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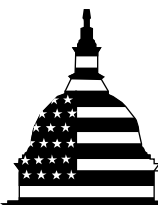
Testimony
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**INTERNAL REVENUE
SERVICE**

**Opportunities to Improve
the Taxpayer Experience
and Voluntary Compliance**

Statement of James R. White, Director
Strategic Issues



G A O

Accountability * Integrity * Reliability

Why GAO Did This Study

The U.S. tax system depends on taxpayers calculating their tax liability, filing their tax return, and paying what they owe on time—what is often referred to as voluntary compliance. Voluntary compliance depends on a number of factors, including the quality of IRS's assistance to taxpayers, knowledge that its enforcement programs are effective, and a belief that the tax system is fair and other people are paying their share of taxes. Voluntary compliance is also influenced by other parties, including paid tax return preparers, tax software companies, and information return filers (employers, financial institutions, and others who report income or expense information about taxpayers to IRS). For this testimony, GAO was asked to (1) evaluate the current state of IRS's performance and its effect on the taxpayer experience, and (2) identify opportunities to improve the taxpayer experience and voluntary compliance. This testimony is based on prior GAO reports and recommendations. Additionally, GAO analyzed IRS data in delivering selected taxpayer services in recent years.

What GAO Recommends

GAO has made numerous prior recommendations that could help improve the taxpayer experience. Congress and IRS have acted on some recommendations, while others are reflected in the strategies presented in this testimony.

INTERNAL REVENUE SERVICE

Opportunities to Improve the Taxpayer Experience and Voluntary Compliance

What GAO Found

The Internal Revenue Service (IRS) has made improvements in processing tax returns, and electronic filing (e-filing), which provides benefits to taxpayers including faster refunds, continues to increase. However, as the following table shows, IRS's performance in providing service over the phone and responding to paper correspondence has declined in recent years. For 2012, as with previous years, IRS officials attribute the lower performance to other funding priorities.

IRS's Performance for Telephone Service and Paper Correspondence, Fiscal Years 2007 through 2013

	2007	2008	2009	2010	2011	2012 planned	2013 planned
Percentage of callers seeking and receiving live assistance	82.1	52.8	70	74	70.1	61.0	63.0
Average wait time for callers (in minutes)	4.4	10.4	8.8	10.8	13.0	18.8	18.8
Percentage of paper correspondence not resolved within 45 days	17	23	25	27	35	n/a	n/a

Legend: n/a = not applicable.

Sources: IRS Oversight Board, IRS's Congressional Budget Justification, and GAO Reports.

Following are among the opportunities to improve the taxpayer experience and increase voluntary compliance that GAO identifies in this testimony:

- **IRS can provide more self-service tools to give taxpayers better access to information.** IRS can create an automated telephone line for amended returns (a source of high call volume) and complete an online services strategy that provides justification for adding new self-service tools online.
- **Better leveraging of third parties could provide taxpayers with other avenues to receive service.** Paid preparers and tax software providers combine to prepare about 90 percent of tax returns. IRS is making progress implementing new regulation of paid preparers. As it develops better data, IRS should be able to test strategies for improving the quality of tax return preparation by paid preparers. Similarly, IRS may also be able to leverage tax software companies.
- **Expanded information reporting could reduce taxpayer burden and improve accuracy.** Expanded information reporting, such as the recent requirements for banks and others to report businesses' credit card receipts to IRS, can reduce taxpayers' record keeping and give IRS another tool.
- **Implementing modernized systems should provide faster refunds and account updates.** Modernized systems should allow IRS to conduct more accurate and faster compliance checks, which benefits taxpayers by detecting errors before interest and penalties accrue.
- **Expanding pre-refund compliance checks could result in more efficient error correction.** Expanding such checks could reduce the burden of audits on taxpayers and their costs to IRS.
- **Reducing tax complexity could ease taxpayer burden and make it easier to comply.** Simplifying the tax code could reduce unintentional errors and make intentional tax evasion easier to detect.

Chairman Baucus, Ranking Member Hatch, and Members of the Committee:

Thank you for the invitation to be here today to discuss how to improve the taxpayer experience.

