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# INTERNAL REVENUE SERVICE

## Assessment of the 2008 Budget Request and an Update of 2007 Performance

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Highlights of [GAO-07-719T](#), a testimony before the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

## Why GAO Did This Study

The Internal Revenue Service's (IRS) budget request shows how IRS intends to balance spending for enforcement and taxpayer service, including spending for new initiatives and the Business Systems Modernization (BSM) program. A combination of enforcement and taxpayer service promotes compliance with the tax laws. GAO was asked to (1) compare IRS's proposed FY 2008 budget to prior years' and assess how the new spending initiatives are justified, and (2) describe IRS's enforcement, filing season, and BSM performance.

GAO analyses are based on IRS's 2008 budget submission, supplementary IRS data, interviews with IRS officials, and prior GAO reports. Some of GAO's analyses have been reported earlier this year and updated here.

## What GAO Recommends

GAO recommends IRS have available basic descriptive, cost, and expected performance information on all new initiatives and include such information in future budget submissions. IRS agreed to provide more information with future budgets, but said it did provide basic information this year. However, some initiatives lacked any explanation of how the amount requested or staff needed were determined. Without such information, Congress would be unable to tell whether IRS spent the money as intended.

[www.gao.gov/cgi-bin/getrpt?GAO-07-719T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-719T).

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).

## INTERNAL REVENUE SERVICE

### Assessment of the 2008 Budget Request and an Update on 2007 Performance

#### What GAO Found

IRS's budget proposes to increase spending by almost 5 percent to \$11.6 billion. The budget proposes shifting a greater proportion of spending to enforcement, continuing a trend since 2004. IRS projects that revenue from the new initiatives will have a relatively small impact on the tax gap—less than one percent of the gap last estimated at \$290 billion in 2001. The tax gap is the difference between what taxpayers owe and voluntarily pay. Justifications for the new initiatives varied with some lacking descriptive, cost, and expected performance information. For example, an initiative for improving compliance estimates provided no information on how the budget and staff needed or work to be done were determined. Without such information, decision makers do not have an informed basis for approving and funding the new initiatives.

IRS has made noticeable progress in its enforcement efforts including increasing the amount of enforcement revenue collected and enforcement staffing. For example, between FY 2004 and 2006 enforcement revenue increased 13 percent to \$48.7 billion. Nevertheless, enforcement remains on GAO's high-risk list. The tax gap has been a persistent problem in spite of efforts to reduce it, as the rate of taxpayers' voluntarily compliance with the tax laws has changed little over the past three decades. To better target enforcement resources, IRS has requested funding to do additional compliance research which GAO has long supported. Finally, GAO has reported on IRS's lack of a data-based plan to improve compliance.

Filing season performance in 2007 improved in some areas compared to prior years', but there have been challenges. As of April 20, IRS processed about 104.6 million individual income tax returns and issued 88.2 million refunds. Electronic filing grew, telephone access is somewhat better, and Web site use continues to grow. However, fewer than 4 percent of eligible taxpayers used the Free File program. The latest release of Customer Account Data Engine (CADE), the new tax processing system, was delayed. As a result, millions of taxpayers did not benefit from CADE's faster processing of refunds. IRS recently issued its plan, the Taxpayer Assistance Blueprint, to improve taxpayer service.

Despite progress in implementing BSM projects including for CADE and improving management controls and capabilities, significant challenges and serious risks remain. Delays in the latest release of CADE resulted in continued contention for key resources and will likely impact future releases. IRS has more to do to address GAO's prior recommendations such as developing a long-term strategy that would include time frames for retiring legacy computer systems.

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Mr. Chairman and Members of the Committee:

We appreciate this opportunity to comment on the Internal Revenue Service's (IRS) budget request as well as its performance in enforcing tax laws, providing services this tax filing season, and modernizing its information systems.

Effective tax administration requires a balance of taxpayer service and tax law enforcement. To provide enforcement and taxpayer service in fiscal year (FY) 2008, the Internal Revenue Service (IRS) has requested an \$11.6 billion operating-level budget with about 63 percent going for enforcement activities and 31 percent for taxpayer service (including operational support).<sup>1</sup> The remainder includes funding to develop and implement IRS's Business Systems Modernization (BSM) program, a multibillion-dollar, high-risk, complex effort intended to help improve both enforcement and taxpayer service.

Although IRS has increased direct revenue collected through its enforcement programs in recent years, enforcement continues to be included on our list of high-risk federal programs.<sup>2</sup> This is due, in part, to the persistence of a large tax gap.<sup>3</sup> IRS estimated the gross tax gap to be \$345 billion for tax year 2001. After late payments by taxpayers and revenue brought in by IRS's enforcement efforts, IRS estimates the resulting net tax gap to be \$290 billion.

The annual tax return filing season is when IRS provides much of its service to taxpayers. From January through April, IRS processed over 100 million individual tax returns and issued refunds, handled tens of millions of phone queries from taxpayers, and provided forms and answers to questions for tens of millions of taxpayers on its Web site. Smaller numbers of taxpayers were assisted at IRS's walk-in sites or at sites operated by other organizations and staffed by volunteers. While it is always a massive undertaking, the IRS Commissioner stated that this year's filing season was high risk for several reasons, including challenges

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<sup>1</sup> Internal Revenue Service (IRS) Fiscal Year (FY) 2008 Congressional Budget Submission, February 5, 2007. The \$11.6 billion includes \$11.1 billion in new appropriated funds and \$0.5 billion in other funds.

<sup>2</sup> GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

<sup>3</sup> The tax gap is an estimate of the difference between what taxpayers pay in taxes voluntarily and on time and what they should pay under the law.

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in implementing the new telephone excise tax refund (TETR), split refund option (refunds can now be directly deposited to up to three separate accounts), and several tax law extensions that were enacted in December of 2006.<sup>4</sup>

As requested, our objectives in this statement are to compare IRS's proposed FY 2008 budget submission with prior years' spending and staffing and assess how new spending initiatives are justified, and whether there are opportunities to reduce or reallocate resources. In addition, our statement will describe IRS's performance in three areas: enforcement, service to taxpayers so far this filing season (including the impact of this year's tax system changes), and systems modernization.

Our analyses are primarily based on the information in IRS's FY 2008 budget request, supplementary data from IRS, interviews with IRS officials and other tax experts, IRS's filing season performance measures and our past reports on IRS's enforcement, filing season, and systems modernization programs. Some of our analyses have been reported earlier this year, but are updated here.<sup>5</sup> Since sources and procedures for producing this year's data have not changed significantly from prior years, we determined that the data we used were sufficiently reliable for the purposes of this statement. Data limitations are discussed where appropriate. Our review of justifications for selected new spending initiatives used criteria based on our previous work on results-oriented government and performance budgeting. We selected 6 of the total 14 non-legislative new spending initiatives for review based on certain

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<sup>4</sup> The Tax Relief and Health Care Act of 2006 signed into law in December 2006 extended some provisions that expired at the end of calendar year 2005. These changes include extensions of three tax deductions: (1) state and local sales tax, (2) higher education tuition and fees, and (3) educator expenses. Pub. L. No. 109-432, Dec. 20, 2006.

<sup>5</sup> GAO, *2007 Tax Filing Season: Interim Results and Updates of Previous Assessments of Paid Preparers and IRS's Modernization and Compliance Research Efforts*, [GAO-07-720T](#) (Washington, D.C.: Apr. 12, 2007); *Tax Administration: Telephone Excise Tax Refund Requests Are Fewer Than Projected and Have Had Minimal Impact on IRS Services*, [GAO-07-695](#) (Washington, D.C.: Apr. 11, 2007); *Internal Revenue Service: Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request*, [GAO-07-673](#) (Washington, D.C.: Apr. 3, 2007); *Tax Compliance: Multiple Approaches Are Needed to Reduce the Tax Gap*, [GAO-07-488T](#) (Washington, D.C.: Feb. 16, 2007); and *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2007 Expenditure Plan*, [GAO-07-247](#) (Washington, D.C.: Feb. 15, 2007).

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characteristics that we believed might affect how they were justified.<sup>6</sup> We reviewed the justifications to determine whether they included basic information such as the problem or performance shortfall to be addressed, work to be done, explanations of estimated costs, and measures and goals.<sup>7</sup> We reviewed IRS's efforts to address our prior year recommendations related to our annual filing season and BSM work. We performed our work from December 2006 through April 2007 in accordance with generally accepted government auditing standards.

