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TAX POLICY AND ADMINISTRATION

1985 Annual Report on GAO's Tax-Related Work





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General Accounting Office
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General Government Division

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The Honorable Dan Rostenkowski
Chairman, Committee on
Ways and Means
House of Representatives

The Honorable Bob Packwood
Chairman, Committee on
Finance
United States Senate

The Honorable Bob Packwood
Chairman, Joint Committee
on Taxation
Congress of the United States

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

The Honorable William Roth, Jr
Chairman, Committee on
Governmental Affairs
United States Senate

This is our annual report for calendar year 1985 on our work on tax policy and tax administration matters. The report is submitted in compliance with 31 U S C 719(d) and consists of the following appendixes:

I Open recommendations to the Congress from reports issued during calendar year 1985. Actions taken and/or pending as of March 31, 1986, are included.

II Open recommendations to the Congress from reports issued before calendar year 1985. Actions taken and/or pending as of March 31, 1986, are included.

III Tax-related recommendations made during calendar year 1985 to the Internal Revenue Service and the Social Security Administration and their responses to those recommendations.

IV GAO products on tax matters issued during calendar year 1985.

V. Testimonies given on tax matters by GAO officials before various committees of the Congress during calendar year 1985.

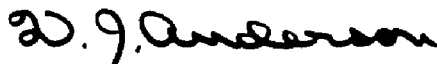
VI. Tax-related assignments initiated by GAO pursuant to 31 U.S.C. 713 during calendar year 1985.

VII. GAO Order relating to audit assignments involving access to tax information.

We are pleased to report that the Internal Revenue Service and the Social Security Administration have taken, or plan to take, action on most of the tax-related recommendations we made during calendar year 1985. Also, various congressional members and committees used our products on tax policy and administration matters in overseeing tax operations and considering tax reform

We look forward to continuing to work closely with the Congress in its oversight of tax matters and to assist it in considering our legislative recommendations. Also, we would be glad to discuss any of the matters included in the appendixes if you, your colleagues, or staffs believe it would be beneficial

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Commissioner of Internal Revenue, and the Commissioner of Social Security. We are also sending copies to other interested congressional committees and will make copies available to others upon request.



William J. Anderson
Director

Contents

Letter		1
<hr/>		
Appendix I		8
Open		8
Recommendations to	Congress Should Consider Whether to Amend the Tax	8
the Congress From	Code to Allow Discounting of Property/Casualty	
Reports Issued During	Insurance Companies' Loss Reserves for Tax	
Calendar Year 1985	Purposes	
	Congress Should Consider Whether to Amend the Tax	9
	Code to Allow Acquisition Costs to Be Allocated Over	
	the Life of Property/Casualty Insurance Contracts	
	Congress Should Consider Whether to Retain the Special	10
	Tax Preference for Mutual Property/Casualty	
	Insurance Companies in Its Present Form	
	Congress Should Amend the Internal Revenue Code	11
	Regarding Transactions Between Foreign-Owned U.S.	
	Corporations and Their Noncorporate Foreign	
	Owners	
<hr/>		
Appendix II		12
Open		12
Recommendations to	Key Issues Affecting State Taxation of Multijurisdictional	12
the Congress From	Corporate Income Need to Be Resolved	
Reports Issued Before	Congress Should Adopt a Tax Treatment Which Better	14
Calendar Year 1985	Recognizes Changes in Some Electric Cooperatives	
	Legislative Change Needed to Enable IRS to Assess Taxes	16
	Voluntarily Reported by Taxpayers in Bankruptcy	
	Legislative Change Relating to the Issuance of Tax	17
	Deficiency Notices Could Improve Administration of	
	the Crude Oil Windfall Profit Tax	
	Congress Should Amend the Crude Oil Windfall Profit	19
	Tax Act of 1980 to Establish a Consolidated Appeals	
	Process	

<p>Appendix III Tax-Related Recommendations Made During Calendar Year 1985 to the Internal Revenue Service and the Social Security Administration and Their Responses to Those Recommendations</p>	<p>IRS Managers and Staff Should Refamiliarize Themselves With the Operating Guidelines and Procedures of the Claims for Rewards Program 20</p> <p>IRS Needs Controls and Procedures to Help Assure That Claims for Rewards Are Processed Quicker 21</p> <p>Better Instructions Are Needed on What Information IRS Needs to Initiate and Develop Cases Under Its Claims for Rewards Program 22</p> <p>IRS Needs to Establish Procedures to Ensure That Rewards Are Fully Paid to Claimants Under the Claims for Rewards Program 23</p> <p>IRS Should Consider Raising the Minimum Reward Allowable Under the Claims for Rewards Program 24</p> <p>Some Claimants Could Receive Rewards Sooner If Greater Use Were Made of the Claims for Rewards Program's Partial Payments Provision 25</p> <p>IRS Information on Revoked Charitable Organizations Needs to Be More Accurate and Consistent 26</p> <p>IRS Needs to Publish Information That Identifies Those Organizations Which Are Appealing Revocation While Remaining in a Tax-Exempt Status 27</p> <p>IRS and SSA Need to Ensure That All Self-Employment Records Are Processed 28</p> <p>IRS and SSA Could Do More to Identify Individuals Who Did Not Receive Proper Credit for Their Earnings 29</p> <p>More Could Be Done to Ensure That Self-Employment Earnings Are Accurately Being Recorded in Individuals' Social Security Accounts 30</p> <p>Wages Erroneously Claimed on Self-Employment Schedules Resulted in Reporting Errors 31</p> <p>Taxpayers Are Not Adhering to Certain Restrictions for Using an Optional Method of Computing Net Self- Employment Earnings 32</p> <p>Computational Errors on Self-Employment Schedules Resulted in Inaccurate Social Security Earnings and Taxes 34</p> <p>IRS Needs to Improve Its Examination Selection Process for Exempt Organizations Having Unrelated Business Income 36</p>
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Appendix IV GAO Products on Tax Matters Issued During Calendar Year 1985	38
Appendix V Testimonies Given on Tax Matters by GAO Officials Before Various Committees of the Congress During Calendar Year 1985	39
Appendix VI Tax-Related Assignments Initiated by GAO Pursuant to 31 U.S.C. 713 During Calendar Year 1985	40
Appendix VII GAO Order Relating to Audit Assignments Involving Access to Tax Information	42

Contents

Abbreviations

APO	Army Post Office
FPO	Fleet Post Office
GAO	General Accounting Office
IRS	Internal Revenue Service
NAIC	National Association of Insurance Commissioners
PAL	Protection Against Loss
SE	Self-Employment
SSA	Social Security Administration
UBI	Unrelated Business Income

Open Recommendations to the Congress From Reports Issued During Calendar Year 1985

Congress Should Consider Whether to Amend the Tax Code to Allow Discounting of Property/Casualty Insurance Companies' Loss Reserves for Tax Purposes

(GAO/GGD-85-10, 3/25/85)

About half the business of the property/casualty insurance industry is constituted by insurance contracts involving claims that are paid out over a considerable period of time. For example, 50 percent of the amount of medical malpractice claims and 30 percent of general liability claims incurred during 1977 remained unsettled 5 years later. Loss reserves are needed to ensure that a company has adequate funds to make future payments on claims.

While the concept of tax deductions for such reserves seems appropriate, the current practice overstates the amounts needed to satisfy future claims. The amounts being reserved are not reduced by the investment income being earned on the reserves from the time they are established to the time they are paid out, thus resulting in the understatement of taxable income. Furthermore, for those property/casualty companies whose reserves for loss payments are growing, the current practice will increasingly understate taxable income. One way to remedy this problem is to discount reserves at a rate based on each company's investment return.

Recommendation

We recommended that if the Congress wishes to assure that the property/casualty insurance industry's revenues and expenses are more closely matched for purposes of measuring taxable income, it should consider amending the tax code to provide that in calculating the loss reserve deduction for tax purposes, loss reserves are discounted.

Action Taken And/Or Pending

The substance of our recommendation was included in a March 11, 1986, option paper drafted by the Senate Finance Committee staff. The staff proposal was awaiting action by the Committee as of March 31, 1986.

Congress Should Consider Whether to Amend the Tax Code to Allow Acquisition Costs to Be Allocated Over the Life of Property/ Casualty Insurance Contracts

(GAO/GGD-85-10, 3/25/85)

One income measurement issue in the property/casualty insurance industry is the proper allocation of business expenses related to the sale and renewal of insurance policies. These expenses are considered part of the acquisition costs and include agent and broker commissions, salaries of certain employees involved in underwriting and issuing policies, and medical and inspection fees. The National Association of Insurance Commissioners (NAIC), whose accounting method was adopted for federal tax computations, currently permits these costs to be deducted immediately regardless of the life of the policy. On the other hand, premium income on insurance contracts is included in revenues only on a pro-rata basis each year. Assuming that a 1-year contract is issued on July 1, for example, only 6 months or one-half of the annual premium would be included as income in the first year, and the balance would not enter into taxable income until the following year.

We believe that, for the proper measurement of taxable income, expenses should be allocated over the same period in which the corresponding income is recognized. Therefore, using NAIC's regulatory accounting practices to measure taxable income is inappropriate because it does not match expenses with associated revenues, thereby resulting in misstated taxable income.

Recommendation

We recommended that if the Congress wishes to assure that the property/casualty insurance industry's revenues and expenses are more closely matched for purposes of measuring taxable income, it should consider amending the tax code to provide that acquisition costs be allocated over the life of related contracts.

Action Taken And/Or Pending

H R 3838, which was passed by the House on December 17, 1985, and referred to the Senate Finance Committee, included an amendment to section 832(b) of the tax code that would generally implement our recommendation regarding acquisition costs on an industrywide basis. The substance of our recommendation was also included as a proposal in a March 11, 1986, option paper drafted by the Senate Finance Committee staff. Both H R 3838 and the staff option paper were awaiting action by the Committee as of March 31, 1986.

Congress Should Consider Whether to Retain the Special Tax Preference for Mutual Property/Casualty Insurance Companies in Its Present Form

(GAO/GGD-85-10, 3/25/85)

The Revenue Act of 1962 established a protection against loss (PAL) account to confer a tax preference to mutual property/casualty insurance companies. The reason for the PAL account was concern about mutual companies' lack of access to capital markets in the event that they sustained catastrophic losses.

The PAL account operates to defer taxes on a portion of a mutual company's income. For tax purposes, a mutual company sets aside funds based on the size of its incurred losses and underwriting income. These funds, subject to certain statutory limitations, are deductions against current period underwriting gains. The rationale for the PAL account is debatable because if catastrophic losses were to occur, the account would not necessarily ensure the company's ability to satisfy its contract obligations. Moreover, it is questionable whether stock companies faced with a catastrophic loss could successfully access capital markets. Thus, the rationale for the PAL account may be based on questionable economic assumptions.

Recommendation

We recommended that the Congress consider whether the special tax preference for mutual property/casualty insurance companies should be retained in its present form.

Action Taken And/Or Pending

H.R. 3838, which was passed by the House on December 17, 1985, and referred to the Senate Finance Committee, would eliminate the PAL account. A proposal, which would also eliminate the PAL account, was included in a March 11, 1986, option paper drafted by the Senate Finance Committee staff. Both H.R. 3838 and the staff option paper were awaiting action by the Committee as of March 31, 1986.

**Congress Should
Amend the Internal
Revenue Code
Regarding
Transactions Between
Foreign-Owned U.S.
Corporations and Their
Noncorporate Foreign
Owners**

(GAO/GGD-86-19, 11/1/85)

Under section 6038A of the Internal Revenue Code, certain foreign-owned U.S. corporations are required to submit an information return to IRS if they conduct transactions with a related domestic or foreign corporation. This was intended to enhance compliance

However, we expressed concern that the present language of section 6038A is not sufficiently broad. For example, according to IRS, some foreign-owned U.S. corporations may have transactions with related foreign individuals and related noncorporate foreign entities that presently would not have to be reported to IRS under section 6038A. Although the extent of these transactions could not be quantified, IRS felt that the transactions should be reported even if the number is relatively small. Therefore, an amendment to section 6038A is needed to help IRS enforce the tax laws by identifying transactions between foreign-owned U.S. corporations and their noncorporate foreign owners

Recommendation

We recommended that the Congress amend section 6038A of the Internal Revenue Code to help IRS enforce the tax laws by identifying transactions between foreign-owned U.S. corporations and their noncorporate foreign owners

**Action Taken And/Or
Pending**

The change suggested in our report was included in the March 1986 markup of the Senate Finance Committee's tax reform proposal. No further action had been taken as of March 31, 1986.

Open Recommendations to the Congress From Reports Issued Before Calendar Year 1985

Key Issues Affecting State Taxation of Multijurisdictional Corporate Income Need to Be Resolved

(GAO/GGD-82-38, 7/1/82)

At present, state taxation of multijurisdictional corporate income is administratively unwieldy. Forty-five separate political jurisdictions attempt to equitably divide the income of often complex and geographically dispersed taxable entities, and each jurisdiction formulates its own specific rules for determining how much of an entity's total income is attributable to operations in that jurisdiction. The resulting lack of uniformity is extensive.

The problems of nonuniformity are even more critical today than they were when the special House subcommittee issued the Willis report in 1964 extensively documenting the lack of uniformity in interstate tax provisions. The issues have become more complex and controversial as the number of corporations has grown, and certain states have expanded their taxing efforts to take foreign operations into account.

The issues which have developed in recent years have broad policy implications potentially affecting international tax policy. Furthermore, the issues are at the center of the longstanding constitutional debate over the balance between state sovereignty and congressional commerce clause powers. Moreover, lack of uniformity among the states causes problems for states and corporate taxpayers. The problems—higher return preparation costs, potential overtaxation or undertaxation, and numerous disputes—result in a tax system which is unduly uncertain, inefficient, and often inequitable.

Recommendation

None. While we made no recommendation, we concluded that the key issues affecting state taxation of multijurisdictional corporate income need resolving. Since the Willis report was issued in 1964, little progress has been made to increase the uniformity with which states tax corporate income. The states have made some voluntary efforts, but substantial nonuniformity still exists.

The Supreme Court has attempted to deal with some of the issues affecting state taxation of multijurisdictional corporate income. For example, the Court recently ruled that a state can take into account a corporation's worldwide income when taxing that corporation. But, in the past the Court has also recognized the inherent limitations of the judicial approach to solving the interstate and international policy issues and has acknowledged that the Congress is the appropriate body to resolve such issues.

The Congress appears to be in the best position to fully evaluate the multiple factors and assess the arguments surrounding the policy issues involved in state taxation of multistate and multinational corporate income, especially foreign source income. Also, because the Congress can fully consider the states' rights and foreign policy issues, it can best devise a comprehensive solution which adequately and fairly balances the competing interests of the states and corporate taxpayers

Action Taken And/Or
Pending

In response to concerns of foreign governments and U.S.- and foreign-based multinational corporations, the President directed the Secretary of the Treasury to form a special working group on unitary taxation to recommend solutions to the problems resulting from state taxation of multinational corporate income. The working group was formed in October 1983 and consisted of representatives from states, corporations, and key interest groups. In November 1983, we made an extensive presentation before the task force of the working group based on issues covered in our report on state taxation and in a related report on federal taxation of multinational corporations (GGD-81-81, Sept. 30, 1981).

In August 1984, the working group on unitary taxation issued its report containing several recommendations, including one which would provide for a federal law that would require a corporate taxpayer to file information with IRS disclosing the taxpayer's tax liability and method of calculation for each state in which it operates. IRS would then share this information with the individual state in which the corporation did business.

The substance of the working group's recommendation was included in H.R. 3980, which was introduced in the House on December 18, 1985, and was referred to the House Ways and Means Committee. A similar proposal, S. 1974, was introduced in the Senate on the same date and was referred to the Senate Finance Committee. Further action was pending on both bills as of March 31, 1986.

Congress Should Adopt a Tax Treatment Which Better Recognizes Changes in Some Electric Cooperatives

(GAO/GGD-83-7, 1/5/83)

Under section 501(c)(12) of the Internal Revenue Code, electric cooperatives are provided tax-exempt status and are permitted to earn substantial untaxed income from nonmember sources, which subsidizes cooperative members' cost of electricity. This exemption was initially granted over 60 years ago when electric cooperatives were generally small, struggling associations which primarily distributed electricity to sparsely populated rural areas. Since that time, however, the operations of many cooperatives and the environment in which they do business have changed substantially.

Today, many electric cooperatives are still small associations which continue to need assistance in order to provide electricity to rural areas at rates comparable to those charged in urban areas. Others, however, have substantially changed in character or have progressed to the point where they closely resemble their taxable counterparts. Yet, unlike other federal assistance programs which can be directed to those organizations having a continuing need for assistance, all electric cooperatives continue to benefit from tax exemption. Under the broad requirements of the law, tax exemption applies across-the-board to all electric cooperatives.

IRS, in administering the tax exemption requirements, has tried to recognize the changes in electric cooperatives. However, it has experienced difficulties because of the broad nature of the law. Therefore, the Congress needs to consider alternatives to the present tax treatment of electric cooperatives and adopt a treatment which would better recognize the changes in their operations and the environment in which they operate. As a framework for the Congress' consideration, we proposed alternatives to the present law which would (1) modify electric cooperatives' nonmember income allowance, or (2) eliminate that allowance, or (3) apply tax rules already applicable to other types of cooperatives. These alternatives, which would have an estimated revenue impact ranging from \$2 million to \$45 million, are not all inclusive.

**Appendix II
Open Recommendations to the Congress
From Reports Issued Before Calendar
Year 1985**

Recommendation

We recommended that the Congress, using the alternatives we provided as a guide, establish a tax treatment which better addresses electric cooperatives' present operating environment.

**Action Taken And/Or
Pending**

None.