The U.S. tax system depends on taxpayers calculating their tax liability, filing their tax return, and paying what they owe on time. The taxpayer experience is at its best when taxpayers are able to fulfill these responsibilities independently without intervention from the Internal Revenue Service (IRS). This is often referred to as voluntary compliance. Some of the obvious influences on taxpayers' willingness and ability to voluntarily comply include the quality of IRS's service to taxpayers, knowledge that IRS's compliance checks and collection programs are effective, and the belief that the tax system is fair and that others are paying their share of taxes. Perhaps less obvious is the role of third parties, including paid tax return preparers, tax software companies, and information return filers (employers, financial institutions, and others who report income or expense information about taxpayers to IRS) in influencing voluntary compliance.

The taxpayer experience also depends on how IRS deals with taxpayers who fail to voluntarily comply by helping taxpayers correct unintentional errors, and identifying and pursuing taxpayers who intentionally try to evade taxes.

Maximizing voluntary compliance is especially important today given the nation's large structural budget deficits and the size of the tax gap. Earlier this year, IRS estimated the gross tax gap—the difference between taxes owed and taxes paid on time—at \$450 billion for tax year 2006. IRS estimated that it would eventually collect \$65 billion of this through enforcement actions and late payments, leaving a net tax gap of \$385 billion.

My statement today focuses on two areas: (1) evaluating the current state of IRS's performance and its effect on the taxpayer experience, and (2) identifying opportunities to improve the taxpayer experience and voluntary compliance. To address these objectives, we reviewed and summarized prior GAO reports and recommendations. Additionally, we obtained and analyzed IRS data in delivering selected taxpayer services in recent years. We discussed newly reported information in this statement with IRS officials. Additional information on the scope and methodology of underlying work is available in published products, referenced throughout

this statement. We conducted our work in April 2012 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.

Taxpayers Have Benefitted from Improved Processing, but IRS's Service to Taxpayers Has Declined

Taxpayers' experience depends heavily on IRS's performance during the tax filing season, roughly mid-January through mid-April.¹ During this period, millions of taxpayers who are trying to fulfill their tax obligations contact IRS over the phone, face-to-face, and via the Internet to obtain answers to tax law questions and information about their tax accounts. This period is also when IRS processes the bulk of the approximate 140 million returns it will receive, runs initial compliance screens, and issues over 100 million refunds. In recent years, IRS has improved its returns processing but has seen its taxpayer service performance deteriorate.

Increased Electronic Filing Contributes to Greater Return Accuracy and Faster Processing

For years we have reported that electronic filing (e-filing) has many benefits for taxpayers, such as higher accuracy rates and faster refunds compared to filing on paper. So far in 2012, the percentage of e-filed returns has increased by 1.9 percentage points to 88.8 percent since about the same time last year (a 2.2 percent increase), as table 1 shows. Since the same time in 2007, the percentage of e-filed returns has increased from 72.3 percent to 88.8 percent. This year, IRS may meet its long-held goal of having 80 percent of individual tax returns e-filed. However, the overall e-file percentage is likely to decline as the tax filing season ends since IRS typically receives more returns filed on paper later in the filing season. In addition, IRS is in the midst of a multi-phase modernization project, known to as the Customer Account Data Engine (CADE) 2, which will fundamentally change how it processes returns. With CADE 2, IRS also expects to be able to issue refunds in 4 business days for direct deposit and 6 business days for paper checks after IRS processes the return and posts the return data to the taxpayer's account.

¹The filing season year is the year in which the taxpayer files the tax return, usually the year after a taxpayer has earned income on which tax is due (which is referred to as the tax year).

