



September 2018

2018 TAX FILING

IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes

GAO Highlights

Highlights of [GAO-18-471](#), a report to congressional committees

Why GAO Did This Study

During the tax filing season, generally from January to mid-April, IRS processes over 100 million individual tax returns and provides telephone, correspondence, online, and in-person service to tens of millions of taxpayers. In 2018, IRS had to begin taking steps to implement major tax law changes passed in what is commonly referred to as the Tax Cuts and Jobs Act that affect both individuals and businesses.

GAO was asked to review IRS's performance during the 2018 filing season and its efforts to implement the Tax Cuts and Jobs Act. GAO assessed IRS's (1) performance providing service to taxpayers and processing individual tax returns and (2) early efforts to implement the Tax Cuts and Jobs Act.

GAO analyzed IRS documents and data and interviewed IRS officials.

What GAO Recommends

Because HCO is now attending the weekly meetings, GAO is not making a related recommendation. In addition, GAO believes that its 2015 recommendation to Treasury to include timeliness in handling correspondence as part of its performance goals, which Treasury neither agreed or disagreed with, is still valid. IRS generally concurred with GAO's findings but noted concerns with interpreting the percentage of correspondence considered "overage" (more than 45 days old). GAO clarified its report but notes that while the open inventory of overage correspondence at the end of the fiscal year is not representative of total overage items for the year, the overage rates are relatively consistent throughout the year.

View [GAO-18-471](#). For more information, contact Jessica Lucas-Judy at (202) 512-9110 or lucasjudj@gao.gov.

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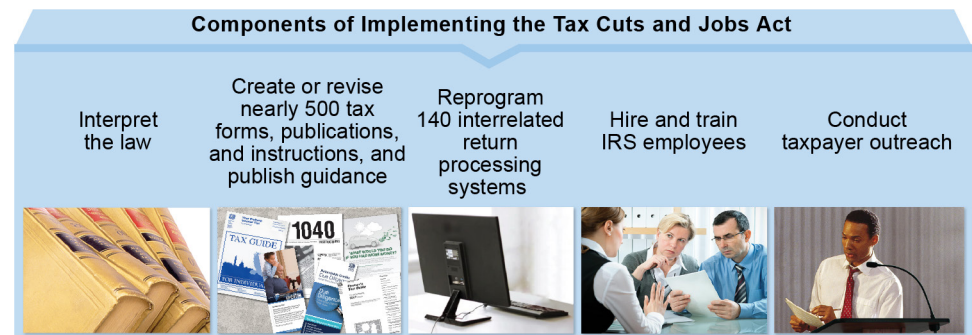
IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes

What GAO Found

The Internal Revenue Service (IRS) generally improved its customer service during the 2018 filing season compared to prior years and managed multiple return processing challenges. For the third year in a row, IRS improved its telephone service by answering 80 percent of calls seeking live assistance and reducing wait times to about 5 minutes, as of the end of the 2018 filing season. This compares to 37.5 percent of calls answered with an average wait time of about 23 minutes during the 2015 filing season. Taxpayer use of online services also increased, including [irs.gov](#) and its online account tool for taxpayers to view their balances due. However, answering taxpayer correspondence remains a challenge—IRS was late responding to about 37 percent of correspondence as of the end of the 2018 filing season compared to about 26 percent at the same time in 2017. In 2015, GAO recommended that the Department of the Treasury (Treasury) include timeliness in handling taxpayer correspondence as part of its performance goals, but as of June 2018 Treasury had not done so. Overall, despite multiple challenges including mid-filing season changes to tax law and a computer system failure, IRS met its processing targets for individual tax returns.

In 2018, IRS began taking steps to implement significant tax law changes from Public Law 115-97—commonly referred to by the President and many administrative documents as the Tax Cuts and Jobs Act. To implement the changes, IRS established a centralized office to coordinate implementation across IRS offices and divisions. IRS officials cited the broad scope and complexity of the changes—which will require extensive changes to tax forms, publications, and computer systems—along with the 1 year time frame as key implementation challenges. Although IRS has taken steps to address these challenges, such as developing a project planning tool, GAO found that the new coordination office did not initially fully include the Human Capital Office (HCO), the division responsible for managing the agency's workforce. Based on GAO's discussions with IRS officials, representatives from HCO now attend weekly coordination meetings discussing and planning the tax law changes. Involving HCO in these discussions will better position IRS to hire new employees and train them and the existing workforce. It will also help HCO better understand training requirements and staffing needs ahead of the 2019 filing season.

IRS Steps to Implement the Tax Cuts and Jobs Act



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-18-471

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Abbreviations

ACTC	Additional Child Tax Credit
EITC	Earned Income Tax Credit
HCO	Human Capital Office
IRS	Internal Revenue Service
IT	Information Technology
ITIN	individual taxpayer identification number
PIN	personal identification number
SSA	Social Security Administration
SSN	Social Security number
TAC	Taxpayer Assistance Center
TRIC	Tax Reform Implementation Council
TRIO	Tax Reform Implementation Office
Treasury	Department of the Treasury
W-2	Form W-2, Wage and Tax Statement

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September 10, 2018

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Kevin Brady
Chairman
The Honorable Richard E. Neal
Ranking Member
Committee on Ways and Means
House of Representatives

The Internal Revenue Service (IRS) enforces tax laws, provides service to tens of millions of taxpayers, and processes over 100 million individual tax returns during the filing season. High-quality customer service is important for taxpayers to fulfill their tax obligations accurately and timely. Meanwhile, IRS continues to face the ongoing threat of identity theft (IDT) refund fraud and other forms of noncompliance with the Internal Revenue Code. IRS estimates that at least \$1.68 billion in IDT refund fraud was paid in 2016.¹ In addition, in 2016, IRS estimated the average gross tax gap—the difference between the amount that taxpayers owe and the amount they actually pay—was \$458 billion each year from 2008 to 2010. Of that amount, IRS estimated \$406 billion will never be collected through late payments or enforcement activities—this amount is the net tax gap. We have previously found that more could be done to reduce the net tax gap and help taxpayers voluntarily comply with tax requirements.²

¹Because of the difficulties in estimating the amount of undetectable fraud, the actual amount could differ from these estimates. In addition, due to differences in detection and calculation methods, the numbers are not fully comparable from year to year. However, the estimates suggest an overall decline in identity theft attempts.

²See GAO, *Tax Gap: IRS Needs Specific Goals and Strategies for Improving Compliance*, [GAO-18-39](#) (Washington, D.C.: Oct. 31, 2017) and *Tax Compliance: Better Compliance Data and Long-term Goals Would Support a More Strategic IRS Approach to Reducing the Tax Gap*, [GAO-05-753](#) (Washington, D.C.: July 18, 2005).

In 2017, IRS implemented provisions of the Protecting Americans from Tax Hikes Act of 2015 (the act) to help combat fraud and other forms of noncompliance.³ The act allowed IRS earlier access to Wage and Tax Statement forms (W-2) that IRS uses in a process called systemic verification, which helps IRS verify return information against employer-provided information on W-2s before issuing refunds to combat fraud and noncompliance.⁴ The act also required IRS to hold a subset of returns—those that claimed the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC)—until February 15 to increase the number of returns that could be verified before issuing refunds.⁵ To improve fraud prevention, the act required IRS to assess and make changes to its management of individual taxpayer identification numbers (ITIN), used by taxpayers who are required to file but who are ineligible for Social Security numbers (SSN), such as certain non-U.S. citizens who have tax liabilities.⁶

Along with these responsibilities, during the 2018 filing season, IRS had to begin preparations for implementing significant changes to the tax law. In December 2017, Public Law 115-97—commonly referred to by the President and many administrative documents as the Tax Cuts and Jobs Act—was enacted. The law included significant changes to corporate and individual tax law.⁷

You asked us to review IRS’s performance during the 2018 tax filing season. In this report, we assess (1) IRS’s performance in providing customer service and processing individual income tax returns, including addressing tax law changes, detecting fraud and noncompliance, and processing ITINs, in the 2018 filing season compared to prior filing

³Consolidated Appropriations Act, 2016, (the Protecting Americans from Tax Hikes Act of 2015 was included as a provision of the Consolidated Appropriations Act, 2016), Pub. L. No. 114-113, div. Q, Title II, 129 Stat. 2242, (Dec. 18, 2015).

⁴IRS uses earlier W-2 data to verify wage information on taxpayers’ returns and identify discrepancies before issuing potentially fraudulent or noncompliant refunds.

⁵Pub. L. No. 114-113, div. Q, Title II, § 201(b), 129 Stat. 2242, 3076 (Dec. 18, 2015) (*codified at* 26 U.S.C. § 6402(m)).

⁶Pub. L. 114-113 § 203(a); 26 U.S.C. § 6109(i).

⁷To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017) (hereafter, the Tax Cuts and Jobs Act).

seasons, and (2) IRS's early efforts to implement the Tax Cuts and Jobs Act prior to the 2019 filing season.

To assess IRS's performance providing customer service and processing tax returns, we reviewed IRS performance data for the 2013 through 2018 filing seasons (January through mid-April) for telephone, correspondence, online, and in-person services to identify any differences among years. We interviewed IRS officials to obtain their views on the reasons for any differences in IRS's service and processing performance. We reviewed changes in tax law resulting from the Disaster Tax Relief and Airport and Airway Extension Act of 2017, the Bipartisan Budget Act of 2018, and the Tax Cuts and Jobs Act that affected taxpayers filing during the 2018 filing season, and we assessed IRS's performance processing tax returns affected by these provisions.⁸ Regarding systemic verification (IRS's process for verifying tax return information against employer-provided W-2 information to identify fraud and noncompliance), we reviewed IRS data and documents to compare 2017 and 2018 results, and we interviewed IRS officials about their efforts to improve and expand systemic verification's application to other areas. Regarding implementation of the ITIN provisions, we reviewed the Protecting Americans from Tax Hikes Act of 2015⁹ and IRS policies and data on ITIN issuance, renewal, and deactivation for 2017 and 2018 to describe IRS's ITIN renewal processing. We also interviewed IRS officials about their efforts to manage ITIN renewals.

