

**GAO**

United States General Accounting Office

Report to the Joint Committee on  
Taxation  
Congress of the United States

July 1986

# TAX POLICY

## Options for Speeding Tax Refunds and Reducing IRS' Interest Costs



026173

---

---



United States  
General Accounting Office  
Washington, D.C. 20548

---

**General Government Division**

B-222342

July 28, 1986

The Honorable Bob Packwood  
Chairman, Joint Committee on Taxation

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

This report examines the requirements under which the Internal Revenue Service pays taxpayers interest on tax refunds. It discusses several changes to the Internal Revenue Code that the Congress may wish to consider in order to reduce interest payments and create a greater incentive to speed the processing of tax refunds. It also recommends that the Commissioner of Internal Revenue take steps to accelerate the issuance of certain refunds claimed on amended returns.

Copies of this report are being sent to the Secretary of the Treasury, the Acting Commissioner of Internal Revenue, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "W. J. Anderson".

William J. Anderson  
Director

---

# Executive Summary

---

## Purpose

When refunding overpaid taxes, IRS is sometimes required to pay interest for the period of time that the government has had the use of the taxpayers' money. Because the interest paid to taxpayers has amounted to over \$1 billion annually since fiscal year 1981, GAO reviewed such payments to determine whether changes to the requirements for paying interest and/or to IRS' operating procedures could be conducive to speeding the payment of taxpayer refunds while reducing the government's interest costs.

---

## Background

IRS must pay interest if it fails to issue an income tax refund within 45 days of the date that the taxes were overpaid. (The overpayment date is the due date of the tax return or the filing date, whichever is later). The 45-day interest-free period provides an incentive for IRS to issue prompt refunds because once the 45-day period is exceeded, IRS must pay interest as if an interest-free period did not exist.

IRS does not have an interest-free period for refunds of non-income-based taxes, such as employment taxes and excise taxes, or for refunds claimed on amended returns. In the case of refunds claimed on amended returns, IRS may pay several years of interest because it must pay interest back to either the due date or the filing date, whichever is later, of the original tax return that is being amended.

---

## Results in Brief

IRS could achieve interest savings and some taxpayers could expect to receive earlier refunds if IRS

- had an interest-free period to issue refunds claimed on amended returns,
- issued refunds on some amended returns before examining the refund claim, and
- had an interest-free period to issue refunds of non-income-based taxes.

GAO estimates that not having these items in place resulted in IRS incurring increased interest costs for returns processed in fiscal year 1983. GAO's findings are based on its analysis of 4,065 interest payments made during that fiscal year

---

## Findings

---

### Granting IRS an Interest-Free Period for Processing Amended Returns

GAO found that IRS paid \$1.5 million in interest while processing the amended return refunds that it issued within 45 days. (See p. 17.)

### Issuing Certain Refund Claims Sooner

Refunds on amended returns are sometimes not paid until a detailed examination of the return is completed. GAO found that (1) IRS took almost twice as long to process refunds on amended returns that were subjected to a detailed examination as it did to process returns that were subjected to IRS' normal processing procedures, and (2) only 12 percent of these detailed examinations resulted in additional assessments of taxes. The increased interest costs associated with delaying these refunds amounted to \$37.6 million.

GAO believes that IRS could issue some of these refunds before conducting a detailed examination, while retaining the discretion to hold payment on those returns which it determined had a high potential for disallowance (IRS already does this when processing original tax returns). (See p. 18.)

### Allowing IRS an Interest-Free Period to Process Non-Income Based Returns

GAO estimated that IRS paid at least \$3 million in interest costs during 1983 on non-income-based returns that it processed within 45 days of receipt. (See p. 24.)

---

## Matters for Consideration by the Congress

The Congress should consider amending the tax code to give IRS an interest-free period to process

- all amended return claims for refunds, and
- all non-income-based tax refunds.

GAO does not specify the length such a period should be but notes that a 45-day interest-free period would make the treatment of these returns consistent with the treatment of original income tax returns.

---

**Recommendation to the  
Commissioner of  
Internal Revenue**

For those refund claims that IRS currently subjects to detailed examination, GAO recommends that the Commissioner amend IRS' procedures to provide for issuing certain refunds before making a detailed examination of the refund claim. The criteria for making these refunds should recognize the need for IRS to continue to hold certain refunds having a high potential for disallowance

---

**Agency Comments**

The Department of the Treasury agrees that the Congress should consider providing IRS with an interest-free period for processing refund claims filed on amended returns and claims for refund of non-income-based taxes. IRS agrees with the recommendation that it issue certain refunds before a detailed examination and will review its criteria to determine if more claims can be released. (See pp. 21 and 26 )

---

---

# Contents

<hr/>	
<b>Executive Summary</b>	2
<hr/>	
<b>Chapter 1</b>	8
<b>Introduction</b>	
Background	8
Despite Efforts to Reduce Interest Payments, They Remain Significant	11
Objectives, Scope, and Methodology	12
<hr/>	
<b>Chapter 2</b>	16
<b>Interest Payments Could Be Reduced on Amended Returns and Some Taxpayers Could Receive Earlier Refunds</b>	
IRS Does Not Have an Interest-Free Period to Process Refunds Claimed on Most Amended Returns	16
Granting IRS an Interest-Free Period to Process Amended Returns Would Reduce Interest Payments and Could Result in Faster Refunds	17
Additional Interest Savings Could Result From Issuing Some Refunds Before Examination	18
Conclusions	20
Matter for Consideration by the Congress	21
Recommendation to the Commissioner of Internal Revenue	21
Agency Comments	21
<hr/>	
<b>Chapter 3</b>	24
<b>An Interest-Free Processing Period for Non-Income-Based Returns Could Result in Savings</b>	
IRS Does Not Have an Interest-Free Period to Process Non-Income-Based Returns	24
An Interest-Free Processing Period Could Reduce Interest on Non-Income-Based Returns	25
Conclusions	26
Matter for Consideration by the Congress	26
Agency Comments	26
<hr/>	
<b>Appendixes</b>	
Appendix I: Advance Comments From the Commissioner of Internal Revenue	28
Appendix II: Advance Comments From the Department of the Treasury	29
Appendix III: Sampling Methodology and Results	31