**Legislative Change
Needed to Enable IRS
to Assess Taxes
Voluntarily Reported
by Taxpayers in
Bankruptcy**

(GAO/GGD-83-47, 6/20/83)

The Bankruptcy Reform Act provides qualified debtors with certain protections from creditors—including IRS. The act restricts IRS' authority in many cases to assess, collect, or recover a claim against an individual or a business during bankruptcy proceedings. Administratively, this restriction has caused problems for IRS because it requires IRS to process returns from bankrupt taxpayers manually rather than through its automated processing system. During fiscal year 1982, these additional processing steps cost IRS an estimated \$500,000.

Recommendation

We recommended that the Bankruptcy Act be amended to allow assessment of the taxes that bankrupt taxpayers report on their returns. Allowing IRS to assess—but not collect—these taxes would still protect bankrupt taxpayers but at less cost to IRS than is presently being incurred.

**Action Taken And/Or
Pending**

None

**Legislative Change
Relating to the
Issuance of Tax
Deficiency Notices
Could Improve
Administration of the
Crude Oil Windfall
Profit Tax**

(GAO/GGD-84-15, 6/18/84)

Because the windfall profit tax on producers is calculated on a property-by-property basis, administration of the tax could be simplified if IRS were able to issue deficiency notices on that same basis. However, current law generally prohibits IRS from issuing more than one statutory notice of deficiency per taxpayer per taxable period. If the Congress were to amend the applicable portion of the Internal Revenue Code, both IRS and affected taxpayers could benefit from faster resolution of tax liability issues.

Under section 4995(a)(8) of the Internal Revenue Code, a producer-taxpayer cannot be mailed a deficiency notice with respect to windfall profit tax liability until 2 months after the close of the calendar year in which the crude oil was removed from the premises. Further, section 6212(c) of the Internal Revenue Code provides that if IRS mails a notice of windfall profit tax deficiency to a producer-taxpayer, and the taxpayer then files a petition in a timely manner with the U.S. Tax Court for a deficiency redetermination, IRS cannot issue additional deficiency notices for the same taxable period with respect to this taxpayer.

However, because the windfall profit tax is calculated on a property-by-property basis, section 6212(c) has the effect of forcing IRS to delay issuance of deficiency notices until the applicable statute of limitations expiration date is near. Section 6212(c) restricts IRS to issuing a producer only one deficiency notice with respect to a given taxable quarter. For this reason, IRS needs all available time within the applicable statute of limitations period to examine oil properties and consolidate the deficiencies of producers who own interests in more than one property. This procedure has the effect of (1) delaying revenue flows to the government and/or (2) increasing taxpayers' interest costs. In some instances, tax revenues may be foregone entirely.

Recommendation

We recommended that the Congress amend section 6212(c) of the Internal Revenue Code to enable IRS to issue deficiency notices after examination of each oil-producing property without precluding later issuance of additional notices covering the producers' interest in other properties during the same quarter.

**Appendix II
Open Recommendations to the Congress
From Reports Issued Before Calendar
Year 1985**

**Action Taken And/Or
Pending**

On June 26, 1984, H R 5934 was introduced in the House of Representatives. The bill, if enacted, would have revised the basis for issuing notices of deficiency in accordance with our recommendation. However, no action was taken on the bill during the 98th Congress. On January 31, 1985, the bill was introduced in the 99th Congress as H.R. 898 and was referred to the House Ways and Means Committee. No further action had been taken as of March 31, 1986.

**Congress Should
Amend the Crude Oil
Windfall Profit Tax
Act of 1980 to
Establish a
Consolidated Appeals
Process**

(GAO/GGD-84-15, 6/18/84)

Until IRS changed its administrative appeals rules in June 1983, each oil producer whose windfall profit tax liability was affected by an IRS examiner's adjustments was entitled to a separate appeals conference to contest the examiner's findings. Therefore, for any given issue, there could have been as many administrative hearings as there were persons owning interest in an oil property. Similarly, a large number of duplicative court cases still occur under the judicial appeals process. For example, it is not uncommon to have 50 or more owners of a single oil-producing property. And, except for partnerships, each of these owners can separately appeal the same issue judicially within the court system.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), which was enacted on September 3, 1982, specified that, for certain issues, partnerships would be treated as taxable entities for appeals purposes. The concept of the partnership as a taxable entity provides a precedent for actions which could facilitate windfall profit tax administration. That is, for certain issues relating to a given oil property, a consolidated appeals procedure may be more efficient than allowing each producer-taxpayer to appeal separately. IRS recently made a regulatory change to eliminate duplicative administrative appeals, but legislation is needed to preclude duplicative judicial appeals.

Recommendation

We recommended that the Congress pass legislation to consolidate judicial appeals for a given property's "oil" issues. A consolidated appeals process would conserve both IRS and judicial resources while also protecting taxpayers' rights. Precedent legislation is provided by title IV of the Tax Equity and Fiscal Responsibility Act of 1982 which, among other things, attempts to avoid duplicative judicial reviews of the tax treatment of partnership items.

**Action Taken And/Or
Pending**

On June 26, 1984, H.R. 5934 was introduced in the House of Representatives. The bill, if enacted, would have provided for a consolidated appeals process. However, no action was taken on the bill during the 98th Congress. On January 31, 1985, the bill was reintroduced in the 99th Congress as H.R. 898 and was referred to the House Ways and Means Committee. No further action had been taken as of March 31, 1986.

Tax-Related Recommendations Made During Calendar Year 1985 to IRS and SSA and Their Responses

IRS Managers and Staff Should Refamiliarize Themselves With the Operating Guidelines and Procedures of the Claims for Rewards Program

(GAO/GGD-85-11, 4/19/85)

In the past, IRS' Claims for Rewards Program has proven to be highly successful. For example, between fiscal years 1975 and 1984, annual taxes recovered under the program averaged about \$16.4 million and rewards paid averaged about \$456,000 annually. Thus, for every dollar IRS paid out as a reward, it collected about \$36 in delinquent taxes.

Although IRS has recognized the Claims for Rewards Program's potential for detecting tax evasion and has assigned priority to the program, IRS personnel were not fully aware of the program's processing requirements and were not giving claims for rewards cases priority consideration. IRS' limited compliance resources and competing priorities precluded claims for rewards cases from receiving priority attention.

While recognizing that IRS' compliance resources are strained, we believe that it is even more important for IRS to effectively use a program which has proven to be useful in detecting undocumented and otherwise unreported income. Thus, we believe the Claims for Rewards Program needs to be reemphasized.

Recommendation

We recommended that the Commissioner of Internal Revenue request IRS managers and staff to refamiliarize themselves with the Claims for Rewards Program's operating guidelines and procedures.

Action Taken And/Or Pending

IRS did not agree with our recommendation because it did not want to be perceived as reemphasizing or expanding the rewards program. Therefore, no action was taken or planned. As we pointed out in our report, our intent was not to raise or expand the priority of the Claims for Rewards Program, but to have IRS reacquaint its managers and staff with the program's usefulness in deterring noncompliance and its procedures and requirements for handling claims for rewards cases.

**IRS Needs Controls and
Procedures to Help
Assure That Claims for
Rewards Are Processed
Quicker**

(GAO/GGD-85-11, 4/19/85)

By its nature, the claims for rewards process is lengthy. For example, the application forms for claims for rewards and the related information items must be screened at the service centers before being sent to the district offices for further consideration. IRS has no time requirements for (1) acknowledging receipt of claimant's allegations, (2) referring worthy allegations for proper action, (3) submitting agent's claims for evaluation reports, and (4) processing actual rewards payments.

Therefore, we formulated criteria based on the length of time IRS officials said that these processing functions should take. Using these criteria, we found that in 79 percent of the claims processed by two large district offices, it took longer than IRS officials said it should take to perform one or more processing functions. While the extent of processing time is, in some cases, uncontrollable, IRS could better assure that such times are minimized by establishing milestones for accomplishing certain functions.

Recommendation

We recommended that the Commissioner of Internal Revenue establish, as a goal, specific time frames for (1) acknowledging service center receipt of program participants' allegations, (2) referring worthy allegations to district offices for action, (3) submitting agents claims for rewards evaluation reports, and (4) issuing rewards once claims examiners are aware that assessed deficiencies have been paid.

**Action Taken And/Or
Pending**

IRS agreed that in certain instances time frames can be an effective management tool for assessing certain program goals. It said it would establish servicewide time frames for acknowledging service center receipt of allegations and for referring worthy allegations to district offices for action. Therefore, on July 25, 1985, IRS revised its manual to implement parts 1 and 2 of our recommendation. IRS took no action regarding parts 3 and 4 because it did not believe that rigid time frames were necessary for submitting claims for rewards evaluation reports and for issuing reward checks. As we pointed out in our report, specific time frames for these actions would help (1) assure that program participants were not kept waiting longer than necessary to learn about the disposition of their claims or to receive a reward and (2) provide IRS management with benchmarks for monitoring and assessing program administration.

**Better Instructions Are
Needed on What
Information IRS Needs
to Initiate and Develop
Cases Under Its Claims
for Rewards Program**

(GAO/GGD-85-11, 4/19/85)

The effectiveness of the Claims for Rewards Program cannot be fully achieved if potential program participants are not familiar with the kinds of information IRS needs to initiate and develop cases on tax law violators. Through an analysis of 8 years of program statistics, we found that about 87 percent of the claims for rewards files that were closed were disallowed and that most were disallowed because the claimant did not provide sufficient information on the merits of pursuing the claim. Various IRS officials believed this indicates that program participants need to be educated about the kinds of information IRS needs to initiate and develop program cases. This could be done by revising existing IRS Publication 733 to include a section explaining the kinds of information IRS finds useful. Not only should such a revision make potential participants better aware of the program's requirements, it also might help reduce the number of frivolous claims.

Recommendation

We recommended that the Commissioner of Internal Revenue revise IRS Publication 733 to include a section on the specific kinds of information IRS finds useful to make cases against taxpayers who do not comply with the tax laws.

**Action Taken And/Or
Pending**

IRS revised its Publication 733, entitled Rewards for Information Given to the Internal Revenue Service, to include specific kinds of information IRS finds useful in making cases against taxpayers who do not comply with the tax laws. The final revision to Publication 733 was issued in February 1986.

**IRS Needs to Establish
Procedures to Ensure
That Rewards Are
Fully Paid to Claimants
Under the Claims for
Rewards Program**

(GAO/GGD-85-11, 4/19/85)

Persons providing information under the Claims for Rewards Program do not always receive payment on the full amount of taxes collected. In some instances, a portion of the delinquent taxes are declared uncollectible and rewards are paid on the basis of taxes collected up to that time. For fiscal years 1979 through 1981, we reviewed the 61 claims resulting in rewards at two IRS district offices. We found six cases where subsequent tax collection occurred after the taxes had been declared uncollectible. In all of those cases, IRS claims examiners did not routinely check corresponding delinquent account transcripts to assure that claimants were paid any additional rewards due. As a result, these claimants did not receive additional rewards to which they were entitled

Recommendation

We recommended that the Commissioner of Internal Revenue establish procedures to ensure that subsequent collections on a rewards case deemed uncollectible are reported to service center program claims examiners so additional rewards can be paid as appropriate.

**Action Taken And/Or
Pending**

IRS adopted our recommendation by revising its manual instructions on July 25, 1986.

**IRS Should Consider
Raising the Minimum
Reward Allowable
Under the Claims for
Rewards Program**

(GAO/GGD-85-11, 4/19/85)

The Claims for Rewards Program could be enhanced by changing its rewards structure. IRS recently raised the maximum reward from \$50,000 to \$100,000 to better compensate program participants who provide information leading to significant tax recoveries. However, despite inflation, the \$25 minimum reward has not changed in more than 15 years.

We found that many program participants receive small awards and often wait for a long time to receive them. For example, 38 percent of the claims resulting in awards which we reviewed were for less than \$100 and the claimants waited 5 or more years from the date of submission to be paid. We believe IRS should consider increasing the minimum award, just as it did the maximum award, to provide more adequate compensation. Such action could potentially lead to better participant satisfaction and to detecting and collecting more delinquent taxes.

Recommendation

We recommended that the Commissioner of Internal Revenue consider raising the reward allowable under the Claims for Rewards Program.

**Action Taken And/Or
Pending**

IRS disagreed with this recommendation because it believed that such action would result in a reemphasis or expansion of the program, which it opposes. We pointed out that we did not believe that such action would necessarily be perceived as a reemphasis or expansion of the program any more than IRS' raising the maximum reward.

**Some Claimants Could
Receive Rewards
Sooner If Greater Use
Were Made of the
Claims for Rewards
Program's Partial
Payments Provision**

(GAO/GGD-85-11, 4/19/85)

One way to pay participants for useful information sooner is to pay rewards in stages, until all collections have occurred. Although IRS' policy and procedures permitted partial payments to reward participants under certain circumstances as tax deficiencies were collected, such payments were not normally encouraged. We found that if partial rewards had been permitted more often, some program participants could have received rewards sooner, thus enhancing the program. Accordingly, IRS revised its policy and procedures to encourage the payment of partial rewards.

However, for partial payments to be used effectively, IRS still needs to simplify its procedures for tracking and providing subsequent partial or full payments. Currently, when partial payment has already been made, the claimant is required to file a separate application for any further reward. This is burdensome and could be simplified by eliminating the multiapplication requirement and assigning a permanent claim number to each case for tracking purposes.

Recommendation

We recommended that the Commissioner of Internal Revenue rescind the requirement that claimants must submit separate claims for rewards applications after a partial reward has been paid, thereby eliminating burdensome paperwork.

**Action Taken And/Or
Pending**

IRS agreed to rescind the requirements for submitting a separate claim for reward application for any further reward after a partial reward is made. IRS revised its manual accordingly on July 25, 1985.

**IRS Information on
Revoked Charitable
Organizations Needs to
Be More Accurate and
Consistent**

(GAO/GGD-85-36, 5/14/85)

IRS maintains information on revoked charitable tax-exempt organizations in three separate information sources—the Exempt Organizations Business Master File, the Internal Revenue Bulletin, and the Audit Information Management System. When an organization's charitable tax-exempt status is revoked, IRS officials are supposed to independently enter the revocation in these three information sources using separate forms.

Our review showed that none of the IRS systems contained a complete listing of revoked organizations. Moreover, our comparison of data among the IRS information sources showed that they did not always contain the same revoked organization. Thus, the information was inaccurate and inconsistent.

Recommendation

We recommended that the Assistant Commissioner of Internal Revenue for Employee Plans and Exempt Organizations establish procedures to reconcile revocations shown in the Exempt Organizations Business Master File, the Internal Revenue Bulletin, and the Audit Information Management System. If the data in these sources continue to disagree, IRS should take further steps to identify and correct the cause(s) of the inaccuracies and inconsistencies.

**Action Taken And/Or
Pending**

IRS agreed with our recommendation and in January 1985 formed a study group comprised of IRS employees familiar with the exempt organization process to study what actions could be taken to resolve the problems we identified. As a result of the group's findings, several actions were initiated during 1985 to ensure that accurate and consistent information on tax-exempt organizations was being maintained. One action involves a quarterly reconciliation of revoked organizations. In this regard, revocations announced in the Internal Revenue Bulletin and information extracted from the Audit Information Management System will be reconciled with the Exempt Organizations Business Master File data.

**IRS Needs to Publish
Information That
Identifies Those
Organizations Which
Are Appealing
Revocation While
Remaining in a Tax-
Exempt Status**

(GAO/GGD-85-36, 5/14/85)

Limited contributions can be made to revoked charitable tax-exempt organizations whose revocation is being judicially appealed. However, IRS does not publish the names of organizations entitled to receive tax-deductible contributions during such appeals. Therefore, the public cannot determine from IRS' published information which organizations have judicially appealed their revocations. Further, IRS publications do not completely inform the public of the continuing deductibility of contributions to revoked organizations which have filed a judicial appeal. Unless IRS records and publishes this information, potential contributors will continue to have a difficult time knowing to which organizations tax-deductible contributions can be made.

Recommendation

We recommended that the Assistant Commissioner for Employee Plans and Exempt Organizations revise IRS' tax-exempt related publications to enable the public to clearly determine which revoked organizations are in the process of appealing IRS' revocation decision and are, therefore, entitled to continue receiving tax-deductible contributions during the appeals process.

**Action Taken And/Or
Pending**

IRS agreed with our recommendation and has implemented new procedures to inform the public of the (1) judicial relief available to revoked organizations appealing their revocations and (2) limited protection afforded deductible contributions during the appeals process.

**IRS and SSA Need to
Ensure That All Self-
Employment Records
Are Processed**

(GAO/GGD-85-21, 5/28/85)

Current methods being used by IRS and the Social Security Administration (SSA) for processing self-employment records do not ensure that all self-employed persons who have reportable earnings receive credit for them. We estimated that for returns processed in 1980, IRS did not provide SSA with information on about 2,600 tax returns with earnings totaling about \$20.5 million, and SSA never processed an estimated 66,000 tax returns with earnings totalling about \$237.5 million. By not recording these earnings, SSA failed to receive about \$20.8 million in Social Security taxes.

Recommendation

We recommended that the Commissioners of Internal Revenue and Social Security work together to establish overall control of the number of self-employment records received for processing so that differences between the number processed by IRS and SSA can be reconciled.

**Action Taken And/Or
Pending**

IRS and SSA jointly agreed to resolve the problem identified in our finding. By mutual agreement, IRS is now sending to SSA computer tapes containing all the necessary information from Schedule SE for SSA to reconcile the number of self-employment records processed. The tapes include the number of records received and the amount of money involved. SSA plans to better track all tape transmittal records for each processing year to ensure that it has accounted for and processed all records.

**IRS and SSA Could Do
More to Identify
Individuals Who Did
Not Receive Proper
Credit for Their
Earnings**

(GAO/GGD-85-21, 5/28/85)

The self-employment data that IRS routinely provides SSA contains the wage amounts listed on the self-employment (SE) schedules. These wages represent amounts that individuals claimed to have earned in Social Security covered employment. However, SSA does not use the data on the SE schedule. Instead, it uses employer reports to credit individuals' wages. If SSA had reconciled the differences that existed between the data on the SE schedule and its accounts for tax year 1979, SSA could have correctly credited individuals' accounts with an estimated \$147.8 million in earnings. Therefore, by utilizing the IRS data and its own data, SSA can systematically identify situations where employees are not receiving the proper credit for all the earnings to which they are entitled.