Table 1: Processing Data for January 1 through Mid-April, 2007 through 2012

	2007	2008	2009	2010	2011	2012	Percentage change from 2011 to 2012
Number of individual tax returns processed (in thousands)	105,159	114,737	112,612	107,158	107,401	105,668	-1.6
Electronic (in thousands)	76,034	84,935	89,268	88,330	93,306	93,846	0.6
Paper (in thousands)	29,125	29,801	23,344	18,828	14,094	11,822	-16.1
Percentage electronically filed ^a	72.3	74.0	79.3	82.4	86.9	88.8	2.2
Number of refunds issued (in thousands)	88,168	89,898	93,438	88,676	88,157	86,078	-2.4
Amount of refunds (dollars in millions)	\$203,022	\$214,264	\$250,635	\$257,324	\$252,596	\$237,750	-5.9
Average refund amount	\$2,303	\$2,383	\$2,682	\$2,902	\$2,865	\$2,762	-3.6

Legend: n/a = not applicable.

Source: GAO analysis of IRS return processing data.

Notes: Data are from January 1 of each year through April 20, 2007; April 18, 2008; April 17, 2009; April 16, 2010; April 15, 2011; and April 13, 2012. Some figures and totals may vary slightly due to rounding.

^aThe percentage of returns filed electronically early in the filing season is likely to decline before the filing season is over. Taxpayers filed about 78 percent of all individual returns electronically in 2011.

Early in the 2012 filing season, IRS experienced two processing problems that delayed refunds to millions of taxpayers, and reported the problems had been resolved by mid-February. We summarized these problems in an interim report on the 2012 filing season.²

Taxpayer Service Has Declined

Providing good taxpayer service is important because, without it, taxpayers may not be able to obtain necessary and accurate information they need to comply with tax laws. In addition, more and more, taxpayers are relying on IRS's website to obtain information and execute transactions, making it important that IRS have a modern website. However, as we have reported, IRS has experienced declines in performance in selected taxpayer service areas, most notably with respect to providing live telephone assistance and timely responses to

²GAO, *Internal Revenue Service: Interim Results of 2012 Tax Filing Season and Summary of the Fiscal Year 2013 Budget Request*, [GAO-12-566](#) (Washington, D.C.: Mar. 20 2012).

taxpayers' correspondence.³ When taxpayers do not get timely responses from IRS to paper correspondence or have access to information online, they call IRS, correspond again, or seek face-to-face assistance—all of which are costly to IRS and burdensome to the taxpayer. Table 2 shows the declines in telephone service and paper correspondence and the goals for 2012 and 2013. Additional performance data is shown in appendix I.

Table 2: IRS's Performance for Telephone Service and Overage Paper Correspondence, Fiscal Years 2007 through 2013

Performance measure (in percent)	2007	2008	2009	2010	2011	2012 planned	2013 planned
Assistor calls							
Percentage of callers seeking live assistance who receive it	82.1	52.8	70	74	70.1	61.0	63.0
Average wait time (in minutes)	4.4	10.4	8.8	10.8	13.0	18.8	18.8
Overage paper correspondence (in percent) ^a	17	23	25	27	35	n/a	n/a

Legend: n/a = not applicable.

Sources: 2009 and 2010 IRS Oversight Board Annual Reports to Congress, the fiscal year 2013 Congressional Justification for IRS and GAO reports.

^aIRS generally considers paper correspondence that is not resolved within 45 days to be overage. IRS does not have a performance measure for taxpayer correspondence that includes providing timely service to taxpayers, which we recommended in 2010. See, GAO, *2010 Tax Filing: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

So far in the 2012 filing season, as the following examples illustrate, declines in taxpayer service have continued (further information on telephone service trends is in appendix II).

- The level of telephone service (taxpayers seeking and receiving live telephone assistance) is about 68 percent so far during the 2012 tax filing season, down about 7 percentage points from 2011. This represents a significant decline from fiscal year 2007 level, when the level of service was 82 percent.
- The average wait time to talk with an assistor increased to about 16 minutes (from 9.5 minutes in 2011). In fiscal year 2007, the average wait time was just under 5 minutes.

³See [GAO-12-566](#); and *2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools*, [GAO-12-176](#) (Washington, D.C.: Dec. 15, 2011).

IRS has also lowered its telephone service and average wait time goals (meaning it expects wait times to be longer) for fiscal year 2012. IRS's goal for the

- level of telephone service is 61 percent, down from 71 percent in fiscal year 2011 and 82 percent in fiscal year 2007; and
- average wait time to speak to an assistor is 18.8 minutes, an increase from 11.6 minutes in fiscal year 2011 and 4.3 minutes in fiscal year 2007.