In summary, we make the following major points:

- IRS's 2008 budget request proposes to increase spending, particularly for enforcement. The \$11.6 billion requested total operating budget is an increase of \$608.8 million (4.9 percent) over the FY 2007 level. IRS proposes spending a total of \$7.2 billion for enforcement, including operational support. This continues a trend since 2004 of shifting a greater proportion of spending to enforcement and away from taxpayer service. The budget submission includes IRS initiatives and legislative proposals to address the tax gap. However, the expected direct enforcement revenue (i.e., the amount collected from taxpayers targeted by IRS's enforcement efforts) to be gained is small compared to the size of the tax gap. For example, in FY 2010, after the initiatives are phased-in, IRS expects to collect an additional \$699 million in direct enforcement revenue—or about one-fourth of 1 percent of the tax year 2001 net tax gap—from added enforcement staff. Furthermore, the justifications for initiatives varied in the information they provided, with some lacking basic descriptive, cost, and expected performance information suitable for assessing them. For example, an initiative to determine the impact of taxpayer service on compliance lacked information such as a problem statement and an explanation of estimated costs. IRS identified savings in the 2008 budget request, and we identified additional savings opportunities in our past work including mandating electronic filing for certain tax preparers and consolidating and retiring legacy information systems.
- Despite progress, enforcement of the tax laws remains on our high risk list because of the tax gap. The tax gap has been a persistent problem in

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<sup>6</sup> The characteristics we considered to select a subset of initiatives that would be similar to universe of initiatives were the (1) type of initiative, (such as enforcement, taxpayer service, research, or information system), (2) responsible IRS operating division, and (3) dollar amount requested.

<sup>7</sup> [GAO-07-310](#).

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spite of a myriad of efforts to reduce it. The rate at which taxpayers pay their taxes voluntarily and on time has tended to range from around 81 percent to around 84 percent over the past three decades. To be in a position to more effectively address the tax gap, IRS needs more compliance research, which we have long supported. IRS has requested funding to do a rolling sample of audits of individual taxpayer accounts (small annual samples that would replace larger but intermittent efforts). While we have concerns about the amount of information provided to justify the specific request, we have been generally supportive of such an approach. Finally, we have reported on the need for a data-based plan to improve compliance. In a recent hearing, the Chairman of the Senate Finance Committee asked the Secretary of the Treasury for a more detailed plan by July 2007.

- IRS's filing season performance improved in some areas, although there have been challenges. As of April 20, IRS processed approximately 104.6 million individual income tax returns, and issued 88.2 million refunds. Electronic filing continued to grow, almost 8.5 percent greater than last year. Challenges include the taxpayers' use of the Free File program which was slightly less than last year and a 2 month delay in IRS's latest release of the Customer Account Data Engine (CADE), a modern tax return processing system that issues faster refunds. As of April 20, IRS had posted 9.1 million returns by CADE, far fewer than the 33 million IRS originally planned. As a result, millions of taxpayers did not receive the benefits of CADE's faster posting and subsequent refund issuance. Regarding taxpayer service, telephone access is somewhat better and the accuracy of IRS's answers to taxpayer questions is comparable to last year. Use of IRS's Web site continues to increase, which is important because it is available around the clock and is lower cost than most other types of assistance. Despite the filing season being characterized as high-risk, in large part because of TETR, the impact of TETR on taxpayer services has been much less than IRS anticipated. Longer term, through its Taxpayer Assistance Blueprint (TAB), IRS plans to improve taxpayer services by assessing taxpayers' needs and preferences. TAB provides information on the cost per service contact. Having such information could assist IRS in determining whether it can provide taxpayers services through lower cost options.
- IRS continues to make progress in implementing BSM projects and meeting cost and schedule commitments, but two key projects—CADE and Modernized e-File (a new electronic filing system)—experienced significant cost overruns during 2006. Future BSM project releases face serious risks, which IRS is working to mitigate. For example, delays in deploying the latest release of CADE have resulted in contention for key

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resources and will likely impact the design and development of the next two important releases, which are scheduled to be deployed later this year. IRS has made significant progress in implementing our prior recommendations and improving its modernization management controls and capabilities. However, critical controls and capabilities related to requirements development and management and post-implementation reviews of deployed BSM projects have not yet been fully implemented. In addition, more work remains to be done by the agency to fully develop a long-term vision and strategy for completing the BSM program, including establishing time frames for consolidating and retiring legacy systems.

As we will discuss in more detail later in this statement, we recommend that the Commissioner of Internal Revenue

- have available basic descriptive, cost, and expected performance information on the spending initiatives proposed in the 2008 budget submission to the extent that such information has not been provided, and
- include in future budget submissions, basic descriptive, cost, and expected performance information on new spending initiatives, with supplementary documentation available if needed.

In email comments on a draft of this statement, IRS's Chief Financial Officer agreed with the second recommendation, but not the first. She stated that the FY 2008 budget and justification did provide basic descriptive, cost, and expected performance information for each initiative. While we agree that for every initiative IRS provided the total proposed spending, some initiatives lacked basic information such as on how the amount to be spent was determined and work to be done. For example, the initiative for improving compliance estimates provided no explanation of how the 258 FTEs were determined or basic information on the work such as the number of examinations to be conducted. Without such information, at the end of the fiscal year, Congress would be unable to tell whether IRS spent the money as intended.

**IRS's Request  
Increases  
Enforcement  
Spending and  
Identifies Savings, but  
Provides Limited  
Justification for Some  
New Spending, and  
Other Savings  
Opportunities Exist**

IRS's 2008 budget request proposes to increase spending. The \$11.6 billion requested total operating budget is an increase of \$608.8 million (almost 5 percent) over the FY 2007 level as shown in table 1.<sup>8</sup> IRS proposes to fund 92,814 full-time equivalents (FTE), a slight decrease compared to the FY 2007 level.<sup>9</sup>

**Table 1: IRS's Changes in Funding and Full-time Equivalents for Fiscal years 2006 through 2008**

Dollars in thousands

Appropriation Accounts	Fiscal year 2006 <sup>a</sup>		Fiscal year 2007		Fiscal year 2008 requested		Net percentage change Fiscal years 2007-2008		Net percentage change Fiscal years 2006-2008	
	Dollar	FTE	Dollar	FTE	Dollar	FTE	Dollar	FTE	Dollar	FTE
Enforcement	\$4,708,441	49,534	\$4,741,680	48,307	\$4,925,498	48,667	3.88	0.75	4.61	-1.75
Taxpayer Service	2,142,042	32,050	2,156,988	31,557	2,103,089	30,160	-2.50	-4.43	-1.82	-5.90
Operations Support	3,461,205	13,468	3,470,882	12,890	3,769,587	12,957	8.61	0.52	8.91	-3.79
Business Systems Modernization	242,010	317	212,659	317	282,090	317	32.65	0	16.56	0.00
Health Insurance Tax Credit	20,008	17	14,856	17	15,235	17	2.55	0	-23.86	0.00

<sup>8</sup> When adjusted for inflation, the funding requested in FY 2008 would be about a 0.5 percent increase since 2004.

<sup>9</sup> IRS provided updated full-time equivalent (FTE) data from what is shown in its budget request, based on its enacted FY 2007 budget. An FTE is equivalent of one person working full-time for 1 year with no overtime.



Dollars in thousands

Appropriation Accounts	Fiscal year 2006 <sup>a</sup>		Fiscal year 2007		Fiscal year 2008 requested		Net percentage change Fiscal years 2007-2008		Net percentage change Fiscal years 2006-2008	
	Dollar	FTE	Dollar	FTE	Dollar	FTE	Dollar	FTE	Dollar	FTE
<b>Subtotal Appropriated Resources</b>	<b>\$10,573,706</b>	<b>95,386</b>	<b>\$10,597,065</b>	<b>93,088</b>	<b>\$11,095,499</b>	<b>92,118</b>	<b>4.70</b>	<b>-1.04</b>	<b>4.93</b>	<b>-3.43</b>
Reimburseables	\$158,820	1,350	125,723	N/A	133,498	696	6.18	N/A	-15.94	-48.44
User Fees	19,000	N/A	150,000	N/A	180,000	N/A	20.00	N/A	847.37	N/A
Available multi-year/no-year funds	169,006	N/A	143,282 <sup>b</sup>	N/A	149,135	N/A	4.08	N/A	-11.76	N/A
<b>Total program operating level</b>	<b>\$10,920,532</b>	<b>96,736</b>	<b>\$11,016,070</b>	<b>93,088</b>	<b>\$11,558,132</b>	<b>92,814</b>	<b>4.92</b>	<b>-0.29</b>	<b>5.84</b>	<b>-4.05</b>

Source: GAO analysis of IRS data.

Note: N/A means not applicable.

<sup>a</sup>The amounts are IRS's estimated allocations of funding of its previous appropriations accounts based on the new budget appropriation structure established in 2008. According to IRS officials, data is not available prior to FY 2006 because of the appropriations account restructuring.

<sup>b</sup>At the time IRS reported the estimated amount of available multi-year/no-year funds in its 2008 budget request, the regular 2007 appropriation had not been enacted. Therefore, this amount represents the amount available under the continuing resolution in effect at that time.

Table 1 summarizes IRS's appropriation accounts and shows that its 2008 budget submission continues a trend of shifting spending toward enforcement.