Recommendation

We recommended that the Commissioners of Internal Revenue and Social Security work together to identify those self-employed individuals who did not receive proper credit for their earnings and correct their accounts. Specifically, SSA should identify for IRS, using SE schedules with maximum reportable earnings, those individuals whose earnings were not properly credited. IRS should help SSA identify specific individuals and their earnings. SSA should then correct the problem for those individuals, as well as any others similarly affected.

**Actions Taken And/Or
Pending**

IRS and SSA have made plans to implement our recommendations. Beginning in 1986, SSA is planning to use information IRS provides to identify those individuals who have not received earnings credit. SSA also plans to work with IRS to obtain the specific earnings and identifying data to enable SSA to properly credit an individual's earnings.

**More Could Be Done to
Ensure That Self-
Employment Earnings
Are Accurately Being
Recorded in
Individuals' Social
Security Accounts**

(GAO/GGD-85-21, 5/28/85)

IRS could help SSA credit the correct Social Security accounts by making sure that whenever it corrects a Social Security number (also known as Taxpayer Identification Number) on a tax return, the corrected number is also provided to SSA. We estimated that in 1980, IRS furnished incorrect numbers to SSA for about 64,600 individuals even though the correct numbers were available. As a result, SSA was either unable to credit or incorrectly credited about \$138.4 million of self-employment earnings.

Recommendation

We recommended that starting with the 1980 processing year, the Commissioner of Internal Revenue identify and provide SSA with self-employment records showing different Social Security numbers for the same person or self-employment earnings that were not previously provided.

**Action Taken And/Or
Pending**

IRS has taken action to preclude the future recurrence of this problem. For past instances of this problem, IRS is planning to identify and provide SSA those individuals' records who had social security numbers listed on their schedules SE different from those shown on their forms 1040.

**Wages Erroneously
Claimed on Self-
Employment Schedules
Resulted in Reporting
Errors**

(GAO/GGD-85-21, 5/28/85)

SSA receives earnings information from employers and IRS. Employers report wages earned by their employees, and IRS reports self-employment earnings. Because wages affect taxable self-employment earnings if more than the maximum amount subject to taxation is earned, wages are required to be shown on the self-employment (SE) schedule. We found that during returns processing, IRS does not routinely verify wage amounts on the SE schedules. As a result, erroneously claimed wages on SE schedules resulted in self-employment errors. Based on our sample of returns processed in 1980, we estimated that over 26,000 tax returns had erroneous wage amounts on the accompanying SE schedules. This resulted in a net understatement of self-employment earnings of \$37.8 million and a net underpayment of Social Security taxes of \$3.1 million.

Recommendation

We recommended that the Commissioner of Internal Revenue modify existing returns processing procedures to (1) record SE schedules whose wages alone equal maximum taxable earnings and (2) verify wages on SE schedules for workers with maximum taxable earnings.

**Action Taken And/Or
Pending**

IRS agreed that effective January 1, 1986, it would verify all SE schedules claiming maximum taxable earnings against wage information shown on the taxpayers' W-2 forms

Taxpayers Are Not Adhering to Certain Restrictions for Using an Optional Method of Computing Net Self-Employment Earnings

(GAO/GGD-85-21, 5/28/85)

Self-employed persons engaged in nonfarm work must comply with several provisions of the Self-Employed Contributions Act if they elect to use the nonfarm optional method for determining total net earnings. Two such provisions are:

- The individual must have been self-employed in 2 of the 3 years immediately prior to the year the optional method is used to determine earnings.
- The optional method can, at most, be used five times in a person's life.

We examined about 46,200 SE schedules that showed use of the nonfarm optional method for the 1982 tax year and found that taxpayers are not complying with these restrictions for using the nonfarm optional tax method. We found that neither IRS nor SSA verifies the "two-of-three previous years" requirement. To determine the compliance rate, we examined the earnings histories of 266 nonfarm workers who elected the optional method for 1979. SSA's earnings records showed 38.3 percent of those workers did not meet the requirement. Because the optional method allows individuals to claim more than they actually earned, these individuals overpaid their Social Security taxes by about \$11,900, thereby gaining 278 quarters of Social Security coverage and about \$147,000 in earnings. Similarly, we checked the compliance rate for the 46,200 SE schedules showing use of the nonfarm optional method for the 1982 tax year and found that 44.3 percent of those workers did not meet the requirement.

We also found that IRS does not check for compliance with the provision that limits lifetime use because IRS does not have the means to detect violations using the existing returns processing system. However, SSA has established a detection and notification process. Upon discovering instances of the lifetime provision being violated, SSA officials send IRS the names and Social Security numbers of the violators. The information is not complete for IRS purposes, however, because it does not specify the years that the taxpayer used the optional tax method.

In summary, IRS and SSA do not have a systematic way of checking for compliance and the agencies are uncertain of the role that each should have.

**Appendix III
Tax-Related Recommendations Made During
Calendar Year 1985 to IRS and SSA and
Their Responses**

Recommendation

We recommended that the Commissioner of Internal Revenue and the Commissioner of Social Security work together to develop a systematic way of identifying and correcting tax and earnings overpayments for self-employed persons who erroneously elected the nonfarm optional method of determining their earnings either because they (1) were not self-employed in 2 of the 3 previous years or (2) exceeded the 5-year usage limit.

**Action Taken And/Or
Pending**

IRS and SSA have agreed to work together to systematically enforce the self-employment optional methods restrictions referred to in our recommendation

Computational Errors on Self-Employment Schedules Resulted in Inaccurate Social Security Earnings and Taxes

(GAO/GGD-85-21, 5/28/85)

Although IRS had taken some corrective action to improve its ability to resolve computational problems, we found areas where improvements are still needed. For example, IRS' computers are programmed to use only the total net earnings and wage figures in determining self-employment earnings. The computers do not consider, however, whether farm and nonfarm earnings actually equal the total net earnings shown. In this regard, we sampled 816,588 of 7,776,920 computerized tax returns with SE schedules that IRS processed in 1980. We found that 40,184, about 4.9 percent, had a schedule SE with a net earnings figure that did not equal farm and nonfarm earnings. We also found that this trend continued through 1981. In that year, our examination of 7.7 million computerized SE schedules showed that 296,040 had a net earnings figure that did not equal the sum of farm and nonfarm earnings.

Also, we examined nearly 6,000 SE schedules processed in 1980 on which taxpayers used an optional method for determining their net earnings. Of these, 2,300 used the optional method to claim lower earnings for Social Security tax purposes. This is generally not a valid reason for its use. Similarly, of the 169,268 SE schedules processed in 1981 that showed use of the optional method, 35,690 showed lower amounts than were actually earned. To correct these problems, IRS redesigned the SE schedule for its 1983 processing year and decided to use an error register—a computer-generated listing of returns that do not meet specified criteria—to review SE schedules for problems with optional method use. We examined 7,764,516 SE schedules through September 1983 and found that 400,791 SE schedules—about 5.2 percent—had net earnings that seemed to be computed erroneously.

Recommendations

We recommended that the Commissioner of Internal Revenue:

- Expand use of the error register to include those situations where the sum of farm and nonfarm earnings is less than the total earnings amount being recorded and correct any identified earnings and tax errors.
- Identify, review, and correct those SE schedules processed in 1983 with math problems—similar to action taken for 1981 processed SE schedules.

**Appendix III
Tax-Related Recommendations Made During
Calendar Year 1985 to IRS and SSA and
Their Responses**

**Actions Taken And/Or
Pending**

IRS agreed to expand use of the error register with a target date for implementation of January 1986. Also, IRS stated that it would identify, review, and correct those SE schedules processed in 1983.

**IRS Needs to Improve
Its Examination
Selection Process for
Exempt Organizations
Having Unrelated
Business Income**

(GAO/GGD-85-64, 7/8/85)

During fiscal years 1981 through 1983, IRS assessed over \$41 million in additional taxes and penalties as a result of examining tax-exempt organizations having unrelated business income (UBI). However, we found that a substantial number of UBI examinations resulted in little or no additional tax revenue.

For example, we analyzed IRS data on 8,850 UBI tax returns that were examined by IRS during fiscal years 1981 through 1983. We found that 56 percent of these returns yielded no additional recommended tax; 41 percent yielded \$4.2 million of the \$41.7 million of additional recommended tax during this period; and 3 percent yielded almost \$37.5 million of the \$41.7 million. Therefore, if IRS could have identified and examined UBI returns having the most potential for noncompliance, more revenue with less examinations may have been realized.

We also found that IRS does not have enough information to fully understand the nature and magnitude of UBI tax noncompliance. Neither does IRS have the information needed to develop profiles of highly noncompliant tax-exempt organizations engaging in UBI activity. Without such information, IRS' current process for selecting such organizations for examination cannot routinely focus on highly noncompliant tax-exempt UBI businesses. These are organizations which regularly do not properly report UBI earnings or pay UBI tax due. Therefore, IRS should start focusing more on UBI organizations with a high potential for being noncompliant as well as assuring that exempt organizations are operating pursuant to their exempt status.

Recommendations

We recommended that the Assistant Commissioner for Employee Plans and Exempt Organizations take the necessary action to further analyze existing data on UBI tax examinations. We also recommended that information on all types of UBI organizations and specific UBI activities be developed, collected, and analyzed.

**Actions Taken And/Or
Pending**

IRS agreed that more could be done to improve the selection and examination of UBI returns. IRS acknowledged the possible benefits of developing a UBI examination and selection system focusing on those UBI organizations having a high potential for being noncompliant. IRS told us

**Appendix III
Tax-Related Recommendations Made During
Calendar Year 1985 to IRS and SSA and
Their Responses**

that a future Taxpayer Compliance Measurement Program is being considered to (1) develop more refined selection procedures for UBI examinations and (2) collect specific information on all UBI activities and aspects of noncompliance. If such a program is implemented, its results should be available in 1988 or later, according to IRS. Once this information is collected and analyzed, we believe IRS should be in a better position to fully implement a selection process to focus on those UBI organizations having a high potential for noncompliance.

GAO Products on Tax Matters Issued During Calendar Year 1985

Title	Date
Congress Should Consider Changing Federal Income Taxation Of The Property/Casualty Insurance Industry (GAO/GGD-85-10)	3/25/85
Statistical Data On Tax-Exempt Organizations Earning Unrelated Business Income (GAO/GGD-85-43)	3/29/85
State Income Taxation Of Non-Resident Railroad Employees (GAO/GGD-85-46)	4/11/85
Administrative Changes Could Strengthen IRS' Claims For Rewards Program (GAO/GGD-85-11)	4/19/85
Information On Various Matters Relating To The Philadelphia Service Center (GG5-95)	4/24/85
Information On IRS' Taxpayer Assistance Activities (GG5-36)	4/26/85
IRS' Information On Revoked Tax-Exempt Organizations Could Be Improved (GAO/GGD-85-36)	5/14/85
IRS and SSA Can Improve The Verification And Recording Of Data Provided By Self-Employed Taxpayers (GAO/GGD-85-21)	5/28/85
IRS Is Taking Action To Improve The Quality Of Its Small Corporation Audits (GAO/GGD-85-26)	6/12/85
IRS' Examination Selection System For Exempt Organizations' Unrelated Business Income (GAO/GGD-85-64)	7/08/85
1984 Annual Report On Tax Matters (GAO/GGD-85-65)	8/02/85
Information On IRS Service Centers In Austin, Texas And Fresno, California (GAO/GGD-85-89)	9/30/85
Initial Results Of A Survey On Employee Stock Ownership Plans And Information On Related Economic Trends (GAO/PEMD-85-11)	9/30/85
Information On How The Property/Casualty Insurance Industry Is Taxed (GAO/GGD-86-16FS)	10/16/85
Information On Selected Tax Treaties And Information Agreements (GAO/GGD-86-22FS)	11/01/85
A Change In Foreign-Owned U S Corporation Reporting Requirements (GAO/GGD-86-19)	11/01/85
Information On IRS' Criminal Investigation Division (GAO/GGD-86-23FS)	11/08/85
Information On IRS' Philadelphia Service Center (GAO/GGD-86-25FS)	11/22/85
Business Energy Investment Credit (GAO/GGD-86-21)	12/06/85
Information On Stock And Mutual Segments Of The Life Insurance Industry (GAO/GGD-86-31FS)	12/12/85
The Federal/State Tax Information Exchange Program (GAO/GGD-86-8)	12/13/85

Testimonies Given on Tax Matters by GAO Officials Before Various Committees of the Congress During Calendar Year 1985

GAO Official	Congressional Committee	Subject Matter	Date
Johnny C. Finch Senior Associate Director General Government Division	Subcommittee on Oversight, House Committee on Ways and Means	Administration's Fiscal 1986 Budget Request for the Internal Revenue Service	4/29/85
Johnny C. Finch Senior Associate Director General Government Division	Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations	US Citizens Living in Foreign Countries and Not Filing Federal Income Taxes	5/8/85
William J. Anderson Director General Government Division	Subcommittee on Economic Stabilization, House Committee on Banking, Finance and Urban Affairs	Taxation of the Property/Casualty Insurance Industry	5/17/85
Ralph V. Carlone Deputy Director Resources and Economic Development Division	Subcommittee on Oversight, House Committee on Ways and Means	Use of Tax-Exempt Bonds in Financing Multifamily Rental Housing	6/21/85
William J. Anderson Director General Government Division	House Ways and Means Committee	Taxation of the Property/Casualty Insurance Industry	7/19/85
William J. Anderson Director General Government Division	Senate Committee on Finance	Taxation of the Property/Casualty Insurance Industry	10/1/85
William J. Anderson Director General Government Division	Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs	Federal Regulatory Agency's Efforts to Assure Bank Secrecy Compliance	10/29/85
Johnny C. Finch Senior Associate Director General Government Division	Subcommittee on Oversight, House Committee on Ways and Means	IRS' Service Center Operations	12/16/85

Tax-Related Assignments Initiated by GAO Pursuant to 31 U.S.C. 713 During Calendar Year 1985

Subject Matter	Objectives	Month Started
Federal Excise Tax on Imported Merchandise	<p>To determine the extent of compliance/noncompliance with the excise taxes on imports</p> <p>To identify and evaluate alternative ways to collect the taxes in a more timely and effective manner</p> <p>To evaluate the feasibility of IRS obtaining information from other sources to promote compliance</p>	March
IRS' Efforts to Reduce Data Transcription Costs	<p>To determine whether the systems being implemented to electronically read and transcribe paper information returns onto magnetic tape are the most cost beneficial</p> <p>To determine whether operational problems exist and the extent to which these problems have been resolved</p> <p>To determine whether planning and testing, prior to servicewide implementation, have been adequate to prevent operational problems</p> <p>To determine whether new systems have been effectively integrated with other related systems</p> <p>To determine whether other possibilities exist where IRS could benefit from the use of recognition technology</p>	March
Safeguarding Tax Return Information	<p>To identify all parties authorized access to tax data and the uses being made of that data</p> <p>To assess IRS' guidance on safeguarding tax information and how IRS monitors the effectiveness of tax security procedures implemented by those authorized access to tax data</p> <p>To document the safeguard controls used by IRS and tax information recipients</p> <p>To identify agencies' practices and procedures for dealing with allegations of possible misuse of tax return information</p>	March
Use of Bank Secrecy Act Data by Law Enforcement Agencies	<p>To review IRS' procedures for processing Currency Transaction Reports</p> <p>To identify and analyze IRS' written procedures regarding compliance with the act for those financial institutions which IRS is responsible for examining</p> <p>To review the training and qualifications of IRS' examiners</p>	April

Appendix VI
Tax-Related Assignments Initiated by GAO
Pursuant to 31 U.S.C. 713 During Calendar
Year 1985

Subject Matter	Objectives	Month Started
Identifying and Collecting Taxes from Overseas Taxpayers Using APO or FPO Addresses	To determine how IRS could best handle collection cases involving U S taxpayers who use an APO or FPO address	June
Unreported Business Income Matching	<p>To measure the extent to which small businesses are not reporting income, such as interest and dividends</p> <p>To determine the economic feasibility of matching income information returns against business income tax returns</p> <p>To evaluate the need for tax policy changes to control underreporting when administrative approaches prove ineffective</p>	July
IRS' Integrated Data Retrieval System	<p>To evaluate the system's effectiveness in meeting user needs</p> <p>To evaluate plans to expand the system</p> <p>To evaluate the impact of these plans on service centers' computer resources</p>	October
Alien Nonfilers	<p>To develop information on the extent of tax revenue losses resulting from nonfiling and income underreporting by resident and nonresident aliens in the United States</p> <p>To evaluate the effectiveness of IRS' efforts to identify and collect taxes due on income earned by such aliens</p> <p>To evaluate the usefulness of information documents IRS receives from U S tax withholding agents concerning alien income</p> <p>To assess the level and effectiveness of coordination among IRS, State Department, Immigration and Naturalization Service, and Social Security Administration concerning aliens in the U S</p>	October