<b>Tables</b>	Table 1.1: Interest Paid in Fiscal Year 1985 on Refunds for Which IRS Has a 45-Day Interest-Free Processing Period	9
	Table 1.2: Interest Paid in Fiscal Year 1985 on Refunds for Which IRS Does Not Have an Interest-Free Processing Period	10
	Table 2.1: Average Time to Process Examined and Nonexamined Amended Returns With Refunds	19
	Table 2.2: Changes to Refunds as a Result of Examination	20
	Table 3.1: Types, Number, and Amount of Non-Income-Based Tax Refunds and Interest (Fiscal Year 1985)	25
	Table 3.2: Projected Processing Days and Interest Paid on Non-Income-Based Refunds (Fiscal Year 1983)	25
	Table III.1: Fiscal Year 1983 Interest Payments by Type of Refund	32
	Table III.2: Analysis of Fiscal Year 1983 IRS Interest Payments for the Time Between the Receipt of Amended Returns and Issuance of the Refunds	33
	Table III.3: Analysis of Fiscal Year 1983 Interest Payments for Refunds Subject to Examination and Detailed Review	33
	Table III.4: Analysis of IRS Interest Payments for Non-Income-Based Returns	34
	Table III.5: Analysis of the Portion of Interest Payments Represented by Tax Returns Reviewed (Amended Returns)	35

<b>Figure</b>	Figure 1.1: IRS Interest Payments and Interest Rates (1980-1985)	12
---------------	--	----

**Abbreviations**

GAO	General Accounting Office
IRS	Internal Revenue Service
TEFRA	Tax Equity and Fiscal Responsibility Act

# Introduction

---

Taxpayers who receive refunds from the Internal Revenue Service (IRS) may also receive interest payments for the time the government has use of their money. Interest paid to taxpayers has amounted to over \$1 billion annually since fiscal year 1981

---

## Background

The Internal Revenue Code of 1954, as amended (26 U.S.C. §6402), authorizes IRS to refund overpaid taxes. Overpayments on taxes can occur when, for example,

- the tax owed at the time a taxpayer files his or her tax return is less than the amount the taxpayer has had withheld or has paid through estimated installments,
- a taxpayer recomputes a prior year's tax liability and files an amended return showing taxes were overpaid, or
- IRS examines a return and determines that taxes were overpaid.

Under section 6611 of the code, IRS is sometimes required to pay interest on overpayments. In the Senate Finance Committee report on the Revenue Act of 1924,<sup>1</sup> the Committee reasoned that if money was not legally owed to the government, then the government should pay a reasonable rate of interest for using it.

Subsequent to the 1924 Act, the Congress made several changes to the tax code pertaining to the payment of interest on tax refunds. In 1954, the code was amended to allow IRS to forego interest payments on refunds of income taxes it made within 45 days of the last date prescribed for filing the return (normally April 15 for individual filers). In recognition of IRS' inability to process a refund within 45 days of the filing due date when taxpayers filed late or were granted an extension, a 1966 change to the code gave IRS 45 interest-free days from the filing due date or the receipt date of a return, whichever is later. In 1982, another change stipulated that the 45-day period did not begin until a taxpayer filed a "processable" return. A processible return is one which is filed on a permitted form, contains sufficient taxpayer identifiers, and can be mathematically verified by IRS. Other changes in 1980 and 1982 provided IRS with a 45-day interest-free period to process refunds of windfall profits taxes and refunds resulting from the carryback of losses or tax credits to prior tax periods.

---

<sup>1</sup>S Rept No 398, 68th Cong, 1st Sess 45 (1924)

Whether or not IRS has an interest-free processing period depends primarily on the type of tax being refunded. For refunds of most income-based taxes, IRS has been granted a 45-day interest-free processing period. If IRS takes longer than 45 days, it must pay interest as if an interest-free period did not exist. For refunds of most non-income-based taxes and other refunds that are made after the initial processing of a return, IRS generally does not have an interest-free processing period and must pay interest from the later of the return due date or receipt date, regardless of processing time. Our review of the legislative history did not enable us to identify why an interest-free processing period is provided for some types of returns but not others.

The requirements governing IRS payments of interest, together with the amounts refunded and the interest paid in fiscal year 1985, are shown in table 1.1 (refunds with an interest-free processing period) and table 1.2 (refunds without an interest-free period).

**Table 1.1: Interest Paid in Fiscal Year 1985 on Refunds for Which IRS Has a 45-Day Interest-Free Processing Period**

Dollars in millions			
Type of refund	Interest requirements if IRS processing exceeds 45 days	Amount refunded	Interest paid
Individual income tax refunds	IRS must pay interest from the later of the tax due date or the receipt date of the tax return until the date IRS authorizes the refund	\$64,367.7	\$288.9
Corporate income tax refunds and tax exempt organization tax refunds	(Same as above)	6,501.3	144.9
Windfall profits tax refunds	(Same as above)	322.3	222.5
Refunds resulting from taxpayer applications to carry back current year tax losses or tax credits to a prior tax year	IRS must pay interest from the later of the due date or the receipt date of the return for the year in which the loss or credit occurred until the date IRS authorizes the refund	8,226.5	72.1
<b>Total</b>		<b>\$79,417.8</b>	<b>\$728.4</b>

Source: IRS Net Tax Refund Report for Fiscal Year 1985

Chapter 1  
Introduction

**Table 1.2: Interest Paid in Fiscal Year 1985 on Refunds for Which IRS Does Not Have an Interest-Free Processing Period**

Dollars in millions

Type of refund	Interest requirement	Amount refunded	Interest paid
Employment tax refunds <sup>a</sup>	IRS must pay interest from the later of the tax due date or the receipt date of the tax return until the date IRS authorizes the refund	\$ 2,257.0	\$ 39.2
Excise tax refunds <sup>b</sup>	(Same as above)	343.8	3.6
Estate and gift tax refunds	(Same as above)	55.8	11.2
Railroad retirement refunds	(Same as above)	13.3	2.6
Refunds from amended tax returns	IRS must pay interest back to the later of the due date or receipt date of the return being amended <sup>c</sup>	1,330.3 <sup>c</sup>	183.1 <sup>c</sup>
Refunds from audit adjustments made to tax returns (refunds resulting from detailed examination of tax returns occurring after initial IRS processing)	IRS must pay interest back to the later of the due date or receipt date of the audited return	902.3	605.8
Other refunds resulting from litigation, civil penalties, and other awards not directly associated with the initial processing of the tax returns	IRS must pay interest back to the later of the due date or receipt date of the tax return in question	239.8	188.5
<b>Total</b>		<b>5,142.3</b>	<b>1,034.0</b>
<b>Total (tables 1.1 and 1.2)</b>		<b>\$84,560.1</b>	<b>\$ 1,762.4</b>

Source: IRS Net Tax Refund Report for Fiscal Year 1985

<sup>a</sup>Employment tax refunds include refunds of federal withholding and social security taxes paid under the Federal Insurance Compensation Act, and refunds of unemployment taxes paid under the Federal Unemployment Tax Act

<sup>b</sup>Excise tax refunds include refunds of alcohol, tobacco, and firearms taxes, manufacturer's taxes, retailer's and special fuels taxes, and other miscellaneous excise taxes

<sup>c</sup>Because IRS does not compile separate statistics for amended returns, these figures include certain other adjustments to taxpayer accounts that did not result from filing amended returns. The figures also include amended returns filed to carry back losses or tax credits to prior years and for which IRS had a 45-day interest-free processing period

---

## Despite Efforts to Reduce Interest Payments, They Remain Significant

Both IRS and the Congress have taken recent actions to reduce the amount of interest paid by IRS. Even so, as illustrated in the preceding tables and in the chart below, the amount of interest paid remains significant.

