: (1) competition with technology companies for employees with the necessary skills; (2) challenges in crafting position descriptions to inform job seekers of openings; and (3) delays in IRS’s Human Capital Office processing of applications. These challenges are similar to IRS-wide challenges we recently identified, including skill gaps in mission critical occupations and limited capacity by the Human Capital Office to hire employees. In March 2019, we recommended IRS take six actions, including improving its workforce planning and addressing delays in the hiring process.⁶² IRS agreed with our recommendations. In September 2019, the Deputy Commissioner for Operations Support reported that IRS is working to address our recommendations, including a plan to reduce the hiring backlog, increase hiring capacity, and improve monitoring and reporting capabilities. In November 2019, we determined IRS had addressed two of our recommendations by developing a strategy to address current and future hiring requirements and issuing guidance to business units’ executives on streamlining the hiring approval process. As noted above, the Deputy Commissioner for Operations Support reported that IRS is working to address our remaining recommendations.

Long-Standing Agreement with Private Industry Complicates IRS’s Ability to Expand Online Services, Including Filing Amended Tax Returns Electronically

Taxpayers cannot file their tax returns on [irs.gov](https://www.irs.gov) and IRS officials told us they have no plans to develop such a capability. As noted above, the absence of electronic filing services on [irs.gov](https://www.irs.gov) is a notable difference between the services IRS provides and those provided in the three countries and two of the three states we reviewed. We found that IRS’s Free File agreement benefits a small proportion of taxpayers, but that the full benefits and costs of this agreement are uncertain. IRS has renewed the nearly 20-year old agreement eight times since its inception in 2002

⁶¹Pub. L. No. 116-25, § 2304.

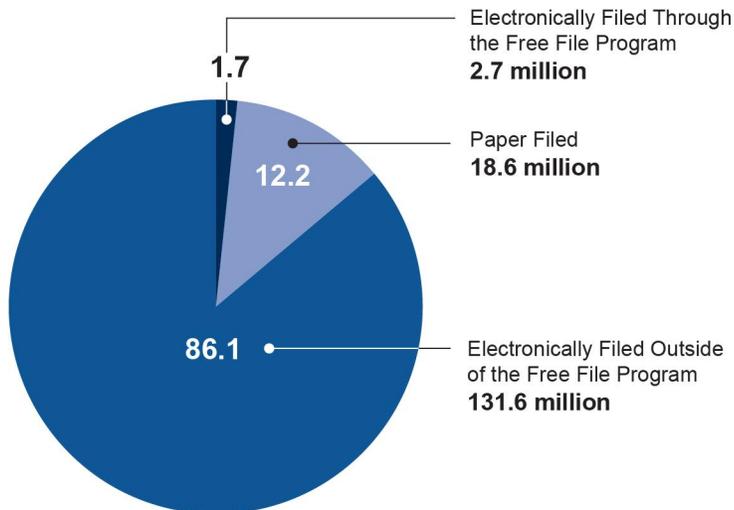
⁶²[GAO-19-176](#).

without sufficient consideration of how this agreement relates to its growing portfolio of online services, such as the development of the capability for taxpayers to file amended returns electronically.

Potential Benefits of the Free File Agreement

IRS officials do not regard the absence of electronic filing capabilities on irs.gov to be a shortcoming. Rather, they believe that the Free File agreement has served both taxpayers and IRS well. Officials noted that eligible taxpayers can receive free access to electronic tax preparation and filing services provided by the companies which make up the Free File, Inc. consortium. Additional benefits accrue to IRS, according to officials, by encouraging electronic filing which reduces the costs of processing returns. Further, IRS officials noted that having industry assist taxpayers with electronic filing allows them to focus on providing other online services, such as the informational and payment services described above. Officials representing Free File, Inc. expressed similar views on what they consider to be the benefits of the agreement. However, IRS data show that less than 2 percent of all individual tax returns were filed using Free File in fiscal year 2018 (see figure 5).

Figure 5: Percentage of Individual Tax Returns Filed Using Different Methods in Fiscal Year 2018



Source: IRS. | GAO-20-71

IRS's annual data books started tracking the number of returns filed using Free File in fiscal year 2009. As the data show, excluding paper returns,

approximately 2 to 3 percent of all electronically filed returns were filed through Free File for the 10 years with available data. IRS's data include taxpayers who were eligible for and used free commercial software or websites and those who used Free Fillable Forms discussed earlier (see table 2). As the data show, the vast majority of taxpayers filing electronically either hired a practitioner to do so on their behalf or obtained commercial tax preparation and filing services outside of the Free File program.

Table 2: Percentage of Electronically Filed Individual Tax Returns 2009-2018 by Method

Fiscal Year	Total Volume of Returns Electronically Filed	Percentage Filed Outside of the Free File Program by Practitioners	Percentage Filed Outside of the Free File Program by Taxpayers Using Commercial Software	Percentage Filed Through the Free File Program
2009	95,130,626	68.8	27.7 ^a	3.5 ^a
2010	98,209,764	65.2	31.5 ^a	3.3 ^a
2011	111,004,358	64.0	33.1	2.9
2012	118,401,243	63.5	33.9	2.6
2013	120,983,966	63.6	33.9	2.5
2014	124,585,594	62.0	35.4	2.6
2015	127,778,934	61.1	36.6	2.3
2016	131,043,815	59.8	38.2	2.0
2017	131,641,943	59.7	38.4	1.9
2018	134,297,201	59.1	38.9	2.0

Source: IRS. | GAO-20-71

^aIRS's annual data books for fiscal years 2009 and 2010 do not mention Free Fillable Forms, but IRS officials provided data on usage of those forms in those years.

The low usage of Free File is one of the topics that has been reviewed in more detail in reports by the National Taxpayer Advocate and IRS's Advisory Council.⁶³ Usage was also cited in separate letters that the Chairman and Ranking Member of the Senate Committee on Finance and the Chairman and Ranking Member of the House of Representative's

⁶³The National Taxpayer Advocate, *Annual Report to Congress: 2018, Volume 1* (Washington, D.C.: Feb. 12, 2019); and Department of the Treasury: Internal Revenue Service, *Internal Revenue Service Advisory Council Public Report*, Publication 5316 (Washington, D.C.: Nov. 15, 2018).

Committee on Ways and Means sent to the IRS Commissioner in May 2019 requesting a review of Free File.⁶⁴

In June 2019, IRS hired the MITRE Corporation to review, among other objectives, the Advisory Council's findings and recommendations. In an October 2019 report submitted to IRS, the MITRE Corporation examined: (1) The extent to which eligible taxpayers were using Free File; (2) the participating companies' compliance with the agreement between Free File, Inc. and IRS; and (3) researchers' observations of taxpayers' experiences using the software provided by companies participating in Free File.⁶⁵ The report found that the program generally appeals to taxpayers who prefer a "do-it-yourself" method of tax preparation and filing and taxpayers' preferences should be taken into account when interpreting IRS's usage data. It found that participating companies had generally complied with the terms of the agreement but that taxpayers experienced challenges in navigating the Free File program. The report made a number of recommendations on these and other topics to IRS.

