



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

GENERAL GOVERNMENT
DIVISION

JUNE 19, 1981

B-202441

The Honorable Roscoe L. Egger, Jr.
Commissioner of Internal Revenue
Department of the Treasury

Dear Mr. Egger:

Subject: [IRS Can Reduce Processing Costs by Not
Transcribing Cents Data from as Many
Lines on Tax Returns] (GGD-81-84)

As you know, we are reviewing the Internal Revenue Service's (IRS) service center processing system to identify ways IRS can process individual tax returns more accurately and efficiently. Through our research and discussions with your service center and National Office staff, we have determined that one way for IRS to reduce processing costs is to stop transcribing cents data from as many lines on the individual tax returns and supporting schedules as it presently does. Achieving these processing cost reductions will require a change in present tax table column headings and modifications to returns processing procedures.

TAX TABLE COLUMN HEADING CHANGES RESULTED
IN INCREASED RETURNS PROCESSING COSTS

Beginning with tax year 1976, IRS changed the tax table income column headings to read "Over" and "But not over." Before 1976, the income column headings read "At least" and "But less than."

Present Tax Table Wording

If Form 1040, line 34, is—		And the total number of exemptions claimed on line 7 is—		
Over	But not over	1	2	3
		Your tax is—		
11,100	11,150	1,413	1,203	1,001
11,150	11,200	1,424	1,214	1,010

Pre-1976 Tax Table
Wording (note a)

If Form 1040, line 34, is—		And the total number of exemptions claimed on line 7 is—		
At least	But less than	1	2	3
		Your tax is—		
11,100	11,150	1,413	1,203	1,001
11,150	11,200	1,424	1,214	1,010

a/This tax table is not the one that was used before 1976. We have presented it in the present format to better illustrate the effect of the income column headings.

IRS originally changed the column headings because of the Tax Reform Act of 1976 (P.L. 94-455). This act increased the tax table ceiling from "less than" \$10,000 income to income that "does not exceed" \$20,000. IRS officials told us that to insure that taxpayers with exactly \$20,000 in taxable income were covered by the tables, the column heading wording was changed from "At least" to "Over" and from "But less than" to "But not over."

Although IRS considered this a minor change, it had a major impact on the processing system. IRS officials told us that due to the tax table heading change, IRS had to transcribe the cents from many more lines of the Forms 1040A and 1040, and supporting schedules, when processing individual income tax returns. This was necessary for IRS to determine the proper tax bracket for taxpayers whose income was within \$0.99 of a break in the tax tables.

For example, consider the instance of a taxpayer claiming one exemption and having income of \$11,150.16. Under the present tax table wording IRS cannot determine the correct tax liability from the whole dollar amount (\$11,150) alone. As shown on the previous page, the tax liability on \$11,150.00 is \$1,413 while the tax liability on \$11,150.16 is \$1,424. However, using pre-1976 tax table wording, IRS could transcribe only the whole dollar amount (\$11,150) to determine that the tax liability is \$1,424.

Because IRS makes extensive use of automated processing to analyze and store tax return information, the need to transcribe cents data from additional tax return lines has imposed a heavy burden on major segments of the returns processing system. For example, it increased the workload of direct data entry operators who transcribe data from tax returns to magnetic tape. We estimate that as a result of the 1976 column heading change, IRS will have to make an additional 992 million keystrokes in calendar year 1981 at a total cost of about \$1.3 million.

The impact on other segments of the returns processing system is more difficult to quantify, but includes

- increased workload for identifying and correcting transcription errors,
- increased staff time to modify computer programs that edit and process the additional data,
- increased automated record and file sizes to accommodate the additional data, and
- increased computer processing time.

Two kinds of costs are involved in changing the tax table column headings. One is the cost to change the wording of the tax table column headings and the other is the cost to modify processing procedures.

According to IRS officials, the costs to change the tax tables are minimal since the tax tables will be reprinted for tax year 1981 regardless of whether the column heading wording is changed. Since the tax tables are presently being readied for reprinting, now is an appropriate time to make the wording change.

The cost to modify the processing procedures are difficult to quantify and IRS does not have a firm estimate on this cost. IRS officials told us this cost would be small relative to the cost reductions that can be achieved by not transcribing cents from as many lines on the tax returns. They said that the modification cost would be comprised almost entirely of the effort needed to make the necessary changes to various computer programs used by the service centers and the National Computer Center. In their opinion, however, the modification cost would be more than offset by the estimated cost reduction of \$1.3 million in keystrokes alone.

IRS officials did explain to us that it is not feasible to make all the programming changes in time for the tax year 1981 returns processing season. However, they said that if work begins immediately they can make the changes needed to realize the \$1.3 million data transcription cost reductions in time for the tax year 1981 processing season. We were told the rest of the programming changes could be phased in over the next year or so as part of IRS' ongoing data processing operations.

CONCLUSIONS AND RECOMMENDATIONS

Processing tax returns is a significant part of IRS' operating costs. To reduce these costs IRS should transcribe cents from the minimum number of lines necessary to verify tax liabilities and refund or balance due. In this regard we do not believe the 1976 change in tax table column headings was necessary in order to reflect changes to the Internal Revenue Code, except for taxpayers making exactly \$20,000. Because that change unnecessarily increased processing costs, we believe the tax table column headings should be changed back.

Accordingly, we recommend that you reinstate the pre-1976 wording for the 1981 tax table column headings except for taxpayers whose adjusted gross income is exactly \$20,000 and proceed with the necessary modifications to the returns processing procedures.

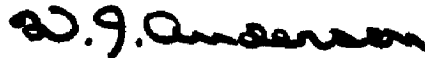
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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

Copies of this report are also being sent to the Secretary of the Treasury; the Director, Office of Management and Budget; and other interested parties.

We appreciate the assistance provided us by your staff and would be pleased to further discuss our observations with you, or them, if you think it would be beneficial. We look forward to working with you in the future on other IRS-related issues and concerns.

Sincerely yours,



William J. Anderson
Director