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November 20, 2017

The Honorable Orrin G. Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
U.S. Senate

Tax Information Returns: Shared Service Centers Generally Transmitted Federal Wage and Tax Data on Time for Tax Year 2016

Congress passed legislation in 2015 that required employers to file Form W-2, *Wage and Tax Statement (W-2)*, data with the Social Security Administration (SSA) by January 31 to ensure the data's timely transmission.¹ With about 4.8 million civilian and military employees in 2016, the federal government plays a large role in state governments' abilities to leverage W-2 data. Federal and state government tax authorities can match the income reported by individuals on their tax returns with wage and tax withholding data provided by employers on W-2s to detect tax fraud and protect taxpayers from identity theft. As we reported in April 2017, the Internal Revenue Service (IRS) used W-2 data to help identify \$863 million in potentially fraudulent refunds as a result of the statutory requirement to hold certain refunds until February 15.²

To transmit the W-2 data to the states, most federal agencies use one of four payroll shared service centers (SSC)—the Department of Defense's Defense Finance and Accounting Service (DFAS); the Department of the Interior, Interior Business Center (IBC); the General Services Administration's National Payroll Center (NPC); and the Department of Agriculture National Finance Center (NFC).³ In tax year 2016, SSCs transmitted W-2 data to 41 states that taxed

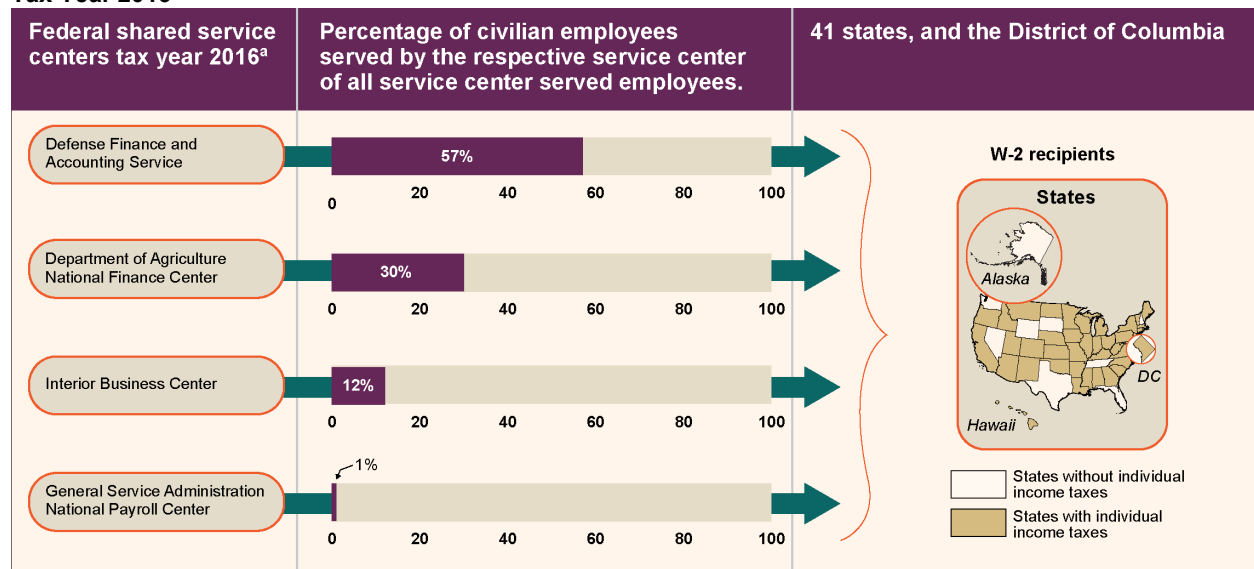
¹The relevant law is the Consolidated Appropriations Act, 2016 in which the Protecting Americans from Tax Hikes Act of 2015 is a division (Pub. L. No. 114-113, div. Q, 129 Stat. 2242, 3040, Dec. 18, 2015). SSA processes W-2 data before sending them to the Internal Revenue Service. Prior to enactment of the amending provisions of the Protecting Americans from Tax Hikes Act, paper W-2s were due on or before the last day of February and electronically-filed W-2s were due March 31.

²GAO, *2017 Filing Season: New Wage Verification Process Holds Promise but IRS Faced Implementation Challenges*, [GAO-17-525T](#) (Washington, D.C.: Apr. 26, 2017). The Protecting Americans from Tax Hikes Act required IRS to hold refunds for all taxpayers claiming the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC) until February 15. As of September 2017, IRS had not finished analyzing the amount of fraud caught by using the W-2 data. 26 U.S.C. § 6402(m).