To assess IRS's efforts to implement tax law changes, we reviewed provisions of the Tax Cuts and Jobs Act and other recently passed laws with tax law implications.¹⁰ We interviewed IRS officials to identify key implementation steps, including challenges and risk mitigation efforts.

⁸The Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (Sept. 29, 2017); the Bipartisan Budget Act of 2018, Pub. L. No. 115-123, 132 Stat. 64 (Feb. 9, 2018); and the Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017).

⁹Pub. L. No. 114-113, div. Q, Title II, § 203, 129 Stat. 2242, 3078 (Dec. 18, 2015) (*codified at* 26 U.S.C. § 6109).

¹⁰Laws recently passed which have tax law implications include: the Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (Sept. 29, 2017); the Bipartisan Budget Act of 2018, Pub. L. No. 115-123, 132 Stat. 64 (Feb. 9, 2018); and the Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017).

To assess the reliability of data used in this report, we reviewed IRS data to identify unexpected values, interviewed IRS officials, and assessed documentation for any data limitations, which we note, as applicable, within the report. We compared those results to our data reliability standards and determined that the data presented in this report are sufficiently reliable for our purposes.

We conducted this performance audit from January 2018 to September 2018 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

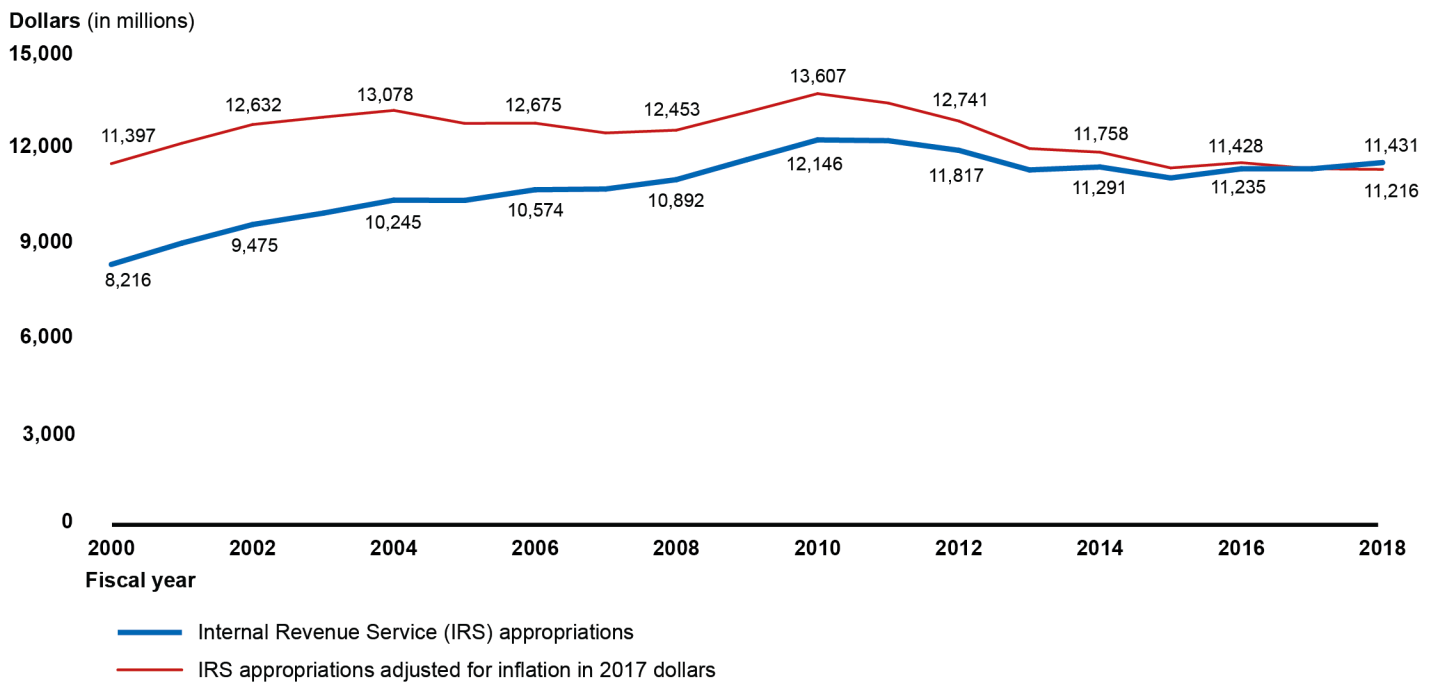
IRS Budget

IRS's budget declined by about \$658 million (5.5 percent) between fiscal years 2013 and 2018 (see fig. 1).¹¹ Furthermore, full-time equivalents funded with annual appropriations declined by 10,876 (12.7 percent) between fiscal years 2013 and 2018.¹² The President's fiscal year 2019 budget request was \$11.135 billion. This amount is less than the fiscal year 2000 level for IRS, after adjusting for inflation. IRS requested an additional \$397 million to cover implementation expenses for the Tax Cuts and Jobs Act over the next 2 years and received \$320 million for implementation pending submission of a spend plan, which IRS provided in June 2018. IRS officials said the majority of the money would be directed toward technological updates.

¹¹After adjusting for inflation during this period. All budget amounts are presented in 2017 dollars.

¹²Full-time equivalents represent the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2018 there are 2,080 compensable hours.

Figure 1: IRS Appropriations for Fiscal Years 2000 to 2018



Sources: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service Congressional Justifications for fiscal years 2005 through 2017, and Department of the Treasury Appropriations Act, 2018, Pub. L. No. 115-141, div. E, title I, 132 Stat.348 (Mar. 23, 2018). | GAO-18-471

Note: Inflation adjustments were made using Bureau of Economic Analysis data and Congressional Budget Office projections of the fiscal year chain weighted gross domestic product price index.

IRS Customer Service

IRS uses multiple channels to provide customer service to taxpayers, as follows:

Telephone service. Taxpayers can contact IRS assistors via telephone to obtain information about their accounts throughout the year or to ask basic tax law questions during the filing season. Taxpayers can also listen to recorded tax information or use automated services to obtain information on the status of refund processing as well as account information such as balances due. During fiscal years 2013 through 2017, IRS received an average of about 107 million calls from taxpayers each year, according to IRS data.

Correspondence. Taxpayers may also use paper correspondence to communicate with IRS, which includes responding to IRS requests for information or data, providing additional information, or disputing a notice. IRS assistors respond to taxpayer inquiries on a variety of tax law and

procedural questions and handle complex account adjustments, such as amended returns and duplicate filings. IRS tries to respond to paper correspondence within 45 days of receipt; otherwise, such correspondence is considered overage. In fiscal year 2017, about 35 percent of the nearly 17.5 million pieces of correspondence IRS received was overage, down from approximately 47 percent of 20.8 million pieces of correspondence in fiscal year 2013.¹³ Minimizing overage correspondence is important because delayed responses may prompt taxpayers to write again, call, or visit IRS Taxpayer Assistance Centers (TAC); each of which lead to additional costs. Additionally, IRS is required to pay interest on refunds owed to taxpayers if it did not process amended returns within 45 days.

Online services. IRS's website is a low-cost method for providing taxpayers with basic interactive tools to check their refund status or balance due, make payments, and apply for plans to pay taxes due in scheduled payments (installment agreements). Taxpayers can use the website to print forms, publications, and instructions and can use IRS's interactive tools to get answers to tax law questions without calling or writing to IRS. IRS data show that total visits to IRS's website in fiscal year 2017 were about 500 million.

In-person services. Face-to-face assistance remains an important part of IRS's service efforts, particularly for low-income taxpayers. Taxpayers can receive face-to-face assistance at one of about 370 IRS TACs or at thousands of sites staffed by volunteer partners during the filing season. At TACs, IRS representatives provide services including answering basic tax law questions, reviewing and adjusting taxpayer accounts, taking payments, authenticating ITIN applicants, and assisting IDT victims. Based on IRS data, nearly 3.3 million taxpayers visited an IRS TAC in fiscal year 2017. At sites staffed by volunteers, taxpayers can receive free return preparation assistance as well as financial literacy information. In fiscal year 2017, nearly 3.6 million taxpayers had their returns prepared at volunteer sites, according to IRS data.

¹³Overage rates are based upon open inventory during the last week of the fiscal year. For fiscal year 2017, this represents about 35 percent of the approximately 1.3 million pieces of inventory remaining at the end of the year. For fiscal year 2013, this represents about 47 percent of the approximately 2.7 million remaining pieces of inventory. These overage rates may fluctuate each week depending on receipt volume and staff availability to respond, but are relatively consistent throughout the year.

Systemic Verification

Systemic verification is one element of IRS's Return Review Program, its primary system to detect fraud and noncompliance. The Return Review Program is a platform that runs individual tax returns through a set of rules and models to detect potential taxpayer fraud and other noncompliance. During systemic verification, IRS checks information that taxpayers report on their returns against W-2 data in order to verify wage and withholding information and identify discrepancies.

We previously reported that the wage information that employers report on the W-2 had not been available to IRS until after it issued most refunds.¹⁴ In an effort to address issues such as refund fraud and improper EITC payments, Congress enacted the Protecting Americans from Tax Hikes Act of 2015, which included provisions that took effect in 2017.¹⁵ The act required employers to submit W-2s to the Social Security Administration (SSA) by January 31, which is about 1 to 2 months earlier than in prior years.¹⁶ SSA then provides W-2 data to IRS for verifying employee wage and withholding data on tax returns. The act also required IRS to hold refunds for all taxpayers claiming the EITC or ACTC until February 15.¹⁷ Now that IRS has earlier access to W-2 information, IRS is using it to conduct additional verification checks before issuing billions of dollars in potentially fraudulent refunds.

