



December 2013

# 2013 TAX FILING SEASON

## IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources

# GAO Highlights

Highlights of [GAO-14-133](#), a report to congressional committees

## Why GAO Did This Study

The tax filing season is when IRS processes most tax returns and provides services including telephone, correspondence, and website assistance for tens of millions of taxpayers. IRS budgeted more than \$2 billion for these activities in 2013. The filing season is also when IRS begins collecting delinquent taxes by, for example, approving installment agreements and checking for non-filers. GAO was asked to review the 2013 tax filing season. This report (1) assesses IRS's performance in processing tax returns and providing services to taxpayers; (2) describes the installment agreement process and assesses its efficiency; and (3) describes the process for detecting and notifying non-filers. To conduct the analyses, GAO obtained and compared IRS data from 2007 through 2013, reviewed pertinent IRS documents, observed IRS operations, and interviewed IRS officials and experts in tax administration, including tax preparation firms.

## What GAO Recommends

GAO recommends that IRS develop standardized account entries and eliminate unnecessary redundancy in the installment agreement process. IRS did not state whether it concurred with our recommendation. GAO believes the recommendation remains valid as discussed in this report. In addition, GAO continues to believe the prior recommendation that IRS develop a strategy that defines appropriate levels of telephone and correspondence services based on an assessment of demand and resources among other things remains valid and should be addressed.

View [GAO-14-133](#). For more information, contact James R. White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

December 2013

## 2013 TAX FILING SEASON

### IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources

## What GAO Found

Despite efficiency gains from processing more tax returns electronically, adding website services, and shifting resources from enforcement, the Internal Revenue Service (IRS) was unable to keep up with demand for telephone and correspondence services. Access to IRS's telephone assistors remained at 68 percent from 2012. The percentage of overage paper correspondence (over 45 days old) increased to 47 percent from 40 percent in 2012. In the face of similar trends, last year GAO reported that a dramatic revision in IRS's taxpayer service strategy was needed and recommended IRS take steps to better balance demand for services with available resources. GAO acknowledged this may require IRS to consider difficult tradeoffs, such as limiting some services. In response, IRS has proposed eliminating or reducing some services for 2014 such as answering basic tax law questions only during the filing season. However, IRS officials told GAO the proposed cuts may not be sufficient to stop the deterioration in services. Until IRS develops a strategy, it risks not communicating expectations about the level of services it can provide based on the resources available. IRS could use the strategy to facilitate a discussion with Congress and other stakeholders about the appropriate mix of service, level of performance, and resources.

IRS Return Processing, Telephone Service, and Correspondence, 2008 through 2013 Filing Seasons

	2008	2009	2010	2011	2012	2013
<b>Return processing (fiscal year)</b>						
Returns processed (in millions)	151	139	137	140	142	142
Percent e-filed	59	67	71	78	82	84
<b>Telephone service (end of June, each year)</b>						
Percentage of callers seeking live assistance who receive it	57	68	76	72	68	68
Average wait time (in minutes)	8.6	8.4	9.5	11.7	17	15.5
<b>Paper correspondence (end of fiscal year)</b>						
Percentage of overage correspondence	n/a	25	27	35	40	47

Source: GAO analysis of IRS data. Legend: n/a = not applicable.

IRS offers options for installment agreements (IAs) to taxpayers who cannot fully pay their taxes when due. Taxpayers can enter into these agreements online, by phone, and by mail. In fiscal year 2012, IRS approved about 3.2 million new agreements and collected almost \$10 billion. IRS devotes about 1,800 full-time equivalent staff to the program but it is not as efficient as it could be. GAO found opportunities to standardize account entries and reduce redundancy by eliminating dual entry of the same data on paper forms and into IRS's computers. IRS officials agreed that opportunities did exist to streamline the process. More standardized and less redundant data entry could reduce resource needs.

IRS detects non-filers by matching third party information (i.e., Form W-2s) with tax returns. The first match is done in October, well after the mid-April tax filing deadline from the previous year, because of the time it takes to receive the third party information and process it. IRS sends notices to non-filers in November and December.

---

# Contents

---

Letter		1
	Background	3
	IRS Achieved Processing Efficiency Gains, but Continues to Face Challenges in Providing Service to Taxpayers	6
	IRS Recently Expanded the Installment Agreement Program, but Some Case Handling Practices Lack Standardization and are Unnecessarily Redundant	14
	IRS's Identification of and Notification to Potential Non-Filers Takes Months after Filing Deadlines	17
	Conclusions	19
	Recommendation for Executive Action	20
	Agency Comments and Our Evaluation	20
Appendix I	Installment Agreement Types and Characteristics	22
Appendix II	Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance	23
Appendix III	Use of IRS Website and Online Services	24
Appendix IV	Services Offered at Walk-In and Volunteer Sites	26
Appendix V	Installment Agreement Process	27
Appendix VI	Comments from the Department of the Treasury	28
Appendix VII	GAO Contact and Staff Acknowledgments	31

---

---

Tables

Table 1: Individual Income Tax Returns Processed from 2008 through 2013	7
Table 2: IRS Call Volume, Telephone Service Goals and Performance, 2008 through 2013 Filing Seasons	9
Table 3: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2013	10
Table 4: Total Installment Agreement Inventory and Tax Liability, Fiscal Years 2009 through 2012	15
Table 5: Potential Individual Non-filer Cases Identified and Number and Percentage of Cases Selected for Review, Tax Years 2007 through 2010	18
Table 6: Types and Characteristics of Installment Agreements	22
Table 7: Website Use from the 2008 through 2013 Filing Seasons	24
Table 8: Services Performed at IRS Taxpayer Assistance Centers and Sites Staffed by Volunteers, 2010 through 2013	26

---

Figures

Figure 1: Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance for the Week Ending January 5 through June 29, 2013	23
Figure 2: Example of Streamlined Installment Agreement Application and Payment Process	27

---

---

### Abbreviations

CADE 2	Customer Account Data Engine 2
CSR	Customer Service Representative
e-file	electronic filing
FTE	Full-Time Equivalent
IMF	Individual Master File
IA	Installment Agreement
IRS	Internal Revenue Service
LOS	Level of Service
MeF	Modernized e-File
TE	Tax Examiner
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
UBA	Unpaid Balance of Assessment

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



December 18, 2013

The Honorable Max Baucus  
Chairman  
The Honorable Orrin Hatch  
Ranking Member  
Committee on Finance  
United States Senate

The Honorable Charles W. Boustany  
Chairman  
The Honorable John Lewis  
Ranking Member  
Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Each tax filing season is an enormous undertaking. In the 2013 filing season, the Internal Revenue Service (IRS) processed over 140 million individual income tax returns, issued more than 100 million refunds worth over \$280 billion, and received over 90 million telephone calls. In fiscal year 2013, IRS budgeted more than \$2 billion for processing such returns and providing taxpayer services. During the filing season, IRS also begins its efforts to verify that tax returns are in compliance with income reporting requirements. Two examples of compliance issues that typically surface during the filing season are (1) failure to pay a balance due on time, and (2) failure to file a return. Taxpayers who are unable to pay a balance due on time can make payments through an installment agreement (IA)—which allows taxpayers to pay their tax debt in scheduled (usually monthly) payments. Since failure to file a return cannot be detected until after the tax filing deadline and IRS determines that the taxpayer may have a filing obligation, timely notification of taxpayers can be a challenge. IRS last estimated that non-filers accounted for \$28 billion of the \$385 billion net tax gap in tax year 2006.<sup>1</sup>

---

<sup>1</sup>The tax gap is the difference between taxes legally owed to the government and what taxpayers actually paid to the government.

---

In this context, you asked us to review IRS's 2013 tax filing season performance. Specifically, this report (1) assesses IRS's performance in processing returns, delivering refunds, and providing telephone, online, and face-to-face assistance compared to its 2013 goals and prior years' performance; (2) describes IRS's IA process and assesses the efficiency of the process; and (3) describes IRS's process for detecting non-filers, including the time it takes to notify them.