The request for \$4.9 billion for direct enforcement appropriations is an increase of 3.9 percent over the FY 2007 level and almost 4.6 percent over the FY 2006 level.<sup>10</sup>

Table 1 also shows that IRS is requesting more funding for operational support in 2008 over the 2007 level. Among the reasons for the increased spending is that IRS is proposing to reduce the backlog of outdated information systems and telecommunications equipment. Finally, IRS is requesting \$282 million for its BSM program—a significant increase in funding over both FYs 2006 and 2007. This includes over \$55 million for developing and deploying the capability to accept individual income tax

<sup>10</sup> Pub. L. No. 110-5, Feb. 15, 2007.

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returns on Modernized e-File and \$16 million for new Web portals to support key business processes and compliance initiatives.

When operational support funding shown in table 1 is allocated to enforcement and taxpayer service, a more complete picture of what IRS actually spends on these activities emerges. Based on the allocation reported in the budget request, IRS plans to spend a total of \$7.2 billion for enforcement and \$3.6 billion for taxpayer service. Including operational support, IRS is requesting almost 56,600 FTEs for enforcement and about 35,200 FTEs for taxpayer service (an increase of 0.7 percent and a decrease of 3.7 percent, respectively, compared to FY 2007 levels).

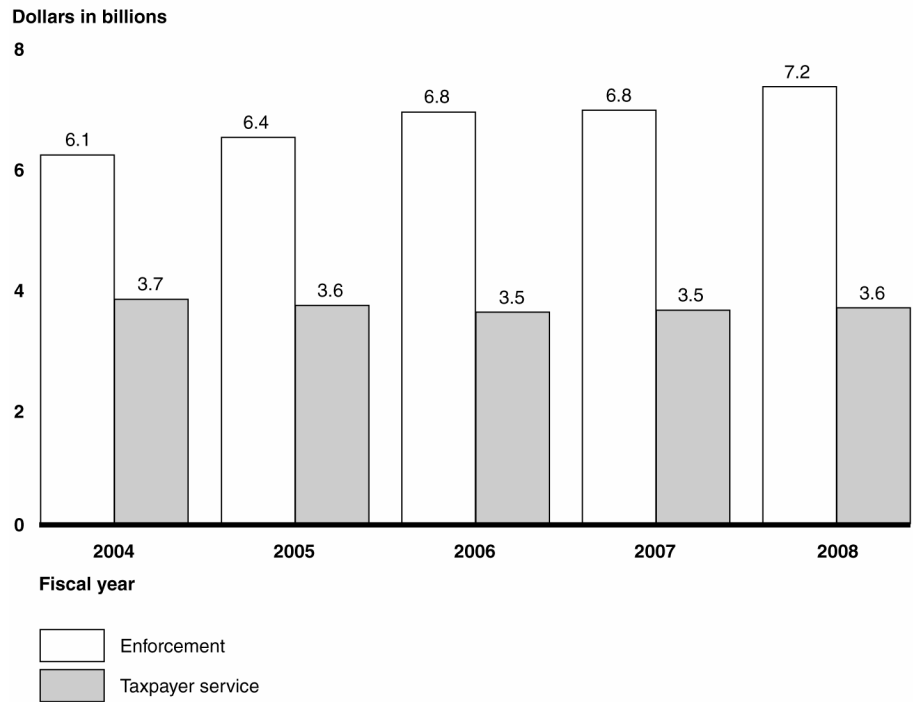
Figure 1 shows that this continues a trend since 2004 of shifting a greater portion of spending toward enforcement as compared to service. In years following passage of the IRS Restructuring and Reform Act of 1998, IRS made significant progress in taxpayer service, although there were declines in many aspects of enforcement activities, such as for enforcement staff and revenue collected as shown in figures 2 and 3, respectively, later in this statement.<sup>11</sup> However, at FY 2008 requested levels, total spending for enforcement will increase by over 19 percent while spending for taxpayer service will decrease by almost 4 percent since 2004.<sup>12</sup>

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<sup>11</sup> Pub. L. No. 105-206, July 22, 1998.

<sup>12</sup> In contrast, consumer prices are projected to increase by about 11.6 percent from FY 2004 to FY 2008.

**Figure 1: Funding for IRS Enforcement and Taxpayer Service Programs, Including Operational Support, Fiscal Years 2004 through 2008**



Source: GAO analysis of IRS data.

Note: Funding levels for all FYs are IRS estimates, with the exception of FY 2008, which is requested.

### Estimated Impact of Budget Proposals on Direct Revenue Is Modest Compared to the Tax Gap but the Effect on Indirect Revenue Is Not Known

In the 2008 budget submission, IRS proposes a number of new initiatives, all of which are intended to improve taxpayer compliance—some by increasing staffing for enforcement or making legislative changes, and some by improving taxpayer service or infrastructure. The request includes estimates of the annual costs of the initiatives plus, for some initiatives, dollar estimates of the increased revenue expected to be realized, as summarized in table 2.

IRS recognizes that there are likely revenue effects beyond those shown in table 2. Table 2 shows, for example, the direct revenue from new enforcement initiatives. Direct revenue is the amount collected from taxpayers targeted by IRS enforcement actions, such as audits. However, the budget submission states that enforcement actions have indirect

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revenue effects as well by increasing voluntary compliance by all taxpayers.<sup>13</sup>

The magnitude of the indirect effects of enforcement is not known with a high level of confidence because of challenges in measuring compliance; developing reasonable assumptions about taxpayer behavior; and accounting for factors outside of IRS's actions that can affect taxpayer compliance, such as changes in tax law. However, several research studies have offered insights to help better understand the indirect effects of IRS enforcement on voluntary tax compliance and show that they could exceed the direct effect of revenue obtained.<sup>14</sup> Given the uncertainty of estimates of indirect revenue, in its budget request, IRS says that it cannot measure the impact of deterrence of enforcement or service on compliance, but only that their effects are positive. Finally, the budget request also recognizes that the initiatives intended to improve taxpayer service or modernize information systems are also expected to ultimately improve taxpayer compliance. Again, however, reliable information about the magnitude of the improvement is not available.

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<sup>13</sup> Two types of indirect revenue are the increase in voluntary compliance (1) in the larger population resulting from examinations or other enforcement and nonenforcement actions on targeted taxpayers, and (2) of the targeted taxpayer in subsequent years.

<sup>14</sup> Economists have estimated the indirect effect of an examination on voluntary compliance to range from 6 to 12 times the amount of proposed tax adjustments. See Alan H. Plumley, *The Determinants of Individual Income Tax Compliance: Estimating The Impacts of Tax Policy, Enforcement, and IRS Responsiveness*, Publication 1916 (Rev. 11-96) (Washington, D.C.: November 1996), 2, 35-36; Jeffrey A. Dubin, Michael J. Graetz, and Louis L. Wilde, "The Effect of Audit Rates on the Federal Individual Income Tax, 1977-1986," *National Tax Journal*, vol. 43 (1990), 395, 396, 405; and Jeffrey A. Dubin, "Criminal Investigation Enforcement Activities and Taxpayer Noncompliance" (paper written for the IRS Research Conference, June 2004), <http://www.irs.gov/pub/irs-soi/04dubin.pdf> (downloaded July 1, 2005).

**Table 2: Estimated Cost and Direct Revenue of IRS Initiatives for Fiscal Years 2008 through 2010**

Dollars in millions

Type of initiative	Estimated cost of initiatives			Estimated direct revenue from initiatives		
	Fiscal year 2008	Fiscal year 2009	Fiscal year 2010	Fiscal year 2008	Fiscal year 2009	Fiscal year 2010
Revenue-producing enforcement initiatives	\$198	\$163	\$163	\$317	\$526	\$699
Legislative initiatives	23	23	23	378	1,171	1,898
Non-revenue-producing initiatives	188	168	168	0	0	0
<b>Total</b>	<b>\$410</b>	<b>\$355</b>	<b>\$355</b>	<b>\$695</b>	<b>\$1,697</b>	<b>\$2,597</b>

Source: GAO analysis of IRS and Department of the Treasury data.

Notes: Figures may not sum to totals because of rounding. Data are from IRS and from Treasury's February 2007 General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals.

Over the 3 years shown in table 2, IRS expects the estimated cost for the initiatives will decrease while the resulting direct revenue increases. IRS is requesting about \$410 million for FY 2008 to fund all the initiatives, with the estimated costs declining in FYs 2009 and 2010 because of start-up costs in FY 2008.

IRS is projecting that direct revenues will increase by about \$2.6 billion in FY 2010, as more staff are hired, trained, and become more productive, and all aspects of the legislative initiatives are phased-in, particularly for the information reporting requirements. However, the direct revenues expected are small compared to the estimated \$290 billion net tax gap for tax year 2001.<sup>15</sup> For instance, the revenue-producing initiatives are expected to yield about \$699 million in FY 2010, or about one-fourth of 1 percent of the tax year 2001 net tax gap. In 2010, the total estimated increased revenue from both the revenue-producing and legislative initiatives, about \$2.6 billion, is about 0.9 percent of the 2001 net tax gap.

<sup>15</sup> IRS has concerns with the certainty of the overall tax gap estimate in part because some areas of the estimate rely on old data and IRS has no estimates for some areas of the tax gap. For example, IRS used data from the 1970s and 1980s to estimate underreporting of corporate income taxes and employer-withheld employment taxes.