GAO Order Relating to Audit Assignments Involving Access to Tax Information

GAO FORM 379 (Aug 72)
United States
General Accounting Office
Operations Manual



Order

0135-1

AUDIT ASSIGNMENTS INVOLVING
ACCESS TO TAX INFORMATION

September 24, 1985

Distribution C, N, R, and S

Initiated by General Government Division

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

TABLE OF CONTENTS

Appendix	Paragraph	Title	Page
		TABLE OF CONTENTS -----	i
	1.	Purpose, Scope, and Applicability -----	1
	2.	Supersession -----	1
	3.	References -----	1
	4.	Forms -----	2
	5.	Definitions -----	2
	6.	Delegation of Authority -----	2
	7.	GAO's Access to Tax Information -----	2
	8.	Initiating Assignments Requiring Access to Tax Information -----	4
	9.	Designation of GAO Employees Having Access to Tax Information -----	6
	10.	Restrictions on Disclosing Tax Information -----	8
	11.	Safeguarding Tax Information -----	9
	12.	Background Investigations and Outside Employment -----	12
	13.	Acceptance of Specific Taxpayers' Names from Congress -----	12
	14.	Notification of Completion of Certain Assignments -----	12
	15.	Annual Report -----	13
APPENDIX	1.	DEFINITIONS OF "RETURN," "RETURN INFORMATION," AND "TAXPAYER RETURN INFORMATION" LOCATED IN 26 U.S.C. 6103(b) -----	14
APPENDIX	2.	GAO'S ACCESS TO TAX INFORMATION THAT IRS CAN DISCLOSE TO OTHER AGENCIES UNDER 26 U.S.C. 6103(1) AND (m) -----	15
APPENDIX	3.	NOTIFICATION PROCEDURES -----	23
APPENDIX	4.	SAMPLE JOINT COMMITTEE LETTER -----	31
APPENDIX	5.	SAMPLE GAO FORM 319, ACTION ROUTING SLIP -----	32
APPENDIX	6.	SAMPLE GGD FORM 8, RECORD OF RECEIPT -----	33
APPENDIX	7.	SAMPLES OF AGENCY HEAD LETTERS -----	34
APPENDIX	8.	SAMPLES OF LIAISON LETTERS -----	36
APPENDIX	9.	SAMPLE GGD FORM 4, TAX ADMINISTRATION DISCLOSURE CONTROL DOCUMENT -----	38

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1

September 24, 1985

	Page
APPENDIX 10. CONDITIONS UNDER WHICH GAO WILL ACCEPT FROM THE CONGRESS NAMES OF TAXPAYERS WHEN AUDITING IRS' ADMINISTRATION OF THE TAX LAWS -----	39
APPENDIX 11. SAMPLE FORMATS FOR ANNUAL REPORT -----	41
APPENDIX 12. AUTHORITY TO AUDIT IRS, 31 U.S.C. 713, AND ANNUAL REPORT TO CONGRESSIONAL COMMITTEES, 31 U.S.C. 719(d) -----	47
APPENDIX 13. GAO ACCESS TO TAX INFORMATION AUTHORIZED IN 26 U.S.C. 6103(i)(7) -----	48
APPENDIX 14. PROCEDURES AND RECORDKEEPING TO SAFEGUARD TAX INFORMATION IN 26 U.S.C. 6103(p)(1) THROUGH (p)(6) -----	49

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

GAO FORM 378 (Aug 72)

United States
General Accounting Office
Operations Manual



Order

0135.1

September 24, 1985

Subject: AUDIT ASSIGNMENTS INVOLVING ACCESS TO TAX INFORMATION

1. **PURPOSE, SCOPE, AND APPLICABILITY.** The purpose of this order is to provide guidance for determining whether and how the General Accounting Office (GAO) may obtain access to tax information for a particular assignment and to ensure compliance with laws and regulations for protecting the confidentiality of such information. Specifically, the order

a. cites GAO's statutory authority to obtain and review tax information during audits of the Internal Revenue Service (IRS); the Bureau of Alcohol, Tobacco, and Firearms (BATF), and other federal, state, and local agencies;

b. establishes policies and procedures for initiating, conducting, and completing assignments requiring access to tax information;

c. states policies and procedures for precluding the unauthorized disclosure of tax information in GAO's custody,

d. establishes security standards governing the transmission, custody, and disposition of tax information consistent with statutory provisions;

e. establishes recordkeeping and reporting requirements, and

f. applies to all GAO organizational elements.

NOTE. References throughout this order to the safeguarding of tax information mean the safeguarding of information so as to preclude the unauthorized disclosure of tax information in any form that identifies, either directly or indirectly, a particular taxpayer. Nothing in this order shall be construed as authorizing disclosure, dissemination, release, handling, or transmission of tax information contrary to specific provisions of any law.

2. **SUPERSESION.** This order supersedes GAO Order 0135.1, August 25, 1980. Revision has been so extensive that asterisks have not been used to indicate changes.

3. **REFERENCES.**

a. 26 U.S.C. 6103, 7213, and 7431

b. 31 U.S.C. 713 and 719

c. 18 U.S.C. 1905

Distribution C, N, R, and S

Initiated by General Government Division

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

d. GAO Order 2752.1, Adverse Actions.

e. GAO General Policy Manual, Chapter 6, Access to Records.

f. IRS Publication 1075, Tax Information Security Guidelines, (Rev. 7-83). Publication 1075 may be obtained from the General Government Division's (GGD), Issue Area Coordinator for Tax Policy and Administration.

4. FORMS.

a. GGD Form 4, Tax Administration Disclosure Control Document

b. GGD Form 8, Record of Receipt

c. GAO Form 100A, Assignment Authorization/Continuation Sheet

d. GAO Form 319, Action Routing Slip

e. GAO Form 393, Routing and Control Record

5. DEFINITIONS.

a. The term 'tax information' means returns, return information, and taxpayer return information as defined in 26 U.S.C. 6103(b), including information provided to IRS by foreign governments under the exchange of information articles of tax treaties. (See appendix I for statutory definition of "return," "return information," and "taxpayer return information.")

b. The term 'program division' refers to any headquarters division that initiates an assignment involving access to tax information.

6. DELEGATION OF AUTHORITY. In accordance with 31 U.S.C. 713(b)(2), the Comptroller General designates in writing every 6 months the GAO employees who are to have access to tax information. Authority is hereby delegated to the Director, GGD, to make interim designations in writing, as necessary in connection with any assignment. The authority to make interim designations is redelegated to the Associate Director for Tax Policy and Administration, GGD.

7. GAO'S ACCESS TO TAX INFORMATION. Whether and how GAO has access to tax information on a given audit assignment is dictated by the source or initiator of the work being done. In this regard, audit assignments are divided into two broad categories: (a) assignments initiated at the request of tax writing committees or other congressional committees with access authority and performed with GAO employees as their designated agents and (b) self-initiated assignments and request assignments not covered by (a). Furthermore, under either (a) or (b), GAO may have access to information provided to IRS by foreign governments under tax treaties, if those treaties specifically allow GAO such access. GAO's access authority under each category is subject to certain limitations and procedures that are set forth in the succeeding paragraphs. Refer questions concerning GAO's accessibility to tax information for a particular assignment to GGD's Issue Area Coordinator for Tax Policy and Administration.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

a. Self-Initiated Assignments and Requests from Member, of Congress and from Committees Not Authorized Access to Tax Information.

(1) GAO has access to tax information for the purpose of auditing IRS and BATF. 26 U.S.C. 6103(i)(7)(A).

(2) GAO has access to tax information in the possession of federal agencies, other than IRS and BATF, for the purpose of auditing the programs or activities for which those agencies obtained the tax information. For example, the Social Security Administration (SSA) collects and uses tax information on earnings and withheld taxes for the purpose of administering certain benefit programs. GAO has access to that tax information, but only for the purpose of auditing SSA's administration of those programs and only after certain notification procedures have been completed. 26 U.S.C. 6103(i)(7)(B)(i).

(3) GAO has access to tax information that certain federal agencies are authorized to obtain even if those agencies have not exercised that authority. These agencies must be authorized access to tax information under 26 U.S.C. 6103(l) or (m). GAO's access, however, is limited to audits of those programs or activities for which the agency is authorized access. For example, GAO would have access to the tax information which the Pension Benefit Guaranty Corporation (PBGC) is authorized to obtain from IRS to administer its termination insurance program. GAO has access to that tax information even if PBGC has not obtained the information from IRS. However, GAO cannot gain access to that tax information unless its objective is to evaluate the termination insurance program and then only after certain notification procedures have been completed. That is, GAO would not have access for the purpose of determining whether PBGC could use the tax information to enhance its administration of any other program. 26 U.S.C. 6103(i)(7)(B)(ii). (See appendix 2 for further information regarding GAO's access authority under this paragraph.)

(4) GAO has access to tax information in the custody of federal, state, and local agencies for the purpose of determining if the agencies' procedures and safeguards meet statutory requirements and ensure the confidentiality of tax information. 26 U.S.C. 6103(p)(6)(A).

b. Assignments Undertaken as Agents of Congressional Committees Authorized Access to Tax Information. GAO has access to tax information for auditing any agency or program when it is acting as a duly designated agent of a tax writing committee--the Joint Committee on Taxation (or that Committee's Chief of Staff), the Senate Committee on Finance, or the House Committee on Ways and Means. GAO also has access to tax information when acting as a duly designated agent for other congressional committees authorized access to tax information by a congressional resolution. 26 U.S.C. 6103(f)(4).

c. Assignments Involving Access to Tax Treaty Information. GAO has access to information provided to IRS by foreign governments under the exchange of information articles of certain tax treaties for the purpose of auditing IRS' administration of the taxes covered by the treaty. Such assignments may be self-initiated or conducted as a duly designated agent of a committee authorized access to tax treaty information. Refer questions concerning whether or not GAO has access under a particular treaty to GGD's Issue Area Coordinator for Tax Policy and Administration.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

8. INITIATING ASSIGNMENTS REQUIRING ACCESS TO TAX INFORMATION. There are varying notification procedures that must be carried out before GAO can obtain access to tax information. The procedures differ for (1) assignments conducted as duly designated agents of tax writing committees or other congressional committees authorized access to tax information by a congressional resolution and (2) self-initiated assignments and request assignments not covered by (1). The procedures also differ depending on the agencies involved in the assignment. The Associate Director for Tax Policy and Administration, GGD, is responsible for coordinating the initiation of all assignments for which access to tax information is required. The notification letters required to initiate an audit must be processed through the Associate Director or his/her designee. The general policies and procedures pertaining to notification letters follow. Before preparing any written material, however, the initiating division discusses the proposed assignment with the Associate Director for Tax Policy and Administration. (See appendix 3 for detailed information on the notification procedures.)

a. Self-Initiated Assignments and Requests from Members of Congress and from Committees Not Authorized Access to Tax Information.

(1) Joint Committee Letter. The Joint Committee on Taxation must be notified by the Comptroller General of each such assignment and given 30 days to evaluate GAO's need for access to tax information. The joint committee can disapprove that access by a vote of two-thirds of its members within the 30-day period. 26 U.S.C. 6103(1)(7)(c).

(a) At least 90 days before access to tax information is required, the program division prepares (1) a draft letter notifying the Joint Committee on Taxation of the assignment and (2) a tentative assignment justification (GAO Form 100A). Cite in the notification letter GAO's audit and access authority, describe the assignment's objective and scope, state GAO's need for access to tax information, and illustrate that need by briefly describing how tax information will be used in meeting the assignment objectives. If the assignment is of the nature described in paragraphs 7a(2) or (3), also state in the letter that in using tax information and in formulating recommendations, GAO will consider any potential impact on tax administration and taxpayer confidentiality. If the assignment is of the nature described in paragraph 7a(3), state in the letter that in evaluating its need for access to tax information, GAO has considered the burdens that such access would impose on IRS. (A sample letter appears in appendix 4.)

(b) The program division forwards the draft notification letter and tentative GAO Form 100A to GGD's Issue Area Coordinator for Tax Policy and Administration. Within 2 weeks, the issue area coordinator reviews those documents and notifies the program division of any suggested changes. Once revised, if necessary, the notification letter, still in draft, is returned to the issue area coordinator for delivery to the staff of the joint committee. It is our practice to send the draft letter to the committee staff before sending it officially to the committee so as to take advantage of the staff's expertise and to identify any aspects of our notification letter that should be clarified. After the letter has been reviewed by the committee staff and revised, if appropriate, the program division forwards it, in final form, to the Associate Director for Tax Policy and Administration along with the draft GAO

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

September 24, 1985

0135.1

Form 100A and a GAO Form 319, Action Routing Slip. (A sample GAO Form 319 appears in appendix 5.) The associate director forwards the package to the Comptroller General for signature.

(c) After the notification letter is signed by the Comptroller General, the program division delivers it to the Chief of Staff of the Joint Committee on Taxation along with a GGD Form 8, Record of Receipt. This form is completed by the joint committee at the time of delivery. (A sample GGD Form 8 appears in appendix 6.) Once the letter has been delivered to the Chief of Staff and GGD Form 8 has been completed, copies are provided to the recipients identified in appendix 3.

(2) Agency Head Letter.

(a) After the Joint Committee on Taxation has approved GAO's access to tax information, usually by letting the 30-day period expire, a written notification of the assignment must be provided to the head of the federal agency that is to provide the tax information. The letter cites GAO's audit and access authority, the subject of the assignment, and the date the Joint Committee on Taxation was notified. It should also formally request access to the tax information and include, as enclosures, copies of the joint committee letter and the GGD Form 8. (Sample letters appear in appendix 7.)

(b) The program division drafts the letter and forwards it for processing to GGD's Issue Area Coordinator for Tax Policy and Administration within 15 days of the date of the joint committee letter. The issue area coordinator notifies the program division of any suggested changes. The program division then forwards the letter in final form, along with an action routing slip, to the Associate Director for Tax Policy and Administration, GGD, who forwards it to the Comptroller General for signature. The signed letter is then returned to the associate director for dating. (The date is generally no earlier than 31 days after the date on the GGD Form 8.) The dated letter is given to the agency that is to provide the tax information. Copies are provided to the recipients identified in appendix 3.

(3) Liaison Letter. After the agency head has been notified of an assignment as discussed in paragraph 8a(2), agency liaison officials must be notified in writing of GAO's need to review tax information. The procedure discussed below applies only to assignments for which tax information is to be obtained from IRS or BATF. If the assignment involves access to tax information at an agency other than IRS or BATF, the program division is responsible for identifying and satisfying any liaison requirements.

(a) The program division should draft the liaison letter no later than 15 days after the date of the joint committee letter. The liaison letter states GAO's intent to initiate a study, analysis, or evaluation (rather than a survey or review); cites the job code, states GAO's need for access to tax information, lists the agency organizational units and/or locations involved, states the date that GAO plans to begin the assignment (which must be at least 2 weeks after the date of the letter to give IRS and BATF time to arrange for disclosing the information to GAO), and requests that the appropriate officials be notified of GAO's assignment plans. (A sample letter appears in appendix 8.)

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

(b) The program division forwards the draft letter to GGD's Issue Area Coordinator for Tax Policy and Administration for processing. The issue area coordinator notifies the program division of any suggested changes. The program division forwards the letter, in final form, to the Associate Director for Tax Policy and Administration for signature. The letter includes, as enclosures, copies of the joint committee letter, the GGD Form 8, and the agency head letter, and is dated one day after the date of the agency head letter. The signed letter and copies are delivered to the recipients identified in appendix 3. An additional letter is needed each time a new location is included in an assignment.

b. Assignments Conducted as Duly Designated Agents of Committees Authorized Access to Tax Information. For these assignments only one letter is required, a letter to the agency from which tax information is to be obtained.

(1) As soon as a request letter is received, the program division must prepare a letter notifying agency officials of the assignment and the need for access to tax information. The letter cites the job code and the anticipated work sites and includes the request letter as an enclosure. Letters to IRS or BATF should refer to the assignment as a study, analysis, or evaluation (rather than a survey or review); state the date that GAO plans to begin the assignment (which must be at least 2 weeks after the date of the letter); and request that appropriate officials be notified of GAO's assignment plans. (A sample letter appears in appendix 8.)

(2) The program division forwards the draft letter to GGD's Issue Area Coordinator for Tax Policy and Administration. The issue area coordinator notifies the program division of any suggested changes.

(3) If the letter is addressed to IRS or BATF, the program division forwards the letter in final form to GGD's Associate Director for Tax Policy and Administration for signature. Otherwise, the program division is responsible for getting the letter signed. The signed letter and copies are delivered to the recipients identified in appendix 3.

9. DESIGNATION OF GAO EMPLOYEES HAVING ACCESS TO TAX INFORMATION. GAO employees are not entitled to possession of, knowledge of, or access to tax information solely by virtue of the office or position held. Rather, access to tax information within GAO is limited to those GAO employees who need to obtain and/or review such information in conjunction with an assignment described under paragraph 7 and have been designated in writing by the Comptroller General or his designee as having access to such information. These written designations are made before the start of assignments and at certain specified intervals and are not effective until they have been distributed to the appropriate congressional committees and agencies. The designations must include any GAO employee who will need access to the tax information, including administrative staff, attorneys, and other office personnel. In this regard, consultants can be included on designation lists and thus authorized access to tax information only if they are classified as special government employees under title 5 of the U.S. Code; they can not be included if they are classified as independent contractors. GAO's policies and procedures for preparing and distributing written designations follow.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

a. Self-Initiated Assignments and Requests from Non-Ta Writing Committees and Members of Congress.

(1) The Comptroller General, at six-month intervals, designates in writing each GAO employee who is to have access to tax information. These designations are updated monthly by the Associate Director for Tax Policy and Administration, GGD, pursuant to the delegation of authority made under paragraph 6.

(2) The associate director delivers certified copies of the semi-annual lists and monthly updates to (a) the Joint Committee on Taxation, (b) the Senate Committee on Finance, (c) the House Committee on Ways and Means, (d) the Senate Committee on Governmental Affairs, (e) the House Committee on Government Operations, (f) IRS, (g) BATF, and (h) the program divisions responsible for assignments that require access to tax information.

(3) Before the initiation of assignments described under paragraphs 7a(2) and 7a(4), the Associate Director for Tax Policy and Administration, GGD, provides the program divisions with certified copies of lists of those GAO employees from the above lists who are to have access to tax information in the agency's possession. The program divisions are responsible for delivering copies of the lists to the appropriate agencies. The associate director prepares updated listings for these agencies when staffing changes occur.

b. Assignments Conducted as Agents of the Joint Committee on Taxation.

(1) The Comptroller General, at six-month intervals, designates in writing each GAO employee who is authorized access to tax information as an agent for that committee. The Associate Director for Tax Policy and Administration, GGD, updates the designations monthly.

(2) The associate director delivers certified copies of the semi-annual and monthly lists to the Joint Committee on Taxation, IRS, and the program divisions responsible for assignments that require access to tax information.

