

GAO

Report to the Chairman,
Committee on Governmental Affairs,
U.S. Senate

April 1993

TAX ADMINISTRATION

IRS' Test of Tax Return Filing by Telephone





General Government Division

B-252525

April 26, 1993

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

The Internal Revenue Service (IRS) is testing the filing of the simplest individual income tax return (Form 1040EZ) by using a touch tone telephone. This alternative to paper filing, known as TeleFile, was tested in Ohio in 1992 and is being tested there again, along with the use of voice signatures, in 1993. Pursuant to your request, we reviewed the results of this test in 1992 and changes to the test for 1993. On April 1 and 22, 1993, we briefed your office on the results of our work. This report documents those briefings.

RESULTS IN BRIEF

In 1992, according to IRS, about 16.8 million taxpayers filed the simplest individual income tax return. IRS' evaluation of TeleFile test results in 1992 and our assessment of those results indicated that filing by telephone can be a viable alternative to the filing of paper returns for those taxpayers. The technology worked in 1992; taxpayers seemed willing to file by telephone, and those who used TeleFile and responded to an IRS questionnaire or participated in an IRS focus group seemed pleased with the experience.

In 1992, about 126,000 of approximately 720,000 eligible taxpayers in Ohio filed their returns through TeleFile. As part of its evaluation of the test, IRS surveyed 3,000 of those taxpayers. While the response rate was not high, those who responded were very positive in their reactions. For example, 88 percent of them said it took less time to file via TeleFile than to file a paper return, and 98 percent said they would use TeleFile again.

Compared to paper filing, telephone filing has benefits for taxpayers and IRS. Taxpayers can get their refunds faster, and their burden is reduced by having fewer computations to make. For IRS, TeleFile results in more accurate returns and less costly processing. IRS' data showed, for example,

that the processing error rate for TeleFile returns in 1992 was 0.16 percent. In comparison, the error rates for Forms 1040EZ ranged from 3 to 6.7 percent, depending on the method IRS used to process those paper returns.

The biggest potential obstacle to further expansion of TeleFile involves security. Despite the presence of several controls, we believe that TeleFile security is compromised by the fact that taxpayer identifying information, such as Social Security numbers (SSN) and personal identification numbers (PIN), needed to file a return over the phone is on the label on the outside of the tax package mailed to eligible taxpayers and thus easily accessible to others. IRS is aware of this problem and is considering alternatives.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine (1) how well TeleFile worked in 1992, (2) what changes were made to TeleFile in 1993, and (3) whether any obstacles exist to future expansion of TeleFile.

To accomplish these objectives we reviewed (1) IRS' assessment of TeleFile, (2) results of IRS' surveys of taxpayers who did and did not use TeleFile, and (3) results of IRS focus groups conducted with taxpayers on TeleFile.¹ We met with IRS officials in the National Office and in the Cincinnati Service Center, which was responsible for processing the TeleFile returns. We also reviewed IRS' test procedures and the instructions and forms it provided eligible taxpayers. In addition, we used a TeleFile prototype in IRS' National Office to see how the system worked and how it responded in various circumstances.

We did our work between June 1992 and March 1993 in accordance with generally accepted government auditing standards. IRS officials responsible for the TeleFile test reviewed a draft of this briefing report and generally agreed with the facts presented. They suggested some clarifying changes, which we incorporated in the final report where appropriate.

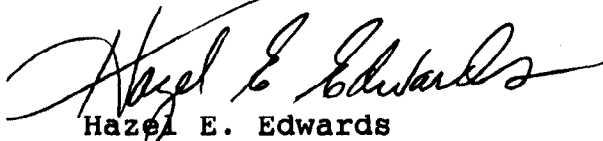
¹IRS sent questionnaires to 3,000 randomly selected taxpayers in each of three groups: taxpayers who used TeleFile, taxpayers who were eligible to use TeleFile but did not, and taxpayers who called TeleFile but hung up before filing a return. Because response rates were relatively low--41, 24, and 24 percent, respectively--the potential for nonresponse bias in all three questionnaires is high. The questionnaire results reported in this document are just for those taxpayers who responded. No results were projected to the universe.