For 2012, as with previous filing seasons, IRS attributes the lower performance and goals to other funding priorities. For information on how IRS sets goals, see our recent report.⁴

Opportunities Exist to Improve the Taxpayer Experience and Voluntary Compliance

To improve the taxpayer experience and voluntary compliance, IRS has a range of options. Some of its options could provide taxpayers with better information to accurately fulfill their tax obligations. Other options would allow IRS to take enforcement actions sooner and with less burden on taxpayers. Simplifying the tax code could reduce unintentional errors and make intentional tax evasion harder.

IRS Can Provide More Self-Service Tools to Give Taxpayers Better Access to Information

The recent declines in telephone service and increases in overage paper correspondence highlight the need to offer more self-service tools to taxpayers, particularly through IRS's automated telephone lines and website. Better self-service has the potential to reduce the demand to speak to live assistors, a relatively high-cost service, and reduce wait time for taxpayers. To improve the taxpayer experience and help taxpayers meet their obligations voluntarily, we recently recommended and IRS agreed to:

- create an automated telephone line for taxpayers seeking information on the status of an amended return, a source of high call volume;⁵

⁴GAO-12-176.

⁵GAO-12-176.

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- develop an online locator tool listing volunteer tax preparation sites— IRS introduced an enhanced volunteer site locator tool in 2012;⁶ and
 - complete an Internet strategy that provides a justification for online self-service tools as IRS expands its capacity to introduce such tools.⁷

In addition to actions we recommended, IRS is also studying ways to better communicate with taxpayers and determine which self-service tools would be the most beneficial to taxpayers. According to IRS officials, the study should be completed later this year. Identifying more efficient ways to provide service also benefits IRS because it is able to make better use of scarce resources.

Better Leveraging of Third Parties Could Provide Taxpayers With Other Avenues to Receive Service

Paid Preparer Regulations

As intermediaries between taxpayers and IRS, paid preparers prepare about 60 percent of all tax returns filed and they play a critical role in answering taxpayers' questions and filing tax returns. Based in part on our reports and recommendations, IRS is implementing new regulations for paid preparers, such as registration, competency testing and continuing education requirements.⁸ IRS's goals for the preparer regulation program include leveraging relationships with paid preparers and improving the accuracy of the returns they prepare. We recently reported that IRS plans to develop a comprehensive database containing information on paid preparers and the tax returns they prepare.⁹ IRS plans to use information from this database to test which strategies are

⁶GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season*, [GAO-09-1026](#) (Washington, D.C.: Sept. 23, 2009).

⁷[GAO-12-176](#).

⁸GAO, *Tax Preparer Regulation: IRS Needs a Documented Framework to Achieve Goal of Improving Taxpayer Compliance*, [GAO-11-336](#) (Washington, D.C.: Mar. 31, 2011).

⁹[GAO-11-336](#).

most effective for improving the quality of tax returns prepared by different types of paid preparers. Likewise, IRS has discussed how to measure the effect of the requirements such as requiring continuing education and testing on tax return accuracy. It will take years to implement the approach as it will likely evolve over time and become more detailed.

Tax Preparation Software

Tax preparation software is another critical part of tax administration. Almost 30 percent of taxpayers use such software to prepare their returns and, in the process, understand their tax obligations, learn about tax law changes, and get questions answered. Many also electronically file through their software provider. Consequently, tax software companies are another important intermediary between taxpayers and IRS. We have reported that IRS has made considerable progress in working with tax software companies to provide, for example, clearer information about why an e-filed return was not accepted, require additional information on returns to allow for IRS to better identify the software used, and enhance security requirements for e-filing.¹⁰ To illustrate the potential for leveraging tax software companies to improve taxpayer compliance, 4 years ago we recommended and IRS agreed to expand outreach efforts to external stakeholders and include software companies as part of an effort to reduce common types of misreporting related to rental real estate.¹¹ In another report, we discussed the value of research to better understand how tax software influences compliance.¹²

Volunteer Sites

IRS has volunteer partners, often nonprofit organizations or universities, that staff over 12,000 volunteer sites. Volunteers at these sites prepare several million tax returns for traditionally underserved taxpayers, including the elderly, low-income, disabled, and those with limited English proficiency. In recent reports we have made recommendations about estimating of the effectiveness of targeting underserved populations at such sites and making it easier for taxpayers to find the locations of

¹⁰See [GAO-12-176](#); [GAO-11-111](#); GAO, *Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks*, [GAO-09-297](#) (Washington, D.C.: Feb. 25, 2009).