Potential Costs of the Free File Agreement

Under the terms of the Free File agreement, IRS does not pay Free File, Inc. companies for the services provided. Rather, participating companies benefit from continuing this agreement because they stand to potentially lose business should IRS develop its own online filing capabilities. Although the agreement does not have a direct monetary cost to IRS, our review found there are indirect costs. Specifically, the agreement states that "the federal government has pledged to not enter the tax preparation software and e-filing services marketplace."⁶⁶ IRS's decision not to develop and offer electronic filing on its website is a contrast to the capabilities offered by some other countries and U.S. states. The Free File agreement in its current form could potentially constrain the development of new online services such as allowing taxpayers to file amended returns on irs.gov. Online services have the potential to

⁶⁴Letter from the Chairman and Ranking Member of the Senate Committee on Finance to the IRS Commissioner, May 6, 2019, and Letter from Chairman and Ranking Member of House Ways and Means Committee to the IRS Commissioner, May 9, 2019.

⁶⁵MITRE Corporation, *Independent Assessment of the Free File Program: Free File Program Assessment Final Report* (McLean, Virginia: Oct. 3, 2019).

⁶⁶Internal Revenue Service, *Eighth Memorandum of Understanding on Service Standards and Disputes: Between the Internal Revenue Service and Free File, Incorporated* (Washington, D.C.: October 2018).

decrease both taxpayer burden and costs for revenue agencies in the long term.

IRS's efforts to assist taxpayers with amending previously filed tax returns illustrate the potential costs of renewing the Free File agreement without consideration of IRS's long-term plans for online services. Irrespective of the method used to file the original return, taxpayers must file an amended return (Form 1040X) on paper. Officials in IRS's Wage and Investment (W&I) business operating division provided a business case they drafted proposing to give taxpayers the option of filing an amended return electronically.⁶⁷ The business case makes clear that IRS officials believe the current paper-based process is inconvenient for taxpayers because the vast majority of taxpayers are filing the original return electronically. It is also costly and challenging for IRS to process these paper forms with more than 3 million of these amended returns received in processing year 2017. The business case says IRS has been assessing a potential online service in this area for more than 10 years, but has not moved forward due to technical and resource challenges.

One approach IRS is exploring is to allow private sector tax preparation and filing companies and practitioners to file an amended return on behalf of a client, which would be similar to the current arrangement for original returns established by the Free File agreement. The second approach IRS is exploring is allowing taxpayers to correct the return with a new online service on irs.gov. The business case states IRS currently prefers the first approach of having taxpayers work with industry or a tax practitioner because of a combination of cost and technical considerations.

The business case states that IRS officials have had discussions with officials affiliated with Free File, Inc. According to IRS's account of these discussions, industry is supportive of the first potential approach of having taxpayers electronically file amended returns through their industry. Further, IRS notes that some taxpayers who used software to prepare the original return may find it convenient to use the same software to prepare and file an amended return. However, the business case also states that, "the costs are not insignificant" for IRS in working with industry, even though IRS plans to leverage existing systems as much as possible.

⁶⁷The business case says this would be limited to taxpayers who filed their original return electronically. Paper filers of the original return would not be eligible under W&I's proposal.

A further complication is how IRS's plans to work with industry on electronic filing of amended returns relate to the Free File agreement. IRS's business case states that Free File, Inc. officials told them participating companies would be willing to provide electronic filing of amended returns for free, but as noted above less than 2 percent of original returns are filed through Free File. While individual tax preparation and filing companies could choose to offer electronic filing of amended returns for free or include that capability in paid packages they offer for filing an original return, the agreement in its current form would not guarantee free access to electronically filing amended returns for the vast majority of taxpayers who file an original return outside of Free File.

If IRS were to return to its earlier idea of offering the capability to file an amended return on irs.gov, that approach also comes with potential risks for IRS regarding the Free File agreement. IRS officials noted that the agreement states that, "this agreement does not limit IRS from providing phone-based, web-based, or electronic interaction between the IRS and a taxpayer (or a taxpayer's representatives) regarding issues in a previously filed return after such a return has been accepted by IRS."⁶⁸ IRS officials told us they believe this language allows Form 1040X-type actions by IRS. However, as noted above, IRS made a commitment to "not enter the tax preparation software and e-filing services marketplace".

Our analysis determined that the Form 1040X is nearly identical to the Form 1040, with the difference being that a taxpayer notes which lines he or she needs to correct. IRS's instructions for the Form 1040X state, "When you file Form 1040X for a tax year, it becomes your new tax return for that year. It changes your original return to include new information."⁶⁹ Therefore, the capability for taxpayers to file a Form 1040X on irs.gov would put irs.gov closer to having an online filing capability for original returns.

In written documents that officials from Free File, Inc. provided to us, they said they would need to see a specific proposal for electronic filing of amended returns before they could comment. However, they made clear that they believe any future development of IRS's online services should

⁶⁸See point 4.36.4 of Internal Revenue Service, *Eighth Memorandum of Understanding on Service Standards and Disputes: Between the Internal Revenue Service and Free File, Incorporated* (Washington, D.C.: October 2018).

⁶⁹Department of the Treasury: Internal Revenue Service, *Instructions for Form 1040X* (Washington, D.C.: Feb. 22, 2019).

continue to leave the task of preparing and electronically filing a tax return to industry. Officials provided a copy of a letter the Executive Director of their organization had sent the W&I Commissioner in March 2019 recommending that IRS consider enabling the electronic acceptance of amended returns through the system industry uses to electronically file original returns on behalf of taxpayers.

Change in Circumstances Since the Free File Partnership Was First Established

Circumstances, including IRS's technical capabilities, have changed since the Free File agreement was first established in 2002. Today's irs.gov provides "View My Account Information" and other online services which did not exist in 2002, and as discussed above, IRS is exploring allowing taxpayers to file amended returns electronically.