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We are sending copies of this briefing report to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. We will also make copies available to others upon request.

The major contributors to this briefing report are listed in appendix III. If you or your staff have any questions, please contact me at (202) 272-7904.

Sincerely yours,



Hazel E. Edwards
Associate Director, Tax Policy
and Administration Issues

INFORMATION ON TELEFILE

GAO WHAT IS TELEFILE?

- New method of filing tax returns being tested in Ohio.
 - Returns filed by touch tone telephone.
 - Returns processed electronically.
 - Some paper still required.
-

TeleFile is an alternative method of filing simple tax returns being tested by IRS. In 1992 and 1993, certain taxpayers in Ohio were given the opportunity to file by touch tone telephone. Ohio was selected for the test because the Form 1040EZ population in Ohio is believed to be representative of the Form 1040EZ population nationwide. IRS sent eligible taxpayers a special tax package that notified the taxpayer of this option and included a personal identification number on the label of the tax package.

In 1992, approximately 126,000 taxpayers filed their returns through TeleFile. To file a TeleFile return, a taxpayer contacts IRS' computer by using a toll-free 800 number. Following the computer's instructions, the taxpayer enters his or her identifying information (SSN and PIN), answers two questions with yes/no responses; and enters information on wages, withholding, and interest income. The computer calculates the tax liability and any refund or balance due and immediately provides this information to the taxpayer.¹

A TeleFile return is processed like an electronic return. Electronically filed returns bypass IRS' manual process for handling paper returns. Instead, the returns are transmitted directly to IRS' computer system, where the information is automatically edited, processed, and stored.

In 1992, TeleFile was not paperless. Taxpayers using TeleFile still had to send their W-2s to IRS along with a Form 1040-TEL (see app. II for a copy of this form). The Form 1040-TEL was used as a vehicle to obtain taxpayers' signatures. As we discuss later in more detail, some taxpayers using TeleFile in 1993 will not have to send any paper to IRS unless they owe money.²

IRS is testing TeleFile to determine whether it can

- reduce the filing burden of some taxpayers,
- lower processing costs by broadening the base of the electronic filing program, and
- improve return processing quality by computerizing tax computations.

¹Of the 125,983 taxpayers who filed via TeleFile in 1992, 122,336 received refunds.

²As was the case in 1992, users of TeleFile in 1993 who owed money had to fill out a payment voucher included in the TeleFile tax package and send it, along with their payment, to IRS. The payment could be mailed at any time after the return was filed as long as it was postmarked by April 15.

GAO WHO CAN USE TELEFILE?

To participate in the TeleFile test, a taxpayer must

- be eligible to file a 1040EZ,
 - have filed a tax return the previous year, and
 - live at the same address as on the tax package mailing label.
-

IRS' test of TeleFile is restricted to residents of Ohio who are eligible to file the simplest income tax return--Form 1040EZ. To file a Form 1040EZ, a taxpayer

- must be single,
- cannot claim any dependents,
- must have less than \$50,000 in taxable income,
- must have \$400 or less in interest income,
- must be under 65 years of age,
- cannot claim a blind exemption, and
- cannot be a nonresident alien during any part of the year.

Not every Ohio resident eligible to file a Form 1040EZ can use TeleFile. In an attempt to prevent fraudulent filings, IRS required that TeleFile users not be first-time filers. IRS' experience with electronic filing has been that many fraudulent electronic returns were filed by first-time filers. Refund schemes perpetrated by individuals have included using fictitious names and SSNs. A previous filing history gives IRS an opportunity to check the validity of such information.