¹¹GAO, *Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance*, [GAO-08-956](#) (Washington, D.C.: Aug. 28, 2008).

¹²[GAO-09-297](#).

nearby sites.¹³ As is the case with paid preparers, IRS has an opportunity to work with these volunteer partners to help improve assistance to taxpayers with the goal of improving compliance.

Expanded Information Reporting Could Reduce Taxpayer Burden and Improve Accuracy

Information reporting is a proven tool that reduces tax evasion, reduces taxpayer burden, and helps taxpayers voluntarily comply. This is, in part, because taxpayers have more accurate information to complete their returns and do not have to keep records themselves. In addition, IRS research shows that when taxpayers know that IRS is receiving data from third parties, they are more likely to correctly report the income or expenses to IRS. As part of its recent update of its tax gap estimates, IRS estimated that income subject to substantial information reporting, such as pension, dividend, interest, unemployment, and Social Security income, was misreported at an 8 percent rate compared to a 56 percent misreporting rate for income with little or no information reporting, such as sole proprietor, rent, and royalty income.

Several major new information requirements have recently taken effect, based at least, in part, on our work and recommendations.

- Brokers are required to report their clients' basis for securities sales, starting in 2012.¹⁴
- Banks and other third parties are required to report businesses' credit card and similar receipts, starting in 2011.¹⁵
- Under the Foreign Account Tax Compliance Act, starting in 2014, U.S. financial institutions and other entities are required to withhold a portion of certain payments made to foreign financial institutions that

¹³See [GAO-12-176](#); and GAO, *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Compliance Should Be Evaluated*, [GAO-08-38](#) (Washington, D.C.: Nov. 15, 2007).

¹⁴GAO, *Capital Gains Tax Gap: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, [GAO-06-603](#) (Washington, D.C.: June 13, 2006).

¹⁵GAO, *Tax Administration: Costs and Uses of Third-Party Information Returns*, [GAO-08-266](#) (Washington, D.C.: Nov. 20, 2007).

have not entered into an agreement with IRS to report details on U.S. account holders to IRS.¹⁶

As these three sets of information reporting requirements have only recently taken effect, it is too soon to tell the impact they are having on taxpayer compliance.

We have made recommendations or suggested possible legislative changes in several other areas in which IRS could benefit from additional information reporting. They include the following:

- *Service payments made by landlords.* Taxpayers who rent out real estate are required to report to IRS expense payments for certain services, such as payments for property repairs, only if their rental activity is considered a trade or business. However, the law does not clearly spell out how to determine when rental real estate activity is considered a trade or business.¹⁷
- *Service payments to corporations.* Currently, businesses must report to IRS payments for services they make to unincorporated persons or businesses, but payments to corporations generally do not have to be reported.¹⁸

Broader requirements for these two forms of information reporting, covering goods in addition to services, were enacted into law in 2010, but later repealed. We believe the more narrow extensions of information reporting to include services, but not goods, remain important options for improving compliance.

Additionally, we have identified existing information reporting requirements that could be enhanced. Examples include the following:

¹⁶GAO, *Reporting Foreign Accounts to IRS: Extent of Duplication Not Currently Known, but Requirements Can Be Clarified*, [GAO-12-403](#) (Washington, D.C.: Feb 28, 2012).

¹⁷[GAO-08-956](#).

¹⁸GAO, *Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements*, [GAO-09-238](#) (Washington, D.C.: Jan. 28, 2009).