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No single approach, such as IRS enforcement, is likely to fully and effectively address noncompliance. Multiple approaches are needed because noncompliance has multiple causes and spans different types of taxes and taxpayers. Approaches include devoting additional resources to enforcement, providing more enforcement tools like information reporting, improving taxpayer service, periodically measuring compliance, setting tax gap reduction goals, leveraging technology to enhance IRS's efficiency, and simplifying or reforming the tax code. For example, regarding information reporting, we recently recommended to IRS, that to assist taxpayers in accurately reporting their capital gains and losses from securities, in the instructions to Schedule D clarify the appropriate use of capital losses to offset capital gains or other income and provide guidance on resources available to taxpayers to determine their basis.<sup>16</sup>

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### Justifications for Some New Initiatives Lacked Basic Descriptive, Cost, and Expected Performance Information

Justifications for the new spending initiatives varied in the basic information they provided. In some cases, the budget submission lacked information that would have allowed us or others to assess the proposed spending and comment on, for example, whether the initiative would be a worthwhile expenditure in light of expected benefits and costs. To better understand IRS's initiatives and their expected benefits and costs, we asked for supplementary documentation on selected new spending initiatives:

- Improve compliance among small businesses and self-employed (SB/SE) taxpayers: \$73.2 million; 485 FTEs
- Critical upgrades to IT infrastructure: \$60 million; 0 FTEs
- Improve tax gap estimates, measures, and noncompliance detection: \$41.0 million; 258 FTEs
- Improve compliance for large multinational businesses: \$26.2 million; 158 FTEs
- Research effects of taxpayer service on compliance: \$5.0 million; 8 FTEs
- Expand volunteer income tax assistance (VITA): \$5.0 million; 46 FTEs

Our review of the justifications showed that some had descriptive, cost, and expected performance information while others lacked such

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<sup>16</sup>GAO, *Capital Gains Tax Gap: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, [GAO-06-603](#) (Washington, D.C.: June 13, 2006).

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information. Our previous work on results-oriented government and performance budgeting, states that budget requests and supporting documentation should provide information on the results to be achieved with the funding requested. More specifically, our work has shown that congressional decision makers benefit from information on the problem or performance shortfall to be addressed, cost estimates, and performance measures and goals.

Description of Problem or Performance Shortfall to Be Addressed

The justification for the initiative to upgrade IT infrastructure included information on the extent of the problem, including the impact of computer downtime on employee performance and how much IRS's aged computer inventory would grow without additional funding. Similarly, the initiatives to increase compliance among SB/SE taxpayers and large multinational businesses had such information as the portion of the tax gap that is attributable to certain types of taxpayers, data on growth in certain tax return filings for businesses that are high-risk for underreporting, and the need for increasing enforcement activity in these areas. However, the justification for expanding VITA did not provide problem or performance shortfall information, such as evidence of how some taxpayers do not receive needed services due to the current level of spending or problems with those taxpayers' compliance levels due to the lack of services. Similarly, the initiative to research the effects of taxpayer service on compliance did not explain the problem such research would correct.

Description of Work to be Done and Explanation of Estimated Costs

The IT initiative had information on the planned expenditures to upgrade specific computer equipment, including descriptions of the equipment and how it is to be used. Also, the initiatives to increase compliance among SB/SE taxpayers and large multinational businesses had descriptions of the types of staff to be hired and work to be done—such as examinations, collections, and legal support. However, the justifications for the initiatives to improve tax gap estimates and expand VITA lacked information on how IRS determined the amount requested or FTEs needed. We could not determine the budget or FTEs or specifics about the work to be done such as the number of examinations to be conducted. Further, the initiative to research the impact of service on compliance lacked descriptive details on the work to be done—such as potential research questions, methodologies, deliverables, and estimated costs of delivering them—that would provide examples of what IRS would accomplish with proposed spending and allow Congress or others to assess the initiative.

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## Performance Measures and Goals

The compliance initiatives had performance measures and goals, such as direct revenue to be generated or additional examinations to be conducted; the IT initiative had quantitative targets for reducing the aged computer inventory; the VITA initiative had a target for improving the quality of returns prepared by volunteers; and the tax gap estimate improvement initiative had quantitative targets related to examinations. However, the initiatives for researching the impact of service on compliance lacked a performance measure and target, such as, for improving the use of IRS resources based on the research.

We do not contend that because some of the justifications were lacking in certain information that the initiatives are not worthwhile, or that all justifications should have the same extent and types of information. For example, although the justifications for conducting research to improve tax gap estimates and determine the effects of taxpayer service on compliance lacked certain information, in previous reports and testimony we have been supportive, in general, of such research.<sup>17</sup> However, without some explanation of how cost and resource needs were determined for these initiatives, assessments of whether the initiatives are worth their costs are not possible.

Since gathering basic information to justify an initiative has costs, it is reasonable for justifications of more costly initiatives to have more detail. When all the basic information becomes too cumbersome to include in the budget submission itself, an agency can supplement its request with readily available supporting documentation.

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## Other Opportunities Exist for Generating Savings

In its 2008 budget request, IRS identified \$120 million in savings as it has done in prior years—\$82.3 million through enhancing technology and streamlining work processes in its enforcement programs and \$37.7 million through increases in electronic filing from its taxpayer

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<sup>17</sup> GAO, *Internal Revenue Service: Assessment of the Interim Results of the 2006 Filing Season and Fiscal Year 2007 Budget Request*, [GAO-06-499T](#) (Washington, D.C.: Apr. 27, 2006); *Tax Compliance: Better Compliance Data and Long-term Goals Would Support a More Strategic IRS Approach to Reducing the Tax Gap*, [GAO-05-753](#) (Washington, D.C.: July 18, 2005); and *Tax Compliance: Reducing the Tax Gap Can Contribute to Fiscal Sustainability but Will Require a Variety of Strategies*, [GAO-05-527T](#) (Washington, D.C.: Apr. 14, 2005).



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service programs. IRS is proposing to use all internally generated savings to maintain its current operating levels.<sup>18</sup>

In addition to the areas identified by IRS in its budget request, there are additional opportunities for savings and efficiency gains.

- Increasing electronic filing through mandates: Last year we reported that state mandates that required paid preparers who file a certain number of tax returns to electronically file state tax returns increased federal electronic filing.<sup>19</sup> Without a federal mandate, IRS is missing an opportunity for savings—using IRS’s estimate that it saves \$2.38 on every return that is processed electronically we estimated that IRS would save \$68 million per year if 90 percent of returns submitted by preparers that are currently filed on paper were filed electronically.<sup>20</sup> However, IRS lacks the authority to mandate electronic filing for paid preparers and we suggested to Congress that it mandate filing by paid preparers meeting criteria, such as filing a certain number of tax returns.
- Consolidating telephone call sites: We previously reported that IRS has excess space at its call site operations and the agency had a study underway to determine the feasibility of consolidating those operations.<sup>21</sup> IRS has nearly completed the first phase of the study and plans to complete the second phase in 2008. According to IRS officials, this study is on schedule and is important because it will allow IRS to identify the costs and benefits of consolidating phone operations.
- Consolidating or retiring legacy systems: We have previously recommended that IRS prepare a long-term vision and strategy for completing the BSM program, including establishing time frames for consolidating and retiring legacy systems.<sup>22</sup> While IRS developed an initial

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<sup>18</sup> We have previously noted that IRS reported it realized most or all of the savings it identified in prior budget proposals and, based on this history, there is no reason to expect that IRS will not be able to realize the same with this year’s proposed savings.

<sup>19</sup> GAO, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) (Washington, D.C.: Nov. 15, 2006).

<sup>20</sup> [GAO-07-27](#).

<sup>21</sup> [GAO-07-27](#).

<sup>22</sup> GAO, *Business Systems Modernization: Internal Revenue Service’s Fiscal Year 2005 Expenditure Plan*, [GAO-05-774](#) (Washington, D.C.: July 22, 2005).

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modernization vision and strategy and associated 5-year plan, more remains to be done for IRS to fully address our recommendation. Consolidating and retiring legacy systems should lead to a reduction in costs associated with maintaining these systems.

- Changing the menu of taxpayer services: IRS recently issued its comprehensive strategy for improving taxpayer service, including for telephone, walk-in, volunteer and Web site assistance. That strategy, known as TAB, was developed in response to a congressional directive. In addition to providing information on taxpayer needs of service, TAB provides information on the cost of taxpayer serviced for the various types of service. Information on needs and costs, along with a better understanding of taxpayer's preferences, needs and expectations, could provide taxpayers with the same taxpayer service benefits at a lower cost through alternative methods.