To keep first-time filers from using TeleFile during the test, IRS developed a database of Ohio residents who either filed Form 1040EZ the previous year or filed some other form but were eligible to have filed a Form 1040EZ. For 1992, that database included about 1.2 million taxpayers.³ If a person was not on the database, an attempt to file by TeleFile would not be accepted.

To use TeleFile, a taxpayer must live at the same address as he or she did the previous year. IRS will not allow taxpayers to change their address or other entity information (i.e., name and/or SSN) when they file through TeleFile. IRS will only mail the refund check to the name and address on the label of the tax package. IRS said that this prevents one person from using another person's TeleFile tax package to file a return and having a refund mailed to the wrong address.

³Of the 1.2 million taxpayers in the database, IRS estimated that 20 percent would no longer be able to file a Form 1040EZ and another 20 percent would have moved. For purposes of its test in 1992, therefore, IRS estimated that 720,000 taxpayers would be eligible to file their tax returns through TeleFile.

GAO IRS' EVALUATION OF 1992
TELEFILE TEST

- Surveyed taxpayers who did and did not use TeleFile.
 - Conducted focus groups.
 - Compared the costs and benefits of processing TeleFile returns with paper returns.
 - Studied security of TeleFile.
-

IRS' Research Division evaluated the results of the TeleFile test in 1992. The evaluation was to answer the following questions: (1) Is TeleFile technically feasible? (2) Is TeleFile acceptable to the public as a means to file a simple tax return? (3) Is TeleFile a way of reducing taxpayer burden? (4) What are the benefits and costs to IRS of using TeleFile for simple returns? and (5) What are the security threats and safeguards of TeleFile?

We reviewed IRS' evaluation plan and found it to be sufficiently comprehensive to allow for a reliable assessment of the TeleFile test in 1992.

To evaluate technical feasibility, IRS gathered data on such things as call volumes and system capacity and obtained qualitative assessments from various internal sources including the TeleFile unit in the Cincinnati Service Center and IRS' Returns Processing and Taxpayer Services functions.

To evaluate public acceptance and taxpayer burden, IRS surveyed (1) 3,000 randomly selected taxpayers who used TeleFile, (2) 3,000 randomly selected taxpayers who were eligible to use TeleFile but did not, and (3) 3,000 randomly selected taxpayers who called TeleFile but hung up before filing a return. For those three mail questionnaires, IRS received 1,220, 731, and 725 usable responses, respectively. Because response rates were relatively low--41, 24, and 24 percent respectively--the potential for nonresponse bias in all three questionnaires is high.

IRS also conducted focus groups with taxpayers who used TeleFile and taxpayers who were eligible to use TeleFile but did not to obtain their opinions on how TeleFile worked in 1992 and on proposed changes for 1993. IRS held 8 focus group sessions with a total of 69 taxpayers. The sessions were conducted by trained Research Division personnel.

To assess costs and benefits, IRS compared the processing of TeleFile returns with paper returns. It also tabulated the costs (e.g., telecommunications, computer hardware and software, printing, and training) associated with conducting the TeleFile test in 1992 but did not estimate the cost of implementing TeleFile nationwide.

To assess the adequacy of TeleFile's security, IRS, among other things, ascertained the number of (1) identified fraudulent TeleFile returns, (2) Forms 1040-TEL and W-2 that were never submitted as required to complete the filings, and (3) notification letters that resulted in calls to IRS from taxpayers who said that they had not used TeleFile.

**GAO RESULTS OF TELEFILE TEST
AND EVALUATION**

- Telephone filing is technically feasible.
 - Taxpayers will use TeleFile.
 - Taxpayer burden is reduced.
 - Number of paper returns is reduced.
-

IRS' TeleFile test in 1992 proved that it is technically feasible to file simple tax returns by touch tone telephone. The Cincinnati Service Center, which handles the State of Ohio, received and processed approximately 126,000 TeleFile returns and encountered few technical problems. Those that were encountered were corrected almost immediately. For example, the computer at one point was not picking up the correct telephone key being punched by the taxpayer because of a telephone company problem.

