

July 1996

# Tax Policy and Administration Issue Area Plan

## Fiscal Years 1996-98





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# Foreword

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As the investigative arm of Congress and the nation's auditor, the General Accounting Office is charged with following the federal dollar wherever it goes. Reflecting stringent standards of objectivity and independence, GAO's audits, evaluations, and investigations promote a more efficient and cost-effective government; expose waste, fraud, abuse, and mismanagement in federal programs; help Congress target budget reductions; assess financial and information management; and alert Congress to developing trends that may have significant fiscal or budgetary consequences. In fulfilling its responsibilities, GAO performs original research and uses hundreds of databases or creates its own when information is unavailable elsewhere.

To ensure that GAO's resources are directed toward the most important issues facing Congress, each of GAO's 32 issue areas develops a strategic plan that describes the significance of the issues it addresses, its objectives, and the focus of its work. Each issue area relies heavily on input from congressional committees, agency officials, and subject-matter experts in developing its strategic plan.

The Tax Policy and Administration issue area's mission is to provide the Congress, the executive branch, and the public with timely, accurate, and objective analyses and information to improve our nation's tax system and its administration. Accordingly, this issue area's responsibility encompasses the revenue side of the budget—the \$1.4 trillion in tax receipts that finance federal government operations and the \$400 billion in tax expenditures used to promote numerous social and economic objectives—as well as the federal agency responsible for tax administration, the Internal Revenue Service (IRS).

Our reports and testimonies have addressed subjects such as collecting delinquent taxes, responding to taxpayers' inquiries, modernizing IRS to achieve greater productivity and better management of its finances, tax system reform, the growth of tax expenditures, and narrowing the tax gap (the amount of taxes owed by individuals and businesses, but not voluntarily paid).

This plan addresses the changes being considered to our national tax system and its administration. The tax system is undergoing scrutiny, as seen in the various tax reform proposals. IRS is undergoing significant technological, organizational, and operational changes to improve its capacity to administer the tax system. To facilitate the management of our

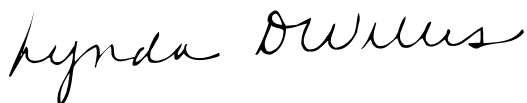
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work, we divided the issue area into eight key issues under which our work is planned. They are

- IRS management and budget,
- individual tax issues,
- business tax issues,
- customer service,
- submission processing,
- accounts receivable/collection,
- tax expenditures and preferences, and
- tax reform and simplification.

In the pages that follow, the planned work in these areas is described.

Because events may significantly affect even the best of plans and because periodic measurement of success against any plan is essential, our planning process allows for updating and the flexibility to respond quickly to emerging issues. If you have any questions or suggestions about this plan, please call me at (202) 512-9110.

A handwritten signature in black ink, reading "Lynda D. Willis". The signature is written in a cursive, flowing style.

Lynda D. Willis  
Director, Tax Policy and  
Administration Issues

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# Table I: Key Issues

Issue	Significance
<b>IRS management and budget:</b> How can IRS improve its financial, strategic, and human resource management?	IRS is in the midst of major technological, organizational, operational, and financial changes. It is in the process of reorganizing and reengineering its major processes, and, through Tax Systems Modernization (TSM), plans to introduce new technology to support these and other changes directed toward making IRS a more efficient organization. TSM involves an investment of billions of dollars and substantive changes to work processes and human resource management. In the face of tighter budgets and increasing congressional concern over the pace of IRS' modernization, IRS is rethinking its business vision and rescopings its plans for technological, organizational, and operational changes.
<b>Individual tax issues:</b> How can the tax system for individual taxpayers be improved?	IRS data indicate that the portion of the tax gap attributable to individual taxpayers amounts to about \$94 billion per year. Of that figure, failure to report income accounts for about \$73 billion. Tax law changes as well as changes to IRS' taxpayer guidance could increase compliance by making it easier for taxpayers to comply with tax laws. Similar changes in IRS' enforcement programs could make these programs more effective and less intrusive on individual taxpayers.
<b>Business tax issues:</b> How can the tax system for business taxpayers be improved?	Businesses play a significant role in our tax system. They not only pay income taxes but are also responsible for providing information to taxing authorities about payments to individuals and for withholding income and social security taxes from employees' salaries. IRS data indicate that the portion of the tax gap attributable to corporate taxpayers amounts to about \$33 billion per year. Of this figure, large corporations account for about \$24 billion, and small corporations account for about \$7 billion. Businesses, particularly large corporations, also spend considerable sums of money resolving disputes with IRS over audit results. IRS has ultimately collected about 22 cents for each \$1 of proposed audit assessments of the nation's 1,700 largest corporations.
<b>Customer service:</b> How can IRS improve the way it assists taxpayers?	IRS' "Customer Service Vision" guides its efforts to improve customer service. The vision is founded on increased accessibility, including up-front problem identification, improved notices and publications, telephone interaction in lieu of correspondence, one-stop service, and blended work groups. As part of this effort, IRS must identify new ways to improve service and provide the systems to support this service.
<b>Submission processing:</b> How can IRS improve the way it receives and processes tax returns, payments, and related information?	IRS' current procedures for processing tax returns are dependent on antiquated technology, which will eventually be replaced through TSM. IRS is also implementing alternative processes such as electronic filing, paper scanning, and lockboxes. Meanwhile, existing systems and capabilities must continue functioning. As Congress and IRS look for cost-cutting opportunities, other options, such as outsourcing, may receive more attention.