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## IRS Has Made Progress on Enforcement, but Enforcement Remains High Risk Because of the Tax Gap

IRS has made noticeable progress in its enforcement efforts including increasing the amount of direct enforcement revenue collected, number of collection activities undertaken, and enforcement staff. Nevertheless, enforcement of the tax laws remains high risk, because of the persistence of the tax gap and the lack of a data-based plan.<sup>23</sup>

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## IRS Has Taken Some Steps to Improve Enforcement

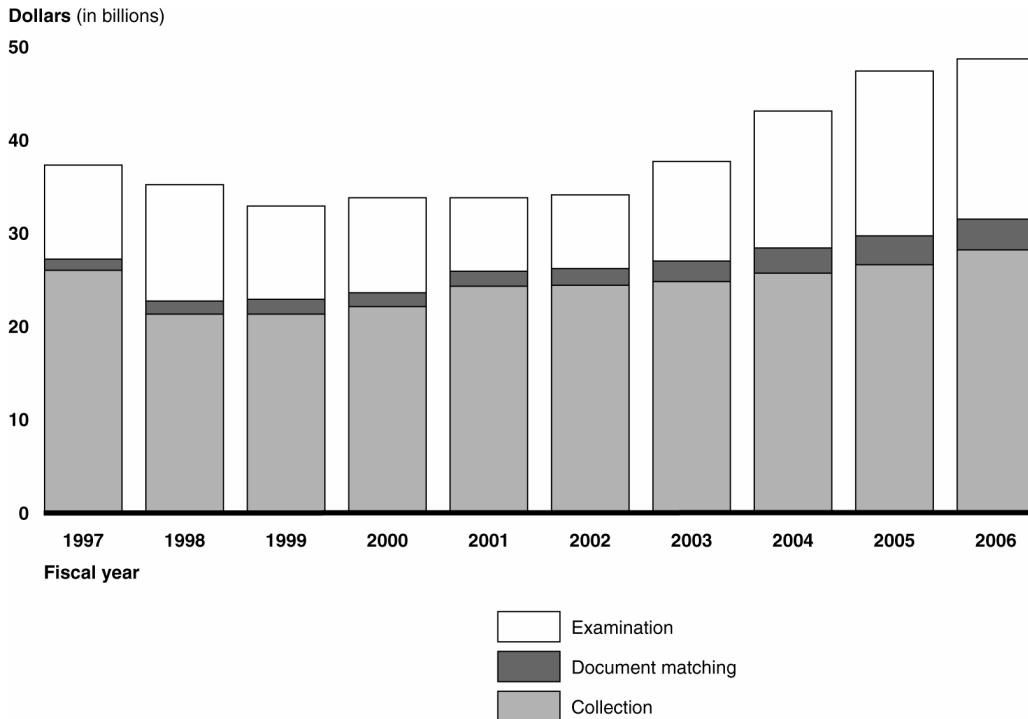
IRS reported that direct enforcement revenue rose from \$43.1 billion in FY 2004 to \$48.7 billion in FY 2006 (a 13 percent increase). As shown in figure 2, most of the enforcement revenue is from IRS's collection efforts (\$27.5 billion), followed by examination (\$17.4 billion) and document matching (\$3.2 billion).<sup>24</sup>

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<sup>23</sup> GAO-07-310.

<sup>24</sup> Document matching is matching the amount of income taxpayers report on their tax returns to the income amounts reported on information returns it receives from third parties.

**Figure 2: IRS Direct Enforcement Revenue, Fiscal years 1997 through 2006**



Source: IRS.

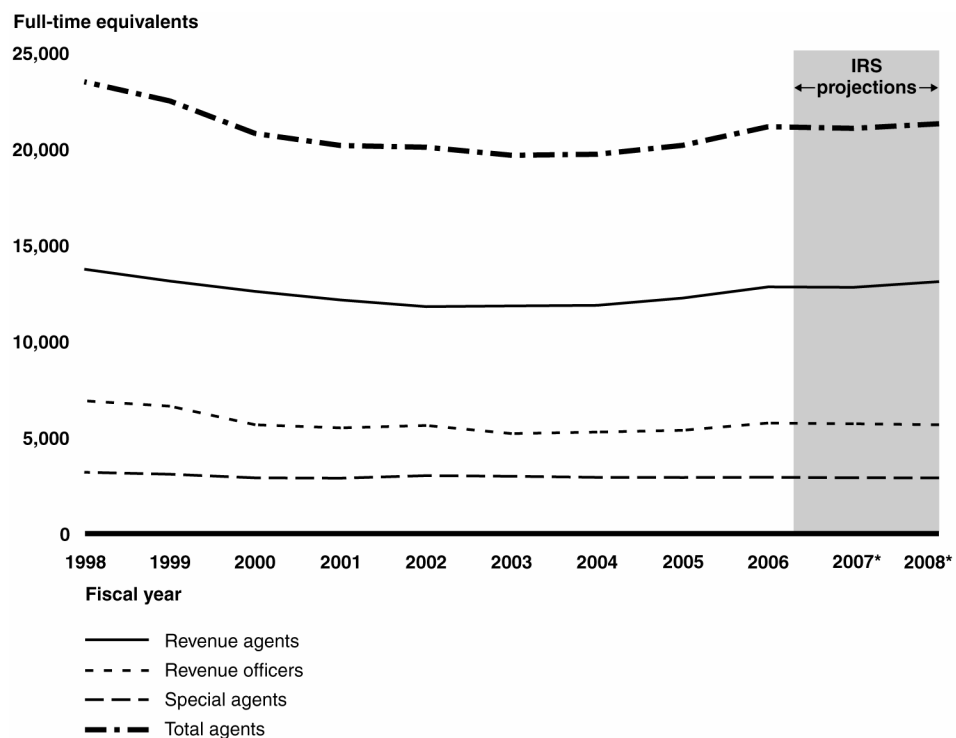
Note: Dollars not adjusted for inflation.

In recent testimony, the IRS Commissioner reported increases in some enforcement activities; for example, he reported that the overall percentage of individual income tax returns examined between FYs 2001 and 2006 increased by about 75 percent. IRS’s 2008 budget request shows that enforcement goals are comparable or slightly greater than 2006 actual performance and 2007 planned performance; for example, the examination rate of all individual income tax returns will remain at 1 percent. Also, IRS is proposing to increase document matching activities for individual taxpayers and increase examinations for businesses.

With its 2008 budget, IRS is proposing to roughly maintain its skilled enforcement staff at the FY 2006 level—just over 21,000 FTEs. This would be an increase of over 8 percent since its low in FY 2003, as shown in figure 3. However, it is 9 percent less than the skilled enforcement staff that IRS had in FY 1998. IRS has three main categories of skilled enforcement staff: revenue officers, who perform field collection work;

revenue agents, who examine complex returns; and special agents, who perform criminal investigations.

**Figure 3: Revenue Agents, Revenue Officers, and Special Agents, Fiscal years 1998 through 2008**



Source: IRS.

Despite the projections for skilled enforcement staffing, officials from the SB/SE and Large and Mid-Size (LMSB) divisions noted that even maintaining skilled enforcement staff levels may be difficult because both divisions are experiencing high attrition rates because of retirements. Furthermore, officials said the 2007 continuing resolution limited their ability to hire in 2007. SB/SE and LMSB officials noted that the delays in hiring may have an adverse affect on their ability to meet performance goals in 2008 and beyond, particularly for the most complex examination issues, including abusive tax shelters and corporate returns, because of the lead time needed to train and develop staff.

Recently, IRS studied individual taxpayer compliance through the NRP, and used the resulting compliance data to estimate the tax gap for individual income tax underreporting and the portion of employment tax

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underreporting attributed to self-employment taxes for tax year 2001. NRP, which involved reviewing around 46,000 individual tax returns, has yielded new information on taxpayer compliance for the first time since IRS's previous compliance measurement study was undertaken for tax year 1988.

As a result of NRP, IRS has taken steps to better ensure efficient allocation and use of its enforcement resources. For example, the NRP study has provided better data on which taxpayers are most likely to be noncompliant. IRS is using the data to improve its audit selection processes in hopes of reducing the number of audits that result in no change, which should reduce the unnecessary burden on compliant taxpayers and increase enforcement staff productivity.

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## Enforcement of the Tax Laws Remains High Risk

Despite the progress in enforcement, enforcement of the tax laws remains on our high risk list because of the persistence of the tax gap and, among other things, the lack of a data-based plan to address it.<sup>25</sup>

The tax gap has been a persistent problem in spite of a myriad of congressional and IRS efforts to reduce it, as the rate at which taxpayers voluntarily comply with our tax laws has changed little over the past three decades. The rate at which taxpayers pay their taxes voluntarily and on time has tended to range from around 81 percent to around 84 percent. IRS's most recent estimates of the gross tax gap are \$345 billion for tax year 2001, and the net tax gap is estimated to be \$290 billion. IRS's overall approach to reducing the tax gap consists of enhancing enforcement and improving taxpayer service. IRS uses its enforcement authority to ensure that taxpayers are reporting and paying the proper amounts of taxes through efforts such as examining tax returns and document matching. IRS seeks to improve voluntary compliance through efforts such as education and outreach programs and tax form simplification.

