

DOCUMENT RESUME

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[Procedures Used by the Internal Revenue Service to Provide Taxpayers with Refunds Not Initially Delivered by the Postal Service]. FGMSD-77-9; B-137762. August 4, 1977. 6 pp.

Report to Jerome Kurtz, Commissioner, Internal Revenue Service; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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Internal Revenue Service (IRS) procedures are generally adequate for providing undelivered refunds to taxpayers who file income tax returns in the year following the one in which the refunds were undelivered. However, IRS needs to take action to deliver unclaimed tax refunds to some taxpayers who may not file tax returns in succeeding years. Findings/Conclusions: As of December 31, 1975, IRS was holding about \$25 million in refunds belonging to nearly 200,000 individual taxpayers whose refund checks were returned as undeliverable by the Postal Service. Followup letters have been partially successful in locating taxpayers entitled to tax refunds. Of the 352,000 refund checks returned in 1975, IRS was able to redeliver 248,000, or 71%, of the checks to the taxpayers. However, in cases where tax refunds are paid when taxpayers file their succeeding year returns, as much as a year could pass before the refunds are sent. IRS procedures should be designed to locate a greater number of taxpayers entitled to undelivered refunds and to do it more promptly. Recommendations: The Commissioner of the Internal Revenue Service should: (1) furnish the news media with lists of individuals entitled to undelivered tax refunds; and (2) determine if information in the Social Security Administration's benefit file would be useful in locating individuals entitled to undelivered tax refunds, and, if so, develop a procedure for using such information. (SC)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

AUG 4 1977

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Mr. Jerome Kurtz
Commissioner, Internal Revenue Service
Department of the Treasury

Dear Mr. Kurtz:

This report presents the results of our evaluation of Internal Revenue Service (IRS) procedures for providing taxpayers with refunds not initially delivered by the Postal Service. We evaluated the procedures at several Department of Treasury activities, including Treasury's regional disbursing center in Birmingham, Alabama; IRS headquarters in Washington, D.C.; IRS service center in Chamblee, Georgia; and IRS district office in Atlanta, Georgia.

IRS procedures are generally adequate for providing undelivered refunds to taxpayers who file income tax returns in the year following the one in which the refunds were undelivered. However, IRS needs to take action to deliver unclaimed tax refunds to some taxpayers who may not file tax returns in succeeding years, such as retired, unemployed, or disabled individuals, or heirs of deceased individuals.

We believe two relatively inexpensive procedures might help IRS to more promptly locate taxpayers entitled to refunds. One would involve use of the news media, a practice the State of Georgia has successfully used for several years. The other would involve the use of information in the benefit files maintained by the Social Security Administration. We are, therefore, recommending that IRS use these two procedures to the extent practical.

Details of our findings and recommendations are presented in the following sections.

EXTENT OF UNCLAIMED TAX
REFUNDS IN IRS POSSESSION

As of December 31, 1975, IRS was holding about \$25 million in refunds that belonged to nearly 200,000 individual taxpayers whose refund checks were returned as undeliverable by the Postal Service. About 25,000 of these checks, valued at approximately \$4.2 million, were being held by the Birmingham Regional Disbursing Center. The checks had been issued to taxpayers who filed their Federal income tax returns with either the Chamblee or Memphis IRS service center. The remaining tax refund checks were being held by the other Treasury regional disbursing centers.

IRS PROCEDURES TO PAY
UNDELIVERABLE REFUNDS

Treasury's regional disbursing centers issue checks for income tax refunds at the request of IRS service centers. Because the disbursing centers are custodians of the checks they issue, the Postal Service returns to them any checks for tax refunds that cannot be delivered to taxpayers at addresses shown on the checks.

When checks are returned as undeliverable, the regional disbursing centers redeposit the returned checks to the Treasurer's account on a weekly basis. IRS procedures then call for:

- Recording on the taxpayers' accounts the amounts of undeliverable checks, thereby insuring that the taxpayers receive the refunds in the event they file tax returns in succeeding years.
- Sending followup letters to taxpayers' last known mailing addresses advising them that the Postal Service had been unable to deliver checks for tax refunds and requesting confirmation of the correct mailing addresses.

The regional disbursing centers are instructed to mail new refund checks to those taxpayers entitled to undelivered refunds, if such taxpayers are located through the followup letters or if they file subsequent returns. The amounts for undelivered refunds are then removed from accounts of the taxpayers issued the new refund checks, a procedure necessary to insure that the individuals do not receive duplicate payments.