ITIN

IRS issues individual taxpayer identification numbers (ITIN) to certain non-U.S. citizens who have federal tax reporting or filing requirements and do not qualify for SSNs. The Protecting Americans from Tax Hikes Act required taxpayers that filed a U.S. federal tax return containing an ITIN to renew the number if the ITIN was not used on at least one tax return in the past 3 years or it was issued prior to 2013 and contained certain middle digits.¹⁸ IRS reported that it deactivated approximately 12.4

¹⁴GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017) and *Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud*, [GAO-14-633](#) (Washington, D.C.: Aug. 20, 2014).

¹⁵Pub. L. No. 114-113, div. Q, 129 Stat. 2242, 3040 (Dec. 18, 2015).

¹⁶Pub. L. No. 114-113, div. Q, Title II, § 201, 129 Stat. 2242, 3076 (*codified at* 26 U.S.C. §§ 6071 and 6402). Prior to enactment of the amending provisions of the act, paper W-2s were due on or before the last day of February and electronically-filed W-2s were due March 31.

¹⁷Pub. L. No. 114-113, § 201(b), *codified at* 26 U.S.C. § 6402(m).

¹⁸Pub. L. No. 114-113, § 203(a), *codified at* 26 U.S.C. § 6109(i).

million ITINs in 2017 and notified affected taxpayers via mail and public notices. If affected taxpayers did not renew their ITINs either before filing or in conjunction with filing, their refunds may have been delayed.¹⁹

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act made a number of significant changes to the tax law affecting both individuals and corporations.²⁰ For example, for individual taxpayers, for tax years 2018 through 2025, tax rates were lowered for nearly all income levels,²¹ some deductions from taxable income were changed (personal exemptions were eliminated²² while the standard deduction was increased),²³ and certain credits, such as the child tax credit, were expanded.²⁴ For individuals with business income reported on their tax return (pass-through entities), effective tax rates can be reduced with a 20 percent deduction of qualified business income.²⁵ For corporate filers, the tax rate was changed from a range between 15 and 35 percent to a flat rate of 21 percent,²⁶ and the corporate alternative minimum tax was eliminated.²⁷ IRS must take action to make the necessary changes to process tax returns in 2019 and to help taxpayers understand the new law and its effect on their tax obligations. For example, IRS has planned and begun conducting outreach to employees, employers, and industry associations encouraging employees to reassess their withholdings in light of changes the law made to deductions and credits that may affect tax liability and withholding for a large number of taxpayers.

¹⁹GAO, *2017 Filing Season: New Wage Verification Process Holds Promise but IRS Faced Implementation Challenges*, [GAO-17-525T](#) (Washington, D.C.: Apr. 26, 2017).

²⁰Pub. L. No. 115-97, 131 Stat. 2054.

²¹Pub. L. No. 115-97, § 11001, 131 Stat. 2054.

²²Pub. L. No. 115-97, § 11041, 131 Stat. 2054.

²³Pub. L. No. 115-97, § 11021(a), *codified at* 26 U.S.C. § 63(c)(7).

²⁴Pub. L. No. 115-97, § 11022(a), *codified at* 26 U.S.C. § 24(h). For individual taxpayers, the changes in the law sunset after December 31, 2025. For corporate taxpayers, the tax changes are permanent and do not expire.

²⁵Pub. L. No. 115-97, § 11011, *codified at* 26 U.S.C. § 199A.

²⁶Pub. L. No. 115-97, § 13001, *codified at* 26 U.S.C. § 11(b).

²⁷Pub. L. No. 115-97, § 12001(a), *codified at* 26 U.S.C. 55(a).

IRS Improved Customer Service, Managed Multiple Challenges Processing Returns, and Identified More Potential Fraud and Noncompliance Compared to Last Year

Customer Service Generally Improved During the 2018 Filing Season

IRS's telephone, online, and in-person services generally improved during the 2018 filing season compared to prior years. However, timeliness in responding to written correspondence declined from last year. Our prior recommendations could help IRS better manage its correspondence performance and develop a comprehensive customer service strategy to improve its efforts.

Telephone Service

During the 2018 filing season, IRS slightly improved its telephone level of service—the percentage of callers seeking and receiving live assistance—and reduced wait times (see fig. 2). From January 1 through April 21, 2018, IRS estimated that it

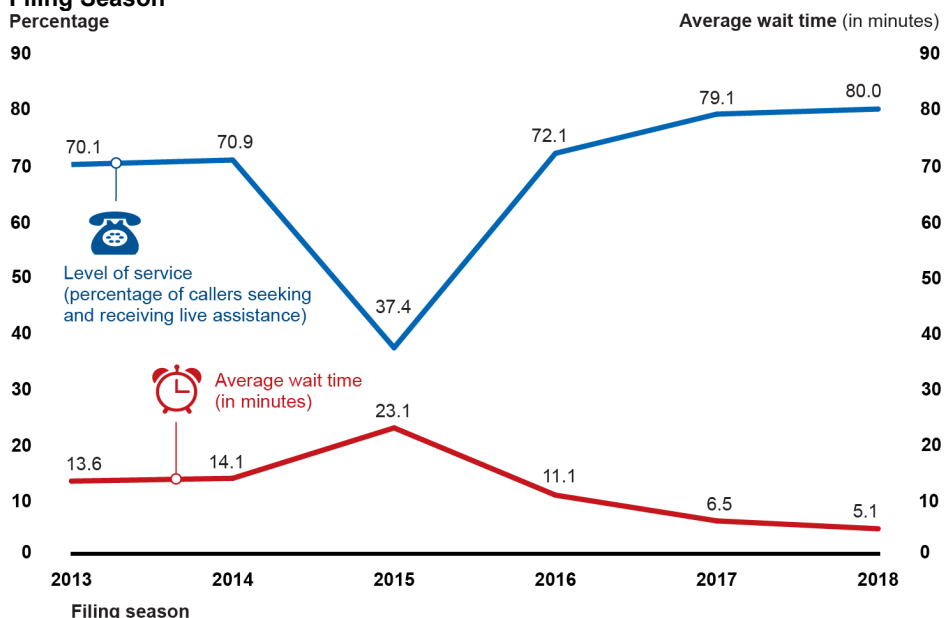
- answered 80 percent of calls seeking live assistance, which is a slight increase from about 79 percent for the same period last year, and
- reduced the average caller's wait time to speak to an assistor from 6.5 to 5.1 minutes.

This marks the third year of measured improvements since IRS reached a low of 37.5 percent level of service in 2015 with a 23.1-minute average wait time.²⁸ IRS officials attributed the improvements to decreased

²⁸IRS reduced resources for answering telephones and correspondence in 2015 to meet other responsibilities, resulting in poor telephone level of service that year. See GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, [GAO-16-151](#) (Washington, D.C.: Dec. 16, 2015).

telephone call volume and sufficient staff levels to meet the demand for service. IRS expected its level of service for the entire fiscal year 2018 to be 75 percent, which is similar to fiscal year 2017 when IRS achieved a 77.1 percent level of service.

Figure 2: IRS Improved Telephone Level of Service and Wait Times during the 2018 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-18-471

Notes: Telephone level of service and average wait time data for the filing season are cumulative from January 1 of each year to April 20, 2013; April 19, 2014; April 25, 2015; April 23, 2016; April 22, 2017; and April 21, 2018. Level of service and wait time can be affected by multiple factors including the number of assistors available to answer telephone calls and total calls received, both of which vary each year. In 2017 and 2018, IRS's telephone performance measures for taxpayer service no longer included calls for balance due or installment agreement inquiries and IRS did not provide us with equivalent statistics for 2017 and 2018 to allow comparison with prior years. However, our analysis of the potential effect of including balance due and installment agreement inquiries in 2017 and 2018 found that while the amount of change from levels in prior years would have been reduced, the overall pattern of increasing level of service and decreasing wait times presented in the figure above remains.

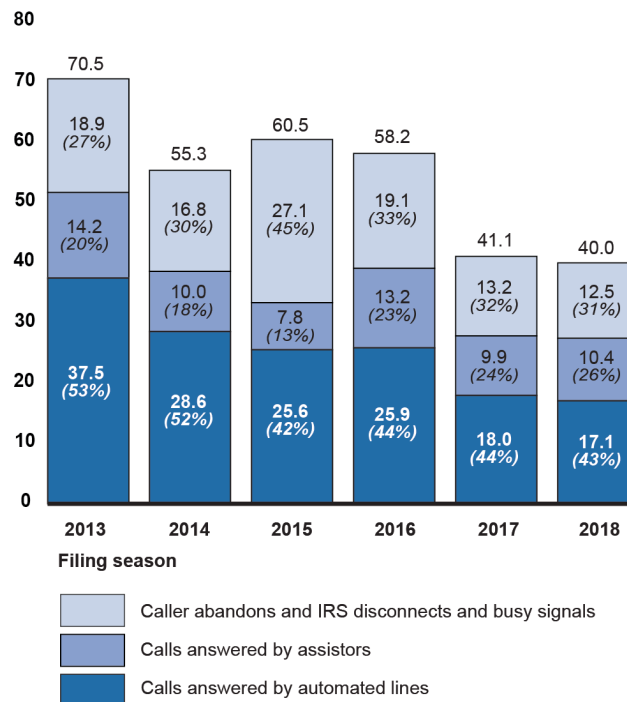
Total call volume to IRS taxpayer service lines has declined by about 43 percent since 2013 (see fig. 3). IRS officials attributed the decline in call volume to several factors, including

- targeted media campaigns to ensure taxpayers had the information they needed to prepare and file their tax returns prior to the filing season,

- fewer attempts by callers to re-dial multiple times after receiving busy signals or disconnects or abandoning the call after long wait times, and
- moving calls inquiring about balances due and installment payments to the compliance division, which, according to IRS data, accounted for approximately 2 million calls in the 2018 filing season.