³The SSCs process employee time sheets and assure that tax withheld is paid to SSA and the various tax authorities. SSCs also are to prepare the W-2s and send them to the federal employees, SSA, and tax authorities for states where federal employees work or reside. Some federal agencies, such as the State Department, do not use one of the four SSCs.

individual income and the District of Columbia.⁴ Figure 1 shows the portion of federal civilian employees that each SSC served from the total served by all four SSCs for W-2 data transmissions in tax year 2016.⁵

Figure 1: Percentage of Federal Civilian Employees Served by Four Federal Shared Service Centers (SSC), Tax Year 2016



Source: GAO analysis of shared service center data. | GAO-18-90R

^aNot all federal employers use SSCs. Examples of organizations not covered by the SSCs include the State Department, U.S. Postal Service, and Amtrak. Two states, California and New York, do not require W-2 transmissions but certain SSCs provide them voluntarily; therefore, they are included here. The figure also does not include about 1.6 million active and 768,000 reserve military personnel that DFAS officials said they process.

For the matching process to work best, tax authorities must have the W-2 data before issuing refunds. By 2017, 26 states and the District of Columbia had set their annual deadlines for receiving Form W-2s from all employers to match the January 31 deadline. One factor in passage of the new January 31 deadline was testimony given during a 2015 Senate Finance Committee hearing indicating that federal agencies were not sending W-2 data soon enough for states' tax authorities to use before issuing tax refunds.⁶

You asked us to review the processes that SSCs use to transmit W-2 data to SSA and the states. In this report, we 1) assess the extent which the federal SSCs timely and correctly transmitted W-2 data to SSA and state tax authorities for tax years 2015 and 2016, and 2) describe what changes in procedures, if any, the SSCs made to meet the new January 31 filing deadline for transmitting W-2 data to SSA.

⁴Of the 41 states, 39 required these SSC transmissions of W-2 data for tax year 2016 and 2—California and New York—did not require the transmissions but the SSCs voluntarily transmitted W-2 data to them. See e.g. Fla. Stat. § 220.02(1); Tenn. Code Ann. § 67-2-102. For more detail on W-2 transmission processes and SSCs, see enclosure I. Not all states require W-2 data for military pay, and some states treat active and reserve duty pay differently. Throughout this report, we clarify how many states were covered by each SSC for 2015 and 2016.

⁵Table 1 in enclosure I shows the number of employees served by each SSC.

⁶*Protecting Taxpayers from Schemes and Scams During the 2015 Tax Filing Season*, hearing before the Committee on Finance, U.S. Senate, 114th Congress, March 12, 2015.

To assess the extent to which the federal SSCs timely and correctly transmitted W-2 data, we compiled W-2 data from each of the four SSCs on when they transmitted the data to SSA, the District of Columbia, and states that required these transmissions for tax years 2015 and 2016.⁷ We compared these transmission dates to the due dates as posted by the states. To assess the reliability of the data, we reviewed data reliability information from relevant officials and concluded that the data were reliable for our purposes. We also surveyed relevant state tax authorities and the District of Columbia about when they received the tax year 2016 W-2 data, as well as what their experiences were in receiving these data from the four SSCs.⁸ To assess whether the SSCs correctly transmitted W-2 data, we also asked in our survey for states to describe how often SSCs had to retransmit the W-2 data to make corrections. Additionally, we interviewed relevant program administrators at the four SSCs, SSA, IRS, and an association of state tax authorities. To describe any changes to procedures to meet the January 31 filing deadline, we reviewed available documentation and interviewed relevant officials at each of the SSCs.

We conducted this performance audit from March 2017 to November 2017 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.

Results in Brief

SSCs generally sent W-2 data to SSA and states in a timely manner for tax years 2015 and 2016. SSCs varied somewhat in their timeliness for transmitting W-2 data to states. For example, DFAS generally transmitted the W-2 data for 2016 on time to the states, except for one of its 10 components. On the other hand, NFC transmitted the W-2 data past the due dates for more than half of the states for tax year 2016. NFC officials cited various problems they said should largely be resolved for future tax years. In response to our survey, states indicated that they generally received W-2 data on time from the SSCs, including NFC, and generally did not require SSCs to retransmit the data to make corrections. Three SSCs reported making either minor scheduling changes or no changes to meet the new SSA filing deadline, while another said it needed to use overtime and an additional staff member.

We provided a draft copy of this report to the Secretary of Agriculture, the Secretary of Defense, the Acting Administrator of the General Services Administration (GSA), the Secretary of the Interior, the Commissioner of Internal Revenue, and the Acting Commissioner of SSA. The Department of the Interior's (DOI) response agreed with the report's findings. Respondents from the Department of Agriculture (Agriculture) and the Department of Defense (Defense) did not

⁷Our data collection included 37 states and the District of Columbia that required W-2 data for tax year 2015—a total of 38 entities. It included 40 entities for tax year 2016, for which Iowa and Oklahoma began requiring W-2 data.