The fact that 126,000 taxpayers used TeleFile during the first year of IRS' test indicates that telephone filing has a positive appeal. IRS' surveys also disclosed that respondents who used TeleFile in 1992 would use TeleFile again and many of those who did not use it in 1992 would use it in 1993. Specifically:

- Of 1,192 taxpayers who used TeleFile and responded to IRS' survey, 1,171 (98 percent) said they would use TeleFile again.
- Of 696 persons who called TeleFile but hung up before filing a return and who responded to IRS' survey, 479 (69 percent) said that they would use TeleFile in 1993.
- Of 702 persons who did not call TeleFile and who answered IRS' survey, 193 (28 percent) said they would use Telefile in 1993.

Taxpayers who used TeleFile and responded to IRS' survey and focus group participants in general said that TeleFile made it easier to file their returns. Of 1,212 TeleFile users who responded to IRS' survey question, 1,067 (88 percent) said that it took less time to file via TeleFile than to file a Form 1040EZ. In addition, of 1,209 TeleFile users who responded to IRS' survey question, 1,078 (89 percent) said it was easier to file a TeleFile tax return than a Form 1040EZ. Taxpayers in the focus group overall said they liked the convenience of TeleFile.

Another question about TeleFile is whether it will reduce filings of paper returns or merely compete with electronic filing for the same market. IRS' evaluation indicated that TeleFile did not draw people away from electronic filing. Instead, it increased the number of electronically filed returns by attracting people who would have filed on paper otherwise. In that regard, of the 1,212 taxpayers who used TeleFile in 1992 and responded to IRS' survey question, 1,191 (98 percent) said that if they had not used TeleFile they would have filed a paper return.

The results of IRS' evaluation of security and information on costs and benefits are discussed later.

**GAO BENEFITS OF TELEFILE TO
TAXPAYERS**

- Free and accessible.
 - Quicker refund.
 - Fewer computations.
-

Taxpayers do not have to pay to use TeleFile and can access the system 7 days a week, 24 hours a day without leaving home. In comparison, to file electronically taxpayers must go to IRS-approved preparers or transmitters who generally charge for their services. Of the taxpayers who used TeleFile and answered IRS' survey, 87 percent said that it was important that TeleFile was inexpensive to use, and 99 percent said that it was important that TeleFile was convenient.

As shown in table I.1, TeleFile users who answered IRS' survey received their refunds quicker than respondents who were eligible but did not use TeleFile. Ninety-four percent of the taxpayers who used TeleFile and responded to IRS' survey said that it was important to them that they would receive their refunds quicker.

Table I.1: How Long It Took TeleFile Users and Nonusers to Receive Their Refunds

Number of weeks	Number of returns ^a		Percent of total	
	TeleFile	Non-TeleFile	TeleFile	Non-TeleFile
1 to 2 weeks	34	27	2.9	2.2
2 to 3 weeks	355	49	30.7	4.0
3 to 4 weeks	404	279	34.9	22.5
4 to 5 weeks	170	312	14.7	25.2
5 to 6 weeks	71	306	6.1	24.7
More than 6 weeks	17	143	1.5	11.5
Not sure	107	124	9.2	10.0
Totals	1,158	1,240	100.0	100.1 ^b

^aThe totals do not add to 1,220--the number of respondents to IRS' survey--because not all respondents provided data on refund time.

^bDoes not add to 100 percent due to rounding.

Taxpayers who use TeleFile make fewer calculations than taxpayers filing paper returns because IRS computes the TeleFile user's refund or balance due. Reducing the number of calculations required of the taxpayer reduces the amount of time it takes to file, making it easier to file. Of the taxpayers who used TeleFile and responded to IRS' survey, 93 percent said that it was important to them that TeleFile is not time-consuming and 97 percent said that it was important that TeleFile makes it easy to file. We will discuss later how TeleFile has the potential to further reduce taxpayer calculations.

