

GAO Highlights

Highlights of [GAO-13-515](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

For tax year 2011, IRS matched over 140 million individual income tax returns against the 1.6 billion information returns it received from third parties such as employers. Generally, this match does not occur until well after refunds are issued. In early 2011 the then IRS Commissioner outlined a vision for a "Real Time Tax" system—a strategy to improve verification by matching third party information to income tax returns before refunds are issued, and IRS began exploring options for Real Time Tax later that year. GAO was asked to review IRS's strategy for exploring Real Time Tax. This report (1) describes when IRS receives and matches individual tax and information returns and (2) assesses the extent to which IRS is following leading practices for managing an exploratory effort of this importance. GAO reviewed IRS documents and guidance, including the Internal Revenue Manual, information return forms, and drafts of Real Time Tax planning documents. GAO generated descriptive data on the timing and volume of 25 information returns using IRS's Compliance Data Warehouse database. GAO identified leading practices on planning new initiatives at IRS using past GAO reports, internal control standards, and IRS documents.

What GAO Recommends

GAO recommends IRS identify time frames for the exploratory effort's critical phases and activities and develop a risk management framework for Real Time Tax. IRS agreed with our recommendations.

View [GAO-13-515](#). For more information, contact James R.White at (202) 512-9110 or whitej@gao.gov.

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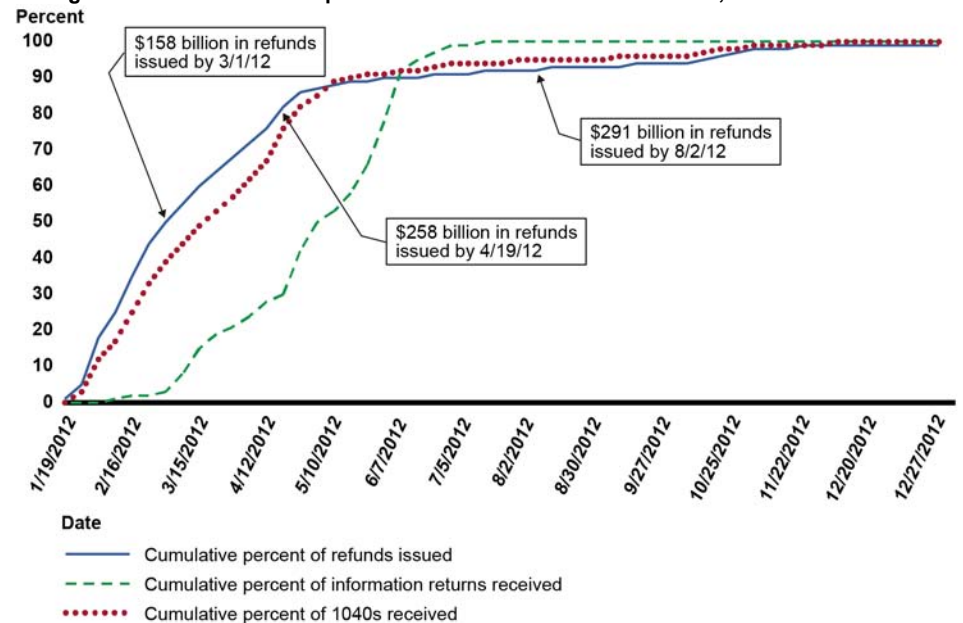
TAX REFUND

IRS Is Exploring Verification Improvements, but Needs to Better Manage Risks

What GAO Found

The Internal Revenue Service (IRS) receives few information returns before issuing most tax refunds. In 2012, IRS issued 50 percent of tax year 2011 refunds to individuals by the end of February, but had only received 3 percent of information returns. Most information returns are not received by IRS until after mid-April, and IRS conducts the first match of tax and information returns in July, with subsequent matches in February and May of the following year. For tax year 2010, over a year passed on average before IRS notified taxpayers of matching discrepancies, and IRS recognizes that this long time lag burdens taxpayers.

Timing of Refunds Issued Compared to Information Returns Received, Tax Year 2011



Source: GAO analysis of IRS data.

IRS is generally following leading practices in its Real Time Tax exploratory effort by, for example, dedicating a team and defining program goals. IRS did not develop an overall timeline because management views Real Time Tax as a broad goal, and officials wanted to avoid causing concern that IRS had already decided on a path. Without a timeline for the overall exploratory effort, IRS cannot know if its efforts will be completed in even the broad time frames IRS is considering, and Congress may not be able to determine what legislative action might be required. IRS officials stated that managing risk is a high priority, but they have not developed an overall risk management framework, as they are still in the early stages of the exploratory effort. They said they plan to further develop the strategy if IRS pursues Real Time Tax. Without systematically identifying and evaluating the risks of Real Time Tax options, IRS officials may miss critical factors that could complicate the effort. A record of prior risk analyses could help prevent unnecessarily repeating the same analyses.