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- *Mortgage interest and rental real estate.* We recommended requiring information return providers to report the address of a property securing a mortgage, mortgage balances, and an indicator of whether the mortgage is for a current year refinancing when filing mortgage interest statements (Form 1098) could help taxpayers comply with and IRS enforce rules associated with the mortgage interest deduction.¹⁹ We have reported that collecting the address of the secured property on Form 1098 would help taxpayers better understand and IRS better enforce requirements for reporting income from rental real estate.²⁰
 - *Higher education expenses.* Eligible educational institutions are currently required to report information on qualified tuition and related expenses for higher education so that taxpayers can determine the amount of educational tax benefits they can claim.²¹ However, the reporting does not always separate eligible from ineligible expenses. We recommended revising the information reporting form could improve the usefulness of reported information.²²

Identifying additional third-party reporting opportunities is challenging. Considerations include whether third parties exist that have accurate information available in a timely manner, the burden of reporting, and whether IRS can enforce the reporting requirement. We have noted, for example, that the reason there is little third-party reporting on sole proprietor expenses is because of the difficulty of identifying third parties that could report on expense like the business use of cars.

Implementing Modernized Systems Should Provide for Faster Refunds and Account Updates

Modernized systems should better position IRS to conduct more accurate and faster compliance checks, which benefits taxpayers by detecting errors before interest and penalties accrue. In addition, modernized systems should result in more up-to-date account information, faster refunds, and other benefits, such as clearer notices so that taxpayers can

¹⁹GAO, *Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance*, [GAO-09-769](#) (Washington, D.C.: July, 29, 2009).

²⁰[GAO-08-956](#).

²¹26 U.S.C. § 6050S.

²²[GAO-10-225](#).

better understand why a return was not accepted by IRS. Two new, modernized systems IRS is implementing include the following:

- **Customer Account Data Engine (CADE) 2.** For the 2012 filing season, IRS implemented the first of three phases to introduce modernized tax return processing systems. Specifically, IRS introduced a modernized taxpayer account database, called CADE 2, and moved the processing of individual taxpayer accounts from a weekly to a daily processing cycle. IRS expects that completing this first phase will provide taxpayers with benefits such as faster refunds and notices and updated account information. IRS initially expected to implement phase two of CADE 2 implementation by 2014. However, IRS reported that it did not receive funding in fiscal year 2011 that would have allowed it to meet the 2014 time frame.
- **Modernized e-File (MeF).** IRS is in the final stages of retiring its legacy e-file system, which preparers and others use to transmit e-filed returns to IRS, and replacing it with MeF. Early in the 2012 filing season, IRS experienced problems transferring data from MeF to other IRS systems. IRS officials said that they solved the problem in early February. IRS officials recently reiterated their intention to turn off the legacy e-file in October 2012 as planned. However, more recently, IRS processing officials told us they would reevaluate the situation after the 2012 filing season.²³ MeF's benefits include allowing taxpayers to provide additional documentation via portable document files (PDF), as opposed to filing on paper. In addition, MeF should generate clearer notices to taxpayers when a return is rejected by IRS compared to the legacy e-file system.

Expanding Pre-Refund Compliance Checks Could Result in More Efficient Error Correction

The Commissioner of Internal Revenue has talked about a long-term vision to increase pre-refund compliance checks before refunds are sent to taxpayers.²⁴ As previously noted, early error correction can benefit taxpayers by preventing interest and penalties from accumulating. In one example, IRS is exploring a process where third parties would send information returns to IRS earlier so they could be matched against taxpayers' returns when the taxpayer files the return as opposed to the

²³GAO-12-566.

²⁴GAO-12-176.

current requirement that some information returns go to taxpayers before being sent to IRS. The intent is to allow IRS to match those information returns to tax returns during the filing season rather than after refunds have been issued.

Another option for expanding pre-refund compliance checks is additional math error authority (MEA) that Congress would need to grant IRS through statute. MEA allows IRS to correct calculation errors and check for obvious noncompliance, such as claims above income and credit limits. Despite its name, MEA encompasses much more than simple arithmetic errors. It also includes, for instance, identifying incorrect Social Security numbers or missing forms. The errors being corrected can either be in the taxpayers' favor or result in additional tax being owed.