In 1984, IRS convened a national task force to study its refund processing procedures. As a result, changes were implemented that IRS estimated would save interest amounting to about \$53.5 million in the first quarter of fiscal year 1985. These changes involved improved management information reports to help pinpoint returns incurring high interest costs and improved refund processing procedures. All of these changes were made so that refunds that might incur high interest payments could be issued sooner.

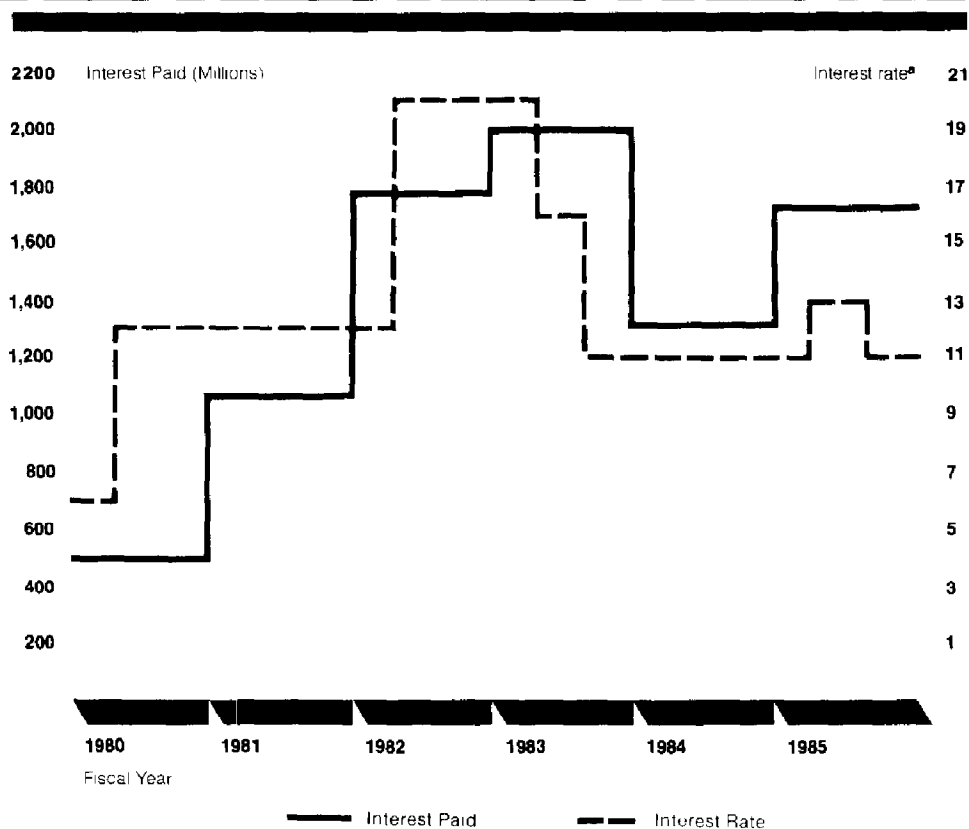
Also, the Congress included several provisions in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) that reduced interest on refunds processed by IRS. For example, TEFRA changed the period for which interest is calculated for refunds resulting from carryback of losses or tax credits<sup>2</sup> and provided a 45-day interest-free period for processing the refunds. As a result of IRS' implementation of TEFRA, IRS interest payments on carryback applications dropped from \$798.6 million in fiscal year 1983 to \$93.7 million in fiscal year 1984. The drop occurred even though the number of carryback applications was about the same in both years.

Despite these actions, total interest payments amounted to \$1.76 billion in fiscal year 1985. Figure 1.1 shows the annual amounts of IRS interest payments since 1980 and the rates at which IRS paid interest during that period.

---

<sup>2</sup>When a taxpayer incurs a net operating loss or has unused tax credits, the taxpayer can "carry back" these losses or credits to prior years and apply for a refund of income taxes paid during the earlier years.

**Figure 1.1: IRS Interest Payments and Interest Rates (1980-1985)**



Source: IRS Net Tax Refund Reports 1980-1985

<sup>a</sup>The rate at which IRS pays interest is prescribed in 26 U.S.C. §6621. Prior to 1981, IRS adjusted its interest rate every 2 years to represent 90 percent of the prime rate. Public Law 97-34, passed in 1981, amended Section 6621 to provide annual rate adjustments keyed to 100 percent of the prime rate. Public Law 97-248, passed in 1982, provided for semiannual interest rate adjustments. The 1981 and 1982 changes were intended to prevent a wide divergence between the statutory rate and the actual market rate of interest. These changes were given impetus by our 1980 report (New Formula Needed to Calculate Interest Rates on Unpaid Taxes, GGD-81-20, October 16, 1980).

## Objectives, Scope, and Methodology

Our objectives were to determine whether changes to the requirements for paying interest on various types of refunds and/or to IRS' operating procedures could be conducive to speeding up the payment of taxpayer refunds while reducing the government's interest costs.

We did our work at the following locations.

- The Department of the Treasury headquarters and the IRS National Office in Washington, D.C.
- IRS regional offices in New York, Philadelphia, Dallas, and Cincinnati.

- IRS service centers in Austin, Texas, Brookhaven, New York; and Cincinnati, Ohio

We interviewed IRS personnel at the national, regional, and service center levels in the Returns Processing and Data Processing divisions. We also reviewed IRS policy and procedures manuals, internal audit reports, and management reports relating to the interest payment process.

To develop estimates of the amount of interest IRS paid on various types of tax returns, we analyzed a statistical sample of 4,065 tax refunds for which IRS paid interest in fiscal year 1983. When we selected our sample in March 1984, this was the latest data available. We stratified our sample into the following four types of refunds:

- individual income tax refunds that resulted from filing forms 1040, 1040A, or 1040EZ,
- business income tax refunds that resulted from filing form 1120 (corporate income), form 990 (tax-exempt organizations), or form 1041 (fiduciary);
- estate and gift tax refunds (filed on forms 706 and 709), social security and federal withholding tax refunds (filed on forms 941, 942, and 943), federal unemployment tax refunds (filed on form 940), and excise tax refunds (filed on a variety of forms, including forms 720 and 2290); and
- amended return refunds, the bulk of which resulted from filing forms 1040X or 1120X

We analyzed the tax return for each sampled interest payment and identified

- the interest period,
- the time IRS took to process the refund, and
- the amount of interest paid

Because we drew our sample payments from tax returns processed by all 10 IRS service centers, our results can be applied to IRS as a whole. We used our results to illustrate the potential for interest savings from the proposals we developed during this review. A detailed description of our sampling methodology and analyses is provided in appendix III.