⁸Our survey excluded 9 states that do not tax individual income, including Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming. We conducted four pretests of the survey with state officials recommended by the Federation of Tax Administrators, a professional organization for state tax administration. We used the feedback from the pretests as well as from GAO stakeholders to modify the final version of the survey. We administered the survey via email to 41 states and the District of Columbia from late June through early July 2017 and conducted follow-ups to clarify unclear responses. We also contacted states that did not initially respond to the survey, and eventually received 34 surveys in a format we could use for data analysis. We received written comments—separate from the survey form—from 4 states that we report as appropriate. Enclosure III shows the questions in our survey.

indicate whether they agreed, although both provided technical comments, which we incorporated as appropriate. GSA, IRS, and SSA had no comments.

Federal Shared Service Centers Generally Transmitted W-2 Data to the Social Security Administration and States in a Timely Manner, Though Variability Existed

As for transmissions to SSA, all four SSCs transmitted tax year 2015 W-2 data prior to the March 31, 2016, due date for electronic transmissions. For tax year 2016, the four SSCs generally transmitted W-2 data to SSA prior to the new January 31 due date, although DFAS was late with 2 of its 10 components—nine military and one civilian. (See enclosure II, table 2.)⁹ According to SSA, three SSCs retransmitted W-2 data with final transmissions in February, March, and May.

As for transmissions to the states and District of Columbia for tax years 2015 and 2016, the SSCs generally transmitted the W-2 data before the states' and the District of Columbia's due dates but some variability and delays existed. For example, DFAS was late with 1 of its 10 components. We discuss states' and the District of Columbia's reported experiences with retransmissions to correct the W-2 data later in this report. The following section discusses each SSC's W-2 transmission experiences ranging from the largest to smallest SSC based on the number of federal employees covered, as well as the states' and the District of Columbia's receipt of the data.

DFAS

DFAS separately transmitted data for its 10 components at various times. DFAS had mixed performance in transmitting the W-2 data before the posted due dates for tax year 2015, but generally met deadlines for tax year 2016 W-2 data after using a new method of transmission.

- For tax year 2015, DFAS transmitted the W-2 data for each of its components by mailing encrypted compact discs (CD) between January 15 and February 23 to up to 37 states and the District of Columbia that were to receive the data. For purposes of these data, "transmitted" refers to the date the CDs were mailed. The number of recipients to which DFAS transmitted the W-2 data for each of its components by the due dates varied. (See enclosure II, table 4.) DFAS transmitted the 1 civilian component W-2 data on February 23, which met 28 of the 38 recipients' due dates. Of the 9 military components, DFAS transmitted CDs to 10 states past their due dates for 5 components and transmitted the CDs to all recipients by their due dates for 4 components.
- For tax year 2016, using a new data transmission mechanism, DFAS transmitted the W-2 data for 9 components before their due dates, while transmitting the data for 1 military component a few days later.¹⁰ Working with departments of revenue through the Federation of Tax Administrators (FTA), DFAS implemented a W-2 data retrieval system

⁹Table 2 in enclosure II lists DFAS's 10 components. For SSA, the Army's Joint Uniform Military Pay component and its reserve component transmitted W-2s on February 1 and 3, respectively.

¹⁰See table 3 in enclosure II for the number of states requiring W-2 data for civilian and military pay. Army's Joint Uniform Military Pay System W-2 data was sent on February 3, which was past the January 31 due date for 21 recipients. See table 4 in enclosure II.

for tax year 2016. With this new retrieval system, the states' and District of Columbia's timely receipt of W-2 data depended on the recipients retrieving the data. DFAS makes the W-2 data available on a computer server for a 2-week period and notifies the recipients to download the data within that timeframe. When a recipient successfully downloads the data, the system generates an email to the W-2 transmitter with a time and date stamp. If the recipient does not download the W-2 data by that time, a second set of W-2 data is made available. After the second 2-week period, recipients are instructed to contact DFAS directly for the W-2 data.

- Recipients, however, did not always download the W-2 data by their due dates. For example, 9 of the 39 states and the District of Columbia did not download the civilian W-2 data by their due dates. Each of the 9 military components had up to 8 recipients that did not download the available W-2 data by August 2017. We did not determine whether all of these recipients realized that DFAS provided W-2 data separately through 10 components.¹¹

For the other three service centers, NFC and NPC transmitted W-2 data to the states and the District of Columbia electronically or by sending encrypted CDs or paper forms.¹² IBC, for the most part, sent W-2 data using encrypted CDs.¹³

NFC

NFC had a decrease in the timely transmission of W-2 data from 29 of 38 recipients in tax year 2015 to 16 of 40 recipients in tax year 2016.¹⁴ (See enclosure II, table 5.) According to NFC officials, certain factors that contributed to transmission of W-2 data past the states' due dates in tax year 2016 are not likely to re-occur in future years. For example, of the 24 states that received W-2 data past their due dates, 10 were associated with a February tornado, which delayed the timely transmission of W-2 data.¹⁵ Other factors that affected timeliness over which NFC has control included confusion about which states changed their due date to January 31 and incompatible state formats for the data. NFC officials said that they believe these factors have been resolved.