IRS needs better, more continuous compliance research and better measurements of compliance. We have long been a supporter of such research, because it can give IRS and Congress an important measure of taxpayer compliance and it allows IRS to better target enforcement resources towards noncompliant taxpayers. Taxpayers benefit as well, because properly targeted audits mean fewer audits of compliant

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<sup>25</sup> [GAO-07-488T](#).

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taxpayers and more confidence by all taxpayers that others are paying their fair share. IRS's budget request includes \$41 million for improving tax gap estimates and detecting noncompliance including for a rolling NRP sample of individual taxpayers and a dedicated cadre of examiners to conduct audits. Using a rolling sample, IRS plans to replicate the 2001 NRP study by conducting audits of a smaller sample size instead of larger intermittent efforts. At the end of 5 years, IRS would have a comparable set of results to the 2001 study and continue to update the study annually by sampling the same number of taxpayers, dropping off the oldest year in the sample, and adding the new years' results every year. While we have concerns about the lack of basic information to justify the specific funding requested, we generally support this approach. We have previously reported that doing compliance studies once every few years does not give IRS or others information about what is happening in the intervening years, and a rolling sample should reduce costs by eliminating the need to plan entirely new studies every few years or more and train examiners to carry them out.<sup>26</sup>

IRS also needs a data-based plan to reduce the tax gap. Congress has been encouraging IRS to develop an overall tax gap reduction plan or strategy that could include a mix of approaches like simplifying code provisions, increased enforcement, and reconsidering the level of resources devoted to enforcement. Some progress has been made toward laying out the broad elements of a plan or strategy for reducing the tax gap. On September 26, 2006, the U.S. Department of the Treasury, Office of Tax Policy, released "A Comprehensive Strategy for Reducing the Tax Gap." However, the document generally does not identify specific steps that Treasury and IRS will undertake to reduce the tax gap, the related time frames for such steps, or explanations of how much the tax gap would be reduced. In a recent hearing, the Chairman of the Senate Finance Committee asked the Secretary of the Treasury for a more detailed plan by July 2007.

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<sup>26</sup> GAO-06-499T, GAO-05-753, and GAO-05-527T.

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## IRS's Filing Season Performance Is Improved in Some Areas with Challenges in Others, and the Effect of Tax System Changes Has Been Minimal

IRS's key filing season efforts are processing electronic and paper individual income tax returns and issuing refunds, as well as providing assistance or services to taxpayers. As already noted, processing and assistance were complicated this year by three tax system changes: TETR, the split refund option, and enactment in December 2006 of tax law changes.

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## Returns Processing Is Comparable to Last Year, Despite Delays with CADE and Implementation of Tax System Changes

From January 1 through April 20, 2007, IRS processed approximately 104.6 million individual income tax returns, about the same number as last year, and issued 88.2 million refunds for \$203 billion compared to 85.2 million refunds for \$190.5 billion at the same time last year. Over 65 percent of all refunds were directly deposited into taxpayers' accounts, up 3.5 percent over the same time last year. Direct deposits are faster and more convenient for taxpayers than mailing paper checks. IRS recently granted some extensions to taxpayers, including those affected by a major storm and those unable to file their returns because of a software company's server problems.

According to IRS data and officials, performance is comparable to last year. IRS is meeting most of its performance goals, including deposit error rate, which is the percentage of deposits applied in error, such as being posted to the wrong tax year. Groups and organizations we spoke with, including the National Association of Enrolled Agents, the American Institute of Certified Public Accountants, and large tax preparation and tax preparation software companies, corroborated IRS's view that filing season performance is comparable to last year.

## CADE Will Expedite Refunds for Millions of Taxpayers, but Delays in Implementation Caused Millions More Not to Benefit

IRS uses two systems for posting taxpayer account information—the antiquated Master File legacy system and CADE. The latest release of CADE became operational in early March, 2 months behind schedule because of problems identified during testing. IRS originally planned to post 33 million taxpayer returns by CADE, more than four times the 7.4 million posted by CADE last year. We reported in early April that IRS had revised this estimate down to approximately 17-19 million taxpayer returns. However, as of April 20, IRS has posted fewer tax returns than expected—9.1 million—with the remainder being posted to the Master File

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**Electronic Filing Is Higher Than Last Year Despite a Decline in the Free File Program**

legacy system. This means that millions of taxpayers did not benefit from faster CADE processing this year. Taxpayers eligible for a refund this year whose returns are posted by CADE will benefit from CADE's faster processing, receiving their refunds 1-5 days faster for direct deposit and 4-8 days faster for paper checks than if their return had been processed on the legacy system. The CADE setback may impact IRS's ability to deliver the expanded functionality of future versions of CADE, thus delaying the transition to the new processing system (discussed further in the BSM section of this testimony).

The rate of electronic filing is up compared to the same period last year. As of April 20, over 72.6 percent of all individual income tax returns (75.9 million) were filed electronically, up 8.5 percent over the same time last year.

We previously reported that state mandates for electronic filing of state tax returns also encourage electronic filing of both state and federal tax returns, and last year, we suggested that Congress consider mandating electronic filing by paid tax preparers meeting criteria, such as a threshold for number of returns filed.<sup>27</sup> Last year, electronic filing of federal returns increased 27 percent for the three states (New York, Connecticut and Utah) with new 2006 mandates. This year, state mandates are likely to continue to show a positive effect on federal electronic filing because, with the addition of West Virginia, 13 states now have state mandates.

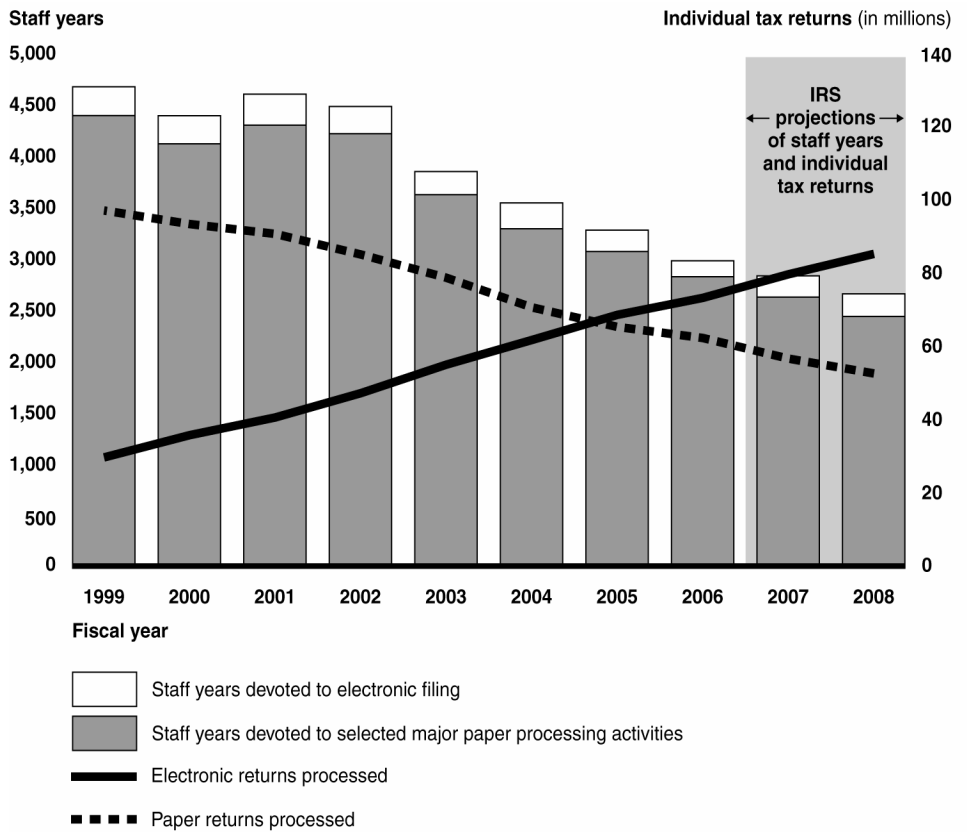
Compared to processing paper returns, electronic filing reduces IRS's costs by reducing staff devoted to processing. In 2006, IRS used almost 1,700 (36 percent) fewer staff years for processing tax returns than in 1999, as shown in figure 4. IRS estimates this saved the agency \$78 million in salary, benefits, and overtime in 2006. Electronic filing also improves service to taxpayers. Returns are more accurate because of built-in computer checks and reduced transcription errors (paper returns must be transcribed in IRS's computers—a process that inevitably introduces errors). Electronic filing also provides faster refunds.

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<sup>27</sup> See [GAO-07-27](#), [GAO-05-753](#), and [GAO-05-527T](#).



**Figure 4: Number of Individual Returns and IRS Staff Years for Individual Paper and Electronic Processing, Fiscal years 1999 through 2008**



Source: GAO analysis of IRS data.

Notes: Staff years and full-time equivalents (FTE) are units of measurement that are often used interchangeably; however, a staff year includes overtime. Therefore, the cost of one staff year is equal to the cost of one FTE plus overtime. Projections for 2007 do not include Form 1040 EZ-Ts.