To assess IRS's filing season performance, we

- obtained and analyzed IRS documents and data, including performance and workload data, for return processing and taxpayer services, and used this information to compare IRS's performance in 2013 to prior years (2008 through 2012) and agency goals to identify trends and anomalies.
- visited IRS facilities in Austin, Texas, and the Joint Operations Center (which manages IRS's telephone operations) in Atlanta, Georgia, to view return processing, telephone service, and other operations.
- interviewed IRS officials and tax administration experts to obtain contextual information about IRS's performance, including the effect of late tax law changes, and efforts to improve taxpayer services.

To describe IRS's IA process and assess its efficiency, we

- obtained and reviewed IRS documentation, such as the Internal Revenue Manual and the IA lifecycle and default processes, and analyzed IRS data to summarize key information about IAs from fiscal years 2009 to 2012.
- observed tax examiners working IA cases at IRS facilities in Atlanta, Georgia and Austin, Texas.
- interviewed IRS officials to obtain contextual information about the IA program.

To describe IRS's processes for detecting non-filers including the time it takes to notify them, we

- obtained and analyzed IRS data from tax years 2007 through 2010 and documentation on its non-filer program.
- observed tax examiners working non-filer cases at IRS facilities in Austin, Texas.

- 
- interviewed IRS officials to obtain contextual information about the non-filer program.

To identify limitations and assess data reliability, we reviewed IRS data and documentation, interviewed IRS officials about computer systems and data limitations (including a more detailed assessment of telephone performance data), and compared those results to our data reliability standards. We interviewed IRS collection and research staff, as well as Treasury Inspector General for Tax Administration (TIGTA) staff who worked on past reports relevant to our work to identify data sources and better interpret IRS's data. We consider the data presented in this report to be sufficiently reliable for our purposes.

We conducted this performance audit from January 2013 through December 2013 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 Processing and Taxpayer Services

- **Processing:** IRS processes millions of paper and electronically-filed (e-filed) tax returns and validates key pieces of information during the tax filing season.<sup>2</sup> The overwhelming majority of returns are e-filed through IRS's Modernized e-File (MeF) system.<sup>3</sup> Beginning last filing season, IRS and taxpayers benefitted from IRS's switch from weekly to daily tax return processing on its Individual Master File (IMF) legacy system which allowed for faster refund processing for more taxpayers. IRS is continuing to transition from its antiquated IMF legacy system

---

<sup>2</sup>Most taxpayers file their tax returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing until as late as October 15.

<sup>3</sup>IRS cannot accept e-filed returns directly from taxpayers. Rather, IRS authorizes e-file providers to transmit returns to IRS electronically using the MeF system.

---

to a more modern return processing system known as the Customer Account Data Engine 2 (CADE 2).<sup>4</sup>

- **Telephone:** Taxpayers can call to speak directly with an IRS customer service representative (CSR) to obtain information about their accounts or ask tax law questions. Taxpayers can also listen to recorded tax information using automated telephone menus. Automated services are provided on IRS's 149 Tele-tax lines for tax law topics and 71 phone lines for account information.

CSRs are also responsible for responding to paper correspondence from taxpayers. IRS tries to respond to paper correspondence within 45 days of receipt, and considers correspondence that is not addressed within that time to be overage. Minimizing the amount of overage correspondence is important because delayed responses may prompt taxpayers to write again or call IRS.

- **Website:** On IRS.gov, taxpayers can download forms, instructions, and publications and research tax law issues using interactive tools. Taxpayers can use interactive tools to check the status of their refunds, request transcripts (which are copies of a taxpayer's account information), and apply for IAs.
- **Face-to-Face Assistance:** Taxpayers can obtain face-to-face assistance at IRS's 390 Taxpayer Assistance Centers (TAC) or at more than 13,000 sites staffed by volunteer partners. At TACs, IRS staff provide answers to basic tax law questions, review and adjust taxpayer accounts, take payments, authenticate Individual Taxpayer Identification Number applicants and identity theft victims, and prepare returns for qualified taxpayers.<sup>5</sup> At the sites staffed by volunteers, taxpayers can receive return preparation assistance as well as financial literacy information.

---

<sup>4</sup>The Individual Master File (IMF) is IRS's primary repository for taxpayer account information. IRS refers to daily processing by the legacy system and its new relational database that will eventually fully replace the IMF legacy system as CADE 2. It is designed to allow IRS to provide still quicker refunds and conduct more and improved compliance checks before refunds are issued. IRS plans to run CADE 2 and the IMF legacy system concurrently in 2014.

<sup>5</sup>Taxpayers with annual incomes of \$51,000 or less can have their returns prepared by IRS staff at TACs, or taxpayers can have returns prepared by volunteers at IRS partner sites.

---

## Installment Agreements

Taxpayers can enter into IAs to pay their tax debts after filing their return with a balance due.<sup>6</sup> IAs are an important tool for IRS to collect revenue. IRS assesses and collects billions of dollars each year through IAs. IAs can be established, paid off, defaulted on, reinstated, or terminated at any time during the year. IRS provides four types of IAs—Guaranteed, Streamlined, Regular/Routine, and Partial Payment—with different eligibility and payment requirements. IAs allow taxpayers to pay off their tax liabilities gradually over time and can encompass multiple years. Failure to adhere to the terms of the IA can cause default, termination, and more expensive collection actions.<sup>7</sup> The most common type of IA by far is the streamlined agreement, which provides taxpayers with flexibility in paying off liabilities. Appendix I provides additional information on the types and characteristics of IAs.

---

## Individual Non-filers

IRS defines a non-filer as a taxpayer who has a legal obligation to file a return, but fails to file a return by the filing deadline (either April or October depending on whether the taxpayer filed for an extension). IRS is authorized to issue a notice requesting a delinquent return and it can send up to four notices to taxpayers.<sup>8</sup>

---

<sup>6</sup>Taxpayers also can apply for IAs after a notice of liability is received. Penalties, interest, and user fees are charged to taxpayers using IAs to pay their tax debts. In certain cases, IRS is required to enter into an IA, but generally IRS has the discretion to determine whether to enter into an IA.

<sup>7</sup>GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, [GAO-13-156](#) (Washington, D.C.: Dec. 18, 2012).

<sup>8</sup> 26 U.S.C. § 6001.

---

## IRS Achieved Processing Efficiency Gains, but Continues to Face Challenges in Providing Service to Taxpayers

---

### Electronic Filing Continued to Grow

Despite late tax law changes which delayed the start of filing season and compressed the time that IRS had available to process tax returns, IRS officials and external stakeholders such as large tax preparation firms reported relatively smooth processing, with a few exceptions.<sup>9</sup> IRS usually begins processing tax returns in early to mid-January; this year, it started processing most returns January 30, 2013.

Table 1 shows that IRS achieved an 84 percent e-file rate for individual returns, and processed 11 percent fewer paper returns compared to last year. Continued increases in e-filing are important because processing costs are lower for e-filed returns. According to IRS, in fiscal year 2012, it cost 23 cents to process an e-filed return, as opposed \$3.36 for returns filed on paper. IRS relied solely on MeF this filing season, and attributed this success to expanded testing of the system which improved the MeF's stability and facilitated return processing. External stakeholders confirmed IRS's assertion about the reason for MeF's success.

---

<sup>9</sup>We previously reported on the effect of the compressed time frames on IRS due to the American Taxpayer Relief Act of 2012 (Pub. L. No. 112-240), which made permanent many of the tax cuts enacted in 2001 and 2003 and extended other many provisions. See GAO, *Internal Revenue Service: 2013 Tax Filing Season Performance to Date and Budget Data*, [GAO-13-541R](#) (Washington, D.C.: Apr. 15, 2013).