Figure 3: IRS’s Total Taxpayer Service Call Volume, 2013 through 2018 Filing Seasons

Calls to Internal Revenue Service’s taxpayer service lines (in millions)



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-18-471

Notes: Telephone call data for the filing season are cumulative from January 1 of each year to April 20, 2013; April 19, 2014; April 25, 2015; April 23, 2016; April 22, 2017; and April 21, 2018. Numbers may not sum to totals due to rounding. Effective fiscal year 2017, IRS routes all calls for balance due or installment agreement inquiries to its compliance division instead of to customer service representatives. For the 2017 filing season, a total of 2.7 million calls were answered by IRS’s compliance division, disconnected or abandoned. For the 2018 filing season, this accounted for a total of 1.9 million calls.

The percentage of calls that IRS assistors have answered since 2013 has generally increased, while calls answered by automated services has generally decreased. IRS officials attributed the decrease in automated calls answered to discontinuation of the e-file personal identification

number (PIN) automated retrieval service in June 2016, along with a decrease in callers using the Where's My Refund automated service.²⁹

In December 2014, we recommended that IRS systematically and periodically compare its telephone service to the best in business to identify gaps between actual and desired telephone performance.³⁰ In response, IRS benchmarked its telephone service, measures, and goals to comparable agencies and companies in an internal 2016 study. IRS projected that achieving an 83 percent level of service would optimize its balance between wait-time, disconnects, and assistor availability. However, officials told us in June 2018 that they are adjusting this projection based on new services and procedures introduced since the 2016 study.

The study also recommended exploring using new technology, including email, online chat, and telephone call-back features as well as establishing regularly scheduled follow-up benchmarking. In March 2018, IRS officials told us they are implementing some of the recommendations from the study, including requesting funding to implement a customer call-back feature. IRS is also developing new methods of monitoring and reporting service performance across telephone, online, and in-person channels to identify changes in taxpayer behavior and better adapt to their needs.

IRS telephone performance data for 2018 were unavailable from November 2017 until March 2018. IRS officials explained that IRS was upgrading the Enterprise Telephone Data System—IRS's official source for all data related to its toll-free telephone performance measures—to a more current version. Before IRS completed the upgrade, the system crashed. Due to the system outage, IRS was unable to publish its reports on telephone performance. IRS officials told us that while the system remained offline, they could still monitor daily call demand and staff

²⁹IRS discontinued the e-file PIN following its announcement in February 2016 that cybercriminals had stolen more than 100,000 e-file PINs through the online retrieval tool. Before IRS discontinued the e-file PIN, if taxpayers did not have a self-select PIN, or their prior year's adjusted gross income, they could obtain an e-file PIN. The e-file PIN required taxpayers to authenticate their name, SSN, date of birth, address, and filing status. Since IRS discontinued the e-file PIN, it instructs taxpayers to use their prior-year adjusted gross income, which can be found on their prior year return. For taxpayers without a copy of their prior-year tax return, they may obtain one using the Get Transcript service.

³⁰GAO, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks*, [GAO-15-163](#) (Washington, D.C.: Dec. 16, 2014).

resources, which they used to develop an estimated level of service to monitor telephone performance. Once the system was operational, IRS recovered and validated the data, confirming that the data they used while the system was offline were sufficiently accurate.

In addition, IRS replaced the approximately 15-year-old telephone equipment it uses for answering taxpayer calls because of ongoing failures that contributed to poor service. For example, at times the assistor could hear the customer speaking, but the customer could not hear the assistor. The new equipment will enable future service improvements such as a call-back feature so customers will not have to wait on the line for a response. IRS completed the upgrades as planned in June 2018.

Correspondence

Because the same staff answer telephone calls and respond to correspondence, IRS has continued to struggle to balance competing demands for maintaining quality telephone level of service with timely responses to written correspondence. Between October 1, 2017 and April 21, 2018, IRS received over 9 million pieces of correspondence. IRS staff focus on answering the telephones during the filing season, so they have less time to respond to correspondence, resulting in inventory and processing time increases. As it had in prior years, IRS directed staff to focus on correspondence early in December 2017 and January 2018 to reduce the inventory before the filing season. However, through April 21, 2018, the overage rate of correspondence—the percentage of cases generally not processed within 45 days of receipt by IRS—was 36.8 percent compared to 26.4 percent at the same time last year.

To improve the management of taxpayer services, in 2015 we recommended that the Secretary of the Treasury update the Department of the Treasury's (Treasury) performance plan to include overage rates for handling taxpayer correspondence as a part of Treasury's performance goals.³¹ To implement this recommendation, we suggested that Treasury include this performance measure as part of a comprehensive customer service strategy. Treasury neither agreed nor disagreed with our recommendation, and as of June 2018, it had not included correspondence overage rates as a performance goal in its performance plan. We continue to believe that this recommendation is valid.

³¹[GAO-16-151](#).

IRS established its new online account service in November 2016 and taxpayer use of this service has increased since then. The online account service was unavailable to new users between mid-October and early December 2017 because of a security breach at Equifax, the service IRS used to verify users' identities. In September 2017, Equifax announced that criminals had exploited a vulnerability in its systems and obtained personally identifiable information on 145.5 million individuals, including names, SSNs, birth dates, addresses, and in some cases, driver's license information. IRS suspended its online account service, eventually re-activating it when it replaced Equifax's identity verification service with another provider. IRS's online account allows taxpayers to view their IRS account balance (including the amount they owe for tax, penalties, and interest), take advantage of various online payment options, and access the Get Transcript application where taxpayers can obtain copies of their prior tax returns.

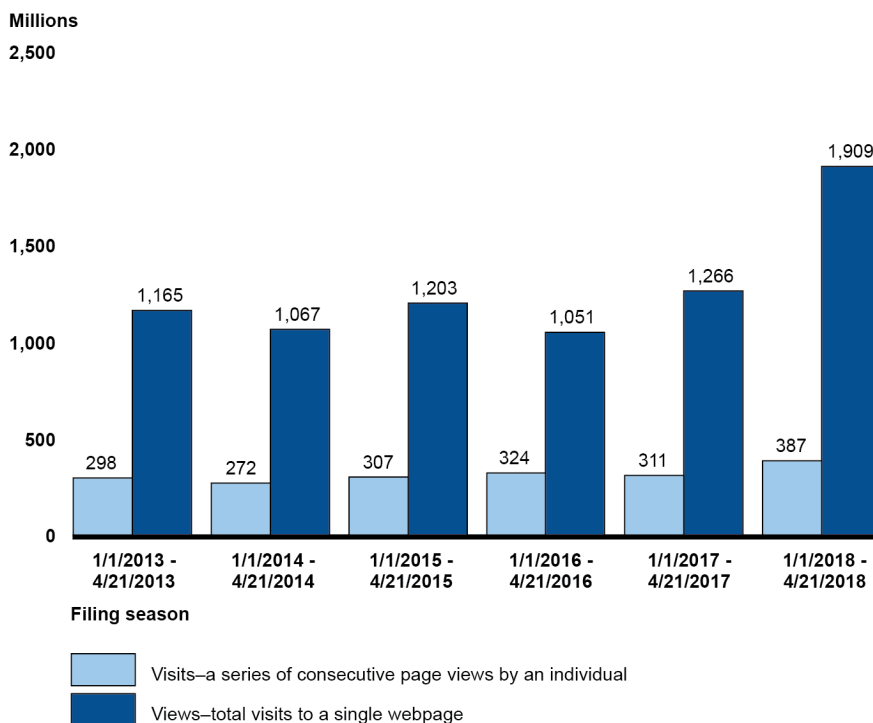
Despite these challenges, use of IRS's online account has increased since its launch. Between January 1, 2018 and April 30, 2018, total unique users of the online account reached over 1 million compared to 327,000 for the same period in 2017 when the service was newly launched. In addition, taxpayers increasingly used the online account to access payment options, including payment agreements. For example, taxpayers made four times as many payments using the online account to access Direct Pay, IRS's online payment option, between January 1 and April 30, 2018 compared to the same period last year.

IRS experienced a separate online service disruption prior to the 2018 filing season. Tax professionals could not access e-services between September and October 2017 because of an IRS delay in a scheduled upgrade to the system and improvement to the security of the application. This service is used by tax professionals to conduct transactions, including applying for authorization as an e-file provider. As a result of this delay, tax professionals were unable to use this key service during a critical planning period prior to the filing season, shortening the amount of time available to complete the necessary actions before filing season. Despite this delay, IRS officials told us that more than 60,000 tax professionals were able to complete their transactions in preparation for the 2018 filing season.

Finally, IRS launched a redesigned website in August 2017 to make it easier to use and find information. Website use during the 2018 filing season showed the greatest year-to-year increase over the past 5 years (see fig. 4). From January 1 through April 21, 2018, visits to irs.gov

increased by about 24.2 percent compared to the same period last year (from 311.4 million to 386.9 million).³² During that same period, total page views increased by about 50.4 percent (from 1.27 billion to 1.91 billion).

Figure 4: Use of irs.gov, 2013 through 2018 Filing Seasons



Source: Internal Revenue Service data. | GAO-18-471

In-person Services

In-person visits to IRS’s Taxpayer Assistance Centers (TAC) have declined since IRS began requiring appointments for in-person service in 2016. During the 2018 filing season (January 1 through April 21, 2018), IRS served 1 million taxpayers at the TAC locations compared to about 1.3 million during the same period in 2017. However, IRS officials reported that, between January 1 and April 30, 2018, over half of the approximately 1.6 million taxpayers requesting an appointment had their questions resolved on the telephone and did not need an appointment.

³²A visit is a series of actions that begins when a visitor views the first page from the server and ends when the visitor leaves the site. Visitors are not unique. Page views are total visits to each webpage on IRS.gov.

IRS policy mandates that, under special circumstances, taxpayers who arrive at a TAC without an appointment receive service if staff members are available, even when the assistors do not have appointment openings. Officials acknowledged that not all taxpayers receive service if they walk in because there are not always assistors available. As of April 30, 2018, IRS served nearly 63,000 taxpayers during the 2018 filing season under an exception to the required appointment process. IRS officials noted that the lines at TACs have shortened in recent years, which they attribute to the appointment system and services available through the telephone. Nationwide, 5.8 percent of taxpayers waited over 30 minutes for assistance between January 1 and April 21, 2018, compared to 5.6 percent during the same period in 2017, according to IRS data. Service improved compared to the same period for 2013 to 2016 when between 27 and 33 percent of taxpayers waited over 30 minutes for assistance.