According to IRS officials, the followup letters have been partially successful in locating taxpayers entitled to tax refunds and numerous unclaimed checks have been remailed through this means. The followup letters are more successful in locating taxpayers who reside in areas with a high rate of theft, particularly from mailboxes. In explaining the reason for this, a Postal Service official said mail carriers were instructed not to leave letters obviously containing checks, especially the distinctive ones like tax refund envelopes, in unlocked mailboxes for patrons residing in such areas. He said, however, that the followup letters would be left in the unlocked boxes.

The followup letters, along with IRS procedures for annotating the taxpayers' accounts to show undeliverable checks, have permitted the redelivery of a substantial number of the refund checks returned each year. For example, the Postal Service returned over 352,000 refund checks in 1975, and IRS officials said that about 248,000, or 71 percent, of the checks were redelivered to taxpayers.

IRS procedures would be adequate to insure that taxpayers entitled to undelivered refunds eventually receive them, providing the taxpayers file returns in succeeding years. Based on information IRS provided us, however, it appears that about one-third, or about \$8 million, of the remaining undelivered refunds could belong to individuals who may be retired, unemployed, disabled, or deceased. Tax returns are not always filed in succeeding years by many such individuals and, therefore, the annotation procedures do not always result in delivery of refunds to many taxpayers or their beneficiaries.

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Even if tax refunds are paid when taxpayers file their succeeding year returns, as much as a year could pass before they are sent. This long delay could impose undue hardships on low- and moderate-income taxpayers.

ADDITIONAL PROCEDURES THAT
COULD BE IMPLEMENTED

As discussed below, IRS could implement two additional procedures to promptly locate taxpayers entitled to undelivered tax refunds.

Use of news media

IRS regulations require that IRS service centers furnish each district office with an annual list containing the name and the last known address of any taxpayers whose income tax refund checks were returned as undeliverable. While the regulations allow the lists to be made available to the news media, they specify that this will be done upon request.

At the IRS national office, we were told IRS procedures provided for annual news releases informing the public that any taxpayers not receiving their refunds should contact IRS. However, since the news releases are prepared before the lists are available, they do not contain the names of individuals entitled to undelivered tax refunds.

Officials at the Atlanta IRS District Office said that their office had never made the lists available to the news media because it was the district director's policy not to solicit requests for the lists. Since IRS regulations are not generally known to the public, it is doubtful that the news media is aware of the existence and availability of the lists.

Several years ago the State of Georgia began sending to all State newspapers annual lists containing the names and last known addresses of taxpayers entitled to undelivered State income tax refunds. A State official said most newspapers in the State were eager to publish the lists as a public service, especially lists containing names of taxpayers who reside in the papers' principal circulation areas. The official also said Georgia's experience in locating taxpayers by this means had varied somewhat over the years, but that for a representative tax year--1974--it had resulted in delivery of approximately 30 percent, or about 500, of the returned checks.

As IRS has readily available lists, by geographical regions, of individuals entitled to tax refunds, such lists should be made available to the news media especially to newspapers with State-wide circulation.

Use of Social Security Administration records

The Social Security Administration provides benefits to employees who are retired and disabled, and to spouses and minor dependents of deceased taxpayers. It maintains automated benefit files containing the names, social security numbers, and addresses of individuals receiving the benefits. Treasury regional disbursing centers also maintain a copy of these benefit files for recipients residing in their service areas.

IRS also receives an automated file from Treasury regional disbursing centers containing similar information on employees entitled to unclaimed Federal checks for tax refunds. As some of these individuals may also be recipients of social security benefits, it may be worthwhile for IRS to develop procedures to screen the social security benefit files for mailing addresses on any individuals on its unclaimed check lists. It appears that this could be done at very little cost, since the procedures would basically involve a matching process which could be done by automated data processing equipment.

CONCLUSIONS AND RECOMMENDATIONS

During 1975 a substantial number of individual tax refunds were undelivered and returned by the Postal Service. Under IRS procedures many of these individuals will eventually receive their money. However, some individuals will not receive their refunds at all. We believe improvements are needed and should be designed in IRS procedures to locate a greater number of taxpayers entitled to undelivered refunds and to do it more promptly. To accomplish this, we recommend that you:

- Furnish the news media with lists of individuals entitled to undelivered tax refunds.
- Determine if information in the Social Security Administration's benefit files would be useful in locating individuals entitled to undelivered tax refunds and, if so, develop a procedure for using such information.

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A draft of this report was reviewed by, and discussed with, IRS officials and their comments have been incorporated in the report.

We are sending copies of this report to the House Committee on Appropriations; the House Committee on Government Operations and the Senate Committee on Governmental Affairs; the Joint Committee on Taxation; the Director, Office of Management and Budget; the Secretary of the Treasury; and Treasury's Directors of the Division of Disbursement and the Office of Audit.

Thank you for the courtesies and cooperation extended our representatives. We would appreciate your comments and advice on any action taken or planned on the matters discussed in this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury
Director