(3) For an assignment involving an agency other than IRS, the associate director, before initiation of the assignment, provides the responsible program division with a certified copy of a list of GAO employees who are to have access to tax information for the assignment. The program division delivers the list to the agency. The associate director prepares updated listings when staffing changes occur.

c. Assignments Conducted as Agents of the Senate Committee on Finance or the House Committee on Ways and Means.

(1) The Comptroller General, prior to initiation of the assignment, designates in writing each GAO employee who is authorized to have access to tax information. These designations are updated by the Associate Director for Tax Policy and Administration, GGD, as staffing changes occur.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

(2) The associate director delivers certified copies of the initial and updated lists to (a) the committee for which GAO is acting as an agent, (b) IRS or BATF, if appropriate, and (c) the program division responsible for the assignment. The program division delivers copies of the lists to agencies other than IRS and BATF who will provide tax information as part of the assignment.

d. Program Division Responsibilities.

(1) For self-initiated assignments and assignments undertaken as agents of the Joint Committee on Taxation, program division directors must advise GGD's Issue Area Coordinator for Tax Policy and Administration, by the 15th of each month, of the employees who are to be added to or deleted from the prior month's designation list. For assignments undertaken as an agent of the House Committee on Ways and Means or the Senate Committee on Finance, program division directors must advise the issue area coordinator, as soon as possible, of changes that are needed to the designation list. For all assignments, directors should provide the full name and title of the employee, the assignment code, and, if applicable, the name of the committee for which the employee is to act as an agent. This information is needed for all headquarters, region, and staff office professional and administrative employees who are to be assigned to or released from assignments requiring access to tax information.

(2) Program divisions are responsible for assuring delivery of certified copies of the lists to agencies, other than IRS and BATF, that are to provide tax information.

(3) Program divisions are responsible also for assuring that tax information is obtained and/or reviewed by only those employees who have been designated by the Comptroller General or his designee as having access to such information.

10. RESTRICTIONS ON DISCLOSING TAX INFORMATION. The confidentiality of tax information is closely protected by U.S. statutes. Unless specifically authorized, government employees, including those of GAO, are expressly prohibited from disclosing tax information. There are severe criminal and civil penalties for making unauthorized disclosures. GAO employees are responsible for protecting the confidentiality of tax information and for preventing unauthorized disclosures.

a. Authorized Disclosures. GAO employees are expressly prohibited by statute from disclosing tax information in a form that can be associated with, or otherwise identify, either directly or indirectly, a particular taxpayer except as provided below. 26 U.S.C. 6103(i)(7)(A), 31 U.S.C. 713(b)(3).

(1) Within GAO, tax information may only be disclosed to employees who (a) by virtue of their involvement in an assignment, have a need to examine such information and (b) have been designated as having access to the information under the procedures set forth under paragraph 9.

(2) Outside of GAO, tax information may be disclosed only to the Joint Committee on Taxation, the Senate Committee on Finance, or the House Committee on Ways and Means, but only when GAO is acting as a duly designated agent of one of those committees and when the committee for which GAO is an agent is sitting

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

in closed executive session. The program divisions must coordinate any requests for, or potential disclosures of, tax information with the Associate Director for Tax Policy and Administration, GGD.

b. Penalties For Unauthorized Disclosures.

(1) Disciplinary action, including reprimand and suspension, may be taken against employees who make an unauthorized disclosure of tax information. (See GAO Order 2752.1, Adverse Actions.)

(2) GAO employees who willfully make an unauthorized disclosure are subject to criminal penalties. An unauthorized disclosure is a felony, punishable upon conviction by a fine of up to \$5,000 and/or a jail term of not more than 5 years. Upon conviction, the employee will be discharged from employment. 26 U.S.C. 7213(a)(1), 18 U.S.C. 1905.

(3) Civil penalties are also provided for unauthorized disclosures of tax information. The taxpayer involved can initiate a law suit for civil damages against the United States. 26 U.S.C. 7431.

II. SAFEGUARDING TAX INFORMATION. To protect the confidentiality of tax information and to prevent its unauthorized disclosure, GAO has developed safeguard procedures that have been approved by the Secretary of the Treasury. The Secretary may refuse GAO further access to tax information if these procedures are not fully observed by GAO employees. Also, the Secretary is required to report any safeguard deficiencies to the appropriate congressional committees. GAO employees with access to tax information are responsible for carrying out the following safeguard procedures.

a. Disclosure Accounting. GAO is required to maintain a permanent system of records to account for all disclosures of tax information made to or by it. 26 U.S.C. 6103(p)(4)(A), 26 U.S.C. 6103(p)(6)(B)(i).

(1) **Tax Information Disclosed to GAO.** IRS, BATF, and other federal agencies that disclose tax information to GAO are responsible for determining when such a disclosure has occurred and for documenting each disclosure. GAO relies on such determinations and recordings as the basis for its recordkeeping system. Program divisions are responsible for ensuring that their employees obtain and record this information in accordance with the procedures described below.

(a) GAO staff at the location where tax information is received arranges with appropriate agency officials to obtain, on a daily basis, a copy of each agency record of disclosure to GAO. Agency personnel are responsible for preparing these records. Generally, IRS personnel record disclosures to GAO on IRS Forms 5466 and 5466A. Other agencies may have different disclosure forms. GAO staff members are responsible for identifying these forms.

(b) The copies of the agency's disclosure forms or other records are used by the GAO staff for daily posting to GGD Form 4, Tax Administration Disclosure Control Document. A separate form must be kept by each GAO work location for each job code. (A sample GGD Form 4 appears in appendix 9.)

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

(c) On the last day of every month, the GAO staff at each work location must forward a copy of the GGD Form 4 showing the month's postings to the Associate Director for Tax Policy and Administration, GGD. If no disclosures were made during the month, a GGD Form 4 must be forwarded reflecting that fact. If the agency disclosure officer at a particular location requests a copy of the month's postings, it should be provided.

(d) The GAO staff at each work location maintains the original GGD Form 4s and copies of the agency's disclosure forms or other supporting records in a separate folder at each work location until the audit work is completed. At that time, the folder is sent to the Associate Director for Tax Policy and Administration, GGD.

(2) Tax Information Disclosed by GAO. As discussed under paragraph 10a(2), any requests for access to tax information made to GAO must be referred to the Associate Director for Tax Policy and Administration, GGD, who is responsible for responding to and accounting for such requests.

b. Controlling Access to Tax Information. GAO employees are responsible for controlling access to tax information in their possession. Program division directors are responsible for ensuring that all GAO employees on assignments within their areas of responsibility are familiar with the appropriate agency standards regarding the safeguarding of tax information and the policies and procedures set forth in this order. Any employee who has knowledge of the loss or possible compromise of any tax information must promptly report the circumstances to the Associate Director for Tax Policy and Administration, GGD, who will take appropriate action.

c. Physical Control Over Tax Information. GAO employees are responsible for maintaining physical control over the tax information in their possession. The tax information must be controlled in a manner that is consistent with the security standards set forth in IRS' Publication 1075, Tax Information Security Guidelines, any additional standards established by the agency that provided the information to GAO, and the policies and procedures set forth in this order. Program division directors are responsible for ensuring that all GAO employees on assignments within their areas of responsibility are familiar with all appropriate physical security standards. For example

(1) All workpapers and workpaper bundles containing tax information must be marked 'access limited to GAO personnel designated for this assignment.'

(2) Computer files containing tax return information must be protected against disclosure to unauthorized personnel when being processed at non-IRS computer facilities. The following safeguards must be adhered to:

(a) All magnetic media, files, reports, and related items must remain under the direct control of an authorized GAO employee before, during, and after processing.

(b) Tax information must not be left in the computer memory at the end of processing. While tax data is resident in memory, access must be limited to authorized applications.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

(c) All undesired computer listings and reports must be properly disposed of by a GAO employee who has been authorized access to tax information.

(3) Tax information, working papers, and magnetic media (such as computer tapes and electronic word processing disks) containing tax information must be stored in authorized metal cabinets with locks maintained in secure areas under the control of employees who have been authorized access to tax information. 26 U.S.C. 6103(p)(4)(B).

(4) Tax information must not be discussed over telephone lines that are not secure and must be transmitted electronically in accordance with GAO-prescribed controls.

(5) When tax information, working papers, and magnetic media containing tax information cannot be hand-carried, they must be sent by registered mail with a return receipt to be signed by an employee authorized access to tax information. Tax information sent in an envelope must be double sealed and the inside envelope marked "to be opened by addressee only." Shipments of tax information must be documented and monitored to ensure that they are promptly received. A GAO Form 393, Routing and Control Record, must be completed in duplicate. The original remains with the sender, the copy accompanies the mailing.

(6) GAO will not retain custody of original returns after an assignment is completed, except by special arrangement made with the Commissioner of Internal Revenue or the Commissioner's designee. GAO will return original returns to IRS.

(7) When copies of returns and working papers containing tax information are no longer needed, they should be transferred to the Federal Records Center. Because special procedures apply to the transfer of tax information, the program division should contact GGD's Issue Area Coordinator for Tax Policy and Administration prior to transferring the records. If the program division has retained custody of the tax information for 3 years after the assignment was terminated, the information must be destroyed in accordance with IRS' Tax Information Security Guidelines, under the supervision of a GAO employee designated as having access to tax information. In accordance with IRS' guidelines, when tax information on magnetic media (e.g., computer tapes and electronic word processing disks) is no longer needed, it must be erased and the tape either released for other use or destroyed. 26 U.S.C. 6103(p)(4)(F).

d. Periodic Inspections of Safeguard Procedures and Annual Safeguard Activity Report.

(1) 26 U.S.C. 6103(p)(4) provides, in effect, that if IRS finds GAO's procedures for safeguarding tax information to be inadequate, it can refuse to disclose tax information to GAO until the inadequacies have been corrected.

(2) In that regard, GGD's Associate Director for Tax Policy and Administration is responsible for assuring that periodic inspections of safeguard procedures are made of GAO divisions and offices and maintaining a record of each inspection in accordance with IRS' Tax Information Security Guidelines. The Office of Security and Safety is responsible for making these inspections

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1

September 24, 1985

and reporting the results to the head of the division or office involved and to the Associate Director for Tax Policy and Administration, GGD. The inspection records are available for IRS' review upon request.

(3) The Associate Director for Tax Policy and Administration, GGD, is responsible for summarizing the inspection results for inclusion in the annual Safeguard Activity Report to IRS as required by 26 U.S.C. 6103(p)(4)(E). That report is also to include (a) information on significant changes in safeguard procedures or authorized access to tax information during the year and any changes or enhancements to physical and computer security measures used to safeguard tax information and (b) the identity of tax information disposed of during the year and the date and manner of destruction. By December 31 of each year, program divisions should forward any information concerning the above to the Associate Director for Tax Policy and Administration for inclusion in the annual report.

e. General.

(1) The Comptroller General and all GAO employees will cooperate with the Commissioner of Internal Revenue and the heads of other federal agencies in implementing any additional controls or safeguards deemed necessary by the Secretary of the Treasury to safeguard the confidentiality of tax information in GAO's possession. 26 U.S.C. 6103(p)(4)(D).

(2) Program division directors refer any additional safeguard procedures recommended by the Commissioner of Internal Revenue or the heads of other federal agencies for use within GAO to the Associate Director for Tax Policy and Administration, GGD, for review and approval.

12. BACKGROUND INVESTIGATIONS AND OUTSIDE EMPLOYMENT. To be consistent with IRS' requirements for its own internal auditors, it is GAO's policy that any employee having access to tax information be subject to the favorable completion of a background investigation. It is GAO's policy also that employees assigned to jobs involving access to tax information not engage in outside employment involving the preparation of tax returns.

13. ACCEPTANCE OF SPECIFIC TAXPAYERS' NAMES FROM CONGRESS. In accordance with GAO's policy, GAO audits of IRS' administration of the tax laws is normally based on a random sampling from appropriate universes of tax information rather than on a review of information for preselected taxpayers. The circumstances and procedures under which GAO will accept from the Congress names of specific taxpayers are set forth in appendix 10.

14. NOTIFICATION OF COMPLETION OF CERTAIN ASSIGNMENTS. When GAO completes an assignment of the nature described in paragraphs 7a(2) or (3), the Joint Committee on Taxation must be notified within 90 days. 26 U.S.C. 6103(i)(7)(B)(iii). In that regard, the program division, within 30 days after completion of an assignment, prepares a letter to describe (a) the federal agency's use of the tax information, (b) GAO's recommendations with respect to the federal agency's use of tax information, and (c) the impact of GAO's recommendations on the confidentiality of tax information and on the administration of the tax laws. The division forwards the notification letter, in final form with an action routing slip, through the Associate Director for Tax Policy and

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1

Administration, GGD, to the Comptroller General for signature. After the Comptroller General signs the letter, the program division delivers it to the Chief of Staff of the Joint Committee on Taxation and provides a copy to the Associate Director for Tax Policy and Administration.

15. ANNUAL REPORT. The Comptroller General is required by law to submit to the Senate Committees on Finance and Governmental Affairs, the House Committees on Ways and Means and Government Operations, and the Joint Committee on Taxation, a written annual report on GAO assignments involving IRS, BATF, and other federal agencies for which it had access to tax information and the policies and procedures established for protecting the confidentiality of tax information. The program divisions are responsible for providing GGD's Issue Area Coordinator for Tax Policy and Administration with information to be included in the report. The Associate Director for Tax Policy and Administration, GGD, is responsible for preparing the annual report. 31 U.S.C. 719(d).

a. Contents of Report. The annual report includes information on

- (1) open recommendations to the Congress,
- (2) legislative action taken during the year on recommendations,
- (3) recommendations made to the heads of federal agencies concerning the administration of taxes and/or the use of tax information,
- (4) reports on tax matters issued during the year,
- (5) testimony on tax matters given by GAO officials during the year,
- (6) scope and subject matter of assignments requiring access to tax information initiated during the year, and
- (7) GAO's policies and procedures for safeguarding the confidentiality of tax information.

b. Responsibilities. Program division directors are responsible for providing GGD's Issue Area Coordinator for Tax Policy and Administration with the information listed above for reports and assignments within their areas of responsibility. The information should be provided no later than January 15 of each year and should apply to the prior calendar year. (See appendix II for sample formats.) The Associate Director for Tax Policy and Administration, GGD, is responsible for preparing and processing the annual report for the signature of the Director, GGD, as soon as possible after the close of each calendar year.

c. Report Distribution. The report is submitted to the House Committee on Ways and Means, Senate Committee on Finance, Joint Committee on Taxation, House Committee on Government Operations, and Senate Committee on Governmental Affairs. Copies of the report are sent to the heads of the federal agencies discussed in it.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 1

September 24, 1985

APPENDIX 1. DEFINITIONS OF "RETURN," "RETURN INFORMATION," AND "TAXPAYER RETURN INFORMATION" LOCATED IN 26 U.S.C. 6103(b)

1. **RETURN.** The term "return" means any tax or information return, declaration of estimated tax, or claim for refund required by, or provided for or permitted under, the provisions of this title which is filed with the Secretary by, on behalf of, or with respect to any person, and any amendment or supplement thereto, including supporting schedules, attachments, or lists which are supplemental to, or part of, the return so filed.

2. **RETURN INFORMATION.** The term "return information" means

a. a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return or with respect to the determination of the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, and

b. any part of any written determination or any background file document relating to such written determination (as such terms are defined in section 6110(b)) which is not open to public inspection under section 6110.

But such term does not include data in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer. Nothing in the preceding sentence, or in any other provision of law, shall be construed to require the disclosure of standards used or to be used for the selection of returns for examination, or data used or to be used for determining such standards, if the Secretary determines that such disclosure will seriously impair assessment, collection, or enforcement under the internal revenue laws.

3. **TAXPAYER RETURN INFORMATION.** The term "taxpayer return information" means return information as defined in paragraph (2) which is filed with, or furnished to, the Secretary by or on behalf of the taxpayer to whom such return information relates.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 2

**APPENDIX 2. GAO'S ACCESS TO TAX INFORMATION THAT IRS CAN DISCLOSE TO OTHER
AGENCIES UNDER 26 U.S.C. 6103(1) AND (m)**

Under certain circumstances, GAO may have access to tax information that a federal agency does not have in its files, but that it could have obtained for non-tax administration purposes. This GAO access authority is limited to (1) audits of the programs and activities for which agencies are authorized access under 26 U.S.C. 6103(1) and (m), a copy of which can be found at the end of this appendix, and (2) the types of tax information that may be disclosed under those sections. Also, before requesting access, GAO must take into account the burden that such access might impose on the Internal Revenue Service.

Some of the programs and activities to which this access authority applies and the kinds of tax information to which GAO may have access are summarized below. The list is not all-inclusive. Because the statutes governing this area are complex, determinations as to whether or not GAO has access to tax information have to be made on a case-by-case basis. These determinations are to be made in consultation with the Associate Director for Tax Policy and Administration, GGD, and the Office of General Counsel.