**Table 1: Individual Income Tax Returns Processed from 2008 through 2013**

	2008 <sup>a</sup>	2009	2010	2011	2012	2013	Percent change from 2012 to 2013 <sup>b</sup>
Number of individual tax returns processed (in millions)	151	139	137	140	142	142	-0.1
Electronic	89	94	97	109	116	119	2
Paper	62	45	40	30	26	23	-11
Percentage e-filed	59	67	71	78	82	84	2
Number of refunds issued (in millions)	105	109	107	107	108	107	-0.8
Amount of refunds issued (dollars in billions)	\$248	\$298	\$312	\$303	\$295	\$287	-3

Source: GAO analysis of IRS data.

Notes: Data on the number of returns processed are from January 1 through October 3, 2008; January 1 through October 2, 2009; January 1 through October 1, 2010; January 1 through September 30, 2011; January 1 through September 28, 2012; and January 1 through September 27, 2013. Data cover equivalent periods for each fiscal year.

<sup>a</sup>The Economic Stimulus Act of 2008 mandated that IRS send stimulus payments to over 100 million households, many of which would not otherwise have needed to file a tax return.

<sup>b</sup>The numbers in the table are rounded, but the percent change was calculated using exact values. Therefore, in some cases, the percent change is slightly different than it would be if it were calculated using the rounded values in the table.

Although operations were relatively smooth, IRS and others reported issues that delayed processing for tax returns filed with Form 8863 (Education Credits), and with Form 5405 (First-time Homebuyer Credit). While IRS was able to resolve processing delays for about 700,000 tax returns filed with the Form 8863, multiple class action suits have been filed against a large tax preparation firm regarding the issues involved in the processing delays.<sup>10</sup> IRS also quickly resolved processing issues with about 88,000 returns filed with Form 5405 that were caused by a compliance filter that resulted in additional scrutiny.

<sup>10</sup>The cases generally allege breach of contract, negligence, and violation of state consumer protection laws. IRS is not a named party to the suits.

---

## Access to Telephone Service Remained the Same as Last Year, and Correspondence Service Continues to Deteriorate Due to the Imbalance between Demand and Resources

Table 2 shows that, in 2013, IRS received 93.5 million calls— a 5 percent decrease from 2012 but higher than 2009 through 2011. Compared to 2012, IRS answered almost 9 percent fewer calls using automated services. Officials attributed some of the reduction in automated calls answered to fewer e-file personal identification number requests. Answering as many calls as possible through automation is important because IRS estimates that it costs 38 cents per call to provide an automated answer, but about \$33 per call to use a live assistor.<sup>11</sup>

Table 2 also shows that callers experienced a shorter average wait time to speak to an IRS assistor this year compared to the same period last year, but the time was still much longer than 2008 through 2011. The percentage of callers seeking live help who received it stayed the same as 2012 at 68 percent.

In 2010, we found that that IRS sets its annual goal based on factors such as resource availability, the expected number and complexity of calls, and anticipated volume of taxpayer correspondence, but not on an analysis of what taxpayers would consider to be good service.<sup>12</sup> At that time, we recommended that IRS determine a telephone standard based on the quality of service provided by comparable organizations, what matters most to the customer, and resources required to achieve this standard based on input from Congress and other stakeholders. IRS disagreed saying its current process of developing a planned level of telephone service takes into consideration many factors, including its budget and assumptions about call demand. We noted, however, that such a standard would allow IRS to communicate to Congress what it believes constitutes good service. Further, since 2010, the IRS Oversight Board has said that an acceptable level of service (LOS) should be about 80 percent.<sup>13</sup> However, IRS has yet to set such a standard.

---

<sup>11</sup>For 2013, IRS reported the cost for an assistor answer call is based on calls answered from October 1, 2012 through June 30, 2013.

<sup>12</sup>GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

<sup>13</sup>The IRS Oversight Board is an independent body charged to provide the IRS with long-term guidance and direction.

**Table 2: IRS Call Volume, Telephone Service Goals and Performance, 2008 through 2013 Filing Seasons**

		2008 <sup>a</sup>	2009	2010	2011	2012	2013	Percent change from 2012 to 2013 <sup>b</sup>
Total calls to IRS (in millions) <sup>c</sup>		118.0	77.6	77.4	83.1	98.4	93.5	-5.0
Automated calls answered		43.0	25.3	31.6	36.7	50.1	45.8	-8.6
Assistor answered calls		27.0	25.7	24.1	22.6	19.4	20.4	5.2
Abandoned, busies, and disconnects		48.0	26.7	21.7	23.8	28.9	27.3	-5.6
<b>Access measures</b>								
Percentage of callers seeking live help who receive it (LOS)	Goal	82	77 <sup>d</sup>	71	71	61	70	14.8
	Actual	57	68	76	72	68	68	0.2
Average wait time (in minutes)	Goal	4.5	10.4 <sup>e</sup>	11.6	11.6	19.0	15	-20.4
	Actual	8.6	8.4	9.5	11.7	17	15.5	-7.4
<b>Accuracy measures<sup>f</sup></b>								
Tax law rate (in percent) <sup>g</sup>		90.3	92.5	92.4	92.9	92.5	95.6	
		+/- 0.9	+/- 0.8	+/- 0.8	+/- 0.6	+/- 0.7	+/- 0.7	+/- 0.7
Account accuracy rate (in percent)		93.5	95.1	95.6	96.0	95.4	95.8	
		+/- 0.4	+/- 0.4	+/- 0.4	+/- 0.3	+/- 0.3	+/- 0.4	+/- 0.4

Source: GAO analysis of IRS data.

Note: Unless otherwise noted, data are cumulative from January 1 of each year to June 30, while goals are for the entire fiscal year. We believe comparing performance during the filing season to fiscal year goals is appropriate as IRS's filing season performance is an indicator of its performance for the entire year.

<sup>a</sup>According to IRS officials, IRS received an unprecedented number of calls in 2008 primarily related to economic stimulus package payments.

<sup>b</sup>The numbers in the table are rounded, but the percent change was calculated using exact values. Therefore, in some cases, the percent change is slightly different than it would be if it were calculated using the rounded values in the table.

<sup>c</sup>The numbers in the table are the total automated, assistor answered, abandoned, busy and disconnected calls, and do not reflect the total number of attempted calls to IRS.

<sup>d</sup>IRS revised its original fiscal year goal of 77 percent down to 70 percent because of high call volume from taxpayers requesting e-filing authentication information and asking stimulus-related questions.

<sup>e</sup>IRS determines its wait time goals based on anticipated call volume and resource availability. IRS significantly raised its wait time goal for 2009 compared to 2008 in light of anticipated increased call volume related to tax law changes.

<sup>f</sup>IRS calculation based on representative samples of phone calls from January 1 through June 30.

<sup>g</sup>The percentage of calls in which CSRs provided accurate answers for the call type and took the appropriate actions, with a 90 percent confidence interval.

There is considerable weekly variation around the annual averages for telephone access shown in Table 2. For example, prior to the filing deadline of April 15 weekly levels of service ranged from a low of 53 percent to a high of 77 percent. After the filing deadline, weekly service

levels were lower. They ranged from a low of about 40 percent to a high of 69 percent. See Appendix II for additional information on weekly call volume and levels of service.

IRS officials stated that reduced funding levels stemming from multi-year and sequestration-related budget cuts resulted in fewer than planned CSR resources to handle telephone calls and paper correspondence. IRS devoted about 13,200 full-time equivalent (FTE) employees in 2013 to telephones and correspondence compared to almost 13,800 in 2012 (a decline of 4 percent). These FTE numbers for 2013 do not include about 300 staff that IRS shifted from its collection activities to answer telephone calls. IRS estimated the costs and foregone revenue associated with this shift to be in excess of \$202 million. Using IRS's estimate, which we did not verify, the costs and foregone revenue per FTE shifted would be in excess of \$674,000.

**Almost Half of All Taxpayer Correspondence is Overage, and IRS Has Plans to Conduct More Evaluations of Taxpayer Correspondence**

As shown in Table 3, the amount of correspondence received between 2009 and 2013 increased from 19 to 21 million (a 10.5 percent increase) and the percentage of overage correspondence nearly doubled to 47 percent in 2013 from 25 percent in 2009. As noted earlier, IRS generally considers paper correspondence that is not resolved within 45 days to be overage.