Another potential new online service serves as a second example of a way that IRS might soon interact directly with taxpayers online without the use of private sector intermediaries in the tax preparation and filing industry. In the Taxpayer First Act, Congress directs IRS to develop a new online service for taxpayers to report miscellaneous payments. Specifically, Congress directed IRS to develop no later than January 1, 2023, an internet platform for persons to prepare and file the Form 1099, which is used by persons to report payments made to taxpayers for such things as rent and services performed by someone other than an employee.⁷⁰ The House Committee on Ways and Means' report accompanying the act explains that the committee believes that having IRS provide this online service will improve compliance with the reporting requirements and reduce the administrative burden for taxpayers who run small businesses.⁷¹

OLS coordinates the development of new online services and W&I oversees the Free File agreement. OLS officials referred our questions about the Free File agreement to W&I. W&I officials provided no documentation they had coordinated renewal of the Free File agreement in 2018 with OLS. IRS also could not provide us any evidence that it has analyzed the full costs and benefits of the Free File agreement to IRS, the participating private sector companies, and the public. For example, the

⁷⁰Pub. L. No. 116-25 § 2102.

⁷¹H.R. Rep. No. 116-39, at 80 (2019).

MITRE Corporation report discussed above states that the researchers “assume that industry will continue to be the entity that provides free tax return preparation and filing offerings to taxpayers.”

IRS’s approach to renewing the Free File agreement is not consistent with leading practices we identified in our prior work stating that decision makers should periodically review government programs, tax provisions, and regulations to ensure they are achieving desired goals.⁷² Among the leading practices we identified is that the costs and benefits should be assessed. Without more rigorous examination of costs and benefits to all parties of future renewals of the Free File partnership, IRS runs the risk of not being fully aware of the effects of the agreement; including the effects of constraints on new services that IRS could provide to taxpayers.

Conclusions

The internet has reshaped how citizens interact with businesses and government agencies. IRS.gov has contributed to this by giving taxpayers access to detailed information about their taxes and allowing them to make arrangements to pay money they owe. Our comparison of IRS to other countries’ and states’ revenue agencies highlights areas for potential future development. IRS has told Congress and the public that developing electronic communication capabilities is an area of focus. Our review identified a number of challenges IRS will need to address as it moves forward, including measuring taxpayers’ experiences with the online services IRS already offers—including the extent to which those services meet taxpayer needs—and how these services may affect taxpayer burden. Summarizing and reporting that information would help decision makers appreciate the potential value of these services and help ensure IRS has the necessary resources to maintain and improve these services. Likewise, including input from taxpayers when prioritizing new services would help IRS reduce the risk of developing online services that taxpayers do not use.

⁷²GAO, *Reexamining Regulations: Opportunities Exist to Improve Effectiveness and Transparency of Retrospective Reviews*, [GAO-07-791](#) (Washington, D.C.: Jul. 16, 2017); *Tax Expenditures: Background and Evaluation Criteria and Questions*, [GAO-13-167SP](#) (Washington, D.C.: Nov. 29, 2012); and *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: Feb. 1, 2005).

While IRS has recently published a modernization plan which outlines its vision for expanding online services, no targets are set for improving taxpayer experience or reducing taxpayer burden, which hinders decision-making. As we recommended in April 2013, we continue to believe that IRS should establish a numerical or other measureable goal to improve taxpayer satisfaction and a time frame for achieving it. IRS also faces a risk that plans for full-scale digital communication services will encounter enrollment challenges similar to those that IRS has experienced in prior digital communication pilots.

In 2002, IRS established a Free File agreement in which participating tax preparation companies agreed to provide free electronic tax preparation and filing services for low- and middle-income taxpayers, provided that IRS does not enter the tax preparation software and e-filing services marketplace. IRS's Free File agreement benefits a small proportion of taxpayers, but the full benefits and costs of this agreement are uncertain. IRS is currently constrained in providing the online services that are part of its long-term plans for taxpayers, including allowing electronic filing of amended tax returns.

Recommendations for Executive Action

We are making the following seven recommendations to IRS:

The Commissioner of the IRS should ensure that information is collected on taxpayers' experiences with all online services and the extent to which the services are meeting taxpayers' needs. (Recommendation 1)

The Commissioner of the IRS should ensure that information collected on taxpayers' experiences with online services is summarized in the document serving as IRS's performance plan and report. (Recommendation 2)

The Commissioner of the IRS should direct the Director of OLS and the Chief Research and Analytics Officer to work together to analyze the potential effects of online services on taxpayer burden. (Recommendation 3)

The Commissioner of the IRS should ensure that taxpayer input is included as an element of IRS's identification and prioritization process for new online services. (Recommendation 4)

The Commissioner of the IRS should work with relevant officials to set a target to reduce taxpayer burden through the development of new online services. (Recommendation 5)

The Commissioner of the IRS should direct the Chief Information Officer and the Director of OLS to ensure that planned future capabilities of digital communication platforms are tested or piloted before deployment with a particular focus on mitigating the risks that were identified in prior pilots of digital communication services, such as challenges in establishing common objectives and enrolling taxpayers. (Recommendation 6)

The Commissioner of the IRS should direct the Commissioner of W&I to work with the Director of OLS to ensure that future decisions regarding whether to renew the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services, including plans to file amended returns electronically. (Recommendation 7)

Agency Comments, Third-Party Views, and Our Evaluation

We provided a draft of this report to IRS for review and comment. In written comments provided by IRS's Deputy Commissioner for Services and Enforcement (reproduced in appendix II and summarized below), IRS agreed with six of our seven recommendations. IRS also provided technical comments, which we incorporated as appropriate.

IRS agreed with our recommendations to ensure that information is collected on taxpayers' experiences with online services, ensure that such information is summarized in IRS's performance plan and report, analyze the potential effects of online services on taxpayer burden, include taxpayer input in its identification and prioritization of new online services, ensure that planned future capabilities of digital communication platforms are tested or piloted, and ensure that future decisions regarding renewal of the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services. IRS indicated general steps it plans to take to address these recommendations but did not provide time frames for doing so.

IRS disagreed with our recommendation that it set a target to reduce taxpayer burden through the development of new online services. IRS stated that it will continue to look for opportunities to reduce burden through the development of new online services, but believes that a measurable target cannot be set. We recognize that it may take time for the relevant IRS offices to review changes in individual taxpayer burden estimates over multiple years and begin to collect the necessary data to set a measurable target for burden reduction. However, as established in our prior work, goals should be expressed in as specific terms as possible and be expressed in a form which allows the agency and external audiences to assess the progress being made.

As noted in our report, IRS has a strategic goal for reducing taxpayer burden and its strategic plan identifies expanding online services as one of the strategies it will use to drive progress on its goal. Further, IRS agreed with our related recommendation that relevant offices analyze the potential effect of online services on taxpayer burden, which should provide a starting point for IRS in working to identify a burden reduction target. In its response, IRS also stated that its methodology for estimating taxpayer burden is not designed to capture the effect of specific program improvements on taxpayer burden. We agree and are not suggesting IRS resurvey taxpayers and re-estimate burden for every new online service it may introduce. Rather, our recommendation refers to total burden reduction from all the online services IRS offers individual taxpayers. As noted above, IRS's strategic plan anticipates that taken together all these different online services should make it easier over time for taxpayers to fulfill their tax obligations. We continue to believe that this recommendation has merit.