To improve the appointment process, in 2018 IRS developed the Field Assistance Scheduling Tool, which helps IRS manage appointments at the TACs and monitor availability and demand. IRS expects to add to this tool by developing reporting capabilities for managing staff availability and appointments, including the capability to measure the time lapse between when a taxpayer calls to schedule an appointment and the actual appointment. According to IRS officials, by using the tool's current capabilities, they identified the need to recruit and train nearly 100 employees from other areas of IRS to support increased demand at 27 TAC locations near the end of the filing season.

IRS also provided alternative options for in-person taxpayer services. In January 2017, IRS opened four co-locations with the Social Security Administration (SSA). During the 2018 filing season, 708 taxpayers received in-person service at these co-locations as of April 21, 2018. In May 2018, IRS officials said they were working to open an additional co-location with SSA. In addition, IRS added six virtual assistants—kiosks that provide video calling to an IRS assistor—to the 31 existing terminals across the United States.

Customer Service Strategy

We have made several recommendations for IRS to improve its customer service. In December 2012, we recommended IRS develop a strategy to improve telephone and correspondence service.³³ While IRS has taken

³³GAO, *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).

steps toward implementing related recommendations, including the telephone benchmarking study mentioned earlier, IRS has not completed the actions we recommended, including (1) outlining a comprehensive strategy that defines appropriate levels of correspondence service and wait time and (2) listing specific steps to manage service based on an assessment of time frames, demand, capabilities, and resources. However, IRS officials told us in June 2018 that they had begun drafting a customer service strategy that they expected to complete by September 2018. We will assess this strategy once it is issued.

Additionally, in December 2011 and April 2013 we made recommendations that call for IRS to develop a long-term strategy for providing and improving web-based services to taxpayers.³⁴ In June 2018, officials in the Office of Online Services stated that they do not have a specific strategy that outlines their long-term vision for increasing online services and web offerings. Rather, they rely on IRS's fiscal year 2018–2022 Strategic Plan to provide that vision.³⁵ The fiscal year 2018–2022 Strategic Plan includes objectives related to expanding digital options for taxpayers and professionals to interact efficiently with IRS, and developing additional self-assistance and correction tools for enhanced online account capabilities. However, this plan is at a high level and does not include business cases for new online services that describe the potential benefits and costs of the projects, timelines and a prioritization of proposed projects. In July 2018, IRS officials provided additional documentation that we are reviewing to assess the steps being taken to develop a long-term strategy to improve web services for taxpayers.

³⁴GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013) 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).

³⁵Internal Revenue Service, *Strategic Plan FY2018-2022*, accessed July 22, 2018, <https://www.irs.gov/about-irs/irs-strategic-plan>.

IRS Managed Multiple Processing Challenges During the 2018 Filing Season Including Changes in Tax Law and Issues with Hiring and Redistributing Work Responsibilities

IRS started the filing season on January 29, 2018, approximately 1 week later than it has in recent years to ensure the security and readiness of processing systems and to assess the potential impact of recently passed tax laws on 2017 tax returns. IRS also extended the filing deadline by 1 day after a system outage occurred on tax day, April 17, 2018, that prevented IRS from processing electronically filed returns. Taxpayers were able to prepare and submit returns electronically during the day; but a flaw in the mainframe prevented data from being accepted and released for processing. IRS officials said the problem was caused by a hardware issue in a 1.5 year old mainframe subcomponent and was not related to IRS applications or any of the agency's legacy computer systems. The system failure affected a number of electronic applications, including Direct Pay and the online account service, and delayed return processing until the end of the day. IRS officials said that the agency recovered the system without data loss and worked with software companies to coordinate their transmission of returns that were held earlier in the day. These officials said the agency was able to process all returns submitted electronically by the end of the day.

Neither the system issue nor the later start had a significant effect on returns processing during the filing season. As of April 20, 2018, IRS had processed 130.48 million returns, compared to 128.85 million by the same time last year.

IRS experienced several additional challenges during the 2018 filing season, including multiple pieces of legislation affecting individual tax returns that passed soon before the beginning of the filing season or after it had begun, as well as issues hiring and redistributing work responsibilities in some IRS processing facilities.

Changes in Tax Law

Disaster relief. On September 29, 2017, Congress passed a law which provided tax relief related to retirement plan distributions and casualty losses for people affected by Hurricanes Harvey, Irma and Maria.³⁶ The law allowed storm victims to deduct disaster losses on their 2017 returns or on amended 2016 returns.³⁷ On February 9, 2018, Congress extended

³⁶Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (Sept. 29, 2017).

³⁷Taxpayers may elect to take casualty loss deductions for the preceding year pursuant to 26 U.S.C. 165(i)(1) for any loss occurring in a disaster area.

these benefits to certain taxpayers affected by wildfires in California.³⁸ The President also issued major disaster declarations for many areas affected by the hurricanes and wildfires, allowing IRS to use its authority to postpone certain tax-related deadlines under the Robert T. Stafford Disaster Relief and Emergency Act.³⁹ The laws also offered other forms of tax-relief—such as hardship distributions from employer-sponsored retirement plans.⁴⁰ To address issues resulting from disaster-related legal changes, IRS

- issued press releases and public notices informing taxpayers of tax-relief options;⁴¹
- postponed various filing and payment deadlines for individuals and businesses affected by disasters;
- ensured that sites offering in-person taxpayer assistance in Puerto Rico, Florida, and Texas were open and developed special products to support these sites in dealing with affected taxpayers; and
- adapted procedures to accommodate disaster-relief efforts.

IRS officials also said they corresponded with taxpayers they thought were eligible for new disaster relief benefits as a result of legal changes put in place. The officials told us that as of May 26, 2018, the agency had assisted 37,000 taxpayers seeking live telephone assistance and worked or closed 6,196 amended returns and 8,847 correspondences related to Hurricanes Harvey, Irma, and Maria.

Tax Cuts and Jobs Act. While many of the provisions included in the Tax Cuts and Jobs Act will not affect filing until the 2019 filing season, a few changes affected filing in 2018. For example, the threshold to claim the medical expense deduction was temporarily lowered, allowing individuals to claim deductions for medical expenses totaling more than

³⁸Bipartisan Budget Act of 2018, Pub. L. No. 115-123, §§ 20102 and 20104(b)(3), 132 Stat. 64 (Feb. 9, 2018).

³⁹Robert T. Stafford Disaster Relief and Emergency Act, 42 U.S.C. § 5121, *et seq.* 26 U.S.C. § 7508A, and 26 C.F.R. § 301.7508A-1 provide IRS with the authority to postpone certain tax related deadlines for taxpayers affected by federally declared disasters.

⁴⁰Pub. L. No. 115-63, §§ 502(b)(2), 131 Stat. 1168, 1176 (Sept. 29, 2017) and Bipartisan Budget Act of 2018, Pub. L. No. 115-123, §§ 20102(b)(2), 132 Stat. 64 (Feb. 9, 2018).

⁴¹Some examples can be found at: <https://www.irs.gov/newsroom/tax-relief-in-disaster-situations> (accessed on August 31, 2018.)

7.5 percent of their adjusted gross income for tax years 2016 and 2017.⁴² Also, provisions similar to those described above were implemented for certain qualified federally declared disasters that occurred in 2016.⁴³ The law passed shortly before the start of the filing season and IRS had to recall, revise, and re-issue more than 100 products that had already been published.

In addition, several provisions affecting business filers presented processing challenges during the 2018 filing season. For example, IRS made changes to its forms to address fiscal year filers whose earnings will be taxed at different rates for 2017 and 2018 (referred to as blended rate) and developed forms and instructions for filers whose returns involve the foreign earnings of foreign subsidiaries of U.S. companies. Officials told us they processed returns subject to the blended rate provision manually and held returns affected by the foreign earnings provision until they completed necessary programming changes for the systems to process them in accordance with the new law. As of May 18, 2018, the agency was holding 2,265 affected individual and business returns. IRS officials said they completed the programming required to process all of these returns automatically by July 2, 2018. However, depending on when IRS completes processing these returns, it may need to pay interest on some refunds. IRS officials said they do not expect many of the held returns affected by the foreign earnings provision to claim refunds.

Extension of expired tax provisions. On February 9, 2018, after some taxpayers had already filed their 2017 taxes, Congress extended to 2017 a number of temporary tax provisions that expired at the end of 2016. These provisions include deductions for qualified tuition and related expenses and the ability to deduct premiums for mortgage insurance as interest. Testifying before Congress, the Acting Commissioner of IRS described the extensions as a major processing challenge and said this is the only time the agency has been required to implement retroactive tax extensions after the beginning of a filing season. To address the extensions, IRS officials told us they

⁴²Pub. L. No. 115-97, § 11027.

⁴³Pub. L. No. 115-97, § 11028. Not all special disaster tax relief applies to 2016 qualified disasters. Certain personal casualty loss and retirement plan relief is available for 2016 qualified disasters. Other relief, explained in IRS Pub. 976, is only available for certain 2017 federally declared disasters. IRS Pub. 976 at 4, and 11 (Mar. 1, 2018).

Issues Hiring and Redistributing Work Responsibilities

- reprogrammed systems to accept taxpayer claims related to these retroactively extended provisions;
- recalled, revised, and re-released more than 50 already published products; and
- held 5,624 individual returns while necessary programming changes were made to ensure proper processing.

IRS faced challenges in two of its five paper processing centers related to hiring and redistributing work responsibilities. The center in Ogden, UT experienced issues related to changes in work assigned to the site while the center in Austin, TX experienced ongoing hiring difficulties. Despite these challenges, IRS officials reported that the agency was able to meet all of its target dates for processing returns and issuing refunds.