**Table 3: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2013**

	Fiscal Year <sup>a</sup>					Percent change from fiscal year 2012 to 2013 <sup>b</sup>
	2009	2010	2011	2012	2013	
Correspondence received (in millions)	19	20	20	21	21	0
Percentage of taxpayer overage correspondence	25	27	35	40	47	18

Source: GAO analysis of IRS data.

Note: Aggregate data are from Accounts Management and Submission Processing, which jointly responds to IRS's taxpayer correspondence.

<sup>a</sup>Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

<sup>b</sup>The numbers in the table are actual numbers reported by IRS, and the percent change was calculated using those values.

---

In December 2010, we concluded that providing timely responses to paper correspondence remains critical to taxpayer service because if IRS's responses take too long taxpayers may write again or call IRS for additional assistance. We recommended that IRS establish a performance measure that includes providing timely correspondence service to taxpayers. IRS agreed to this recommendation, and is beginning to take steps to implement it.<sup>14</sup> Since we made that recommendation, the percentage of overage correspondence has continued to increase. IRS officials attribute the increase in the percentage of overage correspondence to budget constraints (less overtime for CSRs who provide both telephone assistance and work paper correspondence), and more complex taxpayer inquiries such as correspondence related to identity theft cases which can be more time consuming to address.

IRS has taken some steps to identify why taxpayers write in. Based on a recent small, judgmental sample of correspondence cases, IRS found that the top three most common reasons taxpayers write in are: balance due payoffs, penalty abatements, and miscellaneous account inquiries. In that same sample, IRS found that its own processes, such as the wording of notices or requirements for a paper signature, influenced taxpayers to write in. IRS officials told us they are currently analyzing a statistically valid sample of correspondence to identify additional factors that influence the level of correspondence.

---

## Website Use Has Increased, While Some Face-to-Face Services Continue to Decline

Use of IRS.gov continues to increase, with IRS receiving approximately 374 million visits to its website through July 2013, an increase of nearly 26 percent over the same period in 2012. IRS officials attribute this increase to the launch of the redesigned website, introduction of new online tools such as Where's My Amended Return, and implementation of the Patient Protection and Affordable Care Act.<sup>15</sup> We previously recommended that IRS develop a long-term strategy to improve web

---

<sup>14</sup>GAO-11-111.

<sup>15</sup>GAO, *Patient Protection and Affordable Care Act: IRS Managing Implementation Risks, but Its Approach Could Be Refined*, GAO-12-690 (Washington, D.C., June 13, 2012). IRS is one of several agencies accountable for implementing provisions under the Patient Protection and Affordable Care Act. Among other things, IRS is responsible for providing guidance to taxpayers, employers, insurers, and others to ensure compliance with new tax aspects of the law.

---

services provided to taxpayers that includes studies of leading practices at a strategic level, measurable goals for taxpayer satisfaction, business cases for new online services that describe potential benefits and costs and prioritized projects, and links to investments in security.<sup>16</sup> IRS reported that it is planning to update its long-term web services strategy to include our recommended changes in early 2014. See Appendix III for additional information on website use from 2008 through 2013.

IRS received about 2.6 million visits to its TACs, a decline of approximately 5 percent from 2012. Additionally, the number of returns prepared continues to decline—in 2013, IRS prepared nearly 125,000 returns at TACs, about a 16 percent decline from 2012. IRS attributes the decline to its efforts to manage demand, and increased taxpayer awareness of online tools and services. In contrast, the number of returns prepared at the roughly 13,000 volunteer sites increased 5 percent between 2012 and 2013, to nearly 3.3 million in 2013. See Appendix IV for additional information on services and taxpayer use of TACs and volunteer sites since 2010.

---

### IRS Has Proposed Eliminating Some Services in 2014, but the Cuts May Not Stop the Deterioration in Performance or Address GAO's Recommendation from Last Year

In 2012, we noted that IRS needs to dramatically revise its strategy for providing telephone and correspondence services and recommended that it define appropriate levels of telephone and correspondence services based on an assessment of demand and resources among other things.<sup>17</sup> IRS neither agreed nor disagreed with our recommendation, saying it already has an objective of providing taxpayers with access to accurate services while managing demand. However, IRS's efforts to date have not reversed the declines in taxpayer service. We noted, and IRS officials acknowledged, that incremental efficiency gains of the type IRS has realized in recent years would not be enough to combat the imbalance between taxpayer demand for services and available resources. We concluded that, with expected levels of resources, reversing the declines in telephone and correspondence services may require IRS to consider difficult tradeoffs such as limiting the types of phone calls that would be answered.

---

<sup>16</sup>GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, GAO-13-435 (Washington, D.C.: Apr. 16, 2013).

<sup>17</sup>GAO-13-156.

---

Given expected budget levels for the 2014 filing season, IRS has identified six services for elimination or reduction, which officials told us were chosen because taxpayers had other options. IRS officials reported that they have discussed these options within IRS, with external stakeholders, and with Congressional committees that oversee IRS operations.

IRS's proposed service eliminations or reductions are:

1. Limiting tax law inquiries to answer only basic tax law questions during the filing season, and reassigning CSRs to work account-related inquiries;
2. Launching the "Get Transcript" tool, which will allow taxpayers to obtain a viewable and printable transcript online on [www.irs.gov](http://www.irs.gov), and redirecting taxpayers to this and other automated tools for getting a transcript;
3. Redirecting refund-related inquiries to automated services and not answering refund inquiries until 21 days after the tax return has been filed, except for refunds held for potential fraud;
4. Limiting access to the Practitioner Priority Services line to only those practitioners working tax account issues;
5. Limiting live assistance and redirecting requests for domestic Employer Identification Numbers to IRS's online tool; and
6. Eliminating free return preparation at IRS's TAC sites and directing taxpayers to free alternatives including at IRS partner sites staffed by volunteers.

The proposed elimination or reductions in services are examples of the difficult choices that we recommended need to be made if more timely access to telephone service and handling of correspondence is going to be achieved from the available IRS resources. While these cuts represent initial steps consistent with our recommendation from last year, they do not fully address it. Furthermore, even with these reductions, officials in IRS's Wage and Investment Division responsible for the filing season told us they are anticipating that the level of telephone service could be 61 percent in 2014.<sup>18</sup> IRS reported that it is working on final approval to

---

<sup>18</sup>The level of service realized in 2014 will depend on a variety of factors, including the actual volume and complexity of calls.

---

implement the service options and bring about a better balance between demand for service and resources. However, the continued deterioration in taxpayer service in 2013, high cost of shifting staff from collections work to the telephones and correspondence, and anticipated level of telephone service for 2014 all highlight the importance of continuing to address the recommendation we made last year based on the need for a dramatic revision in IRS's strategy. The choice may be between providing a broader range of services at a low level of performance or a narrower range of services at a higher level of performance. Until IRS develops a strategy, it risks not communicating expectations about the level of services it can provide based on the resources available. IRS could then use the strategy to facilitate a discussion with Congress and other stakeholders about the appropriate mix of service, level of performance, and resources.

---

## IRS Recently Expanded the Installment Agreement Program, but Some Case Handling Practices Lack Standardization and are Unnecessarily Redundant

Taxpayers can apply for IAs online, by phone, in person, or by completing and mailing Form 9465, Installment Agreement Request.<sup>19</sup> Depending on the type of IA, taxpayers can make their monthly payments via check or money order, direct debit, payroll deduction, online, or credit card. If a taxpayer fails to make monthly payments on time or incurs a new tax liability, the taxpayer is considered to be in default on the IA with a few exceptions. Appendix V shows the process for taxpayers entering into and making payments on IAs.