We provided relevant sections of this report to OMB staff concerning information they provided us regarding the applicability of customer experience requirements to IRS. Staff confirmed we accurately summarized their statements.

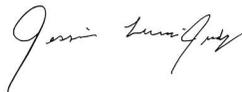
We provided relevant sections of the draft report to the revenue agencies and national audit offices in the three countries reviewed and to the revenue agencies in the three states reviewed. Two foreign revenue agencies, three national audit offices, and three state revenue agencies provided technical comments, which were incorporated as appropriate. One foreign revenue agency did not respond as of December 10, 2019. We also contacted 19 additional state revenue agencies which our draft report identified as offering electronic filing of a state income tax return on

the revenue agency's website and verified that 15 of them offer this service. The remaining four did not respond as of December 12, 2019.

We provided relevant sections of the draft report to officials representing Free File, Inc.; specifically, sections describing the agreement between their organization and IRS and the views of Free File, Inc., officials towards IRS plans for allowing electronic filing of amended returns. An official representing the organization provided technical comments, which were incorporated as appropriate.

We are sending copies of this report to the relevant congressional committees, the Secretary of the Treasury, the Commissioner of the IRS, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>. If you or your staff members have any questions about this report, please contact me at (202) 512-9110 or lucasjudyj@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 III.



Jessica Lucas-Judy
Director, Tax Issues
Strategic Issues

Appendix I: Filing Requirements in the United States and Selected Countries and Relevant Reports by the Selected Countries' National Audit Offices

Filing Obligations for Individual Taxpayers in the United States and Three Countries

Common Features of the United States' and Selected Countries' Income Tax Systems

The four countries in this review—the United States and Australia, New Zealand, and the United Kingdom—define income similarly and tax investment income.¹ For wages, all four revenue agencies require

¹New Zealand taxes interest and dividends, but differs from the other three tax countries in not taxing capital gains on New Zealand investments. The United Kingdom taxes dividends which exceed an allowance. For more information about the U.S., see Department of the Treasury, Internal Revenue Service *Your Federal Income Tax (2018)*, Publication 17 (Washington, D.C.: Jan. 30, 2019); for Australia, see <https://www.ato.gov.au/Individuals/Income-and-deductions/Income-you-must-declare/> (accessed October 28, 2019); for New Zealand, see <https://www.ird.govt.nz/topics/income-tax/types-of-income> (accessed October 28, 2019); and for the United Kingdom (U.K.), see <https://www.gov.uk/income-tax>, <https://www.gov.uk/capital-gains-tax>, and <https://www.gov.uk/tax-on-dividends> (accessed October 28, 2019 and December 6, 2019).

employers to withhold taxes from their employees' paychecks.² Withholding also means that the four revenue agencies have processes for sending refunds to taxpayers should the government end up collecting more money than the taxpayer owes in taxes. Further, all four countries use tax expenditures to channel subsidies through their tax systems to further social goals such as supplementing the wages of lower income workers.³

The United States

The requirement to file a tax return depends on a combination of factors: gross income, filing status such as whether a taxpayer is single or married, age, and whether a taxpayer is a dependent.⁴ For example, a single taxpayer who is under the age of 65 and has a gross income of at least \$12,000 is required to file. Taxpayers who meet the specified criteria must file a return even if the government owes them a refund.⁵ A taxpayer married to another taxpayer can choose to file a joint return which reports the two individuals' combined income and deductions. Selecting this option may provide a higher standard deduction and access to other tax benefits for married couples.

²For more information about each country: for the U.S., Department of the Treasury, Internal Revenue Service, (*Circular E*), *Employer's Tax Guide*, Publication 15 (Washington, D.C.: Dec. 17, 2018); for Australia, see <https://www.ato.gov.au/Business/PAYG-withholding/> (accessed October 28, 2019); for New Zealand, see Inland Revenue Department, *Employer's Guide: Information to Help You with Your Responsibilities as an Employer*, IR335 (Wellington, New Zealand: July 2019); for the U.K., see <https://www.gov.uk/payee-for-employers> (accessed October 28, 2019).

³OMB, *A Budget for a Better America: Promises Kept. Taxpayers First. Analytical Perspectives. Fiscal Year 2020 Budget of the U.S. Government*, 16; Australia's Department of the Treasury, *Tax Benchmarks and Variations Statement: 2018* (Canberra, Australia: January 2019); New Zealand's Treasury, *2019 Tax Expenditure Statement* (Wellington, New Zealand: May 30, 2019); and the U.K.'s Her Majesty's Revenue and Customs, *Estimated Costs of Tax Reliefs* (London: Oct. 10, 2019).

⁴Department of the Treasury: Internal Revenue Service, *Dependents, Standard Deduction, and Filing Information: For Use in Preparing 2018 Returns*, Publication 501 (Washington, D.C.: Dec. 31, 2018).

⁵Choosing to forgo a refund does not relieve a taxpayer of this obligation. IRS Publication 501 cautions taxpayers that failure to file a return, if required to do so, may result in a penalty and willful failure to file may result in criminal prosecution.

Australia

The Australian Taxation Office's (ATO) website states that most taxpayers need to lodge a tax return each year and taxpayers can choose among using their online account to electronically file a return, submit a paper return, hire a registered tax agent, or taxpayers meeting specified eligibility criteria may seek assistance from ATO-trained volunteers who help taxpayers complete their tax returns online.⁶ Spouses file separate returns, although taxpayers are required to report details about their spouse's tax situation, such as their taxable income.⁷ After a return is lodged, ATO issues a notice of assessment informing the taxpayer whether he or she is entitled to a refund or owes tax. A taxpayer can correct errors on the original return electronically, on paper, or through a registered tax agent.

New Zealand

An Inland Revenue Department (IRD) publication and the IRD website explain that the requirement to file depends on the sources of the taxpayer's income. Taxpayers who received income other than salary, wages, interest, dividends, or taxable Maori authority distributions must file a return. For example, the filing requirement applies to taxpayers who had self-employed income, rental income, cash jobs, or income derived overseas exceeding 200 New Zealand dollars.⁸ Taxpayers required to file can log into their online account to electronically file a return or choose to file on paper or hire a tax agent to prepare their return. After receiving the return, IRD informs the taxpayer of any refund or tax they must pay. Taxpayers can correct errors on their return by logging into their online account or calling IRD.

In regards to the remaining taxpayers whose income is from sources IRD is aware of, such as wages, the department sends them an assessment informing them of whether they owe taxes or are owed a refund and directing them to report any additional income over 200 New Zealand

⁶See, <https://www.ato.gov.au/Individuals/Lodging-your-tax-return/Do-you-need-to-lodge-a-tax-return/> (accessed October 29, 2019).

