

Highlights of [GAO-12-193](#), a report to the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

The President's fiscal year 2012 budget proposal requests \$13.6 billion to fund the Internal Revenue Service (IRS), including \$204 million in spending funded through user fee collections. Well-designed and well-implemented user fees can reduce taxpayer burden by funding portions of IRS services that provide special benefits to users beyond what is normally provided to the public. As such, GAO was asked to (1) describe the types and amounts of IRS user fees and how IRS collects and uses them, (2) assess how IRS sets and reviews existing user fees, and (3) assess how IRS identifies additional areas where new fees could be justified. GAO reviewed relevant laws, guidance, and literature on user fee design and implementation. GAO reviewed IRS documents and cost estimates and interviewed IRS officials in the Chief Financial Officer's (CFO) office and program divisions.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue take steps to include certain additional fees in IRS's biennial review, improve guidance on estimating costs of user fees, and improve the documentation of assumptions used, factors considered, and decisions made during the setting and reviewing of existing fees. In addition, steps should be taken to provide clear, specific, and direct guidelines for IRS employees and managers to follow in identifying potential new fee opportunities. In written comments, IRS agreed with our recommendations.

View [GAO-12-193](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

USER FEES

Additional Guidance and Documentation Could Further Strengthen IRS's Biennial Review of Fees

What GAO Found

Although user fee collections fund less than 2 percent of IRS's budget, fee collections are expected to reach \$309 million in fiscal year 2012 and recently involved nearly 20 million transactions with taxpayers. IRS charges user fees for various activities that include assisting taxpayers in complying with their tax liabilities, clarifying the application of the tax code to particular circumstances, and ensuring the quality of paid preparers of tax returns, among others. In fiscal year 2010, two fees accounted for more than 80 percent of total retained user fee collections:

- **Installment agreements (IA):** Provides taxpayers who cannot pay their full tax liability the option to pay their full tax liability with smaller monthly payments over a period of time for up to 60 months. This service is offered to most taxpayers for \$105 with lower rates for low-income taxpayers and those who opt for a direct debit agreement. This service generated \$198 million, or 68 percent of IRS's total retained user fee collections.
- **Income verification express services (IVES):** Provides 2-business-day processing and electronic delivery of tax return transcripts for users, such as mortgage lenders and other financial market entities, to confirm the income of a borrower (taxpayer) during the processing of a loan application. IRS charged a fee of \$2.25 for each IVES transcript request. This service generated \$40 million, or 14 percent of total retained fee collections.

IRS conducts a review of its user fees biennially (or every 2 years) and has taken steps to improve its estimates of the cost of providing its user fee services, with particular attention to its largest fee. For example, IRS hired a contractor to evaluate, update, and simplify the IA user fee cost estimate. However, for a few of IRS's smaller fee programs, GAO found that IRS omitted fees from its biennial review, did not clearly document assumptions to be used in some cost estimates, and lacked documentation of factors considered in setting some fees. For example, one user fee has not been reviewed or updated since fiscal year 1996, while program managers for another user fee were uncertain about salary assumptions. GAO also found that while officials stated that they consider factors other than cost (such as potential effects on taxpayer compliance and administrative burden) in setting fee rates, they did not thoroughly document these factors or corroborate anecdotal support with analysis. Finally, GAO found that IRS did not fully document final decisions made on fee rates as a result of its biennial review.

IRS has implemented several new user fees in recent years, but it may not be taking full advantage of its process for identifying new user fees. As directed by Office of Management and Budget Circular A-25, IRS's CFO requests that each division review its programs and provide proposals for new user fees on a biennial basis. However, officials in some divisions or offices said that they had no formal solicitation process for employees to suggest new user fee proposals. Further, IRS does not clearly refer staff to consider established guidelines identified in the *Internal Revenue Manual* or other resources when identifying potential new user fees during its biennial review. GAO was unable to determine the extent to which IRS staff considered these guidelines.