GAO BENEFITS OF TELEFILE TO IRS

More accurate processing.

- Error rate for TeleFile 0.16 percent, 3 to 6.7 percent for 1040EZ.

Less costly to process than 1040EZ.

- \$2.20 for TeleFile, \$2.23 to \$2.39 for 1040EZ.
-

IRS benefits from TeleFile because returns are filed and processed more accurately, which reduces IRS' processing costs. TeleFile returns have fewer errors than Form 1040EZ paper returns. According to IRS data, the error rate on TeleFile processed returns was 0.16 percent in comparison to error rates for Form 1040EZ that ranged from 3 to 6.7 percent depending on the method used to process the Form 1040EZ. TeleFile returns are more accurate because (1) taxpayers make fewer errors in filing their returns over the telephone because they make fewer computations, (2) computers catch errors before returns are filed, and (3) computer processing of TeleFile returns eliminates errors associated with the manual processing of paper returns.

TeleFile returns are processed as electronic returns, which are less costly to process. According to IRS data, it cost \$2.20 to process a TeleFile return (including the cost of the telephone call) compared to \$2.23 to \$2.39 for the Form 1040EZ. As we discuss later, TeleFile has the potential to further reduce IRS costs by reducing the amount of paper IRS has to store.

GAO WHO USED TELEFILE IN 1992?

- 85 percent of users were between the ages of 18 and 37.
 - 93 percent earned less than \$30,000 a year.
 - 41 percent were students.
-

As part of its survey of taxpayers who used TeleFile in 1992, IRS gathered demographic data. Tables I.2 through I.5 show such data for the 1,220 users who responded to IRS' questionnaire. The total for each table does not add to 1,220 because some respondents did not answer every question.

Table I.2: Ages of TeleFile Users

Age	Number	Percent
Less than 18	36	3.0
18 to 24	647	53.8
25 to 37	377	31.4
38 to 49	100	8.3
50 to 64	40	3.3
65 or older ^a	2	0.2
Total	1,202	100.0

^aTaxpayers over 65 years of age could not use TeleFile. IRS' survey did not ask for the taxpayer's age at the time of filing. Therefore, it is possible that respondents had a birthday after they filed their 1991 tax return and were over 65 when they responded to the survey.

Table I.3: Education Levels of TeleFile Users

Education level	Number	Percent
Less than high school graduate	67	5.6
High school graduate	285	23.8
Some college or vocational school	573	47.8
College graduate	275	22.9
Total	1,200	100.1 ^a

^aDoes not add to 100 percent due to rounding.

Table I.4: Income Levels of TeleFile Users

Income level	Number	Percent
Less than \$10,000	533	44.7
\$10,000 to \$19,999	362	30.3
\$20,000 to \$29,999	212	17.8
\$30,000 to \$39,999	67	5.6
\$40,000 to \$49,999	17	1.4
\$50,000 or more	2	0.2
Total	1,193	100.0

Table I.5: Occupations of TeleFile Users

Occupation	Number	Percent
Student	400	34.1
Administrative support, including clerical	125	10.7
Managerial	104	8.9
Service occupations	97	8.3
Operators, fabricators, and laborers	87	7.4
Professional	86	7.3
Student and working	81	6.9
Precision production and repair	44	3.8
Marketing and sales	42	3.6
Technician and related support	28	2.4
Unemployed	21	1.8
Armed forces	15	1.3
Agricultural, forestry, and fishing related	6	0.5
Other	36	3.1
Total	1,172	100.1 ^a

^aTotal does not add to 100 percent due to rounding.