Ogden. To realize cost savings from the decrease in paper filing as a result of increased electronic filing, IRS began to consolidate its paper processing centers in 2018.⁴⁴ As part of this plan, IRS moved some individual paper return processing to its facility in Ogden. This facility had not processed individual returns since 2000 and IRS officials told us that the lack of recent experience with this kind of work caused processing to fall behind targets. For example, as of March 2, 2018, Ogden had missed IRS targets for return processing time by between 14 and 15 days, depending on the form type.

Officials told us the agency had reintroduced Ogden to the work gradually, by assigning fewer returns to the site in the first year; nevertheless, the site still experienced delays. For example, as of March 2, Ogden had processed 10.6 percent of the 202,000 returns expected, while the processing centers in Fresno, CA and Kansas City, MO had processed 98.5 percent (723,000 out of 734,000) and 98.2 percent (545,000 out of 555,000) of their expected returns respectively on the same date.

IRS minimized the effects of these delays on overall processing by transferring returns initially sent to Ogden to the Kansas City location,

⁴⁴IRS plans to end paper processing of individual and business returns at sites in Covington, KY, Fresno, CA, and Austin, TX, in 2019, 2021, and 2024, respectively. By 2025, all paper returns are to be processed in the Ogden, UT, and Kansas City, MO, facilities. IRS has consolidated paper processing in prior years. Between fiscal years 2003 and 2011, IRS ended paper processing at five sites, and, in 2013, closed its Fresno satellite facility that was located in Tulare, CA.

which enabled IRS to meet its overall processing goals. Later in the filing season, processing at Ogden had improved, but still had not reached IRS's goal for the site. For example, as of May 11, 2018, Ogden was at approximately 73 percent of schedule, having processed 716,000 out of 977,000 scheduled returns. IRS officials said that responding to changes in work flows is a normal aspect of processing across all locations, but noted that the agency continued to monitor the situation in Ogden and learn from the experience to guide future consolidation efforts.

Austin. This processing facility, slated for closure in 2024, also experienced processing delays. As we reported in 2017, and as IRS officials told us again this year, IRS was unable to hire enough personnel to process paper tax returns at this site, which may be due to low unemployment rates in the area.⁴⁵ IRS officials told us Austin planned to hire 567 employees by early March to transfer data from paper returns to an electronic format, but had only been able to hire 142 people, or 25 percent of that target. IRS officials told us the position was perceived as undesirable in a low-unemployment environment. The officials said they had addressed the issue by (1) moving resources as needed within the service center and (2) transferring returns to the Kansas City facility for processing.

IRS Identified More Potential Fraud and Noncompliance by Verifying Wage Information Than It Did at the Same Point in the 2017 Filing Season

IRS identified more potential fraud and noncompliance through February 15, 2018, than it had by the same time last year. In its second year of receiving earlier W-2 data from SSA to match against returns, IRS identified a larger number of potentially fraudulent or noncompliant returns claiming the EITC or ACTC prior to issuing refunds—340,000 compared to 162,000 at the same point in 2017.⁴⁶ IRS also reduced the percentage of returns for which it was unable to verify wage information to 13 percent, compared to 58 percent in 2017. IRS officials told us this was, in part, a result of receiving 224 million W-2s by February 15 compared to 214 million by the same time in 2017. Having more W-2 data available

⁴⁵GAO, *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, [GAO-17-186](#) (Washington, D.C.: Jan. 31, 2017).

⁴⁶Beginning in 2016, IRS requested W-2 information from employers to validate information on returns selected by fraud filters. This provided IRS with a limited amount of W-2 data earlier in the filing season to use for pre-refund validation checks. See GAO, *Identity Theft and Tax Fraud: IRS Needs to Update Its Risk Assessment for the Taxpayer Protection Program*, [GAO-16-508](#) (Washington, D.C.: May 24, 2016).

earlier also allowed IRS to better target its selection of returns for review, helping to reduce taxpayer burden and IRS workload. For example, IRS had excluded 10,000 returns from review as of February 15, 2018, compared to 3,000 during the same time in 2017.

In addition, IRS improved its ability to identify potentially false and fraudulent returns for returns with EITC or ACTC—including those for which it did not have W-2 data at the time of identification—by developing two new filters that automated some aspects of the manual review process used in 2017.⁴⁷ IRS developed the new filters based on cases of confirmed fraud identified through systemic verification in 2017 and selected returns with characteristics that are more likely to be fraudulent or noncompliant. The filters select returns for review among those reporting information that does not match corresponding W-2 data and that IRS could not verify because it did not have W-2 data at the time of selection. Last year, IRS identified 12,000 cases of confirmed fraud from the 162,000 cases it selected for review. IRS officials told us that they do not have final data at this time, but that they anticipate they will confirm more cases of fraud and noncompliance in 2018 as a result of these filters.

Returns with refunds not claiming EITC or ACTC benefits are also subject to systemic verification as well as additional fraud filters. However, for returns not claiming these benefits, IRS does not hold refunds when it is unable to verify wages reported by the taxpayer unless the returns are selected by other fraud filters for review. As we reported in January 2018, IRS cannot verify information reported for more than half of returns submitted early in the filing season prior to issuing refunds because it receives W-2 information throughout the filing season.⁴⁸ In 2017 and 2018, IRS received and processed the majority of W-2s by mid- to late-February. In addition, IRS verified most wage information on returns submitted in mid-February as being accurate. IRS verified that accurate wage information was reported on 77 percent of returns not claiming the EITC or ACTC submitted between February 9 and 15, 2018, representing \$10.91 billion in refunds.

⁴⁷Systemic verification results from 2018 differ from the 2017 results in part because of these filters that flag returns reporting false or unverifiable income. The review process for returns IRS is unable to verify still includes a manual component and IRS is monitoring the returns that pose the greatest risk.

⁴⁸GAO, *Tax Fraud and Noncompliance: IRS Can Strengthen Pre-refund Verification and Explore More Uses*, [GAO-18-224](#) (Washington, D.C.: Jan. 30, 2018).

However, IRS does not have data available early in the filing season that would help it better identify which returns are potentially fraudulent or noncompliant. As a result, IRS issues refunds for a large percentage of returns without the EITC or ACTC that cannot be verified against W-2 data prior to February 15. For example, among 2017 returns without EITC or ACTC, IRS was unable to verify

- 91 percent of returns submitted before January 25, 2018—representing \$4.27 billion in refunds; and
- 60 percent of returns submitted prior to February 15—representing \$29.27 billion in refunds.

IRS has the authority to hold refunds for these returns (as it does for returns that do claim the EITC or ACTC) until any date deemed necessary to make inquiries, determinations, and assessments in conjunction with those determinations. However, IRS officials told us that IRS has not held those refunds because of the volume of existing cases, challenges of processing large numbers of refunds on a single day, and other costs to the agency, such as inquiries from taxpayers about their refunds.

In January 2018, we recommended that IRS study the benefits and costs of the refund hold and consider modifying it based on the study results.⁴⁹ For example, IRS could hold refunds for taxpayers not claiming EITC or ACTC and release the refunds once it has the W-2 data available and has verified the wage information. IRS officials reiterated that the potential of verification to detect more fraud and noncompliance is limited by delays caused by filing extensions and use of paper W-2s—which are transcribed at SSA before being transmitted to IRS. For example, IRS had not received any paper W-2 data for tax year 2017 by the February 15 refund hold date.⁵⁰ IRS is continuing to study systemic verification's potential, and is working to identify additional fraud and noncompliance by beginning to match non-wage income reported by taxpayers against data

⁴⁹[GAO-18-224](#).

⁵⁰In August 2014, we suggested that Congress consider providing the Secretary of the Treasury with the regulatory authority to lower the threshold for electronic filing of W-2s from 250 returns annually to between 5 to 10 returns as appropriate. See [GAO-14-633](#). This could increase the number of W-2 forms available to IRS early in the filing season because electronic forms would not need to be transcribed by SSA before being sent to IRS.

reported on Forms 1099-MISC by companies or individuals that paid the taxpayer miscellaneous income.⁵¹

IRS Continued to Deactivate and Renew ITINs

The Protecting Americans from Tax Hikes Act also contained a number of provisions relating to individual taxpayer identification numbers (ITIN). The provisions required IRS to deactivate (1) all ITINs issued prior to 2013 and (2) all ITINs not used at least once during the 3 most recent consecutive tax years.⁵² As of February 26, 2018, IRS said it had deactivated 14.7 million ITINs, approximately 12.4 million of those in 2017 and an additional 2.3 million in 2018.

Following this initial round of deactivations, ITIN renewal requests have been significantly lower than IRS anticipated. IRS expected it would receive 1.3 million renewal applications by the end of 2018 for ITINs that expired in 2017. However, by April 21, 2018, IRS had only received 23 percent (297,825 of 1.3 million) of the expected renewals.

IRS officials said they based their renewal projections on a computation assuming that all ITINs with middle digits 78 and 79—which were issued 16 or more years prior to their deactivation and were the first set of older ITINs to be deactivated—would be renewed.⁵³ However, the actual renewal rate in 2017 was only 60 percent for these ITINs. IRS officials said the agency used actual renewal data to revise its renewal estimate for the remaining ITINs issued prior to 2013 and containing certain middle digits that will be deactivated. Based on these new estimates, IRS will accelerate the completion date for deactivation of older ITINs.

⁵¹IRS began using forms 1099-MISC to perform these additional checks in 2018. The 1099-MISC is an information return used to report miscellaneous income, such as royalties of \$10 or more or nonemployee services of \$600 or more.

⁵²Pub. L. No. 114-113, 129 Stat. 2242, 3078, § 203, (*codified at* 26 U.S.C. § 6109(i)(3)).

⁵³IRS is reviewing and deactivating older ITINs in batches based on the middle digits of the ITIN.