⁷Australian Taxation Office, *Tax Return for Individuals: 1 July 2018 to 30 June 2019* (Canberra, Australia: 2019).

⁸New Zealand Inland Revenue Department, *Individual Income Tax Return Guide: 2019* (Wellington, New Zealand: April 2019).

dollars IRD does not know about, such as cash jobs. To support this, an IRD official explained that his department receives information from employers on income paid and taxes withheld every pay cycle. Further, the official reported that beginning in April 2020 IRD will receive at least monthly information from financial institutions on investment income, which should help IRD further refine its calculations of the tax positions of taxpayers. Regarding married taxpayers, each spouse is required to file his or her own return or receives their own assessment, although the tax return states that the amount a spouse or partner (or ex-spouse or ex-partner) received for a tax credit for working families may affect the other spouse's tax situation.⁹

The United Kingdom

The United Kingdom's government website explains that Her Majesty's Revenue and Customs (HMRC) uses a system—called pay as you earn—in which taxes are deducted automatically from wages and pensions.¹⁰ This means that taxpayers whose only income is from wages or pensions are generally not required to file a return. HMRC mails these taxpayers an annual tax summary (or taxpayers can view it online in their account) informing them of their taxable income and amount collected. If HMRC determines that they owe the taxpayer money or the taxpayer owes the government money, HMRC sends a separate form explaining how it will pay or collect this money.¹¹ Taxpayers with untaxed income (e.g., renting a property, tips and commissions, income from investments and dividends, and foreign income) may be required to file a return (also referred to as a self-assessment). Even if a taxpayer is not required to file a return, he or she may choose to file a return to claim “income tax reliefs” for such activities as making pension or charitable contributions.

Before filing a return, taxpayers who did not file a return in the previous tax year must register with HMRC, which can be done online. HMRC will mail an identification number and activation code and set up an online account for the taxpayer to use to complete the self-assessment. Once

⁹IRD's website explains that eligibility for the credit and amount received depends on the two spouses' combined income and hours both spouses work.

¹⁰See <https://www.gov.uk/income-tax/how-you-pay-income-tax> (accessed October 30, 2019)

¹¹HMRC explains that in instances when it owes the taxpayer 9.99 pounds or less or the taxpayer owes HMRC 49.99 pounds or less, it will not repay or collect the money.

taxpayers confirm they are registered, they complete their tax return online using their personal account or choose among using commercial software, hiring an accountant or someone else to help them, filing on paper, or taxpayers meeting specified eligibility criteria may be able to get free professional advice. However, HMRC advises there are certain tax situations, such as a taxpayer receiving income from a partnership, in which its website cannot be used and taxpayers in these situations must use commercial software or file on paper.¹² Regarding correcting errors on filed returns, taxpayers who submitted their return on HMRC's website can make corrections there, while paper filers must mail a corrected form.¹³ Married taxpayers file separate returns, but the tax form has a marriage allowance section which allows a taxpayer to transfer a portion of his or her personal allowance to their spouse or civil partner under certain conditions.¹⁴

Relevant Audit Reports Assessing Selected Countries' Online Services for Taxpayers

Australia

The ATO commenced development of new online services for individual taxpayers in 2015 under the direction of its modernization plan, titled "Reinventing the ATO". The Australian National Audit Office (ANAO) reviewed ATO's modernization plan in a 2017 report and found that the ATO's modernization plan provided "clear road maps outlining program intent, deliverables and timing" but identified challenges for ATO in conformance to those processes, specifically in completing cost estimates for development of all new services. In addition, the ANAO found that the

¹²Taxpayers who are trustees of "registered pension schemes" must file on paper.

¹³HMRC directs taxpayers who used commercial software to contact the provider for assistance or if the provider cannot help to contact HMRC. Regardless of the method used, taxpayers face a deadline for submitting corrections and once the deadline has passed must write to HMRC to correct earlier year returns.

¹⁴The personal allowance is the amount of income taxpayers do not have to pay tax on, similar to the standard deduction offered to American taxpayers. For U.K. taxpayers to be eligible, they must have been married for all or part of the entire tax year, both be born after a certain date, and the spouse's income cannot be taxed at a higher rate.

costs and benefits associated with the “Reinventing the ATO” program and most of its projects had not been tracked.¹⁵

ANAO reported that ATO collects survey information from taxpayers about the ease of accessing services and information, doing business with the ATO, and measures of timeliness in processing complaints. However, ANAO noted that ATO’s online services have experienced periods of outages, but ATO has not monitored the impact of service outages on satisfaction with its services.¹⁶ In 2017, ANAO reported that ATO had successfully implemented its recommendation to develop an overarching cross-channel strategy that detailed how the ATO plans to transition to an improved online service environment, while also continuing to provide and improve the performance of other service channels.¹⁷

New Zealand

In 2011, IRD began a long-term business transformation program, which plans to modernize tax administration in New Zealand and offer new online services to taxpayers. New Zealand’s Office of the Auditor General (OAG) reviewed IRD’s governance of the business transformation program in 2015 and found IRD to be providing clear direction and supporting clear and effective decisions, but recommended that IRD continue to manage risks, including identifying clear benefit estimates to decision makers.¹⁸ OAG also recommended that IRD manage risks by improving its outreach to stakeholders and taxpayers in advance of the release of new services. As a result, IRD stated in its 2018 program update that it intends to be more proactive in engaging with individual taxpayers.¹⁹ In regards to IRD’s procurement of goods and services for

¹⁵Australian National Audit Office, *Costs and Benefits of the Reinventing the ATO Program*, ANAO Report No. 15 2017-2018 (Canberra, Australia: November 2017).

¹⁶Australian National Audit Office, *Unscheduled Taxation System Outages*, ANAO Report No. 29 2017-2018 (Canberra, Australia: February 2018).

¹⁷Australian National Audit Office, *Australian Taxation Office’s Implementation of Recommendations*, ANAO Report No. 37 2016-2017 (Canberra, Australia: February 2017).

¹⁸Office of the Auditor-General, *Inland Revenue Department: Governance of the Business Transformation Programme* (Wellington, New Zealand: April 2015).

¹⁹ New Zealand Inland Revenue Department, *Inland Revenue Report: Transformation Status Update* (Wellington, New Zealand: September 2018) IR2018/541.

the business transformation program, OAG found instances in which IRD did not consistently comply with relevant rules and policies and made recommendations for improvement.²⁰ OAG's report, however, noted that IRD restructured its procurement function and brought in procurement specialists with appropriate skills and resources and OAG intends to follow up on the progress IRD is making in addressing its recommendations. An OAG official reported in November 2019 that his office is currently doing a performance audit of the measurement of benefits from the IRD business transformation program. OAG anticipates submitting the report to the House of Representatives in the first half of calendar year 2020.