Our sample was drawn from computer tapes supplied by IRS. We relied on the accuracy of the data on the tapes and did not test its validity.

Otherwise, our work was performed in accordance with generally accepted government auditing standards.

We could not quantify the extent to which refunds would be paid sooner if IRS were given an interest-free processing period; we did, however, discuss this issue with IRS officials. Similarly, we did not attempt to determine whether 45 days provides IRS with sufficient time to process taxpayer refunds without incurring interest costs. We did, however, note that during the period covered by our work, IRS was able to process income tax refunds within the 45-day deadline over 90 percent of the time.

Accelerating Refunds Would Result  
in Increased Government Financing  
Costs

Some of the points discussed in this report involve the possibility of accelerating the payment of refunds to taxpayers. It is important to note that the costs we discuss apply only to IRS interest payments and do not represent overall savings to the federal government. This is because there is a financing cost to the government for paying refunds earlier.

IRS disbursements by U.S. Treasury check, like any other Treasury checks, must be actually paid when such checks are presented to the government for payment. Earlier payments create costs to the federal government because the Treasury Department must either borrow funds earlier to cover the payment or withdraw funds earlier from an interest-bearing account.

Although it incurs costs when paying refunds earlier, the government still achieves a net savings for two reasons. First, interest rates earned or paid by the federal government to acquire funds are normally lower than the rate that is paid to taxpayers. Over the last 4 years, we estimate that government costs to acquire short-term funds averaged about 2 percentage points less than the prime rate. Second, the time period for which IRS would pay interest to the taxpayer would often be longer than the period during which the government would incur an interest cost to accelerate a refund. For example, if IRS has a 45-day interest-free period to process a refund and pays the refund on the 46th day, it pays interest for the entire processing period. However, if IRS accelerates processing and is able to pay the refund on the 40th day, it pays no interest on the refund. While there would be a cost to the government of acquiring funds 6 days earlier to pay the refund, this cost is more than offset by the interest that was avoided by paying the refund within the 45-day period.



---

In this report we are not advocating that IRS purposefully delay the payment of any refunds until the last day of an interest-free period in order to minimize the interest costs of acquiring funds sooner. It is Treasury's view that overpaid taxes belong to the taxpayer and should be returned as promptly as possible. We agree with this position. As stated earlier, the objective of this review was to identify changes that would be conducive to speeding up the payment of taxpayer refunds while reducing IRS interest payments.

# Interest Payments Could Be Reduced on Amended Returns and Some Taxpayers Could Receive Earlier Refunds

When taxpayers discover that they have overpaid their taxes on a prior tax return, they can claim a refund by amending that return. We estimate that IRS paid about \$419.4 million in interest on amended return refunds during fiscal year 1983. This chapter discusses two opportunities to reduce these interest payments:

- providing an interest-free period to process amended returns, and
- issuing refunds before making a detailed examination of amended returns.

These actions could make the processing of amended returns more consistent with the processing of original returns and, in some instances, result in faster refunds for taxpayers.

## IRS Does Not Have an Interest-Free Period to Process Refunds Claimed on Most Amended Returns

Section 6611 of the Internal Revenue Code stipulates that if an overpayment of income taxes is refunded within 45 days of the overpayment date (the prescribed due date for filing the return or the date the return is received by IRS, whichever is later), IRS pays no interest. The processing grace period does not apply to refunds claimed on most amended returns because the date of overpayment is considered to be either the filing date or due date of the original tax return, whichever is later.<sup>3</sup>

Since taxpayers have up to 3 years to file an amended return and interest must be paid back to the overpayment date of the original tax return, IRS may ultimately pay several years of interest on a refund, regardless of how quickly it processes the amended return. Based on our sample of refund claims paid by IRS in fiscal year 1983, we estimate that IRS processed about 1.5 million amended returns and paid \$419.4 million in interest on the resulting refunds.<sup>4</sup> We further estimate that \$330.3 million of this interest was for returns for which IRS does not have an interest-free processing period. These latter returns were filed an average of 1 year from the time the original returns were filed, and they took an average of about 81 days to process.

<sup>3</sup>IRS has a processing grace period for some refund claims because the Tax Equity and Fiscal Responsibility Act of 1982 extended a 45-day interest-free period to the processing of refunds involving the carryback of losses and credits. One way taxpayers may claim such refunds is by filing an amended return.

<sup>4</sup>IRS does not separately identify the amount of interest paid on amended claims. Consequently, the latest data available is 1983 data from our sample.

## Granting IRS an Interest-Free Period to Process Amended Returns Would Reduce Interest Payments and Could Result in Faster Refunds

IRS presently has a 45-day interest-free period to process refunds claimed on original income tax returns. We believe it would be advantageous to the government and taxpayers if IRS were also granted an interest-free period to process refunds claimed on amended returns. First, the government would reduce interest payments on those refund claims processed within the interest-free period. And second, some taxpayers might receive refunds sooner given the incentive IRS would have to avoid paying interest on its processing time. IRS already records the receipt date of amended returns. Thus, it should be able to implement an interest-free processing period relatively easily

Of the \$330.3 million in interest payments on amended returns that we identified from our fiscal year 1983 sample, we estimate that about \$49.7 million accrued during the time IRS took to process the refund claims. (The remaining \$280.6 million accrued before IRS' receipt of the claims.) Further, we estimate that IRS processed about 21 percent of these claims within 45 days. The interest expense IRS incurred on the claims it processed within 45 days amounted to \$1.5 million. We used 45 days in our computations because, as mentioned previously, that is the length of the interest-free period that IRS has for processing refunds claimed on original returns

IRS officials expressed the opinion that the percentage of amended return refund claims processed within 45 days would increase substantially if IRS were given a similar 45-day interest-free processing period. These officials said that the incentive to avoid paying interest for the entire 45-day processing period would cause IRS to place more priority on processing refund claims, particularly those that now take only slightly longer than 45 days to process. In this regard, we estimate that in 1983 IRS processed about 24 percent of its refund claims within 45 to 60 days of receipt, and the interest expense incurred on these claims amounted to \$3.2 million.