IRS Developed a Management Structure to Implement the Tax Cuts and Jobs Act and Address Associated Challenges and Took Steps to More Fully Involve Human Capital Decision Makers

IRS Developed a Management Structure to Implement the Tax Cuts and Jobs Act and Took Steps to More Fully Involve Its Human Capital Decision Makers

To address the changes included in the Tax Cuts and Jobs Act, in January 2018 IRS established the Tax Reform Implementation Office (TRIO), a central office that coordinates implementation efforts. IRS officials said that the 2017 tax law will affect all IRS divisions and responsibilities. Each of the 119 provisions in the Tax Cuts and Jobs Act that fall under IRS responsibility has been assigned to one of IRS's four business divisions—Wage and Investment, Large Business and International, Small Business/Self-Employed, and Tax-Exempt and Government Entities—each of which will be responsible for planning and executing the assigned provisions. In addition to TRIO, IRS also established the Tax Reform Executive Steering Committee and the Tax Reform Implementation Council (TRIC), described below:

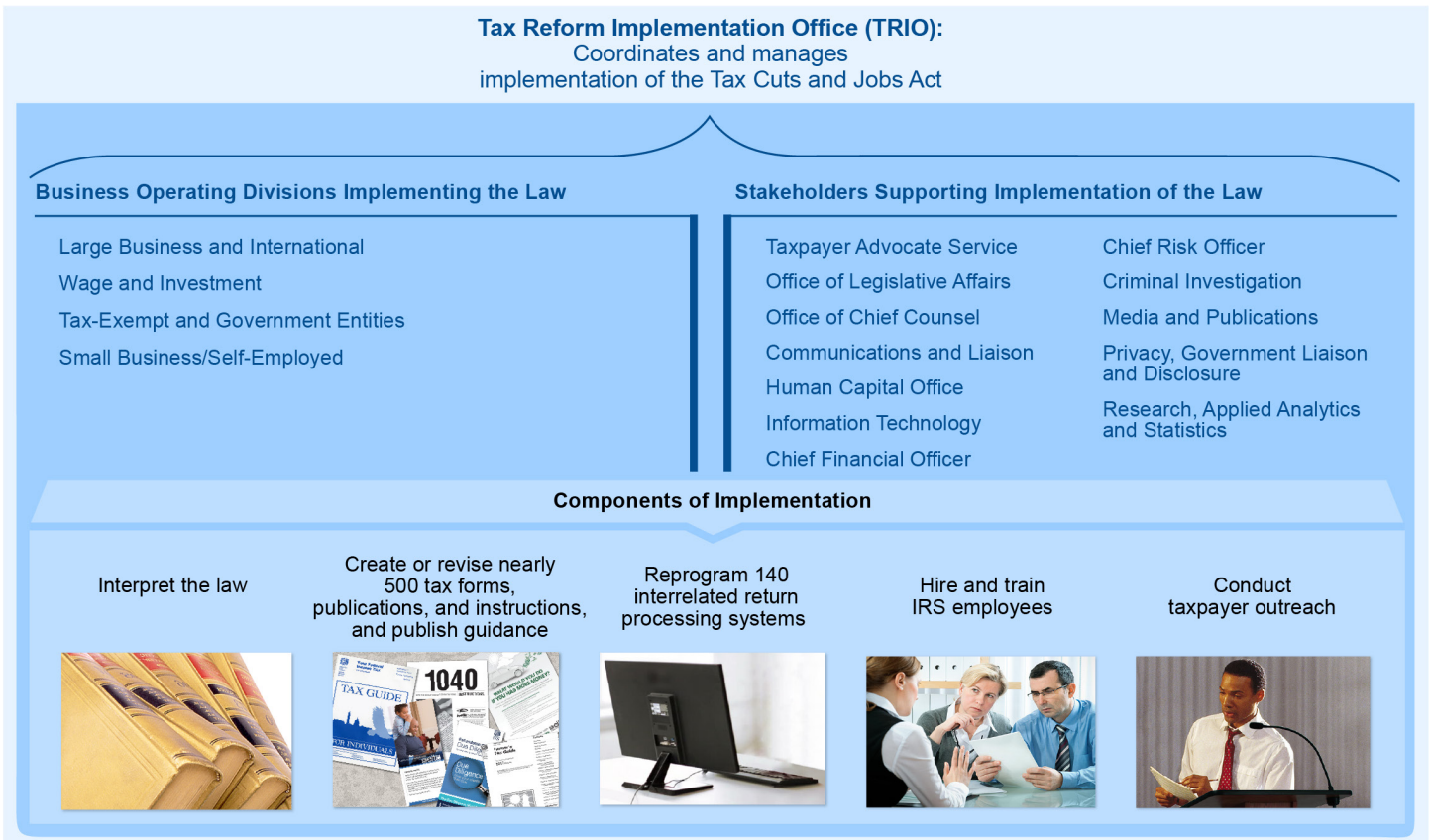
- **Tax Reform Implementation Office (TRIO).** TRIO principally consists of executive-level IRS employees and coordinates efforts by each business operating division to revise and develop forms, instructions, tools, and guidance and to execute programming changes, communications, and training initiatives required to implement the individual provisions of the Tax Cuts and Jobs Act. The office is intended to monitor the implementation action plans of each business division and ensure risks associated with implementation efforts are captured and addressed. TRIO has developed an integrated project plan to track critical implementation activities identified by the business divisions and discussed by TRIC (described

below). Personnel can access the project plan and update it with accomplishments and milestones.

- **Tax Reform Executive Steering Committee.** TRIO reports to the Executive Steering Committee, which includes IRS's Acting Commissioner, Deputy Commissioners, Treasury officials, and heads of offices. The steering committee serves as a forum to provide leadership guidance, direction, and advice on implementation activities for the Tax Cuts and Jobs Act.
- **Tax Reform Implementation Council (TRIC).** TRIC consists of representatives from business divisions and functional units—such as Information Technology (IT) and Communication and Liaison—that are performing implementation activities. The group first met on February 8, 2018, and meets weekly to discuss activities, concerns, and needs that might involve other IRS divisions. The meetings are also a forum to discuss accomplishments and deadlines.

Figure 5 illustrates TRIO's role in coordinating the various changes IRS expects to make.

Figure 5: IRS Organizational Structure and Components for Implementing the Tax Cuts and Jobs Act



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-18-471

To implement the Tax Cuts and Jobs Act, IRS’s Human Capital Office (HCO) estimated that the agency will need to hire and train staff to fill approximately 1,100 positions requiring a variety of competencies and provide additional training on tax law changes for current employees. HCO will be responsible for recruiting and hiring these new employees and ensuring they have the needed skills and HCO will play a key role in training them. It is HCO’s mission to provide human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support IRS’s mission. TRIO and other senior IRS officials acknowledged that HCO’s role in implementing the new tax law is as valuable as other supporting stakeholders, such as IT. Nevertheless, HCO did not initially have representation in TRIC, as did IT and other essential operational support units. TRIC meetings provide a forum not only for the business operating divisions directly implementing

the provisions of the Tax Cuts and Jobs Act to discuss and coordinate needs and activities, but for supporting stakeholders to understand the status of implementation efforts as well as future expectations and needs.

HCO officials said that when the formation of TRIO was first announced, they contacted TRIO leadership to request that HCO have representation. However, they were told that the purpose of the group was to discuss the tax law itself, not hiring or other human resources matters affected by the law. In our discussions with IRS officials, they told us that HCO has an informal liaison to TRIO, participates in the executive steering committee, and has existing human resource partners in the business operating divisions, and that additional HCO representation in tax law implementation—including the weekly TRIC calls—was not necessary.

However, a senior HCO official told us that it would be beneficial for HCO to participate in the weekly TRIC meetings to stay abreast of current developments and future plans and share relevant timelines and processes related to hiring and training. Participation will help HCO to manage its operations more strategically, for example, by planning for training required ahead of the 2019 filing season.

Based on our discussions with IRS officials about HCO's role in tax law implementation, in June 2018, HCO began participating in the weekly TRIC calls. HCO's participation will likely help IRS make more informed decisions concerning implementation of major tax law changes. It will also position HCO to proactively understand human capital needs and timelines across the agency and to hire and train personnel at the appropriate times. At the same time, IRS will also be better positioned to improve its management and strategy for executing implementation plans while also fulfilling the agency's mission.

IRS Identified the Scope, Nature, and Time Frame of the Tax Cuts and Jobs Act as Implementation Challenges

IRS officials identified a number of challenges associated with implementing the Tax Cuts and Jobs Act:

- **Scope of changes.** To implement 119 provisions of the Tax Cuts and Jobs Act, IRS will need to (1) interpret the law; (2) create or revise nearly 500 tax forms, publications, and instructions; (3) publish guidance and additional materials; (4) reprogram 140 interrelated return processing systems; (5) hire additional staff and train its workforce to help taxpayers understand the law and how it applies to them; and (6) conduct extensive taxpayer outreach. IRS officials

stated that these provisions will require extensive changes relevant to both individual and business filers and affect all areas of IRS.

- **Complex and extensive nature of changes.** According to IRS officials, many of the revisions are complex and interrelated and require central coordination and oversight. While IRS has to make changes to its products every year, many of the changes needed to implement the Tax Cuts and Jobs Act are more extensive than usual and affect some of the forms with which taxpayers are most familiar. For example, all Form 1040 products—the forms and instructions for individual tax return filing—will be changed in accordance with the law.
- **One-year time frame.** IRS officials told us that implementing the Tax Cuts and Jobs Act in 1 year will be challenging. Officials said the agency is using implementation of the Patient Protection and Affordable Care Act as a general guide for its current efforts, but noted this earlier legislation was less expansive. IRS was responsible for 47 provisions of the Patient Protection and Affordable Care Act and had multiple years to implement some of its provisions, including those officials identified at the time as the most challenging.⁵⁴ Implementing individual provisions of the Tax Cuts and Jobs Act involves multiple, dependent actions. For example, IRS cannot determine the changes it will need to make to various tax forms until it has interpreted the law and cannot reprogram its return processing systems until those forms are changed.