GAO WHY SOME TAXPAYERS
WOULD NOT USE TELEFILE

- They thought Form 1040EZ was less complicated.
 - They would have to send in Form-1040 TEL anyway.
 - They thought TeleFile would take more time than Form 1040EZ.
 - They did not want IRS to calculate their taxes.
-

As part of its surveys of taxpayers who were eligible to use TeleFile but did not, IRS asked respondents whether they would use TeleFile in 1993 if it was available and if not, why. As shown in table I.6, more than half of those who responded said that they would not use TeleFile because they felt a Form 1040EZ was less complicated.

Table I.6: Reasons Eligible Participants Would Not Use TeleFile

Reasons	Number	Percent
Filing Form 1040EZ is less complicated	293	52
Would have to send in Form 1040-TEL anyway	122	22
TeleFile takes more time than filing Form 1040EZ	79	14
Prefer IRS not calculate refund or amount owed	68	12
Total	562	100

IRS has taken steps that could alleviate some of these concerns. As discussed in more detail later, IRS is testing the possibility of doing away with submitting a Form 1040-TEL and reducing the number of calculations a taxpayer has to make.

GAO TELEFILE IN 1993

- TeleFile is again being tested in Ohio.
 - Voice signature is being tested in the Cincinnati District.
 - The Cleveland District will follow procedures used last year.
 - Some changes in forms and instructions.
-

In 1993, IRS is again testing TeleFile in Ohio. IRS has two district offices in Ohio--Cincinnati and Cleveland. For taxpayers in the Cincinnati District, IRS is testing a paperless form of TeleFile. For taxpayers in the Cleveland District, TeleFile will be the same as it was in 1992. As of March 26, 1993, the Cincinnati Service Center had received 134,765 TeleFile returns--62,946 from taxpayers in the Cincinnati District and 71,819 from taxpayers in the Cleveland District. This total represents a 16-percent increase in the number of TeleFile returns compared to the same period in 1992.

TeleFile users in the Cincinnati District in 1993 do not have to send a Form 1040-TEL or W-2 to IRS. To replace the handwritten signature on the Form 1040-TEL, Cincinnati taxpayers will have a voice recording taken when they call TeleFile, which will serve as their signature. Because they will not have to send their W-2s to IRS, users in the Cincinnati District are also required to enter the amount of wages and withholding and the employer identification number from each Form W-2 instead of total wage and withholding information. TeleFile users in the Cleveland District will still have to submit their Forms 1040-TEL and W-2 and calculate their total wage and withholding data to be entered on the Form 1040-TEL.

On the basis of input from the focus groups and the Cincinnati Service Center, IRS made some changes to the TeleFile instructions for 1993 and the Form 1040-TEL in an attempt to make them more clear. Appendix II has copies of the Form 1040-TEL used in 1992 and 1993.

TeleFile as it is being tested in the Cincinnati District has the potential to further reduce taxpayer burden and IRS' storage costs. Taxpayer burden would be reduced because (1) taxpayers would not be required to submit any paper documents and (2) taxpayers would not have to total wage and withholding information from multiple Forms W-2--the computer would perform that task. IRS' storage costs would decrease because, unlike in 1992, it will not have to store Forms 1040-TEL for Cincinnati District filers. IRS has in its files and federal record centers over 1.2 billion tax returns stored in over 1 million cubic feet of space. If these returns had been filed electronically, as TeleFile returns are, they could be stored on about 200 12-inch optical disk platters.

**GAO SECURITY ELEMENTS OF
TELEFILE**

- Participant database.
 - Tax package needed to file.
 - Refund mailed to address on label.
 - Multiple call lockout.
 - Better control of PINs needed.
-

IRS included various controls in its TeleFile test to protect against fraud. These measures come into play before, during, and after the taxpayer calls TeleFile.

IRS created a database of taxpayers who are Ohio residents and who either filed a Form 1040EZ or could have filed one the previous year. Only taxpayers on the database can file a TeleFile return. As we discussed earlier, this prevented first-time filers from using TeleFile. Because IRS has no modem access to the database, a hacker cannot alter it.

