

Highlights of [GAO-12-33](#), a report to the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

## Why GAO Did This Study

The Internal Revenue Service's (IRS) goal is to receive 80 percent of all major types of tax returns electronically by 2012. Legislation passed in November 2009 supports the 80 percent goal for individual income tax returns by requiring tax return preparers who file more than 10 individual returns per year to file them electronically, or e-file.

GAO was asked to review IRS's implementation of this e-file mandate. Specifically, GAO (1) described e-file rates and preparers' experiences implementing the mandate, (2) assessed IRS's plans to enforce the mandate, (3) assessed IRS's analysis of options for digitizing more data from paper returns, and (4) determined whether there are any tax forms IRS cannot accept electronically and assessed IRS's plans for adding them to the e-file system. To conduct these analyses, GAO reviewed IRS processing data and e-file planning documents, and interviewed IRS officials and 26 members of national preparer organizations.

## What GAO Recommends

Congress should consider amending the Internal Revenue Code (IRC) to provide IRS with penalty authority for preparer noncompliance with the mandate. GAO also recommends, among other things, that IRS conduct analyses on the costs and benefits of implementing bar coding and additional transcription and create a time line and list of forms to be added to the e-file system. IRS agreed with the recommendations.

View [GAO-12-33](#). For more information, contact James R. White, (202) 512-9110, [WhiteJ@gao.gov](mailto:WhiteJ@gao.gov).

October 2011

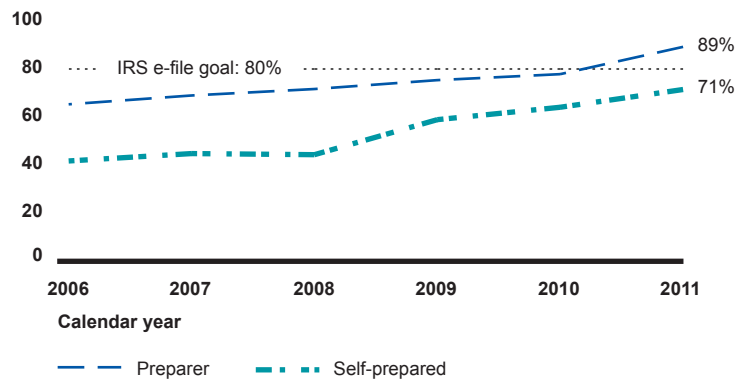
## E-FILING TAX RETURNS

### Penalty Authority and Digitizing More Paper Return Data Could Increase Benefits

## What GAO Found

In 2011, 79 percent of all individual tax returns were e-filed, a noticeable increase over prior years. Both preparer and self-prepared e-file rates increased, which IRS officials attributed to different factors. They said the e-file mandate was one key factor in the growth of preparer e-filing. Preparers GAO interviewed who were new to e-filing said they experienced increased costs and administrative burdens due to the mandate. Several preparers who had been e-filing prior to the mandate said they experienced some of these same problems when they first e-filed, but they now find that e-filing helps their business—for example, by reducing the time needed to file returns.

**E-file Rates for Preparers and Self-Prepared, Calendar Years 2006 to 2011**  
Percent



Source: IRS's Individual Return Transaction File data.

IRS's plans to identify preparers who are not complying with the mandate are not fully developed because IRS does not know the extent of noncompliance and it may be low. Nonetheless, officials stated some noncompliance likely exists and may increase in 2012 when the mandate applies to more preparers. Regardless of the extent, IRS does not have authority under the IRC to assess penalties on preparers who fail to comply. IRS may be able to impose sanctions under Department of Treasury regulations that govern practice before IRS. However, the process is costly and the penalties, which could include suspension of practice, may be harsher than needed.

IRS is considering pursuing two options to digitize more data—bar coding and additional transcription. IRS does not transcribe all lines from paper returns. IRS's policy is to post the same information from electronic and paper returns to its databases, so that similar paper and electronic returns have equal chances of being audited. IRS has not analyzed the costs and benefits of these options, which could support informed funding decisions.

Some forms cannot be e-filed, including two relatively high-volume forms for amended returns and nonresident aliens. IRS has not developed a complete list of forms that cannot currently be e-filed nor does it have a time line for adding them to the e-file system. Without adding forms such as these to the system, IRS will limit e-filing's growth potential.