Table 4 shows that, in fiscal year 2012, IRS approved more than 3 million new IAs and collected \$9.8 billion. At the end of fiscal year 2012, IAs represented nearly \$28 billion in unpaid balances. The difference between the amount of unpaid balance of assessment and amount collected is due to the fact that IAs can be paid off over multiple years. According to IRS officials, the increases in IA inventory since 2009 are due to a variety of factors, such as more taxpayers entering into IAs because of expanded eligibility and payment terms discussed below, and changes in the economy.

Table 4 also shows, in fiscal year 2012, taxpayers defaulted on approximately 1.2 million IAs. In 2012, we found that, of those taxpayers

---

<sup>19</sup>If a taxpayer owes more than \$50,000, Form 433-F, Collection Information Statement, must also be completed and submitted.

that had a balance due at the filing deadline, almost two-thirds eventually paid in full or entered into IAs, and about 18 percent of taxpayers defaulted on IAs in fiscal year 2012.<sup>20</sup> Therefore, we recommended that IRS pilot risk-based approaches for contacting taxpayers who have a balance with the goal of reducing the default rate. IRS agreed with the recommendation, but has not funded the related research project. Until IRS tests and implements more advanced risk-based approaches, it may be challenged to deal with the default problem.

**Table 4: Total Installment Agreement Inventory and Tax Liability, Fiscal Years 2009 through 2012**

<b>IA Inventory</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
New IAs Entered Into During FY	3,107,932	3,226,203	3,241,096	3,168,853
Number of Full Paid IAs by End of FY	1,337,095	1,724,908	1,912,324	1,850,606
Number of Defaulted IAs by End of FY	966,231	1,169,109	1,152,420	1,211,600
IA Inventory by End of FY <sup>a</sup>	3,246,169	3,558,757	3,724,866	3,827,824
<b>Tax Liability<sup>b</sup></b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Unpaid Balance of Assessments (UBA) at End of FY <sup>c</sup>	\$19,144,476,513	\$21,876,520,273	\$25,696,713,649	\$27,974,831,425
Amount Collected During FY <sup>d</sup>	\$6,580,411,267	\$7,913,483,261	\$8,830,789,983	\$9,812,942,707

Legend: FY = Fiscal Year.

Source: IRS Collection Activity Report data.

<sup>a</sup>The total numbers of new, full paid, and defaulted IAs will not equal the total inventory at the end of a given fiscal year because IAs can be entered into, paid off, defaulted on, reinstated, or terminated at any given time during repayment schedule which can span several years.

<sup>b</sup>The amount collected is the amount collected for all IA cases that were in Collection status during the period. IAs for which a payment was received during the period but were either full-paid or defaulted on during that same period will be included in the amount collected but not in the Unpaid Balance of Assessment (UBA).

<sup>c</sup>UBA includes taxes, penalties, and interest less any payments (not including any accrued amount).

<sup>d</sup>IAs give taxpayers the opportunity to repay their tax liabilities over several years. As a result, IA payments would be received in subsequent years and be added to the total amount collected over time.

In 2012, IRS expanded its Fresh Start Initiative to assist struggling taxpayers in meeting their tax obligations.<sup>21</sup> Specifically, the threshold for

<sup>20</sup>GAO-13-156.

<sup>21</sup>In 2011, IRS announced new steps to help taxpayers with their tax liabilities known as the Fresh Start Initiative. Its main goal was to change IRS's lien filing practices to lessen the negative effect on taxpayers. Subsequent changes to the IA program are considered an expansion of Fresh Start.

---

requesting a streamlined IA was raised from \$25,000 to \$50,000 and the maximum term for streamlined IAs was increased from 60 to 72 months for repayment. The expanded eligibility for streamlined IAs in particular allowed more people to qualify for the program and potentially pay taxes owed. Also under Fresh Start, IRS is encouraging taxpayers with IAs to sign up for direct debit agreements which generally have lower default rates. IRS said it is difficult to pinpoint which specific aspects of the Fresh Start initiative are effective. IRS is currently conducting an analysis of the initiative's benefits in terms of collection and default prevention. As of November 2013, that analysis has not been completed.

IRS allocated about 1,800 FTEs to the IA program in fiscal year 2012, which is over a 10 percent increase since fiscal year 2009. The level of and growth in this area highlights the importance of testing and implementing risk-based approaches for collecting balances due including through IAs.

---

### Some IA Case Handling Practices Lack Standardization and Include Unnecessary Redundancy

IRS recently made process improvements to help streamline and standardize its IA program operations. For example, IRS introduced automated tools, known as the Compliance Suite, which provides tax examiners (TEs) with online tools such as helping the TE determine which letter to send to the taxpayer. However, despite these process improvements, we observed some inefficiency. For example, we observed that some TEs had developed their own extensive sets of prewritten, standardized case notes that allowed them to quickly update a taxpayer's account because the Compliance Suite lacked that capability.

IA program managers were aware of this practice, said it gives TEs flexibility in writing case notes, but agreed that automated case notes may yield efficiencies. They also noted that the Compliance Suite was only introduced a few months ago, and its full capabilities were being explored. We agree that flexibility is desirable but providing an extensive set of standardized notes in the Compliance Suite would give all TEs the option of using them. This could lower the cost of making account entries.

In addition, we found unnecessary redundancy. We observed TEs handwriting case notes on paper copies of IAs and then typing those same notes into IRS's computer systems. IRS managers agreed this practice is redundant, and TEs noted this is the way it has always been done. Such redundant data entry increases the time it takes TEs to

---

handle each IA case. Furthermore, GAO's internal control guidance states that control activities should be regularly evaluated to ensure their appropriateness in intended function.<sup>22</sup>

By not developing a more standardized comprehensive set of case notes and not reducing redundant data entry, IRS is missing opportunities to reduce resources devoted to handling IA case files. With 1,800 FTEs devoted to the program, small gains in the efficiency of each TE could add up to substantial savings.

---

## IRS's Identification of and Notification to Potential Non-Filers Takes Months after Filing Deadlines

Beginning in October, IRS uses prior year tax returns, third-party reports, such as W-2s and Forms 1099, and applications for automatic extensions of time to file to identify taxpayers who appear to have missed the mid-April tax return filing deadline. In June 2013, we found that most information reports are not received by IRS until well after the April tax return filing deadline.<sup>23</sup>

IRS does a second match in March of the following year for taxpayers who filed an extension. According to IRS officials, not all potential non-filer cases identified are selected for notification and review; IRS prioritizes cases based on factors such as income, the potential to collect taxes due, and whether the taxpayer is an IRS or other federal employee.

After the first match in October, IRS sends notices to non-filers in November and December requesting the return or a justification for not filing. IRS begins to send notices to cases from the second match between March and July.<sup>24</sup>

---

<sup>22</sup> GAO, *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>23</sup> There are more than 40 different types of information returns received from third parties such as W-2s, 25 of which are directly matched against income tax returns filed by individuals, including Form W-2, *Wage and Tax Statement*, and Form 1099 series. We found that most information returns are received after their original due dates, which further delays IRS matching process. See GAO, *Tax Refunds: IRS is Exploring Verification Improvements, but Needs to Better Manage Risks*, [GAO-13-515](#) (Washington, D.C.: June 4, 2013).

<sup>24</sup> According to IRS officials we met with, if the taxpayer does not respond, IRS can send the taxpayers up to three additional notices to request the delinquent return.

Table 5 shows that, in tax year 2010 (the year for which the most current data are available), IRS identified over 7.4 million potential non-filer cases. Of these, IRS selected more than 3.2 million cases for review and sent notices to those non-filers requesting the return. IRS officials said the percentage of cases selected for review fluctuates based on resources and selection criteria, such as income and potential balance due amounts, which vary from year-to-year.

Table 5 also shows in tax year 2008 (the year for which the most complete data are available), IRS received approximately 1.4 million delinquent returns, which is about 39 percent of the non-filers selected for review and notification. IRS officials attribute the relatively low number of returns filed in response to notices to taxpayers that have stopped filing for unknown reasons, those that do not have the resources to pay the potential balance due, and taxpayers who do not file until more extensive collection actions are taken. Securing the delinquent return as soon as possible as part of IRS's notification process is important because taxpayers continue to incur penalties and interest until they file a return and IRS undertakes increasingly expensive enforcement actions against the taxpayer.