¹¹For example, DFAS officials said two states that did not download or request DFAS-Civilian Pay W-2 data told them that they had received these W-2 data.

¹²Both NPC and NFC record the dates on which the center successfully transmitted the data electronically, mailed the CDs, or mailed paper forms. They do not keep information on the date a recipient actually receives the data.

¹³Since tax year 2014, to secure the personal identification information in W-2s, IBC has been sending W-2 data only in encrypted CDs to states and the District of Columbia with the exception of Hawaii, to which IBC sent paper documents. IBC officials said that they will continue to use encrypted CDs until recipients can provide verification or certification that its website is secure.

¹⁴In tax year 2016, the number of states with a January 31 due date increased from 10 to 25, including the District of Columbia.

¹⁵According to NFC officials, NFC prioritizes the submission of W-2 data by due dates. Some states had advanced their due date to January 31. If NFC had been aware of these new due dates and had attempted to transmit the W-2 data prior to January 31, transmission might not have been affected by the February tornado. Officials from the Department of Agriculture said that the tornado rendered NFC's primary business facility unfit for continued business operations. NFC prioritized its resources on customer-facing operations and later focused on once-a-year activities, such as sending the W-2 data, until such operations became possible.

IBC

IBC sent encrypted CDs to states requiring W-2 data in January for tax years 2015 and 2016.¹⁶ IBC securely mailed some CDs a few days before the end of January. Depending on the mail service, the W-2 data may have all been received by the recipients prior to their due dates.¹⁷

NPC

NPC transmitted W-2 data to two states past their respective due dates in tax years 2015 and 2016. These delays were generally due to electronic transmission problems that NPC officials said they do not expect to affect future transmission of W-2s. NPC transmitted W-2 data to the remaining states and the District of Columbia before those recipients' respective due dates.

Our discussions with officials from the SSCs and FTA, which represents state tax administrators, indicated that the SSCs and W-2 data recipients are willing to cooperate on when and how to file as well as establishing contacts for the SSCs and states to use. FTA officials said that their role is to foster coordination and cooperation among interested parties. Additionally, FTA officials said they worked with DFAS on its new method for transmitting W-2 data to the states. They also said they are working with the W-2 recipients on a more standard format for receiving W-2 data. These officials said that they expect that the process for transmitting data will continue to improve in 2018.

State Survey

Our survey sought feedback on when states reported receiving the W-2 data, as opposed to our analysis of the SSC data, which focused on when the SSCs sent W-2 data. In general, states responding to our survey indicated that they mostly received the SSCs' data on time—including data from NFC—with several exceptions, generally corroborating the SSC data provided to us.

A majority of states responding to the survey characterized data reception as “somewhat” or “definitely” on time for each SSC. For such “on time” receipt of tax year 2016 W-2 data,¹⁸

- 29 of the 31 responding states reported that they received the DFAS data on time,¹⁹
- 15 of 22 responding states reported that they received the NFC data on time,
- 19 of 22 responding states reported that they received the IBC data on time, and
- 18 of 21 responding states reported that they received the NPC data on time.

¹⁶IBC sent paper documents to Hawaii.

¹⁷According to DOI, 2 or 3 states requested resubmissions in both 2015 and 2016 tax years due to state mistakes such as misplaced CDs.

¹⁸Because each SSC transmitted W-2 data to a different number of states and not all states responded to all survey questions, the number of responding states can differ for each SSC and each question.

¹⁹In 2017, DFAS officials said they made W-2 data available on secure servers; consequently, when we describe a state “receiving” DFAS data, we mean that the state has downloaded the W-2 data from DFAS's secure server.

The states that offered explanations of data not received on time indicated that the lateness was not creating major concerns. For example, one state said it received W-2 data from 9 of the 10 DFAS components by the due date. Another said DFAS missed the deadline only for one data file. A third state said that it received NFC data “somewhat” late but that it was working with the agency on improvements.

States indicated that they generally did not need data to be retransmitted. The retransmission of W-2 data may indicate that the W-2 data are incorrect, that the data formatting needs revising to enable the recipient to use the data, or that a state did not receive the data properly. If not needing to retransmit W-2 data is an indicator of transmitting correctly, our survey indicates that states generally received correct transmissions. For DFAS, eight states said that they needed 1 or more of the 10 DFAS components to retransmit W-2 data. None of the states reported that IBC had to retransmit W-2 data, while both NFC and NPC each needed to retransmit the data to one state.

Similarly, states generally reported that the W-2 data were provided in the format that the state had requested. Specifically, states reporting that data were provided the requested format included the following:²⁰

- DFAS: 21 of 30 responding states,
- NFC: 17 of 19 responding states,
- IBC: 16 of 21 responding states, and
- NPC: 17 of 19 responding states.