The instructions, the Form 1040-TEL, the toll-free telephone number, and the address label are in the tax package that was mailed only to taxpayers on the participant database. Copies of the form cannot be obtained from other sources, and the instructions are not in any other IRS publication. IRS believes that these precautions will deter fraudulent returns since potential fraudulent filers will not have all the information needed to use TeleFile. IRS sent taxpayers a postcard before mailing the tax packages alerting taxpayers to keep their tax packages when they receive them.

To use TeleFile, taxpayers cannot change the entity information on their tax package labels. Their refunds are mailed to the name and address on the label. IRS believes that mailing refunds to the address on the label prevents one person from using another's tax package to file a return and having the refund mailed to the wrong address.

When a taxpayer calls TeleFile, he or she is asked to enter a PIN and SSN, each of which is checked against the participant database. The system has a multiple call lockout feature that denies entry to anyone who has entered the same SSN six times. IRS believes that this system deters someone who is attempting to guess an SSN and PIN combination. Once returns are filed, an SSN cannot be used again. The system records the time and date when an SSN is used and will lock out further attempts to use a previously used SSN. TeleFile also will not accept a return if the taxpayer's withholding exceeds a certain percentage of the taxpayer's wages.

Returns that are filed electronically, including TeleFile returns, are evaluated against certain computer criteria to identify potentially fraudulent returns. In addition, paper documents submitted as part of TeleFile (Forms 1040-TEL and W-2) are examined to see if they were altered; altered forms are forwarded to a questionable refund detection team for further investigation.

According to IRS:

- Of the approximate 126,000 TeleFile returns, three were identified as potentially fraudulent and investigated by IRS' Criminal Investigation Division. All three cases were closed.
- Of the 7,704 Forms 1040-TEL reviewed by the questionable refund detection team, none were identified as fraudulent.
- Less than 1 percent (559) of those who filed via TeleFile failed to submit a signed Form 1040-TEL with supporting Form(s) W-2.⁴ Those who did not submit required paperwork in 1992 were deleted from the TeleFile participant database for 1993.

Despite all of the above, we believe that TeleFile security is compromised by the fact that both items needed to gain access to TeleFile--the PIN and SSN--are on the label, which is on the front page of the tax package. Therefore, someone seeing or stealing a tax package could use this information to try to file a fraudulent tax return. IRS is aware of this problem and plans to conduct a TeleFile risk assessment. IRS has also been considering alternative procedures. For example, IRS considered having taxpayers include part of their birth date in their PINs, which IRS could then verify against birth data obtained from the Social Security Administration. IRS decided against that option after a test indicated that birth date information in the Social Security Administration's files before 1972 was unreliable. IRS is now considering entering into an arrangement with the Postal Service. Under this alternative, which could take several years to implement if it is ever adopted, taxpayers would go to their local post office and, upon providing identification, would receive a PIN. As a result of its review of TeleFile, IRS' Internal Audit Division has proposed that IRS send PINs to taxpayers in a separate mailing tax package. In considering alternatives like these, IRS is faced with finding the appropriate balance between security and taxpayer burden.

⁴Unlike paper returns, TeleFile returns filed without voice signatures are processed and refunds issued before IRS has the taxpayer's signature, which is on the Form 1040-TEL. We expressed our concern with that procedure in a December 1992 report entitled Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

COPIES OF FORMS 1040-TEL USED IN 1992 AND 1993

Figure II.1: Copy of Form 1040-TEL (1991)

Department of the Treasury — Internal Revenue Service
Form 1040-TEL TeleFile Income Tax Return for Single Filers With No Dependents 1991 OMB No. 1545-1277

Name and address Attach the IRS Label For Privacy Act Notice, see page 4 in the booklet.

(If the label is not correct, you cannot use TeleFile this year — Use Form 1040EZ.)

PLEASE SEE INSTRUCTIONS ON BACK

A Do you want \$1 to go to the Presidential Election Campaign Fund? YES NO
 (Checking "Yes" will not change your tax or reduce your refund.)