<u>AGENCY</u>	<u>PROGRAM OR ACTIVITY</u>	<u>TYPE OF TAX INFORMATION</u>
Social Security Administration	Administration of social security benefits	Tax returns and return information with respect to (1) self-employ- ment income, (2) FICA taxes, and (3) income taxes withheld from wages, interest, and dividends
	Administration of vested benefits under employee pension plan	Statements, notifications, reports, or other information related to pension plans
	Administration of the combined annual wage reporting program	Information returns
Railroad Retire- ment Board	Administration of the Railroad Retirement Act	Tax returns and return information with respect to railroad retire- ment taxes
Department of Labor and the Pension Benefit Guaranty Corporation	Administration of the employee benefit program	Tax returns and return information
	Administration of the termination insurance program	Tax returns and return information
Federal agencies which make, guarantee, or insure loans	Administration of fed- eral loan programs	Information on whether or not a loan applicant has a delinquent tax account

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 2

September 24, 1985

<u>AGENCY</u>	<u>PROGRAM OR ACTIVITY</u>	<u>TYPE OF TAX INFORMATION</u>
Federal, state, and local child support enforcement agencies	Establishment and collection of child support obligations	Information from returns related to income and dependents
Federal, state, and local agencies that administer the Food Stamp Program	Determination of eligibility for, or the correct amount of, benefits under the Food Stamp Program	Information from returns with respect to wages, retirement and self-employment income, and Information from returns with respect to unearned income
Federal, state, and local agencies which administer the Aid to Families with Dependent Children Program	Determination of eligibility for, or the correct amount of, benefits under the Aid to Families with Dependent Children Program	Information from returns with respect to wages, retirement and self-employment income, and Information from returns with respect to unearned income
Federal, state, and local agencies that administer the Medicaid Program	Determination of eligibility for, or the correct amount of, benefits under the Medicaid Program	Information from returns with respect to wages, retirement and self-employment income, and Information from returns with respect to unearned income
Federal, state and local agencies that administer the Supplemental Security Income Program	Determination of eligibility for, or the correct amount of, benefits under the Supplemental Security Income Program	Information from returns with respect to wages, retirement and self-employment income, and Information from returns with respect to unearned income
Federal, state, and local agencies that administer assistance programs in the territories	Determination of eligibility for, or the correct amount of, benefits under assistance programs in the territories	Information from returns with respect to wages, retirement and self-employment income, and Information from returns with respect to unearned income

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 2

<u>AGENCY</u>	<u>PROGRAM OR ACTIVITY</u>	<u>TYPE OF TAX INFORMATION</u>
Federal, state, and local agencies that administer the unemployment compensation benefit program	Determination of eligibility for, or the correct amount of, benefits under the unemployment compensation benefit program	Information from returns with respect to wages, retirement and self-employment income and Information from returns with respect to unearned income
Federal agencies that collect or compromise federal claims	Location of individuals to collect or compromise federal claims	Taxpayer's mailing address
Department of Education	Collection of delinquent student loans	Taxpayer's mailing address
Federal agencies that request IRS offset of debts	Establishment of appropriate agency records or defense of litigation or administrative procedure ensuing from federal debt reduction.	Certain return information related to offset of federal debt

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 2

September 24, 1985

26 U.S.C. 6103(1) and (m)

(1) Disclosure of Returns and Return Information for Purposes Other Than Tax Administration —

(1) Disclosure of certain returns and return information to Social Security Administration and Railroad Retirement Board.—The Secretary may, upon written request, disclose returns and return information with respect to—

(A) taxes imposed by chapters 2, 21, and 24, to the Social Security Administration for purposes of its administration of the Social Security Act,

(B) a plan to which part 1 of subchapter D of chapter 1 applies, to the Social Security Administration for purposes of carrying out its responsibility under section 1131 of the Social Security Act, limited, however, to return information described in section 6057(d), and

(C) taxes imposed by chapter 22, to the Railroad Retirement Board for purposes of its administration of the Railroad Retirement Act

(2) Disclosure of returns and return information to the Department of Labor and Pension Benefit Guaranty Corporation.—The Secretary may, upon written request, furnish returns and return information to the proper officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation for purposes of, but only to the extent necessary in, the administration of titles I and IV of the Employee Retirement Income Security Act of 1974

(3) Disclosure that applicant for federal loan has tax delinquent account —

(A) In general.—Upon written request, the Secretary may disclose to the head of the Federal agency administering any included Federal loan program whether or not an applicant for a loan under such program has a tax delinquent account

(B) Restriction on disclosure.—Any disclosure under subparagraph (A) shall be made only for the purpose of, and to the extent necessary in, determining the creditworthiness of the applicant for the loan in question

(C) Included federal loan program defined.—For purposes of this paragraph, the term "included Federal loan program" means any program—

(i) under which the United States or a Federal agency makes, guarantees, or insures loans, and

(ii) with respect to which there is in effect a determination by the Director of the Office of Management and Budget (which has been published in the Federal Register) that the application of this paragraph to such program will substantially prevent or reduce future delinquencies under such program

(4) Disclosure of returns and return information for use in personnel or claimant representative matters.—The Secretary may disclose returns and return information—

(A) upon written request—

(i) to an employee or former employee of the Department of the Treasury, or to the duly authorized legal representative of such employee or former employee, who is or may be a party to any administrative action or proceeding affecting the personnel rights of such employee or former employee, or

(ii) to any person, or to the duly authorized legal representative of such person, whose rights are or may be affected by an administrative action or proceeding under section 330 of title 31, United States Code solely for use in the action or proceeding or in preparation for the action or proceeding, but only to the extent that the Secretary determines that such returns or return information is or may be relevant and material to the action or proceeding, or

(B) to officers and employees of the Department of the Treasury for use in any action or proceeding described in subparagraph (A), or in preparation for such action or proceeding, to the extent necessary to advance or protect the interests of the United States

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 2

(5) **Department of Health and Human Services.**—Upon written request by the Secretary of Health and Human Services, the Secretary may disclose information returns filed pursuant to part III of subchapter A of chapter 61 of this subtitle for the purpose of carrying out, in accordance with an agreement entered into pursuant to section 232 of the Social Security Act, an effective return processing program.

(6) **Disclosure of return information to Federal, State, and local child support enforcement agencies.**—

(A) **Return information from Internal Revenue Service.**—The Secretary may, upon written request, disclose to the appropriate Federal, State, or local child support enforcement agency—

(i) available return information from the master files of the Internal Revenue Service relating to the social security account number (or numbers, if the individual involved has more than one such number), address, filing status, amounts and nature of income, and the number of dependents reported on any return filed by, or with respect to, any individual with respect to whom child support obligations are sought to be established or enforced pursuant to the provisions of part D of title IV of the Social Security Act and with respect to any individual to whom such support obligations are owing, and

(ii) available return information reflected on any return filed by, or with respect to, any individual described in clause (i) relating to the amount of such individual's gross income (as defined in section 61) or consisting of the names and addresses of payors of such income and the names of any dependents reported on such return, but only if such return information is not reasonably available from any other source.

(B) **Restriction on disclosure.**—The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating individuals owing such obligations.

(7) **Disclosure of return information to federal, state, and local agencies administering certain programs under the Social Security Act or the Food Stamp Act of 1977.**—

(A) **Return information from social security administration.**—The Commissioner of Social Security shall upon written request disclose return information from returns with respect to net earnings from self-employment (as defined in section 1402) wages (as defined in section 3121(a) or 3401(a)), and payments of retirement income, which have been disclosed to the Social Security Administration as provided by paragraph (1) or (5) of this subsection to any Federal, State, or local agency administering a program listed in subparagraph (D).

(B) **Return information from Internal Revenue Service.**—The Secretary shall, upon written request, disclose current return information from returns with respect to unearned income from the Internal Revenue Service files to any Federal, State, or local agency administering a program listed in subparagraph (D).

(C) **Restriction on disclosure.**—The Commissioner of Social Security and the Secretary shall disclose return information under subparagraphs (A) and (B) only for purposes of, and to the extent necessary in, determining eligibility for, or the correct amount of benefits under a program listed in subparagraph (D).

(D) **Programs to which rule applies.**—The programs to which this paragraph applies are

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 2

September 24, 1985

- (i) aid to families with dependent children provided under a State plan approved under part A of title IV of the Social Security Act,
- (ii) medical assistance provided under a State plan approved under title XIX of the Social Security Act,
- (iii) supplemental security income benefits provided under title XVI of the Social Security Act, and federally administered supplementary payments of the type described in section 1616(a) of such Act (including payments pursuant to an agreement entered into under section 212(a) of Public Law 93-66),
- (iv) any benefits provided under a State plan approved under title I, X, XIV, or XVI of the Social Security Act (as those titles apply to Puerto Rico, Guam, and the Virgin Islands),
- (v) unemployment compensation provided under a State law described in section 3304 of this Code,
- (vi) assistance provided under the Food Stamp Act of 1977, and
- (vii) State-administered supplementary payments of the type described in section 1616(a) of the Social Security Act (including payments pursuant to an agreement entered into under section 212(a) of Public Law 93-66)

(8) Disclosure of certain return information by social security administration to state and local child support enforcement agencies —

(A) In general—Upon written request, the Commissioner of Social Security shall disclose directly to officers and employees of a State or local child support enforcement agency return information from returns with respect to social security account numbers, net earnings from self-employment (as defined in section 1402), wages (as defined in section 3121(a) or 3401(a)), and payments of retirement income which have been disclosed to the Social Security Administration as provided by paragraph (1) or (5) of this subsection

(B) Restriction on disclosure—The Commissioner of Social Security shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating, individuals owing such obligations. For purposes of the preceding sentence, the term "child support obligations" only includes obligations which are being enforced pursuant to a plan described in section 454 of the Social Security Act which has been approved by the Secretary of Health and Human Services under part D of title IV of such Act

(C) State or local child support enforcement agency—For purposes of this paragraph, the term "State or local child support enforcement agency" means any agency of a State or political subdivision thereof operating pursuant to a plan described in subparagraph (b)

(9) Disclosure of alcohol fuel producers to administrators of state alcohol laws.—Notwithstanding any other provision of this section, the Secretary may disclose—

(A) the name and address of any person who is qualified to produce alcohol for fuel use under section 5181, and

(B) the location of any premises to be used by such person in producing alcohol for fuel.

to any State agency, body, or commission, or its legal representative, which is charged under the laws of such State with responsibility for administration of State alcohol laws solely for use in the administration of such laws

(10) Disclosure of certain information to agencies requesting a reduction under Section 6402(c) or 6402(d) —

(A) Return information from Internal Revenue Service—The Secretary may, upon receiving a written request, disclose to officers and employees of an agency seeking a reduction under section 6402(c) or 6402(d)—

- (i) the fact that a reduction has been made or has not been made under such subsection with respect to any person,
- (ii) the amount of such reduction, and
- (iii) taxpayer identifying information of the person against whom a reduction was made or not made

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 2

(B) Restriction on use of disclosed information —Any officers and employees of an agency receiving return information under subparagraph (A) shall use such information only for the purposes of, and to the extent necessary in establishing appropriate agency records or in the defense of any litigation or administrative procedure ensuing from reduction made under section 6402(c) or section 6402(d)

(11) Disclosure of certain information to agencies requesting a reduction under section 6402(c) —

(A) Return information from internal revenue service —The Secretary shall, upon receiving a written request, disclose to officers and employees of a State agency seeking a reduction under section 6402(c)—

- (i) the fact that a reduction has been made or has not been made under such subsection with respect to any taxpayer,
- (ii) the amount of such reduction,
- (iii) whether such taxpayer filed a joint return
- (iv) taxpayer identity information with respect to the taxpayer against whom a reduction was made or not made and of any other person filing a joint return with such taxpayer, and
- (v) the fact that a payment was made (and the amount of the payment) on the basis of a joint return in accordance with section 464(a)(3) of the Social Security Act

(B) Restriction on use of disclosed information —Any officers and employees of an agency receiving return information under subparagraph (A) shall use such information only for the purposes of, and to the extent necessary in establishing appropriate agency records or in the defense of any litigation or administrative procedure ensuing from a reduction made under section 6402(c)

(m) Disclosure of Taxpayer Identity Information —

(1) Tax refunds —The Secretary may disclose taxpayer identity information to the press and other media for purposes of notifying persons entitled to tax refunds when the Secretary, after reasonable effort and lapse of time, has been unable to locate such persons

(2) Federal claims —

(A) In general —Except as provided in subparagraph (B), the Secretary may, upon written request, disclose the mailing address of a taxpayer for use by officers, employees, or agents of a Federal agency for purposes of locating such taxpayer to collect or compromise a Federal claim against the taxpayer in accordance with section 3 of the Federal Claims Collection Act of 1966 [section 3711 of title 31, United States Code] (31 U.S.C. 952)

(B) Special rule for consumer reporting agency —In the case of an agent of a Federal agency which is a consumer reporting agency (within the meaning of section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681a(f))), the mailing address of a taxpayer may be disclosed to such agent under subparagraph (A) only for the purpose of allowing such agent to prepare a commercial credit report on the taxpayer for use by such Federal agency in accordance with section 3 of the Federal Claims Collection Act of 1966 [section 3711 of title 31, United States Code] (31 U.S.C. 952)

(3) National Institute for Occupational Safety and Health —Upon written request, the Secretary may disclose the mailing address of taxpayers to officers and employees of the National Institute for Occupational Safety and Health solely for the purpose of locating individuals who are or may have been, exposed to occupational hazards in order to determine the status of their health or to inform them of the possible need for medical care and treatment

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 2

September 24, 1985

(4) Individuals who have defaulted on student loans —

(A) In general — Upon written request by the Secretary of Education, the Secretary may disclose the mailing address of any taxpayer who has defaulted on a loan—

(i) made under part B or E of title IV of the Higher Education Act of 1965

or

(ii) made pursuant to section 3(a)(1) of the Migration and Refugee Assistance Act of 1962 to a student at an institution of higher education

for use only by officers, employees, or agents of the Department of Education for purposes of locating such taxpayer for purposes of collecting such loan

(B) Disclosure to educational institutions, etc —

Any mailing address disclosed under subparagraph (A)(i) may be disclosed by the Secretary of Education to—

(i) any lender, or any State or nonprofit guarantee agency, which is participating under part B of title IV of the Higher Education Act of 1965, or

(ii) any educational institution with which the Secretary of Education has an agreement under part E of title IV of such Act

for use only by officers, employees or agents of such lender, guarantee agency, or institution whose duties relate to the collection of student loans for purposes of locating individuals who have defaulted on student loans made under such loan programs for purposes of collecting such loans

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 3

APPENDIX 3. NOTIFICATION PROCEDURES

<u>REQUIRED NOTIFICATION LETTERS</u>	<u>ADDRESSEE</u>	<u>SIGNER</u>	<u>PROCEDURES</u>
<u>Self-initiated assignments and requests other than those from committees authorized access to tax information</u>			
1. Joint committee letter.	Chairman, Joint Committee on Taxation.	Comptroller General.	<p>Program division prepares draft letter and tentative GAO Form 100A and sends it to GGD's Issue Area Coordinator for Tax Policy and Administration.</p> <p>Issue Area Coordinator informally discusses letter with joint committee and notifies program division of suggested changes.</p> <p>Program division finalizes letter and forwards it with the tentative GAO Form 100A and Action Routing Slip, GAO Form 319, through the Associate Director for Tax Policy and Administration, GGD, to the Comptroller General for signature.</p> <p>After signature, program division delivers letter to Joint Committee on Taxation and obtains signed Record of Receipt, GGD Form 8.</p> <p>Copies of the letter and signed record of receipt are provided to</p> <ul style="list-style-type: none"> --the agency from which tax information is received, --the Associate Director for Tax Policy and Administration, GGD, and --GGD's Issue Area Coordinator for Tax Policy and Administration (2 copies).

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 3

September 24, 1985

<u>REQUIRED NOTIFICATION LETTERS</u>	<u>ADDRESSEE</u>	<u>SIGNER</u>	<u>PROCEDURES</u>	
2. Agency head letter.	<u>Assignments for which tax information is to be obtained from IRS</u>	Commissioner of Internal Revenue.	Comptroller General.	Program division prepares draft letter and sends it to GGD's Issue Area Coordinator for Tax Policy and Administration within 15 days of the date of the Joint Committee on Taxation letter.
			Issue area coordinator discusses suggested changes with the program division.	
			Program division finalizes letter and forwards it with an action routing slip through the Associate Director for Tax Policy and Administration, GGD, to the Comptroller General for signature.	
			GGD's Issue Area Coordinator for Tax Policy and Administration delivers the letter, with copies of the joint committee letter and the GGD Form 8 enclosed, to the addressee.	
			Copies of the letter and enclosures are provided to --the program division, --the Associate Director for Tax Policy and Administration, GGD, and --GGD's Issue Area Coordinator for Tax Policy and Administration (2 copies).	

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 3

REQUIRED
NOTIFICATION
LETTERS

ADDRESSEE

SIGNER

PROCEDURES

Assignments for which tax information is to be obtained from BATF

Secretary of the
Treasury, Attn
Assistant Secretary
(Enforcement and
Operations),
Department of the
Treasury

cc Director,
Bureau of Alcohol,
Tobacco, and
Firearms.

Inspector General-
Audit Staff,
Department of the
Treasury.

Chief, Internal
Audit, Bureau of
Alcohol, Tobacco,
and Firearms.

Comptroller
General.

Same procedures as for IRS assignments.

Additional copies of letter and enclosures are
provided to the
--Director, Bureau of Alcohol, Tobacco, and
Firearms,
--Inspector General - Audit Staff, Department
of the Treasury, and
--Chief, Internal Audit, Bureau of Alcohol,
Tobacco, and Firearms.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 3

September 24, 1985

REQUIRED
NOTIFICATION
LETTERS

ADDRESSEE

SIGNER

PROCEDURES

Assignments for which tax information is to be obtained from an agency other than IRS or BATF

As appropriate.

Comptroller
General.

Same procedures as for IRS assignments, except that program division delivers letter and enclosures to addressee.

Additional copies of the letter and enclosures are provided as appropriate.

3. Agency liaison Assignments for which tax information is to be obtained from IRS
letter.

Assistant
Commissioner
(Inspection)
Internal Revenue
Service.

GGD's Associate
Director for Tax
Policy and
Administration

Program division prepares draft letter within 15 days of the date of the joint committee letter and sends it to GGD's Issue Area Coordinator for Tax Policy and Administration for review.

Issue area coordinator discusses suggested changes with the program division.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 3

REQUIRED
NOTIFICATION
LETTERS

ADDRESSEE

SIGNER

PROCEDURES

Program division finalizes letter and forwards it to the Associate Director for Tax Policy and Administration, GGD, for signature.

GGD's Issue Area Coordinator for Tax Policy and Administration delivers the letter to the addressee.

Copies of letter are provided to
--the program division,
--the Associate Director for Tax Policy and Administration, GGD, and
--GGD's Issue Area Coordinator for Tax Policy and Administration (2 copies)

Assignments for which tax information is to be obtained from BATE

Chief, Internal Audit,
Bureau of Alcohol, Tobacco,
and Firearms.

GGD's Associate
Director for Tax
Policy and
Administration.