In narrative portions of their responses, four states said that they would like to receive transmissions with the specific formatting that their states require rather than the format that the SSCs use, which follows SSA’s formatting requirements. Two states mentioned how DFAS ending CD use was helpful to them, and another state said it wanted to continue to move away from CDs. One state said it is no longer accepts CDs from IBC. Two states commented that they appreciated getting the W-2 data sent electronically and another said it would prefer that all SSCs transmitted that way.

Three Shared Service Centers Said They Made Minor or No Changes to Meet the New SSA Deadline, while Another Added Overtime and a Temporary Staff Member

Prior to the new deadline being set for transmitting W-2 data to SSA, SSCs already had to report W-2 data to individuals by the January 31 deadline. Officials’ comments to us indicated that adjusting to the new deadline generally was not burdensome. DFAS and NPC officials reported making no changes to their procedures to meet the new deadline, while IBC reported only changing deadlines on an internal schedule.

Only NFC said it made changes beyond simply adjusting internal timeframes or not making changes at all. NFC officials said their staff charged about \$5,000 to \$10,000 in overtime to meet the deadline and allocated an additional staff member to process data. They said that they will likely need to use overtime in future years, depending on how many files in suspense they need to correct. Suspense files are those that NFC’s computer system identifies as possibly

²⁰Not all states responded to each survey question; therefore, the total number of respondents varies from question to question.

having errors and must be corrected manually. The officials said their goal is to transmit all files on time, but that unusually large suspense files might arise and prevent on-time transmission.

Agency Comments

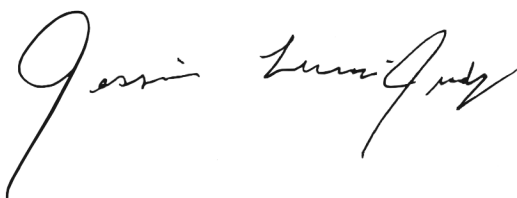
We provided a draft copy of this report to Agriculture, Defense, DOI, GSA, IRS, and SSA for review and comment. The signed letter we received from SSA is included in enclosure IV, in which SSA said it had no comments. GSA and IRS also had no comments.

In an email dated November 1, 2017, a DOI audit liaison said that DOI agreed with the report's findings and provided technical comments, which we incorporated as appropriate. Representatives from the Office of the Under Secretary of Defense (Comptroller) and Agriculture's Office of the Chief Financial Officer, Internal Control Division/Management Control and Audit Team did not specify whether their agencies agreed with the report's findings in emails dated November 6 and 9, 2017, respectively. Both agencies provided technical comments, which we incorporated as appropriate.

In their emails, the DOI audit liaison and Defense Senior Financial Management Regulation Policy Analyst also suggested that it might be less costly for federal SSCs to use a central location or service through which the SSCs could transmit or download data in a standardized format. The policy analyst further suggested that this format could be managed by SSA in concert with those transmitting or downloading the data. However, the objectives of our report did not include evaluating the benefits of creating such a service.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees. We are sending copies of this report to the appropriate congressional committees, the Commissioner of Internal Revenue, the Acting Commissioner of SSA, the Commissioner of GSA, the Secretary of Agriculture, the Secretary of Defense, the Secretary of the Interior, 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 who made key contributions to this report are listed in enclosure V.



Jessica Lucas-Judy
Director, Strategic Issues

Enclosure I: Form W-2 Transmission and Use, and Agencies Covered by Federal Shared Service Centers

How the Federal Government Uses Form W-2 Data

Employers are to complete an Internal Revenue Service (IRS) Form W-2, *Wage and Tax Statement (W-2)* for each employee to whom they pay wages for the tax year (i.e., January 1 to December 31) and send the data to the employee, the Social Security Administration (SSA), and the state in which the employee resides if the state requires such a transmission.

In terms of using the W-2 data, employees are to use the W-2 data to complete their individual tax returns. SSA performs verification checks to use the data for Social Security purposes. SSA also sends the W-2 data to IRS to use for tax compliance purposes. IRS uses the W-2 data it receives from employers via SSA during the filing season to verify information reported on the individuals' tax returns (such as wages and withholding), and identify potential underreporting, fraud, and identity theft.

Making effective use of W-2 data for tax compliance purposes before tax year 2016 was limited because employers, who file W-2s electronically, were not required to transmit the forms until the end of March. According to our previous work, most taxpayers entitled to a refund, along with many identity thieves attempting refund fraud, file early in the filing season.²¹ IRS sends out more than 70 percent of the individual income tax refunds by the end of the tax filing season—usually April 15. For the 2017 and subsequent filing seasons, with employers required to file W-2's by the end of January, this earlier access to W-2 data can help IRS to verify information on a tax return and detect any potential fraud and identity theft on returns with refund.