IRS would need to consider the potential interest savings in light of any cost increases that might accrue as a result of expediting processing of amended returns. However, as evidence of the incentive provided by an interest-free period, we noted that the Tax Equity and Fiscal Responsibility Act of 1982 provided IRS with a 45-day interest-free period to process carrybacks of losses and tax credits and shortened the period for which interest is calculated. As a result of IRS implementation of the act, interest payments declined 88 percent—from \$798.6 million in fiscal year 1983 to \$93.7 million in fiscal year 1984. IRS officials told us that a

portion of this reduction is due to the fact that IRS is now processing more of its tentative carryback application workload within 45 days

---

---

## **Additional Interest Savings Could Result From Issuing Some Refunds Before Examination**

Refunds on amended returns are sometimes delayed due to audits or requests for additional information. Under current IRS procedures, these must be completed before the refund can be issued. We estimate that IRS paid \$37.6 million in interest during fiscal year 1983 to process refunds that it delayed for examination purposes. We also estimate that, on average, these refunds were delayed about 55 days more than those refunds which were not examined.

Currently, when taxpayers submit their initial tax returns and claim a refund, IRS performs various math and validity checks before issuing it. In most instances refunds of this type are issued within 45 days of the due date of the return. Subsequently, certain returns are examined to verify the correctness of reported revenues, credits, or deductions. Should IRS determine that a taxpayer owes additional taxes, IRS sends the taxpayer a bill. Taxpayers may appeal the results of an examination through the IRS appeals system or the courts

Current IRS procedures for issuing refunds on amended returns, however, require that returns be completely reviewed and the information proven correct before a refund is made. Some refunds require minimal review and are paid quickly, but others require additional information or audit before the refund is made. IRS procedures require more in-depth examination of returns that (1) claim refunds over a set dollar amount, (2) claim certain types of deductions, (3) make changes to certain items, or (4) involve particular tax issues.

Our sample showed that significantly more time was used to process returns that needed more detailed examination, as shown in table 2.1. This resulted in additional interest costs and delayed issuance of the refund.

**Chapter 2**  
**Interest Payments Could Be Reduced on**  
**Amended Returns and Some Taxpayers Could**  
**Receive Earlier Refunds**

**Table 2.1: Average Time to Process Examined and Nonexamined Amended Returns With Refunds**

	Percentage of amended returns claiming refunds	Average processing time (days)
Examined refund return	17	120
Nonexamined refund return	83	65
<b>Total</b>	<b>100</b>	

Source: Projections we developed were based on a stratified random sample of tax refunds (see app. III for detailed discussion of methodology).

If IRS were to issue refunds before examining these returns, much as it already does in processing refunds claimed on original tax returns, interest costs would be reduced and some taxpayers would receive their refunds sooner. By issuing a refund before examination, IRS could avoid paying interest for the time spent verifying and investigating the return.

**IRS Has Some Concerns About Issuing Refunds Before Examination**

Some IRS officials and personnel at the three service centers where we did our work expressed concern that issuing refunds before thoroughly investigating and verifying amended returns would result in taxpayers receiving refunds larger than they were entitled to. Furthermore, they believed problems might arise in trying to collect such excess refunds, especially those that might involve abusive tax shelters.

While we can appreciate IRS' concern about excessive refunds, we found that examination of the amended returns in our sample resulted in few changes to the amounts claimed on the returns. About 88 percent of the refunds ultimately paid on returns that received extensive review were the same as or more than the amount claimed by the taxpayers. In those cases where the refund claimed matched the refund paid, no adjustment would have been necessary had IRS issued a refund before examining the return. Where the refund claimed was less than the amount paid, IRS would have had to issue a later refund plus interest for the additional amount. Where the refund claimed was more than the amount paid, IRS would have had to reassess the taxpayer for the excess amount plus interest and potential penalties. Table 2.2 shows our sample results concerning the changes made to refund amounts as a result of additional examinations.

**Chapter 2**  
**Interest Payments Could Be Reduced on**  
**Amended Returns and Some Taxpayers Could**  
**Receive Earlier Refunds**

**Table 2.2: Changes to Refunds as a Result of Examination**

	Percent of examined refund returns	Average refund	
		Requested	Paid
Amount claimed was more than the refund paid	12	\$12,307	\$11,782
Amount claimed was less than the refund paid	17	1,052	1,398
Refund paid was same as amount claimed	70	1,659	1,659
<b>Total</b>	<b>99<sup>a</sup></b>		

<sup>a</sup>Percentages do not total 100 because of rounding

Source: Projections we developed were based on a stratified random sample of tax refunds (see app III for detailed discussion of methodology)

Based on the statistics in table 2.2, IRS would have had to recover some portion of a refund on about 12 percent of the amended returns in our sample had it issued a refund before examining the return. We did not analyze IRS' examination findings to identify the causes for changes to the refunds claimed. We noted, however, that to the extent the excessive claims were caused by math errors which IRS, through its normal processing procedures, would have detected and corrected before issuing the refund, the 12-percent figure would have been lower.

IRS officials also commented on the danger of issuing certain refunds, such as refunds stemming from potentially abusive tax shelter claims, before a thorough examination could be conducted. They expressed the fear that if these refunds were subsequently determined to be excessive, IRS would experience problems in trying to recollect the excessive portion.

It seems to us that IRS could deal with this problem by retaining the discretion to hold back or freeze certain claims that it determined had a high potential for disallowance. IRS already follows similar procedures when it processes "questionable" refunds on original returns. Our point is that rather than issuing no refunds before examining amended returns, IRS can exercise discretion, issue some refunds, and thereby avoid some interest costs while servicing some taxpayers faster.

**Conclusions**

We believe some taxpayers could receive earlier refunds and the government could achieve interest savings if IRS were given an interest-free period to process and issue refunds claimed on amended returns. Such a change would be consistent with procedures IRS already follows in processing refunds on original tax returns.

The amount of interest to be saved would depend on the number of claims IRS was able to process in the interest-free period. However, to illustrate that the potential exists for savings, our analysis shows that during 1983, IRS paid about \$1.5 million in interest on amended returns that it processed within 45 days.

About 17 percent of the amended returns in our sample were subjected to additional review and examination by IRS and took an average of 120 days to process. The interest costs incurred for processing these returns amounted to \$37.6 million in 1983. If IRS issued some of these refunds prior to examination, much as it already does for refunds on original tax returns, it could have avoided some interest costs and reduced the time certain taxpayers waited for their refunds.

---

### Matter for Consideration by the Congress

So that IRS can reduce the amount of interest paid on amended returns claiming refunds, the Congress should consider amending Section 6611 of the Internal Revenue Code to provide IRS with an interest-free processing period for such returns. We did not attempt to determine how long this interest-free period should be. However, a 45-day processing period would make treatment of amended returns consistent with the treatment of original income tax returns.