The United Kingdom

HMRC outlined a strategy in 2014 (it refers to as a transformation program) to improve its online services for individual taxpayers, which included goals of promoting voluntary tax compliance, designing services to meet customer needs, and improving ease and convenience to taxpayers. The United Kingdom's National Audit Office (NAO) has reviewed HMRC's customer service performance, including online services. A 2016 NAO review found that HMRC had reduced the cost of its personal tax operations between 2010-2011 and 2014-2015 in part by moving customers from traditional service channels to less expensive service channels, including online services. Initially, HMRC maintained or improved its customer service performance, but HMRC ended up releasing too many customer service staff and wait times for telephone service started to increase in 2015-2016. While HMRC's performance improved after it recruited additional staff, NAO concludes that the sustainability of HMRC's cost reductions will depend on the success of new online services in reducing demand for telephone and mail service.²¹ Another review by NAO in 2017 credited HMRC for exceeding its target set for customer satisfaction for digital services, which includes both existing services and new services.²² Moving forward, NAO

²⁰Office of the Auditor-General, *Inland Revenue Department: Procurement for the Business Transformation Programme* (Wellington, New Zealand: March 2018).

²¹National Audit Office, *Report by the Comptroller and Auditor General: The Quality of Service for Personal Taxpayers* (London, England: May 2016).

²²National Audit Office, *Report by the Comptroller and Auditor General: Her Majesty's Revenue & Customs Annual Report and Accounts 2016-2017* (London, England: July 2017).

recommended that HMRC continue to reevaluate its priorities for its transformation program at least annually, including by measuring the impact on customers, to ensure that new services are delivering the anticipated benefits. In addition, NAO recommended that HMRC be clearer about the way it tracks the costs and benefits of its transformation program.²³ In 2019, NAO found that HMRC had reprioritized its plans due to other demands related to the agency's preparations for the United Kingdom's planned exit from the European Union, which has resulted in deferment of development of new online services.²⁴

²³National Audit Office, *Report by the Comptroller and Auditor General: Her Majesty's Revenue & Customs Annual Report and Accounts 2017-2018* (London, England: July 2018).

²⁴National Audit Office, *Report by the Comptroller and Auditor General: Her Majesty's Revenue & Customs Annual Report and Accounts 2018-2019* (London, England: July 2019).

Appendix II: Comments from the Internal Revenue Service

Appendix II: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

December 3, 2019

Jessica Lucas-Judy
Director, Tax Issues, Strategic Issues
United States Government Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

Thank you for the opportunity to review your draft report entitled, "Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services" (GAO-20-71). GAO's report assessed the subset of IRS's online services that allow IRS and individual taxpayers to exchange personalized information electronically against relevant requirements, agency goals and leading practices. These services are used by millions of taxpayers every year alongside several other interactive applications not included in this analysis such as the Tax Withholding Estimator, Interactive Tax Assistant and the IRS2Go mobile app. Collectively, these applications as well as the static content on IRS.gov interact to form a crucial pillar of the taxpayer service journey.

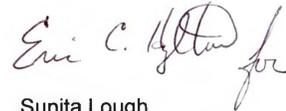
GAO reviewed IRS's efforts to identify, develop and implement new online services for individual taxpayers and compares those to the online services offered by selected foreign and state revenue agencies. While we recognize that some of IRS's offerings may not be as extensive as those examples, we highlight one way in which we are addressing those perceived gaps. In the areas of secure messaging and chat, IRS has piloted digital services for specific programs and continues to expand on the current set of installations.

To help determine the extent to which IRS online services are satisfying taxpayer needs and helping to reduce taxpayer burden, we offer customer experience surveys to users of our website as well as specialized surveys to users of certain products. This combination provides opportunities to understand user interactions with related services across customer journeys. IRS also incorporates qualitative perspectives about taxpayer preferences when prioritizing services, alongside volume estimates of affected taxpayers, potential benefits to IRS operations and development lead times. Additionally, taxpayer research is an integral part of the development and refinement of individual online products.

2

We appreciate the valuable feedback you have provided. Responses to your specific recommendations are enclosed. If you have questions, please contact me or Jeffrey Wallbaum, Acting Director, Office of Online Services, at 202-317-4363.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sunita Lough for".

Sunita Lough
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to GAO Draft Report (GAO-20-71)
Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services
(Job Code 102701)**

Recommendation 1:

The Commissioner of the IRS should ensure that information is collected on taxpayers' experiences with all online services and the extent to which the services are meeting taxpayers' needs.

Comment:

We agree with this recommendation. Consistent with successful implementation of both the 21st Century Integrated Digital Experience Act and Cross-Agency Priority Goal 4, and in support of customer service strategy development required by the Taxpayer First Act of 2019, as resources allow IRS will seek to expand customer sentiment data collection and analysis with online services.

Recommendation 2:

The Commissioner of the IRS should ensure that information collected on taxpayers' experience with online services is summarized in the document serving as IRS's performance plan and report.

Comment:

We agree with this recommendation. Consistent with Cross-Agency Priority Goal 4 implementation, IRS will seek to publish such information via Performance.gov.

Recommendation 3:

The Commissioner of the IRS should direct the Director of OLS and the Chief Research and Analytics Officer to work together to analyze the potential effects of online services on taxpayer burden.

Comment:

We agree with this recommendation. Online Services will engage with Research, Applied Analytics and Statistics to determine how the current burden estimation methodology may be utilized to estimate the effect of online services on taxpayer burden.

Recommendation 4:

The Commissioner of the IRS should ensure that taxpayer input is included as an element of IRS's identification and prioritization process for new online services.

Comment:

We agree with this recommendation. We will seek to incorporate information collected according to guidance provided in OMB Circular A-11 Section 280 as well as qualitative taxpayer research into online service prioritization.

Recommendation 5:

The Commissioner of the IRS should work with relevant officials to set a target to reduce taxpayer burden through the development of new online services.

Comment:

While we will continue to look for opportunities to reduce taxpayer burden through the development of new online services, we do not agree with this recommendation because a measurable target of reducing burden cannot be set. Our methodology for estimating taxpayer burden was not designed to capture the effect of specific program improvements on taxpayer burden.

Recommendation 6:

The Commissioner of the IRS should direct the Chief Information Officer and the Director of OLS to ensure that planned future capabilities of digital communication platforms are tested or piloted before deployment with a focus on mitigating the risks that were identified in prior pilots of digital communication services, such as challenges in establishing common objectives and enrolling taxpayers.

