



Highlights of [GAO-08-266](#), a report to the Committee on Finance, U.S. Senate

## Why GAO Did This Study

One proven approach for improving tax compliance is information reporting to the Internal Revenue Service (IRS) by third parties about taxpayers' income and expenses. IRS matches information returns with taxpayers' income tax returns to see if taxpayers have filed returns and reported all their income. The administration's fiscal year 2008 budget proposed requiring information reporting on merchant payment card reimbursements and on certain payments to corporations, raising an estimated \$18.4 billion over 10 years.

This report's objectives are to (1) identify, using case studies, the compliance costs of existing information reporting; (2) determine the kinds of third-party compliance costs that may result from the two budget proposals and options for mitigating the costs; and (3) determine IRS's ability to process and use additional information returns.

GAO did nongeneralizable structured interviews with four payers volunteering information and with five companies filing a sizable percentage of all information returns. GAO's work also included reviewing studies and documentation and contacting other government and nongovernment parties.

## What GAO Recommends

GAO makes no recommendations in this report. IRS provided technical comments, which GAO incorporated as appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-266](#). For more information, contact James White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

# TAX ADMINISTRATION

## Costs and Uses of Third-Party Information Returns

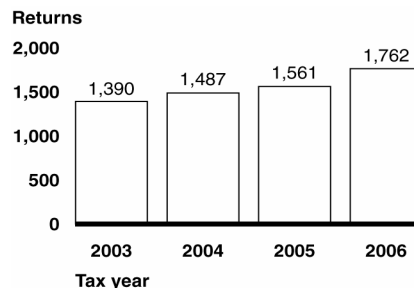
### What GAO Found

In nine case studies, filers of information returns told GAO that existing information return costs were relatively low. One small business employing under five people told GAO of possibly spending 3 to 5 hours per year filing Form 1099 information returns manually, using an accounting package to gather the information. Two parties selling services reported prices for preparing and filing Forms 1099 with IRS of about \$10 per form for 5 forms to about \$2 per form for 100 forms, with one of them charging about \$.80 per form for 100,000 forms. As expected, unit prices for services provided to payers by selected software vendors, service bureaus, and return preparers decreased as the number of forms handled increased.

The two information reporting proposals studied would impose new compliance costs, some of which could be mitigated. For payment card reimbursements, compliance costs would include (1) merging separately stored taxpayer and merchant identification numbers, especially in the case of multiple locations or franchises; and (2) more generally, new systems and added service requirements. Mitigations could include (1) having the reporting party be as close as possible to the merchant in a payment or reporting chain and (2) extending current systems and procedures that, for instance, might already generate and report related data used for other purposes. For payments to corporations for services, payer compliance costs would include, for example, additional bookkeeping, and mitigations could include limiting information return recipients to only some corporations.

IRS already receives and handles a growing number of information returns, over 1.7 billion for tax year 2006. According to IRS officials, IRS uses about 90 percent of potentially usable information returns in its matching efforts for individual taxpayers. IRS pursues millions of discrepancies, including both underreporting of income and failure to file tax returns, discovered through its matching efforts. According to IRS officials, millions of others are not pursued because of resource constraints. For the two proposals studied, IRS budgeted \$11.8 million in programming and start-up costs for fiscal year 2008, with another \$16.8 million expected in administrative implementation costs after 2008. It did not estimate future enforcement costs.

### IRS Receipt of Information Returns (Numbers in Millions)



Source: IRS Data Books for 2003 through 2005 and IRS for 2006.