**Table I: Key Issues**

Objectives	Focus of work
<ul style="list-style-type: none"> <li>• Evaluate IRS' plans for and implementation of technological, organizational, and operational changes.</li> <li>• Improve IRS' ability to deal with the human resource implications of the changes.</li> <li>• Help ensure that IRS has the financial and management information to guide organizational and budget decisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic priorities, plans, and budget linkage.</li> <li>• Progress in managing for results and developing and employing performance measures.</li> <li>• Progress in redeploying and training staff and skills enhancement.</li> <li>• Status of administrative and management information systems' development.</li> <li>• TSM programmatic changes.</li> </ul>
<ul style="list-style-type: none"> <li>• Increase compliance and revenue.</li> <li>• Reduce compliance burden to taxpayers and administrative burden to IRS.</li> </ul>	<ul style="list-style-type: none"> <li>• Reengineered audit and nonfiler tax assessment process.</li> <li>• Effectiveness of IRS' audit selection process.</li> <li>• Specific tax code provisions that affect individuals such as married couples.</li> <li>• Training provided to auditors and the audit techniques they use.</li> </ul>
<ul style="list-style-type: none"> <li>• Analyze ways to reduce tax noncompliance and the costs of audit disputes.</li> <li>• Evaluate the compliance of businesses in reporting payments to others.</li> <li>• Evaluate the impacts of tax policies on businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• IRS efforts to improve business compliance.</li> <li>• Extent of reporting noncompliance and ways to correct reporting barriers.</li> <li>• Impact on businesses from overhauling the income tax system.</li> </ul>
<ul style="list-style-type: none"> <li>• Encourage efficient and customer-focused taxpayer assistance.</li> </ul>	<ul style="list-style-type: none"> <li>• IRS' efforts to improve taxpayers' access to its services.</li> <li>• Recurring problems faced by customers and taxpayers.</li> <li>• Efforts to modernize to improve customer service.</li> </ul>
<ul style="list-style-type: none"> <li>• Assess IRS' submission processing activities and related modernization efforts.</li> <li>• Assess IRS' efforts to modernize the way tax payments are processed.</li> <li>• Identify options to improve the processing of tax returns and payments.</li> </ul>	<ul style="list-style-type: none"> <li>• Annual status reports on filing seasons.</li> <li>• Efforts to expand electronic filing.</li> <li>• Use of alternative processes such as lockboxes.</li> <li>• Efforts to modernize paper processing procedures and systems.</li> <li>• Outsourcing opportunities.</li> </ul>

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**Table I: Key Issues**

Issue	Significance
<b>Accounts receivable/collection:</b> How can IRS improve its programs for preventing identifying, reporting, and collecting delinquent taxes?	IRS' accounts receivable has been recognized by GAO and OMB as a high-risk area, primarily because of the continued growth in receivables and IRS' difficulties in significantly increasing collections of delinquent tax debt. During fiscal years 1990 through 1995, gross receivables increased about 120 percent while collections declined about 2 percent. The accounts receivable inventory is over \$160 billion. IRS, despite many initiatives, has made little progress in resolving the problems at the root of its collection performance and is considering options such as outsourcing.
<b>Tax expenditures and preferences:</b> Can the purposes of tax expenditures and tax-exempt status be achieved more effectively through improved design and administration or through alternative mechanisms?	Tax expenditures—tax provisions that grant special relief to encourage certain behaviors or to aid taxpayers in special circumstances—cost over \$400 billion of federal revenue annually. Tax expenditures are not subject to systematic review, and policymakers have few opportunities to make explicit comparisons between tax expenditures and federal spending programs. Improving the effectiveness of tax expenditures can result in significant savings. Improving tax—exempt organizations' compliance with tax rules can reduce unintended tax losses and unfair competition with taxable businesses.
<b>Tax reform and simplification:</b> How would the administration of proposed alternative tax systems compare with that of the present system?	The current federal tax system raises revenues equivalent to about 20 percent of Gross Domestic Product and has a relatively high compliance rate compared with other countries, but it is challenging for taxpayers and administrators because of its scope and complexity. Proposed alternative tax systems, such as a flat tax, value-added tax, or other consumption taxes, aim to simplify the tax system and promote economic growth and equity. Because the various proposals are so different from the current system, they raise a host of issues relating to the administration of a new system and the transition from the current system.