Same procedures as for IRS assignments.

Assignments for which tax information is to be obtained from an agency other than IRS or BATE

As appropriate.

To be determined
by the responsible
program division.

To be determined by the responsible
program division.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

O135.1
Appendix 3

September 24, 1985

REQUIRED
NOTIFICATION
LETTERS

ADDRESSEE

SIGNER

PROCEDURES

Assignments conducted as duly designated agents of
committees authorized access to tax information

1. Agency letter. Assignments for which tax information is to be obtained from IRS

Assistant Commissioner (Inspection) Internal Revenue Service.

GGD's Associate Director for Tax Policy and Administration.

Program division prepares draft letter and forwards to GGD's Issue Area Coordinator for Tax Policy and Administration for review.

Issue area coordinator discusses suggested changes with the program division.

Program division finalizes letter and forwards it to the Associate Director for Tax Policy and Administration, GGD, for signature.

GGD's Issue Area Coordinator for Tax Policy and Administration delivers the letter to the addressee.

Copies of the letter are provided to
--the program division,
--the Associate Director for Tax Policy and Administration, GGD, and
--GGD's Issue Area Coordinator for Tax Policy and Administration (2 copies).

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 3

REQUIRED
NOTIFICATION
LETTERS

ADDRESSEE

SIGNER

PROCEDURES

Assignments for which tax information is to be obtained from BATF

Secretary of the Treasury, Attn Assistant Secretary (Enforcement and Operations), Department of the Treasury

cc Director, Bureau of Alcohol, Tobacco, and Firearms.

Inspector General - Audit Staff, Department of the Treasury.

Chief, Internal Audit, Bureau of Alcohol, Tobacco, and Firearms

GGD's Associate Director for Tax Policy and Administration

Same procedures as for IRS assignments.
Additional copies of letter are provided to the
--Director, Bureau of Alcohol, Tobacco and Firearms,
--Inspector General - Audit Staff, Department of the Treasury, and
--Chief, Internal Audit, Bureau of Alcohol, Tobacco, and Firearms.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

D135 1
Appendix 3

September 24, 1985

<u>REQUIRED NOTIFICATION LETTERS</u>	<u>ADDRESSEE</u>	<u>SIGNER</u>	<u>PROCEDURES</u>
<u>Assignments for which tax information is to be obtained from an agency other than IRS or BATF</u>			
As appropriate.	To be determined by the responsible program division.	Program division prepares draft letter and forwards to GGD's Issue Area Coordinator for Tax Policy and Administration for review.	Issue area coordinator discusses suggested changes with the program division.
			Program division finalizes letter, signs it, and delivers it to addressee.
			Copies of the letter are provided to --the Associate Director for Tax Policy and Administration, GGD, and --GGD's Issue Area Coordinator for Tax Policy and Administration (2 copies).

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 4

APPENDIX 4. SAMPLE JOINT COMMITTEE LETTER

The Honorable Dan Rostenkowski
Chairman, Joint Committee on Taxation
Congress of the United States

Dear Mr. Chairman:

This letter is to notify you that, pursuant to the authority granted to us by 31 U.S.C. 713 and Section 6103 of the Internal Revenue Code, we plan to review the extent to which the Internal Revenue Service (IRS) is required to pay interest to taxpayers for overpayments it receives. Our overall objectives are to (1) assess the potential impact of changes made by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) on interest costs and (2) determine whether IRS could take certain administrative actions to improve its return processing procedures and, thereby, reduce the number and amount of such payments.

Under Section 6611 of the Internal Revenue Code, a taxpayer is entitled to receive interest on an overpayment to IRS if IRS does not issue the refund check within 45 days after the return is due (normally April 15th). In general, the code provides that the interest should be calculated from April 15 until the date the refund check is issued. During fiscal year 1982, IRS paid about \$1.8 billion in interest, up from about \$500 million in fiscal year 1980.

TEFRA gave IRS some measure of relief from paying interest by providing that no interest will be paid until a return is filed in a form suitable for processing. Also, TEFRA changed the means by which interest is to be calculated for delinquent filers. Prior to TEFRA, interest was paid from the due date regardless of whether or not the return was delinquent.

To do this work, it will be necessary for us to have access to returns and return information. For example, we plan to analyze a sample of tax returns on which interest was paid by IRS to identify the circumstances surrounding such payments and to determine whether procedural shortcomings are contributing to the interest payment problem.

Should you or members of your staff have any questions or comments on this proposed assignment, please call Mr. Johnny C. Finch on 275-6407.

Sincerely yours,

Comptroller General
of the United States

31

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 3

September 24, 1985

APPENDIX 5. SAMPLE GAO FORM 319, ACTION ROUTING SLIP

U S GENERAL ACCOUNTING OFFICE
ACTION ROUTING SLIP

B-

	NAME	DATE
	Associate Director, GGD	
1.	(name of Associate Director for Tax Policy and Admin.)	
	Director, GGD	
2.	(name)	
3.	OCR	
4.	Comptroller General	
	Associate Director, GGD	
5.	(same name as in block 1)	
6.		
7.		
8.		
9.		
10.		

REMARKS

Please call (Associate Director's name) on
(telephone number) when letter is signed.
He will date it.

GAO FORM 319 (New Apr 84)

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 6

APPENDIX 6. SAMPLE GAO FORM 8, RECORD OF RECEIPT

GGD Form 8 (2 85)

RECORD OF RECEIPT

Received from the U S General Accounting Office a letter dated _____, notifying the Joint Committee on Taxation of its intent to initiate an audit pursuant to the authority granted the General Accounting Office in P L 95-125 and section 6103 of the Internal Revenue Code

Joint Committee on Taxation

Date Received

Time Received

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 7

September 24, 1985

APPENDIX 7. SAMPLES OF AGENCY HEAD LETTERS

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

Dear Mr. Egger:

Pursuant to the authority granted us in 31 U.S.C. 713 and Section 6103 of the Internal Revenue Code, we are conducting a study of the Internal Revenue Service's Office of Chief Counsel. To effectively carry out our work, we will need access to tax returns and return information.

Pursuant to the procedures noted in Section 6103 of the Code, we notified the Joint Committee on Taxation on May 24, 1983 of our intent to initiate this audit. Copies of our letter and the receipt signed by the joint committee are enclosed.

Accordingly, this letter is to formally notify you of our audit and request access to appropriate tax returns and return information. Mr. Norman Stubenhofer will be in contact with IRS to work out the arrangements for obtaining the necessary information.

Sincerely yours,

Comptroller General
of the United States

Enclosures - 2

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 7

The Honorable Martha A. McSteen
Acting Commissioner of Social Security
Department of Health and Human Services

Dear Mrs. McSteen

Pursuant to the authority granted us by Section 6103 of the Internal Revenue Code, we are initiating a study of the effects of uncredited or erroneously credited earnings on individuals' Social Security eligibility and benefit amounts. To effectively carry out our work, we will need access to tax returns and tax information.

We notified the Joint Committee on Taxation on August 23, 1984, of our intent to initiate this study. Copies of our letter and the receipt signed by the joint committee are enclosed.

Accordingly, this letter is to formally notify you of our study and our requirement for access to appropriate tax returns and return information. Mr. Joseph Delfico or Mr. Joseph Kredatus will contact the agency to work out the arrangements for obtaining the necessary information.

Sincerely yours,

Comptroller General
of the United States

Enclosures - 2

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 8

September 24, 1985

APPENDIX 8. SAMPLES OF LIAISON LETTERS

Use this letter when assignment is self-initiated or being done at request of a member of Congress or a committee not authorized access to tax information.

Mr. Robert L. Rebein
Assistant Commissioner (Inspection)
Internal Revenue Service

Dear Mr. Rebein:

This letter is to notify you that the Information Management and Technology Division of the General Accounting Office plans to initiate an audit (Job Code 510015) of the computer-based systems supporting IRS' information returns program (IRP). The objectives in this regard are to determine (1) whether the IRP computer-based systems contain sufficient internal controls to ensure accurate and reliable data processing; (2) whether the current IRP computer-based systems and document matching methodology are as efficient and effective as possible or whether alternative computerized methodologies would be more efficient and effective; and (3) the potential impact that the Tax Equity and Fiscal Responsibility Act of 1982 will have on the existing IRP computer-based systems regarding capacity to process additional information returns.

On September 12, 1983, we notified the Chairman, Joint Committee on Taxation, of this audit and stated that to carry out the objectives, it would be necessary for us to obtain tax returns and return information from the Internal Revenue Service. Copies of that letter and the joint committee's signed receipt are enclosed. A copy of the Comptroller General's subsequent notification letter to the Commissioner is also enclosed.

We would like to begin work during the week of October 31, 1983. We plan to visit the National Office; National Computer Center, Martinsburg; North Atlantic Region, Andover Service Center; and Western Region, Fresno Service Center. If we need to expand to additional locations, we will identify those for you at a later date.

We would appreciate your advising appropriate officials of our plans. If you have any questions concerning this job please contact me on 275-6407 or Ted Gonter of our Information Management and Technology Division on 275-4797.

Sincerely yours,

Johnny C. Finch
Senior Associate Director

Enclosures - 3

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 8

Use this letter when assignment is conducted as duly designated agent.

Mr. Robert L. Rebein
Assistant Commissioner (Inspection)
Internal Revenue Service

Dear Mr. Rebein

This letter is to notify you of our intent to conduct a study of the use of the research and experimentation tax credit at the request (copy enclosed) of the House Committee on Ways and Means (Job Code 268189). Our work, which will be conducted pursuant to section 6103(f)(4)(A) of the Internal Revenue Code, pertains to section 44F which provides a 25-percent income tax credit for certain incremental research and development expenditures related to a trade or business. The Committee would like GAO to provide information and data on the (1) characteristics of users of the credit and (2) specific purposes for credit-related research and development expenditures. To carry out this work, we will need access to tax returns and return information.

Our work will be done at IRS' National Office, including the Office of Chief Counsel; its Midwest, Southeast, and Central Regional Offices; its Detroit data center, and its service centers in Chamblee, Kansas City, and Cincinnati. We also plan to carry out work at IRS district offices in Atlanta, Birmingham, Chicago, Cincinnati, Cleveland, Columbia, Des Moines, Detroit, Jacksonville, Milwaukee, St. Louis, and Springfield. If we need to do work in other locations, we will identify those locations for you at a later date.

We plan to initiate this study on March 5, 1984. We would appreciate your notifying the appropriate officials of our plans. If you have any questions, please call me at 275-6407. Thank you for your cooperation.

Sincerely yours,

Johnny C. Finch
Senior Associate Director

Enclosure

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

September 24, 1985

0135.1
Appendix 10

**APPENDIX 10. CONDITIONS UNDER WHICH GAO WILL ACCEPT FROM THE CONGRESS NAMES
OF TAXPAYERS WHEN AUDITING IRS' ADMINISTRATION OF THE TAX LAWS**

1. STATEMENT OF PRINCIPLE.

a. GAO's policy is not to investigate and report on the tax status of specific taxpayers identified for GAO by others. GAO officials articulated this policy in testimony given before a congressional committee considering passage of the bill which became Public Law 95-125 (now codified at 31 U.S.C. 713)

In performing an audit of IRS, [GAO] would not be concerned with the identity of individual taxpayers, nor . . . would [GAO] impose [its] judgment upon that of IRS in individual tax cases. [GAO] would examine the individual transactions on a sample basis and only for the purpose of evaluating the effectiveness of IRS' operations and activities."

In addition, the legislative history of Public Law 95-125 indicated that

"The purpose of the legislation is to resolve . . . the right of GAO to gain access to records necessary to perform regular audits of the Service. . . .

"[The legislation] scrupulously safeguards the privacy and integrity of income tax returns and information from unauthorized disclosure."
(H.R. Rep. No. 95-480)

b. In accordance with this policy, GAO audits of IRS' administration of the tax laws will normally be based on a random sampling from appropriate universes of tax information rather than on a preselection of individual returns. The circumstances and procedures under which GAO will accept from committees and Members of Congress the names of taxpayers suspected of incorrectly reporting income, expenses, or deductions on their returns are set forth in the guidelines stated in the paragraphs below.

2. WORK DONE UNDER GAO AUTHORITY. When GAO initiates a review pursuant to 31 U.S.C. 713 and section 6103(1)(7) of the Internal Revenue Code, tax information will be obtained by sampling from appropriate universes.

a. Receipt of Names from Tax Writing Committees and Appropriate Oversight Committees or Subcommittees.

(1) If the House Ways and Means Committee, Senate Finance Committee, Joint Committee on Taxation, or committees or subcommittees having a jurisdictional interest in the administration of the tax laws have knowledge of possible incorrect reporting of income, expenses, or deductions on returns by specific taxpayers and want to provide the names of such taxpayers to GAO for audit purposes, GAO will first suggest that they give the information directly to the Internal Revenue Service. If these committees still want to give the taxpayers'

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 10

names to GAO, GAO will accept them upon receipt of a letter signed by the chairman of the committee or subcommittee or by the Chief of Staff of the Joint Committee on Taxation.

(2) GAO will not accept taxpayers' names for audit purposes from any other congressional committee or Member. GAO will advise other committees and Members that they should send the names directly to the Internal Revenue Service.

b. General Operating Procedures.

(1) GAO may analyze the tax information provided to it by the tax writing committees or by committees or subcommittees having a jurisdictional interest in the administration of the tax laws to gain a better understanding of the issues involved in an ongoing or planned review GAO might make of the way IRS administers the tax laws.

(2) GAO will not intentionally incorporate any names or information so provided into any samples it draws to carry out its audits of IRS' administration of the tax laws. However, if such names are selected as part of a random sampling of appropriate universes, GAO will analyze the circumstances of that taxpayer in the same way it would for all taxpayers so selected.

(3) GAO will not report or disclose to anyone outside of IRS or GAO the names of taxpayers included in its samples or any information on sampled taxpayers. Nor will GAO advise anyone who gave it taxpayers' names or any information obtained by GAO about those taxpayers.

(4) The disclosure restrictions cited above are consistent with the December 15, 1977, conclusion of the GAO General Counsel that:

". . . except when we act as agents of a committee or subcommittee pursuant to section 6103(f)(4), we do not believe that section 6103 authorizes us to disclose to a committee or subcommittee of Congress any tax return or any return information obtained during the course of a self-initiated audit of IRS."

3. WORK DONE UNDER COMMITTEE AUTHORITY.

a. When designated by the House Ways and Means Committee, Senate Finance Committee, or Joint Committee on Taxation pursuant to section 6103(f)(4) of the Internal Revenue Code, GAO can accept the names of taxpayers from such committees and report back information on such taxpayers to those committees. GAO can do the same when designated by other committees acting pursuant to an appropriate congressional resolution under the provisions of section 6103(f)(4) of the Internal Revenue Code.

b. However, even in these cases it is GAO policy to encourage the above-mentioned committees to provide the names of specific taxpayers directly to the Internal Revenue Service if there is any suspicion on the committees' part that the taxpayers have incorrectly reported income, expenses, or deductions.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

September 24, 1985

0135.1
Appendix 11

APPENDIX 11. SAMPLE FORMATS FOR ANNUAL REPORT

1. Sample format for open recommendations to the Congress.

SELF-EMPLOYMENT INCOME REPORTED
FOR CREDIT TOWARD SOCIAL SECURITY
BENEFITS ALTHOUGH TAX NOT PAID

B-137762
8-9-73
and
GGD-77-78
8-8-77

Summary of finding

IRS reports to the Social Security Administration the amount self-employed persons designate on their income tax returns as self-employment income even though such persons may not have paid the applicable self-employment social security tax. The self-employed person thus receives credit toward social security benefits even if that person has not made the required contribution.

Recommendation

We recommended that the Congress amend section 205(c) of the Social Security Act (42 U.S.C. 405(c)) to prohibit a person from receiving credits toward social security benefits if that person has not paid the required tax on self-employed income.

Action taken and/or pending

During the 95th Congress, the Chairman of the Ways and Means Oversight Subcommittee introduced H.R. 12565, the "Self-Employment Tax Payments Act of 1978," which contained the substance of our recommendation. However, no action was taken on the bill.

In 1979 the Chairman of the Ways and Means Oversight Subcommittee reintroduced the bill which was renumbered as H.R. 5465 and was referred to the Subcommittee on Social Security. The subcommittee did not take action on the bill during the 96th Congress. No further action has been taken.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

September 24, 1985

0135.1
Appendix 11

2. Sample format for legislative action taken during the year on recommendations.

DELINQUENT TAXPAYERS DUE REFUNDS
ARE NOT PENALIZED FOR FILING LATE

GGD-79-69
B-137762
7-11-79

Summary of finding

Section 6651(a) of the Internal Revenue Code does not encourage nonfilers due refunds to file on time because they are not penalized for filing late. Late filing penalties are assessed only on nonfilers who owe taxes.

Recommendation

We recommended that the Congress amend section 6651(a) of the Internal Revenue Code to provide for a similar late filing penalty on nonfilers due refunds.

Action taken and/or pending

The Tax Equity and Fiscal Responsibility Act of 1982 adopted our recommendation by providing for a penalty when an income tax return is not filed within 60 days of the due date, whether or not taxes are owed.

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 11

3. Sample format for recommendations made to the heads of federal agencies concerning the administration of taxes and/or the use of tax information.

IRS HAS NOT REVIEWED THE FINANCIAL
SOUNDNESS OF THE TEAMSTERS' CENTRAL
STATES PENSION FUND

HRD-82-13
B-199238
4-28-82

Summary of finding

ERISA requires that employee pension plans satisfy minimum funding standards each year and that each plan submit an annual report and actuarial data to enforce ERISA's minimum funding standards.

