



# INTERNAL REVENUE SERVICE

## Assessment of the Interim Results of the 2006 Filing Season and Fiscal Year 2007 Budget Request

Highlights of [GAO-06-499T](#), a statement for the record for the Subcommittee on Transportation, Treasury, the Judiciary, and Housing and Urban Development, and Related Agencies, Committee on Appropriations, U.S. Senate

### Why GAO Did This Study

The Internal Revenue Service's (IRS) filing season performance affects tens of millions of taxpayers who expect timely refunds and accurate answers to their tax questions. IRS's budget request is a planning tool showing how it intends to provide taxpayer service and enforce the tax laws in 2007. It is also the first in a series of annual steps that will determine whether IRS meets its new long-term goals of increasing tax compliance and reducing taxpayers' acceptance of cheating on their taxes. Tax law enforcement remains on GAO's list of high-risk federal programs, in part, because of the persistence of a large tax gap. IRS recently estimated the gross tax gap, the difference between what taxpayers owe and what they voluntarily pay, to be \$345 billion for 2001.

GAO assessed (1) IRS's interim 2006 filing season performance; (2) the budget request; and (3) how the budget helps IRS achieve its long-term goals. GAO compared performance and the requested budget to previous years.

### What GAO Recommends

GAO is not making any new recommendations, but notes past recommendations and their implementation status where relevant and identifies opportunities for additional savings.

[www.gao.gov/cgi-bin/getrpt?GAO-06-499T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-499T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact James R. White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

### What GAO Found

IRS has improved its filing season performance so far in 2006, continuing a trend. More refunds were directly deposited, which is faster and more convenient. Electronic filing continued to grow, but at a slower rate than in previous years. IRS's two most commonly used services—telephone and Web site assistance—continued to improve. IRS estimates that the accuracy rate for its telephone answers is now at 90 percent or more. Taxpayers continued the recent pattern of using IRS's walk-in sites less and community-based volunteer sites more. While millions of taxpayers use chain paid tax preparers, taxpayers may not be receiving accurate and complete assistance, putting them at risk of owing back taxes, interest, and penalties.

The 2007 budget request of \$11 billion (a small decrease after adjusting for inflation) sets performance goals for service and enforcement that are all equal to or higher than the 2006 goals. The budget reduces funding by 15 percent for Business Systems Modernization, the ongoing effort to replace IRS's aging information systems. The reduction could impede progress delivering improvements to taxpayers. The budget request identified over \$121 million in savings; however, opportunities exist for further savings. For example, IRS officials told us IRS's 25 call centers have underutilized space. Those centers could be consolidated without affecting service to taxpayers.

Achieving IRS's long-term compliance goals will be challenging because the tax gap has persisted for many years at about its current level. In addition, because the effect of taxpayer service and enforcement on compliance has never been quantified, IRS does not have a data-based plan demonstrating how it will achieve its goals. Nor does IRS have a plan for measuring compliance by 2009, the date for achieving the goals. Reducing the tax gap will likely require new and innovative solutions such as simplifying the tax code, increasing income subject to withholding, and increasing information reporting about income.

**Changes in Funding and Full-time Equivalent (FTE) Staff for the Fiscal Year 2007 Budget Request Compared to Fiscal Year 2006 Enacted Budget**

	Fiscal year 2007 requested		Percentage change	
			fiscal years 2006-2007	
	Dollars	FTEs	Dollars	FTEs
Processing, Assistance, & Management	\$4,159,893	37,126	1.58	-4.30
Tax Law Enforcement	4,764,954	49,479	1.85	-2.14
Information Systems	1,619,834	7,351	2.33	4.54
Business Systems Modernization	167,310	0	-15.08	0.00
Health Insurance Tax Credit Administration	14,846	17	-25.80	0.00
<b>Total</b>	<b>10,726,837</b>	<b>93,973</b>	<b>1.45</b>	<b>-2.52</b>
Existing user fees and reimbursables	282,543	1,503	9.17	11.33
<b>Total program operating level</b>	<b>\$11,009,308</b>	<b>95,476</b>	<b>1.63</b>	<b>-2.33</b>

Source: GAO analysis of IRS data.

Notes: Fiscal year 2007 FTEs reflect an adjustment made after the budget was printed. Enacted FTEs differ from actual FTEs.