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**Table I: Key Issues**

Objectives	Focus of work
<ul style="list-style-type: none"><li>• Improve IRS' management of accounts receivable and the collection process.</li><li>• Improve the accuracy and adequacy of information.</li><li>• Improve the compliance of specific groups of taxpayers.</li></ul>	<ul style="list-style-type: none"><li>• Ways IRS can more effectively account for and collect taxes owed.</li><li>• Improved tax compliance through better prevention methods.</li><li>• Tax delinquency problems of nonwage earners and financially unstable companies.</li></ul>
<ul style="list-style-type: none"><li>• Improve effectiveness of tax expenditures and reduce costs.</li><li>• Identify whether alternative mechanisms would achieve the same goals at less expense.</li><li>• Identify the effects of changes in tax expenditures on the treatment of tax-exempt organizations resulting from reforms.</li><li>• Improve IRS' administration of tax rules governing exempt organizations.</li></ul>	<ul style="list-style-type: none"><li>• Fuel tax incentives such as ethanol.</li><li>• Tax credits such as low income housing and research and experimentation.</li><li>• Changes resulting from tax system reform.</li><li>• Exempt organizations' taxes on unrelated business income.</li></ul>
<ul style="list-style-type: none"><li>• Describe how the designs of alternative systems compare with the present system.</li><li>• Provide Congress with information on the impact of alternative tax systems on taxpayers and tax administrators.</li></ul>	<ul style="list-style-type: none"><li>• Specific provisions of the current system.</li><li>• Lessons learned from other countries' value-added tax administration.</li><li>• Impact of reform proposals on federal tax administration.</li><li>• Impact of reform proposals on tax administration at the federal and state levels.</li><li>• Transition issues.</li></ul>

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# Table II: Planned Major Work

Issue	Planned major job starts
IRS management and budget	<ul style="list-style-type: none"><li>• reconciling budget to strategic priorities and plans</li><li>• implementation of IRS' Business Master Plan</li><li>• programmatic implications of TSM</li></ul>
Individual tax issues	<ul style="list-style-type: none"><li>• use of market segment benchmarking</li><li>• IRS treatment of taxpayers</li></ul>
Business tax issues	<ul style="list-style-type: none"><li>• ways to reduce/identify unreported income and other noncompliance</li><li>• independent contractors and possible employee misclassifications</li><li>• effectiveness of IRS audit selection methods for business</li><li>• monitoring corporate audit rates over time</li></ul>
Customer service	<ul style="list-style-type: none"><li>• accessibility of IRS services</li><li>• reengineering basic IRS processes</li></ul>
Submission processing	<ul style="list-style-type: none"><li>• IRS capabilities for information capture and use</li><li>• updating electronic filing usage and problems</li><li>• status report on extent of filing fraud</li></ul>
Accounts receivable/collection	<ul style="list-style-type: none"><li>• review of pilot project to use private sector debt collectors</li><li>• identifying best practices used by other collection operations</li><li>• evaluation of IRS' automated collection system</li></ul>
Tax expenditures and preferences	<ul style="list-style-type: none"><li>• evaluation of the effectiveness of selected tax expenditures</li><li>• review of unrelated business income for tax-exempts</li><li>• effectiveness of earned income credit program</li></ul>
Tax reform and simplification	<ul style="list-style-type: none"><li>• impact of tax reform proposals on taxpayers and tax administrators</li><li>• lessons learned from value-added tax administration and other reform efforts</li><li>• transition, in general, as related to specific provisions of current system</li><li>• relevance of TSM to a new tax system</li></ul>

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# Table III: GAO Contacts

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