Federal Shared Service Centers

Table 1 breaks down the federal workforce served by the shared service centers (SSC). Civilian personnel served by the Defense Finance and Accounting Service work in agencies such as the Departments of Defense, Energy, Health and Human Services and Veterans Affairs.

Table 1: Number and Percentage of Federal Employees Covered by the Four Federal Service Center (SSC), Tax Year 2016

	Defense Finance and Accounting Service		National Finance Center	Interior Business Center	National Payroll Center	Total
Estimated number of federal employees covered by a SSC (% of total for 4 SSCs)	Civilian: 1,350,871 (28.4%)	Military: 2,390,968 (50.3%)	703,834 (14.8%)	290,835 (6.1%)	21,368 (0.4%)	4,757,876 (100%)

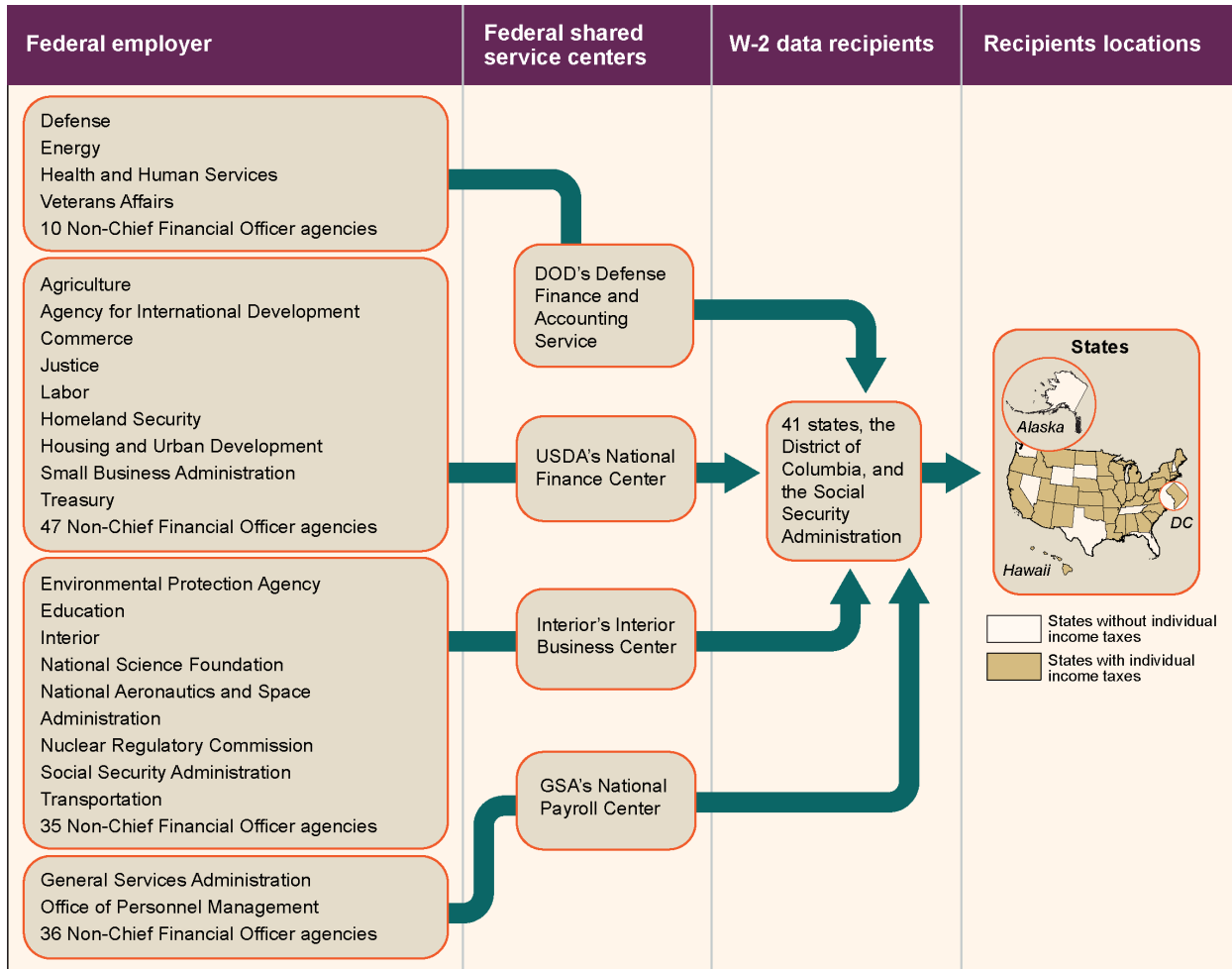
Source: GAO analysis of shared service center data | GAO-18-90R

Note: Not all federal employers use the shared service centers (SSC). Examples of organizations not covered by the SSCs include the State Department, U.S. Postal Service, and Amtrak.