Comment:

We agree with this recommendation. As reflected in the report, several Taxpayer Digital Communication (TDC) customer testing pilots are being conducted for various business operations to gather customer feedback; as also noted, IRS has committed to conduct iterative testing of upcoming TDC-ON (Outbound Notifications) capabilities intended to make individual notices viewable through the taxpayers' Online Account. IRS will also gather feedback post-launch and intends to use agile software development methods to refine and improve TDC-ON as we move forward through additional releases, building out additional digital notification functionality.

Recommendation 7:

The Commissioner of the IRS should direct the Commissioner of W&I to work with the Director of OLS to ensure that future decisions regarding whether to renew the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services, including plans to file amended returns electronically.

Comment:

We will coordinate with the appropriate stakeholders to assess the costs and benefits derived from the Free File agreement and incorporate the findings of that analysis in future agreements. Our analysis will also assess inclusion of electronically-filed amended returns in future agreement negotiations.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Jessica Lucas-Judy, (202) 512-9110 or lucasjudyj@gao.gov.

Staff Acknowledgments

In addition to the individual named above, Tara Carter (Assistant Director), Michael O'Neill (Analyst in Charge), Michael Bechetti, Jacqueline Chapin, Rianna Jansen, Edward Nannenhorn, Andrew Olson, Julia Robertson, Kayla Robinson, Cynthia Saunders, Stewart W. Small, Andrew J. Stephens, Robyn Trotter, and Christopher Woika made key contributions to this report.

Appendix IV: Accessible Data

Data Tables

Accessible Data for The U.S. Internal Revenue Service's and Three Foreign Revenue Agencies' Online Services

Category of Online Service	Australia	New Zealand	United Kingdom	United States
Information	Green circle with check mark			
Payment	Green circle with check mark	Green circle with check	Green circle with check mark	Green circle with check mark
Filing	Green circle with check mark	Green circle with check mark	Green circle with check mark	Red X
Communication	Green circle with check mark	Green circle with check mark	Green circle with check mark	Green Letter P

Legend:

Green circle with check mark in middle = Service integrated within a taxpayer's online account

Red X = Service not currently available

Green Letter P = IRS pilot underway

Source: GAO analysis of the websites of the Australian Taxation Office, New Zealand's Inland Revenue Department, the United Kingdom's Her Majesty's Revenue and Customs, and the United States' Internal Revenue Service. | GAO-20-71

Accessible Data for Figure 1: Usage Data for IRS Online Services for Individual Taxpayers in Fiscal Years 2017 and 2018

Fiscal year	Where's My Refund? (in millions)	Data Retrieval Tool (in millions)	Get Transcript Online (in millions)	Direct Pay with Bank Account (in millions)	View Your Account Information (in millions)	Where's My Amended Return? (in millions)	Get Transcript by Mail (in millions)	Direct Pay: Payment Lookup (in millions)	Online Payment Agreement Application (in millions)	First-Time Homebuyer Credit Account Look-up (in millions)
2017	278,640,589	11,685,541	15,553,825	10,236,504	2,125,111	4,673,497	3,856,642	1,675,335	798,403	159,870
2018	309,174,164	16,623,443	16,043,419	10,431,553	6,486,483	4,916,974	3,808,157	1,206,073	994,777	152,438

Source: GAO presentation of IRS data. | GAO-20-71

Accessible Data for Figure 2: The U.S. Internal Revenue Service's and Three Foreign Revenue Agencies' Online Services

Category	Online Service	Australia	New Zealand	United Kingdom	United States
Information	Check account balance recent payments	Green circle with check mark	Green circle with check mark	Green circle with check mark	Green circle with check mark
Information	Check tax return history	Green circle with check mark	Green circle with check mark	Green circle with check mark	Green circle with check mark
Information	Track tax refund	Green circle with check mark	Green circle with check mark	Red X	Green check mark
Information	Update contact information	Green circle with check mark	Green circle with check mark	Green circle with check mark	Red X
Information	View electronic communications or letters	Green circle with check mark	Green circle with check mark	Green circle with check mark	Red X
Payment	Make a payment	Green circle with check mark	Green circle with check mark	Green circle with check mark	Green circle with check mark
Payment	Apply for a payment plan	Green circle with check mark	Green circle with check mark	Green circle with check mark	Green circle with check mark
Filing	File an individual income tax return	Green circle with check mark	Green circle with check mark	Green circle with check mark	Red X
Filing	File an amended return	Green circle with check mark	Green circle with check mark	Green circle with check mark ^a	Red X
Filing	Apply for a tax return filing extension	N/A ^b	Green circle with check mark	N/A ^c	Red X
Filing	Apply for tax credits	Green circle with check mark	Green circle with check mark	Green circle with check mark	Red X
Communication	Securely send documents	Red X	Green circle with check mark	Red X	Red X
Communication	Securely chat or message	Green check mark	Green circle with check mark	Green circle with check mark	Red X

Legend:

Green circle with check mark in middle = Service integrated within a taxpayer's online account

Green check mark = Service available outside a taxpayer's online account

Red X = Service not currently available

Source: GAO analysis of the websites of the Australian Taxation Office, New Zealand's Inland Revenue Department, the United Kingdom's Her Majesty's Revenue and Customs, and the United States' Internal Revenue Service. | GAO-20-71

Accessible Data for Figure 3: U.S. Internal Revenue Service's and Selected U.S. State Revenue Agencies' Online Services

Category	Online Service	Alabama	California	New York	IRS
Information	Check account balance recent payments	Green circle with check mark			

Appendix IV: Accessible Data

Category	Online Service	Alabama	California	New York	IRS
Information	Check tax return history	Green circle with checkmark	Green circle with check mark	Green circle with check mark ^a	Green circle with check mark
Information	Track tax refund	Green circle with check mark	Green check mark	Green circle with check mark	Green check mark
Information	Update contact information	Green circle with check mark	Green circle with check	Green circle with check mark	Red X
Information	View electronic communications or letters	Green circle with check	Green circle with check mark	Green circle with check mark	Red X
Payment	Make a payment	Green circle with check mark	Green circle with check mark ^b	Green circle with check mark	Green circle with check mark
Payment	Apply for a payment plan	Green check mark ^c	Green check mark	Green circle with check mark	Green circle with check mark
Filing	File an individual income tax return	Green circle with check mark	Green circle with check mark ^b	Red X	Red X
Filing	File an amended return	Red X	Red X	Red X	Red X
Filing	Apply for a tax return filing extension	N/A ^d	N/A ^d	Green circle with check mark	Red X
Communication	Securely send documents	Green check mark	Green circle with check mark	Green circle with check mark	Red X
Communication	Securely chat or message	Green circle with check mark	Green circle with check mark	Red X	Red X

Legend:

Green circle with check mark in middle = Service integrated within a taxpayer's online account

Green check mark = Service available outside a taxpayer's online account

Red X = Service not currently available

Source: GAO analysis of the websites of Alabama's Department of Revenue, California's Franchise Tax Board, New York's Department of Taxation and Finance, and the United States' Internal Revenue Service. | GAO-20-71

Accessible Data for Figure 4: Electronic Tax Return Filing Capabilities Offered on State Revenue Agencies' Websites as of August 2019

Offers electronic filing of state tax return on revenue agency's website

Maine, New Hampshire, Connecticut, New Jersey, Pennsylvania, Delaware, Maryland, Tennessee, Alabama, Ohio, Wisconsin, Illinois, Louisiana, Nebraska, Kansas, Oklahoma, Colorado, New Mexico, Utah, California, and Hawaii.