---

### Recommendation to the Commissioner of Internal Revenue

We recommend that the Commissioner amend IRS' procedures to provide for issuing certain refunds before making a detailed examination of the refund claim. The criteria for making these refunds should recognize the need for IRS to continue to hold certain refunds having a high potential for disallowance.

---

### Agency Comments

Comments on a draft of this report were received from the Acting Commissioner of Internal Revenue by letter dated May 12, 1986, and from the Assistant Secretary (Tax Policy) of the Department of the Treasury by letter dated May 29, 1986.

The Acting Commissioner of Internal Revenue stated that IRS generally concurred with the thrust of our report and agreed with our recommendation. Specifically, he stated that IRS would review its criteria to determine if more claims for refund could be released prior to examination.

The Assistant Secretary (Tax Policy) stated that Treasury agreed that the Congress should consider providing IRS with an interest-free period

---

**Chapter 2**  
**Interest Payments Could Be Reduced on**  
**Amended Returns and Some Taxpayers Could**  
**Receive Earlier Refunds**

---

for processing refund claims filed on amended returns. He stated that extending the 45-day interest-free processing period currently provided for original income tax returns to other claims for refund would provide desirable uniformity of treatment among taxpayers.





# An Interest-Free Processing Period for Non-Income-Based Returns Could Result in Savings

Although the Congress has provided IRS with a 45-day interest-free grace period for processing most income-based tax returns, no such grace period has been established for employment tax, excise tax and other non-income-based tax returns. The current Internal Revenue Code requires IRS to pay interest on non-income-based tax refunds from the return due date or receipt date (whichever is later) to the refund date. We estimate that IRS paid at least \$3 million in interest on non-income-based returns that it processed within 45 days of receipt during 1983.

## IRS Does Not Have an Interest-Free Period to Process Non-Income-Based Returns

Sections 6611(e),(f), and (h) of the Internal Revenue Code provide an interest-free period for processing income tax refunds, carryback applications, and windfall profits tax refunds. On the other hand, the code does not provide an interest-free processing period for refunds of such non-income-based taxes as employment taxes, excise taxes, estate taxes, and gift taxes. Interest on these refunds is generally paid for the entire period between the overpayment date and the date of the refund. From our review of the legislative history, we could not tell whether the Congress considered providing an interest-free period for non-income-based returns.

In 1983 and 1984, IRS proposed to the Department of the Treasury legislative changes that would have created an interest-free period for processing refunds of such non-income-based taxes as employment taxes, excise taxes, estate and gift taxes, and railroad retirement taxes. In requesting the 1983 change, IRS stated:

“With the exception of income taxes, present law does not provide an interest-free period for processing tax overpayments. This creates an inconsistency between treatment of refunds of income taxes and other kinds of refunds which in turn results in large amounts of interest being paid by the Government on non-income tax overpayments.”

Of the 80.2 million tax refunds issued in fiscal year 1985, about 2.3 million (or 2.8 percent) were non-income-based tax refunds. About 1.3 million of the 2.3 million non-income-based refunds resulted from the initial processing of the tax return.<sup>5</sup> These returns fell into four general categories of taxes (employment, railroad retirement, estate and gift, and excise), as shown in table 3.1.

<sup>5</sup>The remaining non-income-based refunds were paid as a result of audit adjustments or data processing adjustments that occurred after the initial processing of the tax return.

**Chapter 3**  
**An Interest-Free Processing Period for Non-**  
**Income-Based Returns Could Result**  
**in Savings**

**Table 3.1: Types, Number, and Amount of Non-Income-Based Tax Refunds and Interest (Fiscal Year 1985)**

Dollars in millions

Type of return	Number of refunds	Percent	Refund amount	Percent	Amount of interest	Percent
Employment tax (includes Forms 940, 941, 942 and 943)	1,309,924	98.2	\$2,257.0	84.5	\$39.2	69.3
Railroad retirement tax (Form CT-1)	485	.04	13.3	.5	2.6	4.6
Excise tax (includes Forms 720, 730, 2290, 11C, and 4638)	20,443	1.5	343.8	12.9	3.6	6.3
Estate and Gift tax (includes Forms 706, 706NA, and 709)	2,790	.2	55.8	2.0	11.3	19.9
<b>Total</b>	<b>1,333,642</b>	<b>99.9<sup>a</sup></b>	<b>\$2,669.9</b>	<b>99.9<sup>a</sup></b>	<b>\$56.7</b>	<b>100.1<sup>a</sup></b>

<sup>a</sup>Figures do not total 100 percent due to rounding.  
Source: Fiscal Year 1985 Net Tax Refund Report

**An Interest-Free Processing Period Could Reduce Interest on Non-Income-Based Returns**

Establishment of an interest-free processing period for non-income-based returns could reduce IRS interest payments substantially. Based on fiscal year 1983 data, we project that 54 percent of all non-income-based returns were processed within 45 days and that for these returns, IRS paid interest amounting to \$3.0 million. We also estimate that IRS processed about 27 percent of the returns within 45 to 60 days of receipt and that the interest paid on these returns amounted to an additional \$10.5 million. Table 3.2 illustrates the processing time and associated interest for non-income-based returns.

**Table 3.2: Projected Processing Days and Interest Paid on Non-Income-Based Refunds (Fiscal Year 1983)**

Processing time	Number of refunds	Percent of refunds	Interest paid	Percent of interest
45 days or less	566,423	54.0	\$3,044,027	13.0
46 to 59 days	285,733	27.2	10,547,784	46.0
60 days or more	197,318	18.8	9,430,203	41.0
<b>Total</b>	<b>1,049,474</b>	<b>100.0</b>	<b>\$23,022,014</b>	<b>100.0</b>

Source: Projections we developed were based on a stratified random sample of tax refunds (see app. III for detailed discussion of methodology)

In preparing its proposals to create an interest-free processing period for non-income-based tax returns, IRS determined that for an 11-month period ending October 1, 1982, \$72 million in interest was paid on employment tax refunds. Of that amount, IRS estimated that \$36.6 million could have been saved if a 45-day interest-free period had been in effect. IRS officials state that if a target of 45 days were set for

processing non-income-based returns, the Service would place priority on processing non-income-based refunds within that period.

We did not verify IRS' estimates. It should be noted, however, that IRS has been able to process over 90 percent of income-based refunds within 45 days even though the volume of these refunds is much higher. Also, the reduction in interest payments that resulted when TEFRA granted a 45-day grace period for the processing of carryback applications was due in part to increased IRS emphasis on issuing more refunds during the grace period.

IRS officials were not able to identify the additional costs related to placing a greater priority on the processing of non-income-based returns. Any additional costs would need to be considered before the amount of interest savings could be accurately determined.