MEA is less intrusive and burdensome to taxpayers than audits and reduces costs to IRS. It also generally allows taxpayers who make errors on their returns to receive refunds faster than if they are audited. This is due, in part, to the fact that IRS does not have to follow its standard deficiency procedures when using MEA—it must only notify the taxpayer that the assessment has been made and provide an explanation of the error. Taxpayers have 60 days after the notice is sent to request an abatement.

Although IRS has MEA to correct certain errors on a case-by-case basis, it does not have broad authority to do so. In 2010, we suggested that Congress consider broadening IRS's MEA with appropriate safeguards against the misuse of that authority.²⁵ In the absence of broader MEA, we have identified specific cases where IRS could benefit from additional MEA that have yet to be enacted. These include authority to:

- use prior years' tax return information to ensure that taxpayers do not improperly claim credits or deductions in excess of applicable lifetime limits,²⁶

²⁵GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010).

²⁶GAO, *2011 Tax Filing: IRS Dealt with Challenges to Date but Needs Additional Authority to Verify Compliance*, [GAO-11-481](#) (Washington, D.C.: Mar. 28, 2011).

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- use prior years' tax return information to automatically verify taxpayers' compliance with the number of years the Hope credit can be claimed,²⁷ and
 - identify and correct returns with ineligible (1) individual retirement account (IRA) "catch-up" contributions and (2) contributions to traditional IRAs from taxpayers over age 70½.²⁸

In 2009, Congress enacted our suggestion that IRS use MEA to ensure that taxpayers do not improperly claim the First-Time Homebuyer Credit in multiple years, which we estimate resulted in savings of about \$95 million.²⁹

Reducing Tax Code Complexity Could Ease Taxpayer Burden and Make It Easier to Comply

Tax code complexity can make it difficult for taxpayers to voluntarily comply. Efforts to simplify or reform the tax code may help reduce burdensome record keeping requirements for taxpayers and make it easier for individuals and businesses to understand and voluntarily comply with their tax obligations. For example, eliminating or combining tax expenditures, such as exemptions, deductions, and credits, could help taxpayers reduce unintentional errors and limit opportunities for tax evasion.

Frequent changes in the tax code also reduce its stability, making tax planning more difficult and increasing uncertainty about future tax liabilities. Limiting the frequency of changes to the tax code could also help reduce calls to IRS with questions about the changes. We have reported that IRS annually receives millions of calls about tax law changes.³⁰

Reducing complexity in the tax code could take a variety of forms, ranging from comprehensive tax reform to a more incremental approach focusing on specific tax provisions. Policymakers may find it useful to compare any

²⁷[GAO-10-225](#). The American Opportunity Tax Credit modified the Hope Tax Credit from tax year 2009 through 2012. The Hope Tax Credit is scheduled to be reinstated in 2013.

²⁸GAO, *Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing*, [GAO-09-146](#) (Washington, D.C.: Dec. 12, 2009).

²⁹[GAO-11-481](#) and [GAO-09-1026](#).

³⁰[GAO-11-111](#).

proposed changes to the tax code based on a set of widely accepted criteria for assessing alternative tax proposals. These criteria include the equity, or fairness, of the tax system; the economic efficiency, or neutrality, of the system; and the simplicity, transparency, and administrability of the system. These criteria can sometimes conflict, and the weight one places on each criterion will vary among individuals. Our publication *Understanding the Tax Reform Debate: Background, Criteria, & Questions* may be useful in guiding policymakers as they consider tax reform proposals.³¹

In closing, improving the taxpayer experience and increasing voluntary compliance will not be achieved through a single solution. Because voluntary compliance is influenced by so many factors, multiple approaches, such as those listed here, will be needed.

Chairman Baucus, Ranking Member Hatch, and Members of the Committee, this completes my prepared statement. I would be happy to respond to any questions you and Members of the Committee may have at this time.

Contacts and Acknowledgments

For further information regarding this testimony, please contact James R. White, Director, Strategic Issues, at (202) 512-9110 or whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this statement include Joanna Stamatiades, Assistant Director; LaKeshia Allen; David Fox; Tom Gilbert; Kirsten Lauber; Sabrina Streagle, and Weifei Zheng.