Since 1975, the trustees of the Teamsters' Central States Southeast and Southwest Areas Pension Fund have had five actuarial valuations of the fund's financial soundness. The last report, issued on April 3, 1981, stated that the current funding should satisfy ERISA's requirements and that the fund is operating on a sound financial basis. However, the actuary's report described some problems and situations that could have serious financial implications for the fund. Consequently, the actuary recommended that until the effects of deregulation on the trucking industry and the Multi-Employer Amendments Act of 1980 can be evaluated, the fund should adopt a conservative posture with respect to any liberalizing of benefits. Moreover, the actuary's April 1981 report showed that the fund's unfunded accrued liability for current and future pension benefits was about \$6.05 billion at January 1, 1980. In this regard, IRS needs to closely monitor the financial status of the fund to assure that it, in fact, meets ERISA's funding standards.

Recommendation

We recommended that the Commissioner of Internal Revenue direct IRS officials to closely monitor the fund's financial operations to ascertain that the fund meets the minimum funding standards of ERISA and, if not, take whatever action is needed to assure that the fund meets the act's requirements.

Action taken and/or pending

IRS stated that the fund's July 1982 annual report would be thoroughly examined to ensure compliance with the minimum funding standards.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 11

September 24, 1985

4. Sample format for reports on tax matters.

REPORTS ON TAX MATTERS ISSUED DURING 1982

<u>Title</u>	<u>Date</u>
Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9)	1/4/82
Excessive Specifications Are Limiting Competition for IRS Special Design Tax Return Folders (GGD-82-61)	3/24/82
Investigation to Reform Teamsters' Central States Pension Fund Found Inadequate (HRD-82-13)	4/28/82
The Federal Government Can Save \$1.7 Million Annually by Eliminating Strip Stamps (GAO/GGD-82-60)	5/7/82
Uncertainties about the Definition and Scope of the Property Concept May Reduce Windfall Profit Tax Revenues (GAO/GGD-82-48)	5/13/82
Key Issues Affecting State Taxation of Multi-jurisdictional Corporate Income Need Resolving (GAO/GGD-82-38)	7/1/82
Impact of the Paperwork Reduction Act on the Internal Revenue Service's Ability to Administer the Tax Laws (GAO/GGD-82-90)	7/6/82
Compilation of GAO's Work on Tax Administration Activities During 1981 (GAO/GGD-82-82)	7/22/82
Further Research into Noncompliance is Needed to Reduce Growing Tax Losses (GAO/GGD-82-34)	7/23/82
Changes to Appeals Process Could Improve Settlements and Increase Taxpayers' Satisfaction (GAO/GGD-82-54)	7/28/82

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 11

5. Sample format for testimony on tax matters given by GAO officials during the year.

TESTIMONY ON TAX MATTERS
GIVEN BY GAO OFFICIALS DURING 1982

<u>GAO Official</u>	<u>Congressional Committee</u>	<u>Subject Matter</u>	<u>Date</u>
William J. Anderson, Director, General Government Division	Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations	Adequacy of IRS' Resources	3/17/82
Morton A. Myers, Director, Program Analysis Division	Senate Finance Committee	Taxation of In- surance Companies	3/18/82
William J. Anderson, Director, General Government Division	Subcommittee on Oversight of the Internal Revenue Service, Senate Finance Committee	Senate Bill 2198, Taxpayer Compliance Improvement Act of 1982	3/22/82
William J. Anderson, Director, General Government Division	Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs	Status of IRS' Taxpayer Service Program	3/24/82
Daniel F. Stanton, Deputy Director, General Government Division	Subcommittee on Oversight of the Internal Revenue Service, Senate Committee on Finance	Senate Bill 2369, Independent Contractor Tax Classification and Compliance Act of 1982	4/26/82
William J. Anderson, Director, General Government Division	Subcommittee on Oversight, House Committee on Ways and Means	IRS Policies and Procedures to Safeguard Taxpayer Rights and the Effects of Certain Provisions of the 1976 Tax Reform Act	4/26/82

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

0135.1
Appendix 11

September 24, 1985

6. Sample format for scope and subject matter of audits requiring access to tax information initiated during the year.

SCOPE AND SUBJECT MATTER OF
JOBS INITIATED DURING 1982
PURSUANT TO 31 U.S.C. 713

<u>Subject matter</u>	<u>Objective/scope</u>	<u>Month started</u>
IRS Taxpayer Assistance	To obtain information on who uses IRS assistance and what assistance the users or taxpayers in general need. To evaluate the resulting data to determine how IRS could use its limited resources more effectively.	January
Multi-Employer Pension Plan Amendments Act of 1980	<p>To assess the impact of the act and its provisions on (1) participants, beneficiaries, employers, employee organizations, and other affected parties, and (2) the self-sufficiency of the insurance fund established to guarantee payment of basic benefits of insolvent multi-employer plans.</p> <p>To address the usability of multi-employer pension plan data maintained by the government.</p> <p>To monitor efforts of IRS, Labor, and Pension Benefit Guaranty Corporation to administer the act.</p> <p>To assess effects of the basic withdrawal liability provisions of the act.</p>	January

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 12

APPENDIX 12. 31 U.S.C. 713, 719(d)

AUTHORITY TO AUDIT IRS (31 U.S.C. 713)

(a) Under regulations of the Comptroller General, the Comptroller General shall audit the Internal Revenue Service and the Bureau of Alcohol Tobacco, and Firearms, of the Department of the Treasury. An audit under this section does not affect a final decision of the Secretary of the Treasury under section 6406 of the Internal Revenue Code of 1954 (26 U.S.C. 6406).

(b)(1) To carry out this section and to the extent provided by and only subject to section 6103 of the Internal Revenue Code of 1954 (26 U.S.C. 6103)—

(A) returns and return information (as defined in section 6103(b) of the Internal Revenue Code of 1954 (26 U.S.C. 6103(b))) shall be made available to the Comptroller General, and

(B) records and property of, or used by, the Service or the Bureau, shall be made available to the Comptroller General.

(2) At least once every 6 months, the Comptroller General shall designate each officer and employee of the General Accounting Office by name and title to whom returns, return information, or records or property of the Service or the Bureau that can identify a particular taxpayer may be made available. Each designation or a certified copy of the designation shall be sent to the Committee on Finance of the Senate, the Committee on Ways and Means of the House of Representatives, the Committee on Governmental Affairs of the Senate, the Committee on Government Operations of the House, the Joint Committee on Taxation, the Commissioner of Internal Revenue, and the Director of the Bureau.

(3) Except as expressly provided by law, an officer or employee of the Office may make known information derived from a record or property of, or in use by, the Service or the Bureau that can identify a particular taxpayer only to another officer or employee of the Office whose duties or powers require that the record or property be made known.

ANNUAL REPORT TO CONGRESSIONAL COMMITTEES (31 U.S.C. 719(d))

(d) The Comptroller General shall report each year to the Committees on Finance and Governmental Affairs of the Senate, the Committees on Ways and Means and Government Operations of the House of Representatives, and the Joint Committee on Taxation. Each report shall include—

(1) procedures and requirements the Comptroller General, the Commissioner of Internal Revenue, and the Director of the Bureau of Alcohol, Tobacco, and Firearms, prescribe to protect the confidentiality of returns and return information made available to the Comptroller General under section 715(b)(1) of this title,

(2) the scope and subject matter of audits under section 713 of this title, and

(3) findings, conclusions, or recommendations the Comptroller General develops as a result of an audit under section 713 of this title, including significant evidence of inefficiency or mismanagement.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 13

September 24, 1985

APPENDIX 13. GAO ACCESS TO TAX INFORMATION AUTHORIZED
IN 26 U.S.C. 6103(i)(7)

(A) Comptroller General —

(A) Returns available for inspection —Except as provided in subparagraph (C) upon written request by the Comptroller General of the United States, returns and return information shall be open to inspection by, or disclosure to, officers and employees of the General Accounting Office for the purpose of and to the extent necessary in making—

(i) an audit of the Internal Revenue Service or the Bureau of Alcohol, Tobacco and Firearms which may be required by section 713 of title 31, United States Code or

(ii) any audit authorized by subsection (p)(6),

except that no such officer or employee shall, except to the extent authorized by subsection (f) or (p)(6), disclose to any person other than another officer or employee of such office whose official duties require such disclosure any return or return information described in section 4424(a) in a form which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer, nor shall such officer or employee disclose any other return or return information except as otherwise expressly provided by law, to any person other than such officer or employee of such office in a form which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer

(B) Audits of other agencies —

(i) In general —Nothing in this section shall prohibit any return or return information obtained under this title by any Federal agency (other than an agency referred to in subparagraph (A)) for use in any program or activity from being open to inspection by, or disclosure to, officers and employees of the General Accounting Office if such inspection or disclosure is—

(I) for purposes of, and to the extent necessary in making an audit authorized by law of such program or activity, and

(II) pursuant to a written request by the Comptroller General of the United States to the head of such Federal agency

(ii) Information from secretary —If the Comptroller General of the United States determines that the returns or return information available under clause (i) are not sufficient for purposes of making an audit of any program or activity of a Federal agency (other than an agency referred to in subparagraph (A)), upon written request by the Comptroller General to the Secretary, returns and return information (of the type authorized by subsection (i) or (ii)) to be made available to the Federal agency for use in such program or activity shall be open to inspection by, or disclosure to, officers and employees of the General Accounting Office for the purpose of and to the extent necessary in making such audit

(iii) Requirement of notification upon completion of audit —Within 90 days after the completion of an audit with respect to which returns or return information were opened to inspection or disclosed under clause (i) or (ii), the Comptroller General of the United States shall notify in writing the Joint Committee on Taxation of such completion. Such notice shall include—

(I) a description of the use of the returns and return information by the Federal agency involved,

(II) such recommendations with respect to the use of returns and return information by such Federal agency as the Comptroller General deems appropriate, and

(III) a statement on the impact of any such recommendations on confidentiality of returns and return information and the administration of this title.

(iv) Certain restrictions made applicable —The restrictions contained in subparagraph (A) on the disclosure of any returns or return information open to inspection or disclosed under such subparagraph shall also apply to returns and return information open to inspection or disclosed under this subparagraph

(C) Disapproval by Joint Committee on Taxation —Returns and return information shall not be open to inspection or disclosed under subparagraph (A) or (B) with respect to an audit—

(i) unless the Comptroller General of the United States notifies in writing the Joint Committee on Taxation of such audit, and

(ii) if the Joint Committee on Taxation disapproves such audit by a vote of at least two-thirds of its members within the 30-day period beginning on the day the Joint Committee on Taxation receives such notice

48

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 14

**APPENDIX 14. PROCEDURES AND RECORDKEEPING TO SAFEGUARD
TAX INFORMATION IN 26 U.S.C. 6103(p)(1)
THROUGH (p)(6)**

(p) Procedure and Recordkeeping.—

(1) **Manner, time, and place of inspections**—Requests for the inspection or disclosure of a return or return information and such inspection or disclosure shall be made in such manner and at such time and place as shall be prescribed by the Secretary

(2) Procedure —

(A) **Reproduction of returns**—A reproduction or certified reproduction of a return shall upon written request be furnished to any person to whom disclosure or inspection of such return is authorized under this section. A reasonable fee may be prescribed for furnishing such reproduction or certified reproduction.

(B) **Disclosure of return information**—Return information disclosed to any person under the provisions of this title may be provided in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically produced tapes, disks, or records, or by any other mode or means which the Secretary determines necessary or appropriate. A reasonable fee may be prescribed for furnishing such return information.

(C) **Use of reproductions**—Any reproduction of any return, document, or other matter made in accordance with this paragraph shall have the same legal status as the original, and any such reproduction shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding as if it were the original, whether or not the original is in existence.

(3) Records of inspection and disclosure.—

(A) **System of recordkeeping**—Except as otherwise provided by this paragraph the Secretary shall maintain a permanent system of standardized records or accountings of all requests for inspection or disclosure of returns and return information (including the reasons for and dates of such requests) and of returns and return information inspected or disclosed under this section. Notwithstanding the provisions of section 552a(c) of title 5 United States Code, the Secretary shall not be required to maintain a record or accounting of requests for inspection or disclosure of returns and return information or of returns and return information inspected or disclosed, under the authority of subsections (c), (e), (h)(1), (j)(A), or (4), (i)(4) or (7)(A)(u), (k)(1), (2), or (6), (1)(1), (4)(B), (5), (7), (8), (9), (10), or (11), (m) or (n). The records or accountings required to be maintained under this paragraph shall be available for examination by the Joint Committee on Taxation or the Chief of Staff of such joint committee. Such record or accounting shall also be available for examination by such person or persons as may be but only to the extent, authorized to make such examination under section 552a(c)(3) of title 5 United States Code.

(B) **Report by the Secretary**—The Secretary shall, within 90 days after the close of each calendar year, furnish to the Joint Committee on Taxation a report with respect to, or summary of the records or accountings described in subparagraph (A) in such form and containing such information as such joint committee or the Chief of Staff of such joint committee may designate. Such report or summary shall not, however, include a record or accounting of any request by the President under subsection (g) for, or the disclosure in response to such request of any return or return information with respect to any individual who, at the time of such request, was an officer or employee of the executive branch of the Federal Government. Such report or summary, or any part thereof, may be disclosed by such joint committee to such persons and for such purposes as the joint committee may, by record vote of a majority of the members of the joint committee, determine.

Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information

0135.1
Appendix 14

September 24, 1985

(C) Public report on disclosures—The Secretary shall within 90 days after the close of each calendar year, furnish to the Joint Committee on Taxation for disclosure to the public a report with respect to the records or accountings described in subparagraph (A) which—

(i) provides with respect to each Federal agency, each agency, body, or commission described in subsection (d), (j)(3)(B)(i), or (l)(6), and the General Accounting Office the number of—

(I) requests for disclosure of returns and return information,

(II) instances in which returns and return information were disclosed pursuant to such requests or otherwise,

(III) taxpayers whose returns, or return information with respect to whom, were disclosed pursuant to such requests, and

(ii) describes the general purposes for which such requests were made

(4) Safeguards—Any Federal agency described in subsection (h)(2), (h)(6), (j)(1), (2), (3), or (5), (j)(1) or (2), (l)(1), (2), (3), (5), (10), or (11) or (o)(1), the General Accounting Office or any agency, body, or commission described in subsection (d), (j)(3)(B)(i), or (l)(6), (7), (8), or (9) shall as a condition for receiving returns or return information—

(A) establish and maintain, to the satisfaction of the Secretary, a permanent system of standardized records with respect to any request the reason for such request, and the date of such request made by or of it and any disclosure of return or return information made by or to it,

(B) establish and maintain, to the satisfaction of the Secretary, a secure area or place in which such returns or return information shall be stored

(C) restrict, to the satisfaction of the Secretary, access to the returns or return information only to persons whose duties or responsibilities require access and to whom disclosure may be made under the provisions of this title;

(D) provide such other safeguards which the Secretary determines (and which he prescribes in regulations) to be necessary or appropriate to protect the confidentiality of the returns or return information,

(E) furnish a report to the Secretary, at such time and containing such information as the Secretary may prescribe, which describes the procedures established and utilized by such agency, body, or commission or the General Accounting Office for ensuring the confidentiality of returns and return information required by this paragraph; and

(F) upon completion of use of such returns or return information—

(i) in the case of an agency, body, or commission described in subsection (d), (j)(3)(B)(i), or (l)(6), (7), (8), or (9) return to the Secretary such returns or return information (along with any copies made therefrom) or make such returns or return information undisclosable in any manner and furnish a written report to the Secretary describing such manner; and

(ii) in the case of an agency described in subsections (h)(2), (h)(6), (j)(1), (2), (3), or (5), (j)(1) or (2), (l)(1), (2), (3), (5), (10), or (11) or (o)(1), or the General Accounting Office, either—

(I) return to the Secretary such returns or return information (along with any copies made therefrom),

(II) otherwise made such returns or return information undisclosable, or

(III) to the extent not so returned or made undisclosable, ensure that the conditions of subparagraphs (A), (B), (C), (D), and (E) of this paragraph continue to be met with respect to such returns or return information,

except that the conditions of subparagraphs (A), (B), (C), (D), and (E) shall cease to apply with respect to any return or return information if, and to the extent that, such return or return information is disclosed in the course of any judicial or administrative proceeding and made a part of the public record thereof. If the Secretary determines that any such agency, body, or commission or the General Accounting Office has failed to, or does not, meet the requirements of this paragraph, he may, after any proceedings for review established under paragraph (7), take such actions as are necessary to ensure such requirements are met, including refusing to disclose returns or return information to such agency, body, or commission or the General Accounting Office until he determines that such requirements have been or will be met. In the case of any agency which receives any mailing address under subsection (m)(2) or (4) and which discloses any such mailing address to any agent, this paragraph shall apply to such agency and each such agent (except that in the case of an agent, any report to the Secretary or other action with respect to the Secretary shall be made or taken through such agency)

**Appendix VII
GAO Order Relating to Audit Assignments
Involving Access to Tax Information**

September 24, 1985

0135.1
Appendix 14

(5) **Report on procedures and safeguards.**—After the close of each calendar quarter, the Secretary shall furnish to each committee described in subsection (f)(1) a report which describes the procedures and safeguards established and utilized by such agencies, bodies or commissions and the General Accounting Office for ensuring the confidentiality of returns and return information as required by this subsection. Such report shall also describe instances of deficiencies in, and failure to establish or utilize, such procedures.

(6) **Audit of procedures and safeguards —**

(A) **Audit by Comptroller General.**—The Comptroller General may audit the procedures and safeguards established by such agencies, bodies or commissions pursuant to this subsection to determine whether such safeguards and procedures meet the requirements of this subsection and ensure the confidentiality of returns and return information. The Comptroller General shall notify the Secretary before any such audit is conducted.

(B) **Records of inspection and reports by the Comptroller General.**—The Comptroller General shall—

(i) maintain a permanent system of standardized records and accounting of returns and return information inspected by officers and employees of the General Accounting Office under subsection (i)(7)(A)(ii) and shall within 90 days after the close of each calendar year furnish to the Secretary a report with respect to or summary of such records or accountings in such form and containing such information as the Secretary may prescribe; and

(ii) furnish an annual report to each committee described in subsection (f) and to the Secretary setting forth his findings with respect to any audit conducted pursuant to subparagraph (A).

The Secretary may disclose to the Joint Committee any report furnished to him under clause (i).

71

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