Although electronic filing continues to grow, taxpayers' use of the Free File program continues to decline.<sup>28</sup> The Free File program, accessible through IRS's Web site, is an alliance of companies that have an agreement with IRS to provide free on-line tax preparation and electronic filing on their Web sites for taxpayers below an adjusted gross income ceiling of

<sup>28</sup> IRS does not have the capability to receive electronic returns directly from taxpayers. Taxpayers can electronically file their returns by using a paid tax preparer, commercial tax preparation software, or the Free File program. Paid preparers and tax preparation software companies may charge for the service.

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Tax System Changes Have Had  
Less Impact on Returns  
Processing Than Projected

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\$52,000 in 2007. About 95 million (70 percent) of all taxpayers are eligible for free file. Under the agreement, companies are not allowed to offer refund anticipation loans and checks, or other ancillary products, to free file participants. Although IRS has increased its marketing efforts, the agency has not been successful in increasing free file use. As of April 19, 2007, IRS processed about 3.7 million free file returns—less than 4 percent of eligible taxpayers and a decrease of 2.2 percent from the same period last year. IRS officials attributed this decline in part to companies offering free electronic on-line filing separate from the Free File program. While all 19 companies participating in the Free File program allow for TETR requests, only 3 of the 19 companies offer Form 1040 EZ-T requests.<sup>29</sup>

TETR and split refund volume has been less than IRS projected. Over 68 percent of individuals who filed returns through April 14 have requested the TETR, although all who paid the excise tax were eligible for the refund. IRS projected that 10 to 30 million individuals who did not have a tax filing obligation could claim TETR. As of April 13, approximately 578,000 of this group have asked for a refund (3.4 percent of the 17.1 million IRS expected by this time).<sup>30</sup>

As of April 21, just over 77,000 individual taxpayers chose to split their refunds into different accounts, which represent a small fraction of the 57.2 million taxpayers who had their refunds directly deposited and the 3.8 million split refunds IRS projected for the filing season.

IRS delayed processing a small number of returns claiming tax extender provisions until February 3 to complete changes to its tax processing systems. IRS has anticipated some problems due to the late passage of extender provisions which prevented information about them included in printed tax publications.

Finally, in order to minimize problems, IRS planned and prepared extensively for this year's primary tax system changes: TETR, split refund, and tax law extenders. For example, IRS updated forms and created new ones, hired and trained additional staff to handle potential volume of TETR and split refund requests, and updated the Web site and tax systems.

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<sup>29</sup> Individuals who do not normally file tax returns but paid the tax can request the refund on Form 1040EZ-T (Request for Refund of Federal Telephone Excise Tax).

<sup>30</sup> We are in the process of obtaining additional information to evaluate IRS projections on TETR and split refund volumes.

As reported in App. 1, of the tax systems changes, only TETR created new compliance concerns for IRS and IRS modified its plans to address those concerns during the filing season.

### Call Volume Continues to Decline, IRS is Meeting Goals and Performance Is Comparable to Last Year

The number of calls to IRS's toll-free telephone lines has been less than last year and is significantly less for automated calls than in 2002 (see table 3). Similar to last year, IRS assistors answered over 40 percent of the total calls, while the rest of the calls were answered by an automated menu of recordings.

**Table 3: IRS Telephone Volume, 2002 through 2007**

Volume in thousands						
	2002	2003	2004	2005	2006	2007
Telephone assistance <sup>a</sup>						
Total calls	51,148	40,805	41,647	33,935	31,540	30,260
Answered by assistors	14,799	14,987	15,915	14,804	13,709	13,506
Answered by automated menu of recordings	36,349	25,818	25,732	19,132	17,831	16,754

Source: IRS.

<sup>a</sup>Telephone assistance data are based on the following date ranges: January 1 to April 20, 2002, January 1 to April 19, 2003, January 1 to April 17, 2004, January 1 to April 16, 2005, January 1 to April 15, 2006, and January 1 to April 14, 2007.

By one measure of access, IRS's performance is somewhat better and for another it is somewhat worse than this time last year. Taxpayers' ability to access IRS's toll-free telephone lines is somewhat better than last year, and IRS is meeting its annual goals.<sup>31</sup> According to IRS officials, IRS does not try to match previous years' performance, but sets and tries to achieve performance goals according to the budget received. As shown in table 4, the percentage of taxpayers who attempted to reach an assistor and actually got through and received services—referred to as the level of service—was one percentage point higher than the same time period last year and greater than IRS's goal of 82 percent for both FYs 2006 and 2007. Average speed of answer, which is the length of time taxpayers wait to get their calls answered, is just under 4 minutes, almost 15 percent longer than last year, but better than IRS's annual goal of 4.3 minutes.

<sup>31</sup> Earlier this year, we reported that IRS's telephone access was somewhat less than last year. Since that time, IRS's performance has improved. See [GAO-07-720T](#).

IRS estimates that the accuracy of telephone assistors' responses to tax law and account questions to be comparable to the same time period last year by using a statistical sampling process. IRS officials noted that there was unprecedented hiring for FY 2007, and while every employee working tax law applications completes a requisite certification process, new employees will be less productive than experienced employees. IRS has implemented several initiatives, such as targeted monitoring and training, to assist the new hires.

**Table 4: IRS Telephone Performance, 2002 through 2007**

	2002	2003	2004	2005	2006	2007
<b>Telephone performance-access<sup>a</sup></b>						
Assistor level of service <sup>b</sup>	67%	82%	85%	82%	83%	84%
Average speed of answer (in minutes) <sup>c</sup>	4.2	2.9	3.1	4.3	3.4	3.9
<b>Telephone performance-accuracy<sup>d</sup></b>						
Accounts customer accuracy rate estimates	89.28% +/- 0.7%	89.10% +/- 0.5%	89.28% +/- 0.6%	91.59% +/- 0.5%	92.95% +/- 0.5%	93.00% +/- 0.7%
Tax law customer accuracy rate estimates	84.04% +/- 0.5%	82.00% +/- 0.8%	77.72% +/- 1.02%	88.18% +/- 0.8%	90.03% +/- 0.8%	89.37% +/- 1.2%

Source: IRS.

<sup>a</sup>Telephone performance access data are based on the following date ranges: January 1 to April 20, 2002, January 1 to April 19, 2003, January 1 to April 17, 2004, January 1 to April 16, 2005, January 1 to April 15, 2006, and January 1 to April 14, 2007.

<sup>b</sup>Assistor level of service is the percentage of taxpayers who wanted to talk with an assistor and actually got through and received services.

<sup>c</sup>The number of minutes a taxpayer waits in queue to speak with an assistor.

<sup>d</sup>Based on a representative sample estimate at the 90 percent confidence interval for January, February, and March 2006 and 2007. The percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action.

IRS officials reported that tax system changes have had minimal impact on telephone operations so far this filing season. TETR-related calls are a small fraction of the TETR calls that IRS projected and all calls that IRS received. Between January 1 and April 14, 2007, IRS expected 12.4 million TETR-related calls, but received about 540,000.

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IRS hired 650 FTEs in FY 2007, with the expectation that those hires would be used to cover anticipated attrition in 2008. Their first assignment was answering TETR telephone calls and they also were trained to handle other accounts calls allowing more experienced employees to address paper inventory.<sup>32</sup>

IRS anticipated little impact on telephone service from the split refund option and tax provision extenders. For split refunds, IRS anticipated it would receive about 70,000 calls to assistors compared to the 70 million total calls it receives each year. IRS did not have projections for tax provision extensions.

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### Use of Web Site Applications Continues to Increase, and Performance Remains High

Use of IRS's Web site has increased so far this filing season compared to prior years except for downloads of forms and publications. From January 1 through March 31, IRS's Web site was visited more often and the number of searches increased over the same time period as last year. However, the number of downloaded forms and publications has decreased 22 percent over the same period compared to last year. According to IRS officials, reasons for this decrease include the increase in taxpayers using e-file, tax preparation software, and paid preparers, negating the need for taxpayers to download and print forms and publications. In terms of new features, IRS added a state deduction calculator this filing season, which IRS wants to use as a new standard for developing other on-line calculators. Web site assistance is important because it is available to taxpayers 24-hours a day and it is less costly to provide than telephone and walk-in assistance.

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<sup>32</sup> In addition to answering telephones, IRS's telephone assistors also work on paper correspondence, such as amended returns. According to IRS officials, staff is working on more paper correspondence than anticipated. From October 1, 2006, through April 14, 2007, receipts of paper inventory were up about 5 percent and IRS had closed 11 percent more paper inventory than at the same time period last year.

**Table 5: IRS Web Site Use, 2006 and 2007 (data are in thousands)**

<b>Uses</b>	<b>2006</b>	<b>2007</b>	<b>Percentage change</b>
Visits <sup>a</sup>	95,406	103,775	8.8
Downloads <sup>a</sup>	89,789	70,041	-22.0
Searches <sup>a</sup>	52,519	60,145	14.5
Where's My Refund <sup>b</sup>	25,350	31,995	26.2
Number of TETR-related visits <sup>c</sup>	N/A	4,013	N/A

Source: GAO analysis of IRS data.