³¹GAO, *Understanding the Tax Reform Debate: Background, Criteria, & Questions*, [GAO-05-1009SP](#) (Washington, D.C.: September 2005).

Appendix I: Selected Internal Revenue Service (IRS) Taxpayer Service Performance Data, Fiscal Years 2007 through 2013

As shown in table 3, in recent years, the level of access to telephone assistors has declined and average wait time has increased. In addition, the volume of overage correspondence has steadily increased. On a positive note, tax law and account accuracy remains high.

Table 3: Selected IRS Taxpayer Service Performance Data, Fiscal Years 2007 Through 2013

Performance measure (in percent)	2007	2008	2009	2010	2011	2012 planned	2013 planned
Assistor calls							
Percentage of callers seeking and receiving live assistance	82.1	52.8	70	74	70.1	61.0	63.0
Average wait time (in minutes)	4.4	10.4	8.8	10.8	13.0	18.8	18.8
Tax law accuracy ^a	91.2	91.2	92.9	92.7	93.4	92.7	92.7
Account accuracy ^a	93.4	93.7	94.9	95.7	96.0	95.0	95.0
Overage paper Correspondence ^b (in percent)	17	23	25	27	35	n/a	n/a

Legend: n/a = not applicable.

Sources: 2009 and 2010 IRS Oversight Board Annual Reports to Congress and the fiscal year 2013 Congressional Justification for IRS, and previous GAO reports.

^aCustomer accuracy measures how often customers receive correct answers or solutions to their inquiry from a live IRS assistor. Tax law accuracy refers to callers asking questions about specific tax laws while account accuracy refers to callers asking questions about their individual accounts.

^bIRS generally considers paper correspondence that is not resolved within 45 days to be overage. IRS does not have a performance measure for taxpayer correspondence that includes providing timely service to taxpayers, which we recommended in 2010. See, GAO, *2010 Tax Filing: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

Appendix II: Internal Revenue Service (IRS) Telephone Performance Data, January 1 through Early April, 2008 through 2012

As shown in table 4, access to IRS assistors has declined over the last few years. IRS officials attribute the higher-than-planned level of service so far this year to a slight decline in the demand for live assistance. At the same time, the number of automated calls has significantly increased which IRS officials attributed in part to taxpayers calling about refunds, and requesting transcripts (i.e., a copy of their tax return information).

Table 4: IRS Telephone Performance Data, January 1 through Early April, 2008 through 2012

Call volume (in millions)		2007	2008	2009	2010	2011	2012	Percentage change from 2011 to 2012
Total calls to IRS		36.5	40.6	52.4	51.9	56.8	68.2	20.1
Automated calls answered		16.0	17.1	19.6	24.3	28.3	37.7	33.2
Assistor answered calls		12.3	13.4	14.9	13.8	13.9	11.4	-18.0
Abandoned, busies, and disconnects		8.2	10.1	17.9	13.8	14.6	19.0	30.1
Performance								
Level of service—percentage of callers seeking live assistance who receive it	Fiscal year goal ^a	82.0	82.0 ^b	77.0 ^c	71.0	71.0	61.0	— ^d
	Actual to date	84.1	79.9	64.3	75.7	75.1	68.1	— ^d
Average wait time (in minutes)	Fiscal year goal ^a	4.3	4.5	10.4	11.6	11.6	18.8	62.1
	Actual to date	3.9	5.7	8.8	9.5	9.5	15.8	66.3

Source: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to April 7, 2007; April 5, 2008; April 4, 2009; April 10, 2010; April 9, 2011; and April 7, 2012.

^aThe goal listed is for the entire fiscal year, not just the period from January 1 through early April.

^bIRS revised its original fiscal year goal of 82.0 percent down to 74.0 percent because of high call volume caused by economic stimulus-related calls.

^cIRS revised its original fiscal year goal of 77.0 percent down to 70.0 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

^dThe difference is 10 percentage points between fiscal year 2011 and 2012 for the goal and 7.0 percentage points for actual performance between 2011 and 2012.

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