**Table 5: Potential Individual Non-filer Cases Identified and Number and Percentage of Cases Selected for Review, Tax Years 2007 through 2010**

	TY 2007	TY 2008	TY 2009	TY 2010
Potential non-filer cases identified	6,305,323	7,610,026	7,119,652	7,427,534
Number of non-filer cases selected for review and notices sent	2,973,144	3,473,818	3,288,560	3,224,601
Percent of cases selected for review	47	46	46	43
Number of Delinquent Returns Filed <sup>a</sup>	1,222,800	1,371,619	1,043,019	606,873

Source: IRS.

Legend: TY = Tax Year.

<sup>a</sup>IRS is still pursuing non-filers for all tax years. As a result, the number of returns filed is likely to increase particularly for tax years 2009 and 2010.

In addition to taxpayers who do not respond to notices, IRS's existing non-filer strategy notes that IRS also has a significant problem with repeat non-filers. For fiscal year 2012, IRS data shows that 43 percent of closed cases were repeat non-filers that did not file for more than 1 tax year.

---

As of November 2013, IRS is waiting on executive approval for its updated non-filer strategy which it expects to receive by the end of the year and should address how IRS plans to improve non-filer compliance including notice response and repeater rates. IRS is currently analyzing data on the characteristics of non-filers, such as filing status, income, and other key characteristics, and their response rates to the notifications to determine the best approach, and expect this effort to be completed in January 2014. IRS officials also are considering several initiatives for improving the notification process once its updated non-filer strategy is approved.

---

## Conclusions

Despite efficiency gains in processing returns, additional website services, and shifting employees from working collections cases to handling telephone calls and correspondence, the gap between taxpayers' demand for service and IRS resources widened. As a result, taxpayer access to IRS's telephone assistants remained at a low level and the percentage of overage correspondence grew. The widening gap highlights the importance of fully implementing our recommendation made last year for a dramatic revision in managing taxpayer service that defines an appropriate level of service and recognizes both the demand for services and resources available. We stressed that this would mean making difficult tradeoffs. Consistent with our recommendation, IRS has proposed eliminating or reducing some services. By eliminating or reducing some services IRS should be able to devote more resources to its continuing services. However, IRS officials told us that the cuts proposed so far may not reverse the decline in telephone and correspondence performance. As a consequence, the cuts may only be a down payment on the difficult choices needed and our recommendation needs to be fully addressed. Fully addressing our recommendation would result in a strategy that could be used to facilitate a discussion with Congress and other stakeholders about the appropriate mix of service, level of performance, and resources.

The imbalance between the demand for services and resources also puts a higher priority on scrutinizing existing processes for possible further efficiency gains. We identified opportunities in the processing of installment agreements where the existing process could be further streamlined to reduce resources by standardizing case notes and reducing unnecessarily redundant data entry.

---

## Recommendation for Executive Action

We recommend that the Commissioner of Internal Revenue develop a set of standardized account entries and eliminate unnecessary redundancy when entering installment agreement data into accounts.

---

## Agency Comments and Our Evaluation

We provided a draft of this report to the Acting Commissioner of Internal Revenue. IRS provided written comments on a draft of the report, which are reprinted in Appendix VI. IRS also suggested technical changes to the report, which we incorporated where appropriate.

IRS did not state whether it concurred with the recommendation. However, IRS acknowledged that standardized account entries can sometimes lead to increased efficiencies and lower costs, and taxpayers and IRS can benefit by the elimination of redundancy in its processes. IRS stated that as it continues to evaluate the Compliance Suite to determine its full capabilities, it will (1) explore whether the introduction of standardized account entries into the IA process will yield increased efficiencies and lower costs; and (2) evaluate whether there are unnecessary redundancies in its current processes that can be eliminated without adversely affecting tax administration. GAO believes the recommendation remains valid as discussed in the report.

---

We plan to send copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Acting Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Deputy Director for Management of the Office of Management and Budget. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

---

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@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 VII.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive, flowing style.

James R. White  
Director, Tax Issues  
Strategic Issues

# Appendix I: Installment Agreement Types and Characteristics

Of the four types of IAs available to individual taxpayers, the most common type of IA by far is the streamlined.

**Table 6: Types and Characteristics of Installment Agreements**

Type of Installment Agreement (IA)	Amount Owed	Maximum Payment Term	Required Payment Method <sup>b</sup>	User Fee <sup>c</sup>	Collection Information Statement Requirement <sup>d</sup>	Management Approval Requirement <sup>e</sup>
Guaranteed	\$10,000 or less (Total assessed balance of income tax not including penalty or interest)	3 years	All methods available	\$105 (\$52 for direct debit)	No	No
Streamlined	\$50,000 or less (Unpaid balance of assessments) <sup>a</sup>	6 years	Direct debit or payroll deduction if unpaid balance of assessment is greater than \$25,000	\$105 (\$52 for direct debit)	No	No
Regular/ Routine	Any amount	Collection Statute Expiration Date <sup>f</sup>	All methods available	\$105 (\$52 for direct debit)	Yes	Yes
Partial Payment	Any amount	Collection Statute Expiration Date (with option for extension)	All methods available	\$105 (\$52 for direct debit)	Yes	Yes

Source: IRS.

<sup>a</sup>Unpaid balance of assessment includes taxes, penalties, and interest less any payments (not including any accrued amount).

<sup>b</sup>Payment methods include check, money order, direct debit, payroll deduction, online, or credit card.

<sup>c</sup>Taxpayers with income at or below 250 percent of the Department of Health and Human Services poverty guidelines may apply for a reduced user fee of \$43 through Form 13844, Application for Reduced User Fee For Installment Agreements. IRS also systematically determines if taxpayers qualify for a reduced user fee based on the most recently filed tax return. If the taxpayer qualifies, the taxpayer will automatically be charged the reduced fee. The user fee for restructuring or reinstating an established installment agreement is \$45 regardless of income levels or payment method.

<sup>d</sup>IRS requires financial statements that must be submitted by the taxpayer to determine eligibility and payment amounts.