Does not offer electronic filing of state tax return on revenue agency's website

Arizona, Arkansas, Georgia, Idaho, Indiana, Iowa, Kentucky, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New York, North Carolina, North Dakota, Oregon, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, and Washington, D.C.

No state income tax

Alaska, Washington (state), Nevada, Wyoming, South Dakota, Texas, and Florida.

Source: GAO analysis of state revenue agency websites. | GAO-20-71

Accessible Data for Figure 5: Percentage of Individual Tax Returns Filed Using Different Methods in Fiscal Year 2018

Category	Number	Percentage
Electronically Filed Outside of Free File Program	131.6 million	86.1%
Electronically Filed Through Free File Program	2.7 million	1.7%
Paper filed	18.6 million	12.2%

Source: IRS.gov. | GAO-20-71

Agency Comment Letter

Accessible Text for Appendix II Comments from the Internal Revenue Service

Page 1

December 3, 2019

Jessica Lucas-Judy

Director, Tax Issues, Strategic Issues

United States Government Accountability Office

441 G Street N.W.

Washington, DC 20548

Dear Ms. Lucas-Judy:

Thank you for the opportunity to review your draft report entitled, "Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services" (GAO-20-71). GAO's report assessed the subset of IRS's online services that allow IRS and individual taxpayers to exchange personalized information electronically against relevant requirements, agency goals and leading practices. These services are used by millions of taxpayers every year alongside several other interactive applications not included in this analysis such as the Tax Withholding Estimator, Interactive Tax

Assistant and the IRS2Go mobile app. Collectively, these applications as well as the static content on IRS.gov interact to form a crucial pillar of the taxpayer service journey.

GAO reviewed IRS's efforts to identify, develop and implement new online services for individual taxpayers and compares those to the online services offered by selected foreign and state revenue agencies. While we recognize that some of IRS's offerings may not be as extensive as those examples, we highlight one way in which we are addressing those perceived gaps. In the areas of secure messaging and chat, IRS has piloted digital services for specific programs and continues to expand on the current set of installations.

To help determine the extent to which IRS online services are satisfying taxpayer needs and helping to reduce taxpayer burden, we offer customer experience surveys to users of our website as well as specialized surveys to users of certain products. This combination provides opportunities to understand user interactions with related services across customer journeys. IRS also incorporates qualitative perspectives about taxpayer preferences when prioritizing services, alongside volume estimates of affected taxpayers, potential benefits to IRS operations and development lead times. Additionally, taxpayer research is an integral part of the development and refinement of individual online products.

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We appreciate the valuable feedback you have provided. Responses to your specific recommendations are enclosed. If you have questions, please contact me or Jeffrey Wallbaum, Acting Director, Office of Online Services, at 202-317-4363.

Sincerely,

Sunita Lough

Deputy Commissioner for Services and Enforcement

Enclosure

Page 3

GAO Recommendations and IRS Responses to GAO Draft Report (GAO-20-71) Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services (Job Code 102701)

Recommendation 1:

The Commissioner of the IRS should ensure that information is collected on taxpayers' experiences with all online services and the extent to which the services are meeting taxpayers' needs.

Comment:

We agree with this recommendation. Consistent with successful implementation of both the 21st Century Integrated Digital Experience Act and Cross-Agency Priority Goal 4, and in support of customer service strategy development required by the Taxpayer First Act of 2019, as resources allow IRS will seek to expand customer sentiment data collection and analysis with online services.

Recommendation 2:

The Commissioner of the IRS should ensure that information collected on taxpayers' experience with online services is summarized in the document serving as IRS's performance plan and report.

Comment:

We agree with this recommendation. Consistent with Cross-Agency Priority Goal 4 implementation, IRS will seek to publish such information via Performance.gov.

Recommendation 3:

The Commissioner of the IRS should direct the Director of OLS and the Chief Research and Analytics Officer to work together to analyze the potential effects of online services on taxpayer burden.

Comment:

We agree with this recommendation. Online Services will engage with Research, Applied Analytics and Statistics to determine how the current

burden estimation methodology may be utilized to estimate the effect of online services on taxpayer burden.

Recommendation 4:

The Commissioner of the IRS should ensure that taxpayer input is included as an element of IRS's identification and prioritization process for new online services.

Comment:

We agree with this recommendation. We will seek to incorporate information collected according to guidance provided in OMB Circular A-11 Section 280 as well as qualitative taxpayer research into online service prioritization.

Page 4

Recommendation 5:

The Commissioner of the IRS should work with relevant officials to set a target to reduce taxpayer burden through the development of new online services.

Comment:

While we will continue to look for opportunities to reduce taxpayer burden through the development of new online services, we do not agree with this recommendation because a measurable target of reducing burden cannot be set. Our methodology for estimating taxpayer burden was not designed to capture the effect of specific program improvements on taxpayer burden.

Recommendation 6:

The Commissioner of the IRS should direct the Chief Information Officer and the Director of OLS to ensure that planned future capabilities of digital communication platforms are tested or piloted before deployment with a focus on mitigating the risks that were identified in prior pilots of digital communication services, such as challenges in establishing common objectives and enrolling taxpayers.

Comment:

We agree with this recommendation. As reflected in the report, several Taxpayer Digital Communication (TDC) customer testing pilots are being conducted for various business operations to gather customer feedback; as also noted, IRS has committed to conduct iterative testing of upcoming TDC-ON (Outbound Notifications) capabilities intended to make individual notices viewable through the taxpayers' Online Account. IRS will also gather feedback post-launch and intends to use agile software development methods to refine and improve TDC-ON as we move forward through additional releases, building out additional digital notification functionality.

Recommendation 7:

The Commissioner of the IRS should direct the Commissioner of W&I to work with the Director of OLS to ensure that future decisions regarding whether to renew the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services, including plans to file amended returns electronically.

Comment:

We will coordinate with the appropriate stakeholders to assess the costs and benefits derived from the Free File agreement and incorporate the findings of that analysis in future agreements. Our analysis will also assess inclusion of electronically-filed amended returns in future agreement negotiations.

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