²¹GAO, *Identify Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud*, GAO-14-633 (Washington, D.C.: Aug. 20, 2014).

Figure 2 shows the flow of W-2 data from many federal agencies through one of the four SSCs to SSA, participating states and the District of Columbia.

Figure 2: Flow of Form W-2 Data from Federal Employers to U.S. States



Source: GAO analysis of shared service center data. | GAO-18-90R

Note: Not all federal employers use the shared service centers (SSC). Examples of organizations not covered by the SSCs include the State Department, U.S. Postal Service, and Amtrak.

All of the SSCs transmit Form W-2 data electronically to SSA for their federal clients, using a standardized SSA format. States may require employers (including SSCs) to use formats, transmit data, or adhere to transmission dates that differ from the SSA requirements. Thirty-five states, including the District of Columbia, that require transmission of W-2 data use the SSA specified format.

SSCs transmit the W-2 data to states using one or more methods: uploading the data to a computer server under the SSC's control, uploading to a server under the state's control, sending CDs, or sending paper copies.

Enclosure II: Data Tables from Shared Service Centers

Table 2 shows the dates the federal shared service centers (SSC) transmitted Form W-2, *Wage and Tax Statement (W-2)*, data to the Social Security Administration (SSA) in the 2 years of our study period.

Table 2: Date of Federal Shared Service Center W-2 Data Transmissions to the Social Security Administration, Tax Years 2015 and 2016

Federal service center	Transmitted W-2 Data to SSA	
	Tax year 2015	Tax year 2016
GSA National Payroll Center	1/22/16	1/25/17
Interior – Interior Business Center	3/8/16	1/25/17
USDA National Finance Center	1/25/16	1/27/17
Defense Finance and Accounting Service components		
Civilian	1/11/16	1/9/2017
Air Force Active	2/3/16	1/26/17
Air Force Reserves	2/3/16	1/26/17
Army Active	2/1/16	1/31/17
Army Reserves	1/14/16	2/3/17
Army Joint Uniform Military Pay System	2/2/16	2/1/17
Marine	1/8/16	1/10/17
Navy Active	1/19/16	1/17/17
Navy Reserves	1/11/16	1/9/17
Navy Active – special pay	3/4/16	1/20/17

Source: GAO analysis of shared service center data. | GAO-18-90R

Note: For tax year 2015, paper-filed W-2 data were due on or before the last day of February and electronically filed W-2 data were due to SSA by March 31, 2016. All W-2 data for tax year 2016 were due January 31, 2017.

Table 3 shows that the Defense Finance and Accounting Service (DFAS) provides W-2 data to fewer states and the District of Columbia for military personnel than civilian personnel as some states exempt active duty military pay from income tax.

Table 3: Number of States and the District of Columbia Requiring W-2 Data from the Defense Finance and Accounting Service (DFAS) by Civilian, and Active and Reserve Military Components, Tax Years 2015 and 2016

Tax Year	Number of states requiring W-2 data from DFAS		
	Civilian pay	Military active components	Military reserve components
2015	38	31	33
2016	40	33	35

Source: GAO analysis of DFAS data. | GAO-18-90R

As table 3 shows, for tax years 2015 and 2016, DFAS provided W-2 data to 31 and 33 states and the District of Columbia, respectively, for active and reserve military personnel. Seven states exempted active duty military pay from taxable income. Two of the states—Montana and West Virginia—do not consider National Guard and reserves annual training and weekend drills as active duty, and hence tax military reserve pay.²² Table 3 also shows that for tax year 2016, the number of entities requiring W-2 data for civilian pay as well as active and reserve military pay increased by two after Iowa and Oklahoma began requiring W-2 filing.

Tables 4 and 5 show—by state and District of Columbia—how often the SSCs initially transmitted the W-2 data by or after the due dates, as well as how many days after these due dates the transmission occurred.

Table 4: Number of States and the District of Columbia to Which the Defense Finance and Accounting Service (DFAS) Transmitted Form W-2 Data by and after the State Due Date for DFAS Components, Tax Years 2015 and 2016

DFAS components	Tax year	Transmitted ^a W-2 data to the state:		Transmitted ^a W-2 data after state due date by:		
		By due date	After due date	1-7 days	8-28 days	Over 28 days
Civilian	2015	28	10	0	10	0
	2016	40	0	0	0	0
Air Force Active	2015	31	0	0	0	0
	2016	33	0	0	0	0
Air Force Reserves	2015	33	0	0	0	0
	2016	35	0	0	0	0
Army Active	2015	21	10	0	10	0
	2016	33	0	0	0	0
Army Reserves	2015	23	10	0	10	0
	2016	35	0	0	0	0
Army Joint Uniform Military Pay System (JUMPS) ^b	2015	21	10	0	10	0
	2016	12	21	21	0	0
Marine Corps ^c	2015	22	10	0	10	0
	2016	34	0	0	0	0

²²We excluded all seven states that exempt military pay from taxes—Arizona, Illinois, Kentucky, Michigan, Minnesota, Montana, and West Virginia—from our analysis of the military active component. We included Montana and West Virginia in our analysis of the military reserve component.