---

## Conclusions

The Internal Revenue Code requires that interest be paid on a non-income-based tax refund from the later of the filing or due date to the date the refund is paid. In contrast, for most income-based refunds other than those arising from amended returns, the code provides for the payment of interest only if the return is not processed within 45 days—the interest-free processing period prescribed for the processing of returns. A grace period for non-income-based returns would result in more consistent treatment of income-based and non-income-based tax returns and substantially reduce the government's interest costs.

---

## Matter for Consideration by the Congress

The Congress should consider amending Section 6611 of the Internal Revenue Code to provide an interest-free processing period for non-income-based tax returns. We did not attempt to determine how long such a period should be. However, a 45-day processing period would make the treatment of non-income-based returns consistent with most income-based returns.

---

## Agency Comments

The Department of the Treasury agreed that the Congress should consider providing IRS with an interest-free period for processing claims for refund of non-income-based taxes.



# Advance Comments From the Commissioner of Internal Revenue

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

MA: 12 1986

Mr. William J. Anderson  
Director, General Government Division  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Anderson:

We appreciate the opportunity to review your recent draft report entitled "Tax Policy: Options for Speeding Up Tax Refunds and Reducing Interest Costs."

We generally endorse the thrust of the report. The report recommendation and our comment is listed below:

RECOMMENDATION:

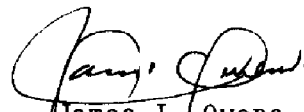
We recommend that the Commissioner amend IRS' procedures to provide for issuing certain refunds before making a detailed examination of the refund claim. The criteria for making these refunds should recognize the need for IRS to continue to hold certain refunds having a high potential for disallowance.

COMMENT:

We agree with the recommendation and will review our criteria to determine if more claims for refund can be released prior to examination.

We hope this comment is useful in preparing your final report.

Sincerely,



James I. Owens  
Acting Commissioner

Department of the Treasury Internal Revenue Service

# Advance Comments From the Department of the Treasury

Note GAO comments supplementing those in the report text appear at the end of this appendix



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

May 29, 1986

Dear Mr. Anderson:

We have reviewed your draft report to Congress entitled Tax Policy: Options for Speeding Up Tax Refunds and Reducing Interest Costs. We agree with your conclusion that Congress should consider providing the IRS with an interest-free period for processing refund claims filed on amended returns and claims for refund of non-income-based taxes. Extension of the 45-day interest-free processing period currently provided for original income tax returns to other claims for refund would provide desirable uniformity of treatment of taxpayers. The explanation of the position of the Treasury Department included on page 24 of the draft report is inaccurate and should be modified to reflect these views.

See comment 1

With respect to the recommendation that the IRS issue certain refunds prior to detailed examination of the claims for refund, Acting Commissioner Owens has indicated that the IRS will review existing criteria for issuing immediate refunds in an attempt to isolate additional categories of refunds that can be issued prior to examination.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Roger Kentz".

J. Roger Kentz  
Assistant Secretary  
(Tax Policy)

William J. Anderson  
Director, General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

---

**Appendix II  
Advance Comments From the Department of  
the Treasury**

---

The following is GAO's comment on the Department of the Treasury's letter dated May 29, 1986.

---

**GAO Comments**

1. We have deleted the section referred to by Treasury from our final report.



# Sampling Methodology and Results

---

As part of our review, we analyzed a sample of refunds on which IRS paid interest in fiscal year 1983, the latest year for which data was available when we did our work. Our specific objectives in analyzing this sample were to identify

- the amount of principal and interest refunded to taxpayers for certain types of returns,
- the length of time IRS took to process the refunds, and
- factors which appeared to delay processing the refunds.

We also used this sample to illustrate the potential for interest savings based on various proposed legislative changes.

---

## Sample Structure

Our sample was drawn from IRS computer tapes containing all interest payments made by IRS in fiscal year 1983.<sup>6</sup> The tapes provided information on the type of tax refunded, the date of the refund, the amount refunded, and the amount of interest paid. This extract contained a total of 8.9 million interest payments, totalling \$2.1 billion.<sup>7</sup>

From the IRS fiscal year 1983 extract, we selected a stratified random sample of 4,065 interest payments. We sampled interest payments from all 10 IRS service centers so our results could be projected to IRS as a whole. We stratified the sample by type of tax refund to provide greater reliability in projecting results.

Table III.1 breaks out the number of interest payments sampled for each refund type.

---

<sup>6</sup>We relied on the accuracy of IRS' computer tapes and did not test their validity

<sup>7</sup>The \$2.1 billion figure differs from the \$1.96 billion total shown in figure 1.1 of Chapter 1 because the \$2.1 billion figure excludes certain adjustments that IRS made subsequent to the date of our extract

Appendix III  
Sampling Methodology and Results

**Table III.1: Fiscal Year 1983 Interest Payments by Type of Refund**

Refund type	Number sampled	Total number in IRS extract (thousands)	Amount of interest in sample (millions)	Amount of interest in IRS extract (millions)
Unknown <sup>a</sup>	630	197	\$6.2	\$768.8
Individual income (Form 1040)	1,262	4,132	3	193.5
Business income (Forms 1120, 990, 1041)	252	155	5	60.9
Non-45-day returns <sup>b</sup>	498	1,870	2	58.5
Amended returns (Forms 1040x, 1120x, 843)	1,423	2,133	1.0	568.7
<b>Total</b>	<b>4,065</b>	<b>8,487</b>	<b>\$8.2</b>	<b>\$1,650.4</b>

<sup>a</sup>As a means of making prompter refunds and reducing interest payments, IRS service centers some times initiate refunds in order to eliminate the time IRS' National Computer Center takes to process and authorize a refund. IRS' transaction files for these refunds are structured such that we could not identify the type of refund involved until we retrieved the actual tax return. Therefore, we sampled these refunds separately and allocated them to the appropriate refund type once we analyzed the tax return.

<sup>b</sup>Refunds for which IRS does not have a 45-day interest free processing period include refunds on social security and federal withholding taxes, unemployment taxes, excise taxes, estate and gift taxes, and railroad retirement taxes.

Not all types of refunds were included in our sample. For example, we excluded refunds that resulted from audit adjustments in order to focus on interest payments which resulted from initial processing of a tax return. (Audit adjustments result from detailed examination of taxpayer returns after the returns have been processed.) The time taken by IRS to select and complete such audits would have distorted our sample results.

We also excluded tentative carryback applications<sup>8</sup> from our sample because of recent congressional and IRS efforts to reduce interest paid on these applications. The Tax Equity and Fiscal Responsibility Act of 1982 authorized a 45-day interest-free processing period for tentative carryback applications. This interest-free period, combined with IRS efforts to process most applications within it, helped reduce interest paid on tentative carryback applications from \$798.6 million in fiscal year 1983 to \$93.7 million in fiscal year 1984.