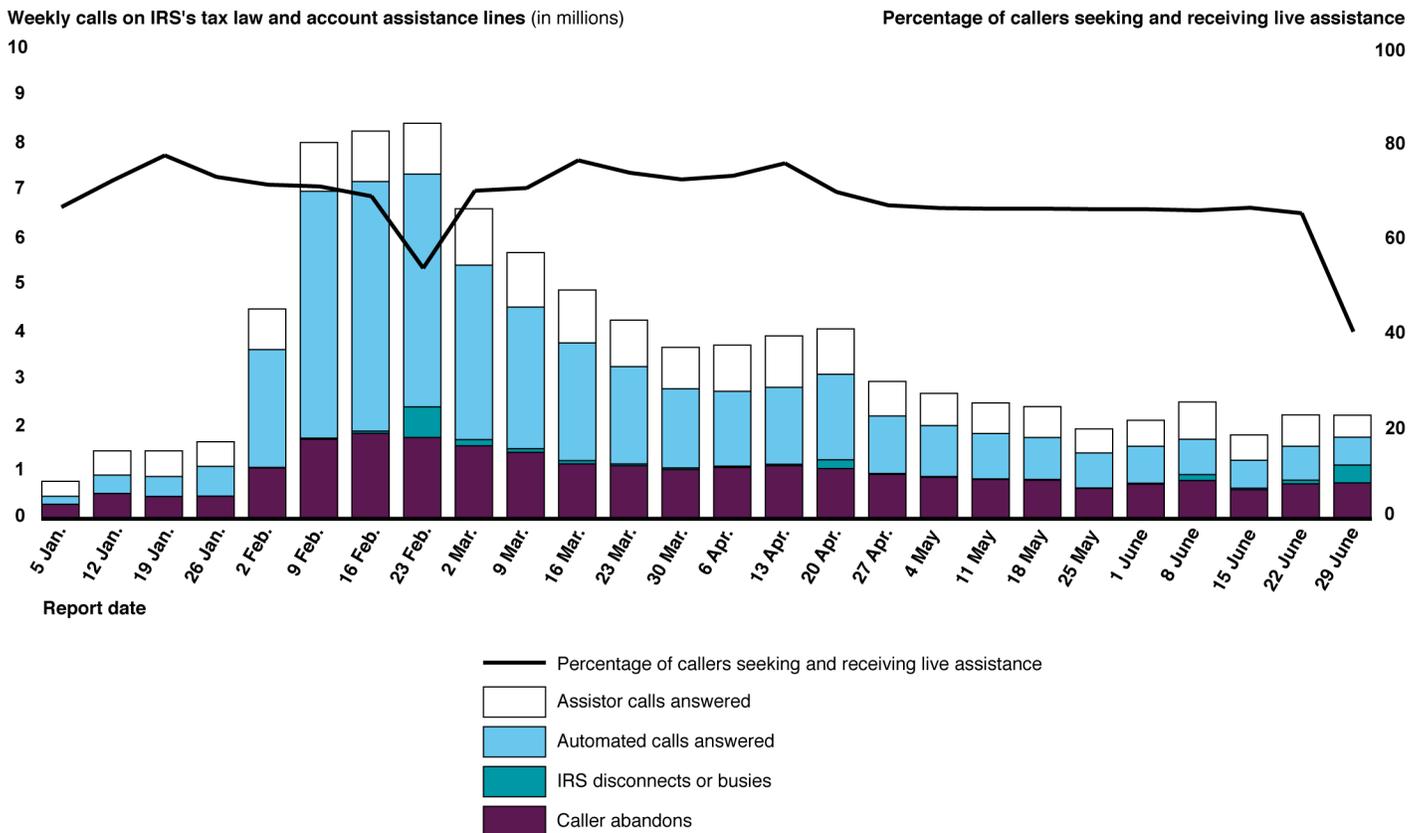
<sup>e</sup>IRS requires managerial approval of IAs over \$50,000 or partial payments.

<sup>f</sup>The Collection Statute Expiration Date is a statutory 10-year period for collection of the assessed tax liability.

# Appendix II: Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance

Figure 1 shows that during the 2013 filing season, the Internal Revenue Service (IRS) received most of its calls in the period leading up to and including the April 15th filing deadline, with the heaviest volume of calls in the early to mid-February timeframe. Importantly, the figure below shows that access to live assistance begins to decline sharply in the weeks following the filing deadline.

**Figure 1: Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance for the Week Ending January 5 through June 29, 2013**



Source: GAO analysis of IRS data.

# Appendix III: Use of IRS Website and Online Services

Table 7 shows that in 2013 use of IRS.gov increased by 26 percent compared to 2012. Use of the online tools such as the volunteer site locator, Where's My Refund, electronic personal identification number requests, and interactive tax assistance tools continued to increase in 2013. IRS attributes declines in downloading forms and publications, and generally searching the website, to changes in how IRS tracks website use in these areas.

**Table 7: Website Use from the 2008 through 2013 Filing Seasons**

	2008	2009	2010	2011	2012	2013	Percent change from 2012 to 2013 <sup>a</sup>
Total visits to IRS.gov (in millions) <sup>b</sup>	292	235	239	250	297	374	26
Taxpayer forms, publications, and instructions downloads (in millions)	136	137	157	166	259 <sup>c</sup>	154	— <sup>d</sup>
Searches (in millions)	125	263	277	312	290	60	— <sup>e</sup>
Volunteer site list (in thousands) <sup>f</sup>	n/a	n/a	48 <sup>g</sup>	152 <sup>h</sup>	152	350 <sup>i</sup>	130
<b>Self-Service Tools</b>							
Where's My Refund? (completion in millions)	38	53	64	73	126	193	53
Electronic Filing Pin Request (completion in millions)	n/a	n/a	5	10	12	15	25
Online Payment Agreement (completion in thousands)	19	34	43	26 <sup>j</sup>	64	63	-2
Interactive Tax Assistance Tools (completion in thousands) <sup>k</sup>	n/a	n/a	42 <sup>l</sup>	212	388	454	17

Legend: n/a = not applicable

Source: GAO analysis of IRS data.

Note: Data are from January 1 to July 31 for each year unless otherwise noted.

<sup>a</sup>Numbers in the table are rounded, and the percent change has been calculated using the rounded values presented in the table.

<sup>b</sup>A visit is a series of actions that begins when a visitor views their first page from the server, and ends when the visitor leaves the site.

<sup>c</sup>Data is for January 1 to June 30, 2012.

<sup>d</sup>For 2012, IRS reported that an issue with an external user script artificially inflated the number of actual downloads for this year. Also, for 2013, IRS revised its methodology for tracking downloads of forms, publications and instructions. Therefore, the figures reported for these years are not comparable.

<sup>e</sup>Page views include both successful search results and search results not found. In 2013, IRS revised its methodology for tracking taxpayer searches on IRS.gov. Previously, IRS tracked the total number of page views for all searches during a single visit. For 2013, IRS began tracking total unique searches, which does not include multiple searches for the same information in a single visit. This change accounts for some of the variances in website traffic between 2012 and 2013, and therefore the figures reported for these years are not comparable.

---

**Appendix III: Use of IRS Website and  
Online Services**

---

<sup>f</sup>2010's listing was on 1 page, with an index at the top. 2011's listing was split into 52 pages; one for each state, the District of Columbia, and Puerto Rico. For 2012, IRS created a volunteer site locator tool for searches using zip codes.

<sup>g</sup>Page views data are for February 12 through July 31, 2010.

<sup>h</sup>Data are from January 1 through June 30, 2011.

<sup>i</sup>Data represents the number of visits to the disclaimer page where users leave IRS.gov to use the volunteer site locator application, hosted by the Department of Treasury.

<sup>j</sup>A programming error led to a decrease in the number of completed agreements.

<sup>k</sup>IRS introduced the interactive tax assistance tools in March 2010 and added more tools in 2011 and 2012. As a result, the time frames and available services are not comparable.

<sup>l</sup>Data are from March 7 through July 31, 2010.

# Appendix IV: Services Offered at Walk-In and Volunteer Sites

Face-to-face service remains an important component of IRS's efforts to serve taxpayers, particularly those with low incomes or limited proficiency in English. Table 8 shows that, for 2013, the total number of contacts at walk-in sites, Taxpayer Assistance Centers (TAC) staffed by IRS employees, is the lowest level for the 4 year period shown. Further, return preparation has steadily declined since 2010 due to IRS's continuing efforts to reduce expensive return preparation services. Conversely, the total number of returns prepared at sites staffed by volunteers has increased since 2010.

**Table 8: Services Performed at IRS Taxpayer Assistance Centers and Sites Staffed by Volunteers, 2010 through 2013**

	2010	2011	2012	2013	Percent change from 2012 to 2013
<b>TAC</b>					
Total contacts	2,777,478	2,847,221	2,772,044	2,644,822	-5
Return preparation <sup>a</sup>	222,624	201,413	148,075	124,797	-16
Tax law questions	177,002	153,398	128,746	110,115	-14
Account work notices <sup>b</sup>	1,217,383	1,327,406	1,446,413	1,462,844	1
Forms	440,417	457,839	378,051	334,147	-12
Other <sup>c</sup>	720,052	707,165	670,759	612,919	-9
<b>Sites Staffed by Volunteers</b>					
Return preparation	2,951,952	3,077,687	3,149,197	3,294,305	5
Percent of returns e-filed	95	96	97	98	1

Source: GAO analysis of IRS data.

Note: Data for each calendar year are for January 1 through April 30.