DFAS components	Tax year	Transmitted ^a W-2 data to the state:		Transmitted ^a W-2 data after state due date by:		
		By due date	After due date	1-7 days	8-28 days	Over 28 days
Navy Active	2015	21	10	10	0	0
	2016	33	0	0	0	0
Navy Reserves	2015	33	0	0	0	0
	2016	35	0	0	0	0
Navy Active – Special Pay	2015	31	0	0	0	0
	2016	33	0	0	0	0

Source: GAO analysis of Defense Finance and Accounting Service data. | GAO-18-90R

^a“Transmitted” means that the component mailed, electronically sent, or otherwise made the W-2 data available to the states.

^bJUMPS’s active component also provided W-2 data to West Virginia, which we did not include in our statistics because it exempts military pay.

^cThe Marine Corps component for active and reserve members did not withhold or provide W-2 data to Oklahoma.

Table 5: Number of States and the District of Columbia to Which Three Shared Service Centers Transmitted Form W-2 Data by and after the State Due Date, Tax Years 2015 and 2016

Federal shared service center	Tax year	Transmitted ^a W-2 data to the state:		Transmitted ^a W-2 data after state due date by:		
		By due date	After due date	1-7 days	8-28 days	Over 28 days
National Finance Center	2015	29	9	7	2	0
	2016	16	24	5	7	12
Interior Business Center	2015	38	0	0	0	0
	2016	40	0	0	0	0
National Payroll Center	2015	36	2	1	0	1
	2016	38	2	0	2	0

Source: GAO analysis of shared service center data. | GAO-18-90R

^a“Transmitted” means that the component mailed, electronically sent, or otherwise made the W-2 data available to the states.

Enclosure III: State Survey

Table 6 shows the questions that we asked in our survey of states and the District of Columbia on their experiences receiving W-2, *Wage and Tax Statement* (W-2), data from the four shared service centers. For the table, the term “submit” is synonymous with the term “transmit” that we used earlier in the report.

Table 6: Survey Instrument Used to Collect Data about Form W-2 Reception from States

1. **On what date did you receive tax year 2016 Form W-2 data from each shared service center?** *(Please provide both the date you first received data and the date you received the final transmission in mm/dd/yy. If these dates are the same, please enter the date in both columns)*

	Date of First Receipt	Date of Final Receipt
DFAS		
IBC		
NFC		
NPC		

2. **From your state’s perspective, would this submission of data be considered timely?** *(Consider whether state deadlines were met, whether state had sufficient time to meet internal deadlines, etc.)*

	Timeliness Rating	If “ Not At All ” or “ Somewhat ,” Please Explain briefly
DFAS	Please Select	
IBC	Please Select	
NFC	Please Select	
NPC	Please Select	

3. **Were the tax year 2016 W-2 data from each shared service center provided in the format your state requested?** *(i.e. they were delivered using the requested method/software, and your state was able to open/access the data)*

	Yes or no	If " NO ", Please Describe the issue briefly
DFAS	Please Select	
IBC	Please Select	
NFC	Please Select	
NPC	Please Select	

4. **Did the shared service centers have to resubmit tax year 2016 W-2 data for any reason?** *(e.g., due to errors or incomplete information)*

	Yes or no	If " YES ", Please Describe the issue briefly
DFAS	Please Select	
IBC	Please Select	
NFC	Please Select	
NPC	Please Select	

5. **What other issues or challenges, if any, related to the transmission of tax year 2016 W-2 data by the shared service centers, are important to you?**

Source: GAO analysis | GAO-18-90R

The range of possible responses for No. 2 was "Not at all," "Somewhat," or "Definitely."

Enclosure IV: Agency Comments from the Social Security Administration



SOCIAL SECURITY
Office of the Commissioner

November 8, 2017

Ms. Jessica Lucas-Judy
Director, Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Lucas-Judy:

Thank you for the opportunity to review the draft report, "Tax Information Returns: Shared Service Centers Generally Transmitted Federal Wage and Tax Data on Time for Tax Year 2016" (GAO-18-90R). We have no comments.

If you have any questions, please contact me at (410) 965-9704. Your staff may contact Gary S. Hatcher, Senior Advisor for the Audit Liaison Staff, at (410) 965-0680.

Sincerely,

Stephanie Hall
Acting Deputy Chief of Staff

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Enclosure V: GAO Contact and Staff Acknowledgements

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, Nina Crocker, Elizabeth Curda, Bertha Dong, Mark Glickman, Eric Gorman, George Guttman, John Hussey III, Steven Putansu, Kayla Robinson, Robert Robinson, and Tom Short made key contributions to this report.

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