To complete necessary changes in time for the 2019 filing season, IRS has used overtime and compensatory hours. For example, according to IRS officials, as of May 26, 2018, IRS had used 1,749 overtime hours to make changes to forms and publications, between two and three times as many overtime hours as it did in the entirety of fiscal years 2016 or 2017. In addition, the agency delegated authority to approve requests for work to a larger group of managerial staff and temporarily reassigned existing staff to assist with time-sensitive changes to tax forms and publications. In March 2018, IRS also made a request for direct hiring authority, which would allow the agency to hire IT staff more quickly. While this authority could be helpful to fill specific positions more timely, IRS officials explained that these staff will require training on tax processing procedures. According to a

⁵⁴GAO, *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).

senior IRS official, as of June 2018 the Office of Personnel Management had not yet authorized this request.

IRS has taken a number of steps to implement time-sensitive provisions of the new law. IRS officials noted that while some provisions of the Tax Cuts and Jobs Act are retroactive or relevant to the 2018 filing season, most will not take effect until the 2019 filing season. As part of the planning process, IRS determined when various provisions of the law would become relevant and acted to release information on the provisions with the earliest relevance first. For example, IRS

- released new withholding tables and associated guidance;
- revised the form and online withholding calculator that taxpayers use to provide information to employers about the amount of tax that employers should withhold from their wages; and
- provided guidance on the transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies, a new section of the Tax Cuts and Jobs Act that changes how business income is calculated and tax is paid for the 2018 filing season.

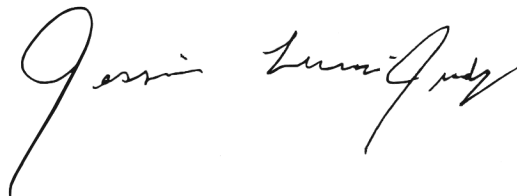
IRS is continuing to revise its forms and issue guidance in advance of the 2019 filing season.

Agency Comments and Our Evaluation

We provided a draft of this report to the Internal Revenue Service for review and comment. IRS provided written comments, which are reproduced in appendix I. In its written comments, IRS generally concurred with our findings and noted a concern regarding interpretation of correspondence overage data. IRS said that the overage rate we report is based upon the open inventory at the end of the fiscal year. We clarified the basis of the overage rate in our report. However, we believe the total that IRS cites in its letter could also be misinterpreted in that it does not represent the total overage inventory; rather it is a total for the last week of the fiscal year. IRS tracks the overage correspondence rate on a weekly basis, which can vary somewhat during the year given fluctuations in correspondence receipts and staff availability to respond, but is relatively consistent throughout the year. Therefore, the overage rate at the end of the fiscal year provides a basis for assessing IRS's annual performance in responding to written correspondence.

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Treasury, the Acting Commissioner of Internal Revenue, and other interested parties. In addition, the report is 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 lucasjudyj@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 members who made major contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Jessica Lucas-Judy". The signature is written in a cursive style with a large initial "J" and "L".

Jessica Lucas-Judy
Director, Tax Issues
Strategic Issues

Appendix I: Comments from the Internal Revenue Service



WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

AUG 22 2018

Ms. Jessica Lucas-Judy
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

I have reviewed the draft report entitled *2018 Tax Filing: IRS Managed Processing Challenges and Enhanced its Management of Tax Law Changes* (GAO-18-471), and appreciate the opportunity to provide comments. We appreciate your acknowledgement of the successful delivery of the 2018 filing season and recognition that it was accomplished while implementing significant legislative changes. In addition to assisting taxpayers affected by natural disasters that occurred in 2017, and for whom Congress enacted relief provisions¹ in September 2017, we also re-implemented tax provisions that had previously expired at the end of 2016 but were retroactively restored for tax year 2017 on February 9, 2018², almost two weeks after the filing season had begun. Further, as normal filing season operations were underway, we also devoted significant resources to planning and preparation activities to implement major changes associated with tax reform legislation, commonly known as the Tax Cuts and Jobs Act³, that will affect the 2019 filing season.

Services provided to taxpayers during the filing season are delivered through three primary channels: online services; telephone assistance; and face-to-face assistance. Providing service options online accomplishes several key objectives in improving service delivery to taxpayers. It satisfies the increasing shift in customer preferences for electronic self-service assistance options. Where, in the past, taxpayers seeking the status of their refunds, amended returns, account information, or information needed to prepare or file their tax returns would call our toll-free telephone line or personally visit a Taxpayer Assistance Center (TAC), they can now satisfy these needs at any hour of the day through their personal computers or mobile devices. Increased usage of our online

¹ Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (Sept. 29, 2017).

² Bipartisan Budget Act of 2018, Pub. L. No. 115-123, 132 Stat. 64 (Feb. 9, 2018).

³ AN ACT to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, 115-97, 131 Stat. 2054 (Dec. 22, 2017).

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services has delivered commensurate benefits by alleviating the demand on telephone or face-to-face service channels, providing greater availability of those resources for taxpayers with more complex issues that require personal assistance. This improves their ability to obtain timely resolution of their issues. Online service options also significantly increase the volume of service we can provide, at a fraction of the cost, as compared to previous years when online options were not available.

Our service improvements also include the full implementation in 2017 of appointment scheduling for services provided at our TACs. When taxpayers call our toll-free telephone line to schedule appointments, the Customer Service Representatives answering the calls identify the reasons for requesting the appointments and can often assist taxpayers over the telephone, thus eliminating the need for them to visit the TACs. For those issues that cannot be resolved over the telephone, appointments are scheduled, guaranteeing the taxpayer can receive the assistance they need without the risk of undue wait times or encountering insufficient capacity due to high demand at any given location.

With the increased rate of electronic filing of tax returns and the commensurate decrease in the volume of paper returns filed each year, we have embarked on a plan to consolidate our Submission Processing Centers (SPCs), where paper returns, hard-copy payments, and other correspondence items are received and processed, from five locations to two. Traditionally, our SPCs have been exclusively devoted to receiving and processing either individual or business returns, remittances, and correspondence. To prepare for the transition to two SPCs and ensure adequate skills for continuity of operations, we introduced new workstreams at the Ogden, UT and Kansas City, MO SPCs. A limited amount of individual tax work was directed to the Ogden SPC while some business tax work was routed to the Kansas City SPC. Introducing these mixed work streams at both SPCs now, in advance of the planned closing of three other SPCs, provides the opportunity for our employees to become skilled at both processes and will facilitate a smooth transition to the end-state operations. Challenges associated with learning curves for the new work streams were anticipated were quickly addressed by reallocating work to our other locations.

The 2018 filing season marked the second full year in which our fraud detection activities were assisted by the systemic verification of Form W-2, *Wage and Tax Statement*, information to individual tax returns as they were processed. Systemic verification is one element of IRS's Return Review Program (RRP) to detect fraud and noncompliance on tax returns. It is performed on all returns and assists us in strategically selecting potentially fraudulent returns with our complex fraud detection models. Through our fraud detection processes, we can suspend questionable returns for further review and either prevent the payment of refunds until our review is concluded or stop them altogether when suspected fraud or noncompliance has been confirmed. This filing season, we received 221 million Forms W-2 by February 15, 2018 from the Social

Security Administration (SSA). This represents a 3.05 percent increase over the 2017 filing season.

The significance of the February 15 receipt date for Form W-2 data is that the tax law, as amended by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act)⁴ requires all refunds that include claims for the Earned Income Tax Credit or the Additional Child Tax Credit be held until that date to eliminate or reduce the chance of an improper payment due to error or potential fraud. In the 2017 filing season, the first year of the refund hold, we manually selected 162,000 PATH Act-related returns for further review. For the 2018 filing season, we are leveraging the systemic verification capabilities of the RRP to automate the selection of questionable returns and increase the volume selected by using data contained on information return documents received earlier in the year. Through February 15, 2018, we identified approximately 340,000 PATH Act returns with potential issues of overstated income, which can cause an overstatement of certain refundable credits, or income tax withheld. Additionally, in our filtering process, we are also using data provided on Form 1099-MISC, *Miscellaneous Income*, reporting non-employee compensation paid.

Significant benefits to note about our experience with systemic verification include: increased accuracy for return processing; improvement in our ability to protect revenue when false or incorrect income is reported through earlier identification and treatment; earlier confirmation of potential refund fraud; and improved opportunities to verify and adjust, as needed, the RRP fraud detection models and filters. These benefits also illustrate opportunities to improve the availability of data from information returns. Some employers or payroll providers request extensions to file Form W-2 and/or file them late with the SSA. Additionally, employers who file paper information returns often cause the data to be delayed in reaching the IRS as the documents must be transcribed by the SSA. Based on lessons learned from the 2017 filing season, delayed, late or paper submissions of Forms W-2 have a detrimental impact on our ability to timely detect potential fraud or noncompliance.

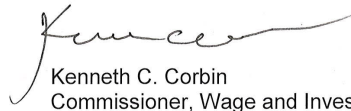
In the discussion of correspondence inventory, the report contains a statement about overage inventory which we believe could be unintentionally misleading to a third-party reader. The report states that approximately 35 percent of the 17.5 million pieces of correspondence received in fiscal year 2017 was overage. Overage inventory for 2017 was 35 percent of open inventory, which was slightly more than 1.3 million pieces at year-end. Further, of the 1.3 million inventory items at year-end, approximately 514,000 items were taxpayer-initiated correspondence. The remainder consisted of internally-generated documents associated with account maintenance operations.

⁴ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. Q, Title II, 129 Stat. 2242, (Dec. 18, 2015).

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In closing we want to express our appreciation for your observations and acknowledge there are no executive actions for consideration therein. If you have any questions, please contact me, or a member of your staff may contact Kevin Morehead, Director, Operation Supports, Wage and Investment Division, at 470-639-2701.

Sincerely,



Kenneth C. Corbin
Commissioner, Wage and Investment

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Jessica Lucas-Judy, (202) 512-9110 or lucasjudyj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Tom Gilbert (Assistant Director); Erin Saunders Rath (Analyst-in-Charge); Shea Bader; Jacqueline Chapin; Jehan Chase; Kirsten B. Lauber; Regina Morrison; Robert Robinson; and Sarah Wilson made significant contributions to this report.

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