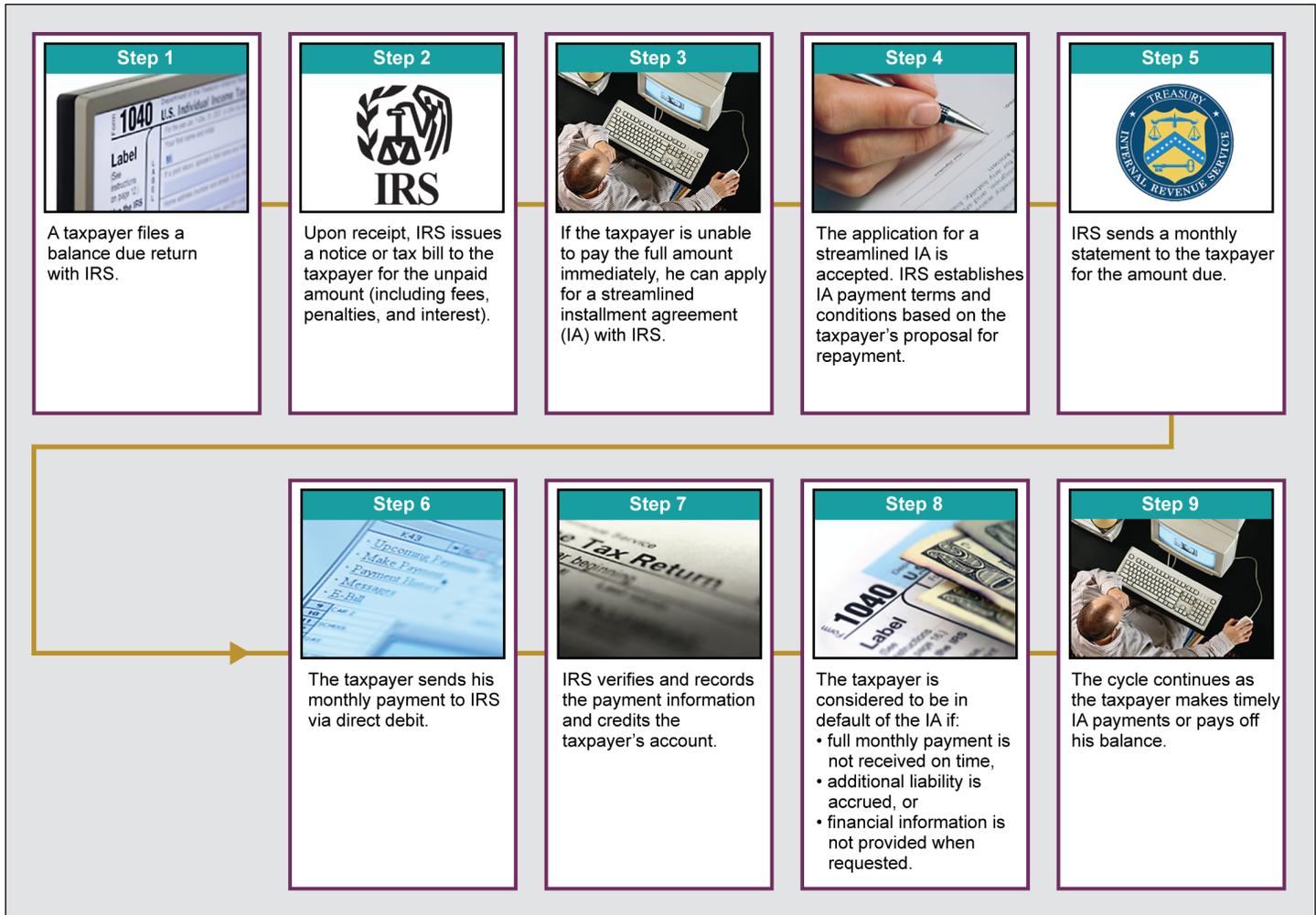
<sup>a</sup>TAC return preparation counts include both individual and business contacts.

<sup>b</sup>Account work notices includes assistance to taxpayers who need to pay taxes owed.

<sup>c</sup>Other contacts include responding to correspondence, scheduling appointments, and providing self-assistance services, which do not fall into the defined categories.

# Appendix V: Installment Agreement Process

Figure 2: Example of Streamlined Installment Agreement Application and Payment Process



Source: GAO analysis of IRS data.

Note: There are other ways for taxpayers to enter the installment agreement (IA) process besides filing a balance due return, such as a new balance due as the result of either an amended return or a compliance assessment through IRS's enforcement programs. In addition, taxpayers can also request an IA before receiving a tax bill. IRS is required to enter into an IA in certain cases, but generally has the discretion to determine whether to enter into one.

# Appendix VI: Comments from the Department of the Treasury



DEPUTY COMMISSIONER

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

December 5, 2013

Mr. James R. White  
Director, Tax Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. White:

I have reviewed your draft report entitled *2013 TAX FILING SEASON: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, and appreciate acknowledgment of our efficiency gains in processing returns in recent years. We delivered another successful filing season in 2013. The Modernized e-File (MeF) platform met all performance expectations and, in 2013, was the sole processing system for electronically filed individual income tax returns. All tax returns were properly processed and the majority of taxpayers received refunds in less than 21 days. The proven successful performance of the MeF as the sole platform for receiving electronic returns eliminates the need to maintain the legacy e-file system as a backup system in 2014, and will permit us to redirect Information Technology resources used for its maintenance to other vital projects.

As noted in the report, the IRS faced the dual challenges of decreased resources attributable to continued reductions in funding and the effects of sequestration-related budget cuts. Although reduced resources had a commensurate impact on the level of customer support we were able to provide throughout the year, it is important to note that actions were taken to maintain the highest levels of support possible throughout the filing season, when demand was at its highest levels. Staffing reductions and other sequestration-related cuts were forestalled until later in the year to minimize the impact to customer support. In 2014, we will continue to balance demand with available resources to ensure services are provided, to the greatest extent possible, in an efficient and cost-effective manner.

I appreciate your acknowledgment of the process improvements, including the introduction of the Compliance Suite, that we have made to help streamline the installment agreement program. As noted in your report, the Compliance Suite was introduced only a few months ago and we are continuing to evaluate this product to determine its full capabilities. Nevertheless, I believe that the Compliance Suite is

2

already having a positive effect on the program and that, in the long-term, it will have a significant role in making tax administration more effective and efficient.

A response to your specific recommendation is enclosed. If you have any questions, please contact Kevin M. Morehead, Acting Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8801.

Sincerely,

  
John M. Dalrymple

Enclosure

Enclosure

Recommendation

We recommend that the Commissioner of Internal Revenue develop a set of standardized account entries and eliminate unnecessary redundancy when entering installment agreement data into accounts.

Comment

The IRS acknowledges that standardized account entries can sometimes lead to increased efficiencies and lower costs, and that taxpayers and the IRS can benefit by the elimination of redundancy in our processes. We have made improvements to our installment agreement program, including the recent introduction of the Compliance Suite. Because the Compliance Suite was introduced only a few months ago, we are continuing to evaluate this product to determine its full capabilities. As part of that evaluation, we will explore whether the introduction of standardized account entries into our installment agreement process will yield increased efficiencies and lower costs without adversely impacting tax administration. We also will evaluate whether there are unnecessary redundancies in our current processes that can be eliminated without adversely impacting tax administration.

---

# Appendix VII: GAO Contact and Staff Acknowledgments

---

## GAO Contact

James R. White, (202) 512-9110, [whitej@gao.gov](mailto:whitej@gao.gov)

---

## Staff Acknowledgments

In addition to the individual named above, Joanna Stamatiades, Assistant Director; Shilpa Grover; Emily Gruenwald; Lois Hanshaw; LaKeshia Allen Horner; Kirsten Lauber; Natalie Maddox; Karen O’Conor; Anna Maria Ortiz; Kelly Rubin; and John Zombro made key contributions to this report.

---

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

---

## Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

---

## Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at [www.gao.gov](http://www.gao.gov).

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Katherine Siggerud, Managing Director, [siggerudk@gao.gov](mailto:siggerudk@gao.gov), (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

---

## Public Affairs

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