## Statistical Analyses

Through statistical sampling of fiscal year 1983 interest payments, we were able to project

<sup>8</sup>Tentative carryback applications are filed by taxpayers who wish to apply current tax-year losses or tax credits to taxes paid in prior years and thereby receive a refund.

- interest payments made by IRS during fiscal year 1983 because it did not have a 45-day interest-free period to process amended and non-income-based returns, and
- interest payments incurred during fiscal year 1983 because IRS did not issue refunds on amended returns prior to detailed examination of the return.

Tables III.2 through III.4 project the interest payments and related information.

**Table III.2: Analysis of Fiscal Year 1983 IRS Interest Payments for the Time Between the Receipt of Amended Returns and Issuance of the Refunds**

	Estimated number of interest payments <sup>a</sup> (thousands)	Estimated interest paid on processing time <sup>a</sup> (millions)	Confidence range <sup>b</sup> (millions)
Refunds processed within 45 days <sup>c</sup>	270 ± 80	\$ 1.5	± 1.81
Refunds processed between 45 and 60 days <sup>d</sup>	312 ± 92	3.2	± 1.551
Refunds processed in over 60 days	716 ± 110	45.0	± 11.417
All refunds <sup>e</sup>	1,298 ± 123	\$49.7	± 11.542

<sup>a</sup>"Estimated" figures represent projected fiscal year 1983 totals based on sample interest payments reviewed

<sup>b</sup>Actual interest costs can be expected with 95 percent confidence to fall within the ranges shown

<sup>c</sup>Projected interest costs for those refunds processed within 45 days is equal to the interest expense incurred from receipt of the amended return until issuance of the refund

<sup>d</sup>Additional refund claims without a grace period that took between 45 and 60 days to process

<sup>e</sup>The results shown are applicable only to amended returns currently without a 45-day interest-free processing period

**Table III.3: Analysis of Fiscal Year 1983 Interest Payments for Refunds Subject to Examination and Detailed Review**

Refund claims subject to detailed review <sup>a</sup>	Estimated number of interest payments <sup>b</sup> (thousands)	Estimated interest paid on processing time <sup>b</sup> (millions)	Confidence range <sup>c</sup> (millions)
Claims currently without a 45-day interest-free period	213 ± 60	\$22.6	± 9.347
Claims with a 45-day interest-free period (carryback claims)	18 ± 8	15.0	± 7.678
<b>All claims</b>	<b>231 ± 61</b>	<b>\$37.6</b>	<b>± 11.975</b>

<sup>a</sup>Interest cost estimates apply only to the fiscal year 1983 amended returns which were refund claims subject to detailed IRS review before the refund was issued and not processed within 45 days

<sup>b</sup>"Estimated" figures represent projected fiscal year 1983 totals based on sample interest payments reviewed

<sup>c</sup>Actual interest costs can be expected with 95-percent confidence to fall within the ranges shown

**Table III.4: Analysis of IRS Interest Payments for Non-Income-Based Returns**

	Estimated number of interest payments <sup>a</sup> (thousands)	Estimated interest paid on processing time <sup>a</sup> (millions)	Confidence range <sup>b</sup> (millions)
Refunds processed within 45 days	566 ± 108	\$ 3.0	± 1.213
Refunds processed between 45 and 60 days	286 ± 83	10.5	± 15.575
Refunds processed in over 60 days	197 ± 70	9.4	± 2.207
<b>All refunds</b>	<b>1,049 ± 112</b>	<b>\$23.0</b>	<b>± 16.373</b>

<sup>a</sup>"Estimated" figures represent projected fiscal year 1983 totals based on sample interest payments reviewed.

<sup>b</sup>Actual interest costs can be expected with 95-percent confidence to fall within the ranges shown.

For several reasons, IRS could not always provide us with the tax returns we requested. In some cases, the returns were being audited and could not be made available to us. In other cases, the returns could not be located because the document identification numbers on the returns had been changed since the refunds and interest payments were issued. The returns not reviewed represent 14 percent of the interest payments and 23 percent of the interest dollars for amended returns, and 4 percent of the interest payments and 8 percent of the interest dollars for non-income-based returns.

Because of the large number of missing returns and the dollars they represent, we believe the interest costs projected in this report are significantly understated. We cannot, however, estimate the size of these additional costs. The number of returns and interest dollars associated with returns which we could not review are broken out in table III.5.

Appendix III  
Sampling Methodology and Results

**Table III.5: Analyses of the Portion of Interest Payments Represented by Tax Returns Reviewed (Amended Returns)**

	Number and percent of sample interest payments	Sample interest and percent	Projected number and percent of interest payments	Projected interest and percent
<b>Amended returns</b>				
Amended returns not provided to GAO by IRS	179 (11.14) <sup>a</sup>	\$ 311,251 (17.30)	267,485 (14.16)	\$134,977,498 (22.58)
Amended returns provided to GAO by IRS	1,428 (88.86)	1,487,827 (82.70)	1,621,331 (85.84)	462,865,307 (77.42)
<b>All amended returns</b>	<b>1,607<sup>b</sup></b> <b>(100.00)</b>	<b>\$ 1,799,078<sup>b</sup></b> <b>(100.00)</b>	<b>1,888,816</b> <b>(100.00)</b>	<b>\$597,842,805</b> <b>(100.00)</b>
<b>Non-Income Based Returns</b>				
Non-income-based returns not provided to GAO by IRS	24 (5.93)	\$ 5,878 (7.38)	66,348 (3.87)	\$ 2,672,253 (7.90)
Non-income-based returns provided to GAO by IRS	381 (94.07)	73,738 (96.62)	1,649,658 (96.13)	31,138,034 (92.10)
<b>All non-income-based returns</b>	<b>405<sup>b</sup></b> <b>(100.00)</b>	<b>\$ 79,616<sup>b</sup></b> <b>(100.00)</b>	<b>1,716,006</b> <b>(100.00)</b>	<b>\$ 33,810,287</b> <b>(100.00)</b>

<sup>a</sup>All parentheses contain percentages

<sup>b</sup>The sample totals shown do not match the original sample totals shown in table III.1 because we recategorized some interest payments from one sample stratum to another. We did this because a review of the tax returns associated with these payments showed the initial categorization of the refunds was erroneous. For example, the sample selection criteria may have indicated an interest payment was associated with an original settlement 1040 return, but the actual return provided by IRS was an amended return.



---

Requests for copies of GAO reports should be sent to

U S General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free Additional copies are  
\$2 00 each

There is a 25% discount on orders for 100 or more copies mailed to a  
single address

Orders must be prepaid by cash or by check or money order made out to  
the Superintendent of Documents.

---

United States  
General Accounting Office  
Washington, D.C. 20548

Official Business  
Penalty for Private Use \$300

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100

---