B Can your parents (or someone else) claim you on their tax return?

C Enter total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach Copy B of your W-2 form(s).) DOLLARS ONLY
[] [] , [] [] [] []

D Enter Federal income tax withheld from Box 9 of your W-2 form(s). [] [] , [] [] [] []

E Enter taxable interest income of \$400 or less. If the total is more than \$400, you cannot use TeleFile or Form 1040EZ. [] [] [] []

Sign your return I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

X _____
 Your signature Date

When you call, PLEASE LISTEN CAREFULLY — TeleFile will tell you these amounts:

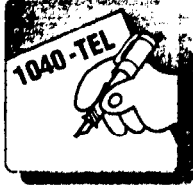
Enter your Adjusted Gross Income (AGI - the total of lines C and E). You will need this figure for your State of Ohio income tax return _____
Adjusted Gross Income

Enter the amount of your refund _____
Amount of Your Refund


OR

Enter the amount you owe. Use the payment-voucher that follows the forms. Payments must be postmarked by April 15, 1992 _____
Amount You Owe


YOU MUST MAIL FORM 1040-TEL



Fill in Lines A - E on Form 1040-TEL



Call the TeleFile system toll-free at 1-800-829-5166 24 hours a day



Mail Form 1040-TEL in the envelope included in this booklet. Keep a copy for your records.

For Paperwork Reduction Act Notice, see the instructions on the back. Form 1040-TEL (1991)

Figure II.2: Copy of Form 1040-TEL (1992)

Attach the IRS Label
 If the label is not correct, you cannot use TeleFile this year — Use Form 1040EZ



1 Fill in Lines A, B, C, D, and E

- A** Do you want \$1 to go to the Presidential Election Campaign Fund? Checking "Yes" will not change your tax or reduce your refund. YES NO
- B** Can your parents (or someone else) claim you on their 1992 tax return? YES NO
- C** Enter total wages, salaries, and tips. This should be shown in box 10 of your W-2 form(s). Attach Copy B of your W-2 form(s). DOLLARS ONLY ,
- D** Enter Federal withholding from box 9 of your W-2 form(s) ,
- E** If you had taxable interest income, enter the total dollar amount from your 1099-INT form(s) or other statements. If the total is more than \$400, you cannot use TeleFile or Form 1040EZ.



JUST FILL IN A, B, C, D, AND E BEFORE CALLING TELEFILE



2 Gather Your Mail Label and This Form and Call TeleFile 24 Hours a Day at 1-800-829-5166

- TeleFile will tell you what information you need to enter from your mail label and this form.
- Enter dollars only for all money amounts. Press the number sign (#) after each money amount.
- TELEFILE WILL TELL YOU THE FOLLOWING AMOUNTS. PLEASE ENTER THE AMOUNTS IN THE SPACES PROVIDED.

Adjusted Gross Income (AGI). You will need this figure for your State of Ohio income tax return
Adjusted Gross Income

Amount of your refund
Amount of Your Refund

OR

Amount you owe. Use the payment voucher that follows the forms. Payments must be postmarked by April 15, 1993
Amount You Owe

You must stay on the line until TeleFile tells you your return has been accepted and gives you a confirmation number. If you hang up before this, your return and refund will NOT be processed.
Confirmation Number



3 Sign and Mail This Form

- Sign and date this form, attach Copy B of your W-2(s) and the IRS label, and mail them as soon as possible in the envelope found in this booklet. **KEEP A COPY FOR YOUR RECORDS.**
- I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

 Your signature Date

MAJOR CONTRIBUTORS TO THIS BRIEFING REPORT

GENERAL GOVERNMENT DIVISION, WASHINGTON, D.C

David Attianese, Assistant Director, Tax Policy and
Administration Issues

John Lesser, Evaluator-in-Charge

Judy Lanham, Secretary

(268572)



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