Note: N/A means not applicable.

<sup>a</sup>Web site visits and searches and downloads from January, February, and March 2006 and 2007. A visit begins when a visitor views their first page on IRS.gov, and ends when the visitor leaves the site. A visit is not a count of the number of unique individuals who have accessed the site.

<sup>b</sup>For January 1 through April 22, 2006, and April 21 2007.

<sup>c</sup>Visits to a Web page specific to TETR, which was not operational in 2006. Data are for October 1, 2006, through April 7, 2007.

In addition to the Free File program, IRS's Web site offers several important features, such as "Where's My Refund", which allows taxpayers to check on the status of their refunds. This year, the feature allows taxpayers to check on the status of split refunds, and tells the taxpayer if one or more of the deposits were returned from the bank because of an incorrect routing or account number. However, for certain requests, the feature is not useful. For example, IRS stopped some refunds related to TETR requests, but "Where's My Refund" informed taxpayers that their refunds had been issued. Further, if taxpayers make a mistake calculating the amount of their refund the feature would indicate that IRS corrected the refund amount, but will not show the new amount. IRS is considering providing more information about taxpayer accounts on its Web site as part of its strategy to improve taxpayer services at reduce costs.

There is further evidence that IRS's Web site is performing well as these examples show.

- According to the American Customer Satisfaction Index, for January through March 2007, IRS's Web site is scored above those of other government agencies, nonprofits, and private sector firms for customer

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satisfaction. For example, in March, IRS scored 74 versus 72 for all government agencies surveyed and 71 for all Web sites surveyed.<sup>33</sup>

- An independent weekly study by Keynote, a company that evaluates Web sites, reported that, as of April 9, 2007, IRS's Web site has repeatedly ranked in the top 6 out of 40 government agency Web sites evaluated in terms of average download time. Last year, IRS consistently ranked second for the same time period. Average download time remained about the same for IRS compared to last year, indicating that IRS is not performing worse, but that other government agencies are performing better.
- On the basis of our own searches, we found IRS's Web site to be readily accessible, easy to navigate, and easy to search.

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### Limited Data on the Quality of Face-to-Face Assistance Show Improvement, but Concerns Remain

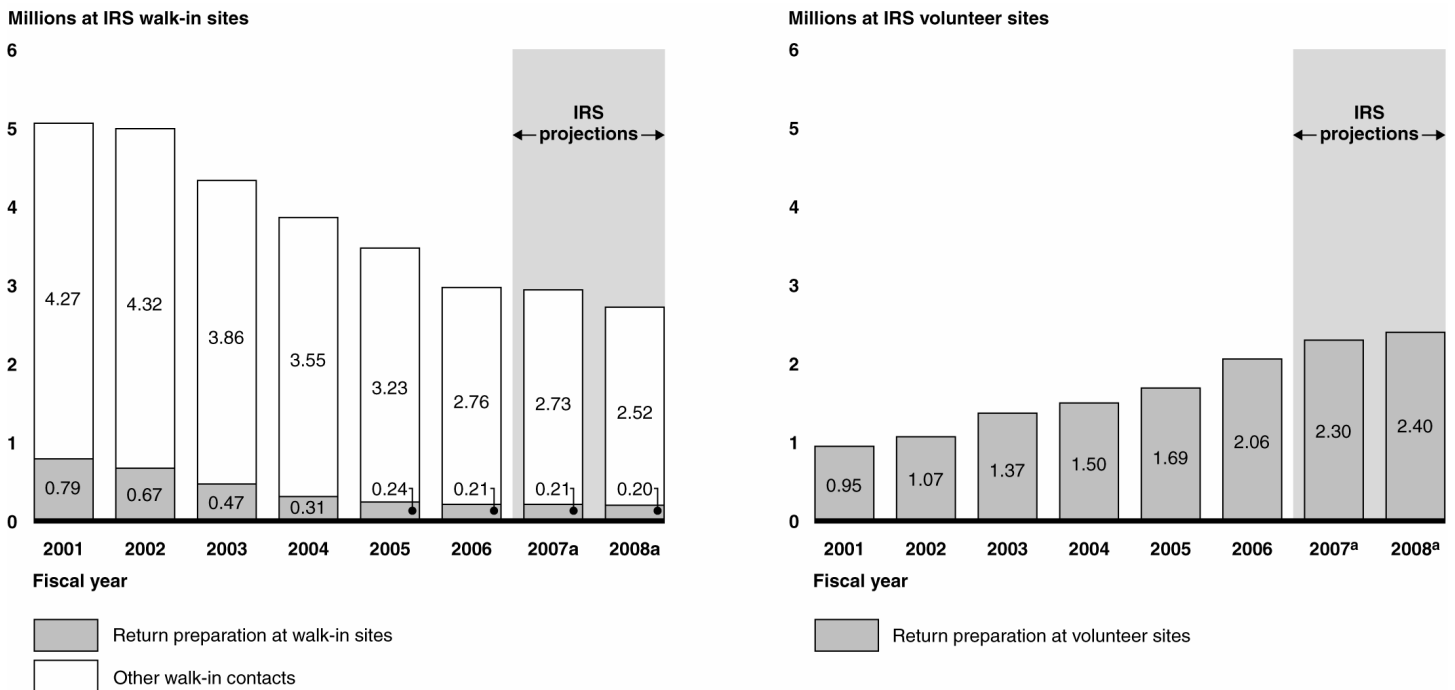
As of April 14, approximately 2.9 million taxpayers used IRS's 401 walk-in sites, which is comparable to the same period last year. Figure 5 shows the trend in walk-in site use for the filing season including slight projected declines in 2007 and 2008. At walk-in sites, staff provide taxpayers with information about their tax accounts, answer a limited scope of tax law questions about, for example, income and filing status, and provide limited tax return preparation assistance.<sup>34</sup> As of April 14, over 10,700 taxpayers have requested TETR on Form 1040EZ-T at walk-in sites, which is 8.5 percent of the 126,000 individuals IRS expected.

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<sup>33</sup> The American Customer Satisfaction Index tracks trends in customer satisfaction and is considered to be an industry leader.

<sup>34</sup> IRS provides limited return preparation assistance to those who meet an IRS-specified income requirement that approximates the amount for claiming the Earned Income Tax Credit or less than \$39,000.

**Figure 5: Assistance Provided at IRS Walk-in Sites and Volunteer Sites, 2001 - 2008 (contacts in millions)**



Source: GAO analysis of IRS data.

Notes: "Other walk-in contacts" includes assistance for account notices, tax law inquiries, forms, and compliance work, but not return preparation. For the walk-in sites, the time periods covered are December 31, 2000, through April 28, 2001; December 30, 2001, through April 27, 2002; December 29, 2002, through April 26, 2003; December 28, 2003, through April 24, 2004; and December 26, 2004, through April 23, 2005. For volunteer sites, the time period covered for 2001 is January 1, through April 21, 2001; December 30, 2001, through April 27, 2002; December 29, 2002, through April 26, 2003; December 28, 2003, through April 24, 2004; December 26, 2004, through April 23, 2005; and January 1, through April 23, 2006.

<sup>a</sup>Fiscal years 2007 and 2008 are IRS projections. For walk-in sites, projections cover the time periods of December 31, 2006, through April 21, 2007, and December 30, 2007, through April 19, 2008. For volunteer sites, projections cover the time periods from January 1 through April 30, 2007 and 2008. For volunteer sites, projections cover the time periods from October 1 through September 30 for 2007 and 2008. According to IRS, most taxpayers having their returns prepared at volunteer sites do so during the filing season, which is from January 1 through April 30.

IRS officials attribute this year's projected decline in walk-in use to taxpayers' increased use of tax preparation software and IRS.gov. This decline has allowed IRS to devote 2.3 percent fewer FTEs compared to last year for walk-in assistance (down from 260 to 266 FTEs).

Volunteer sites, often run by community-based organizations and staffed by volunteers who are trained and certified by IRS, do not offer the range of services provided at walk-in sites. Instead, volunteer sites focus on



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preparing tax returns primarily for low-income and elderly taxpayers and operate chiefly during the filing season. As of April 15, the number of taxpayers getting return preparation assistance at over 11,000 volunteer sites has increased to approximately 2.3 million, up 16 percent from last year and continuing a trend since 2001. Although no projections have been made for TETR claims, over 80,600 taxpayers have claimed this credit at these locations. We have reported that the shift of taxpayers from walk-in to volunteer sites is important because it has allowed IRS to transfer time-consuming services, such as return preparation, from IRS to other less costly alternatives that can be more convenient for taxpayers.

While IRS is collecting better data on the quality of service at walk-in sites, concerns about quality of the data and service remain. According to IRS, it is measuring the accuracy of tax law and accounts assistance. IRS has reported a goal for tax law accuracy, and plans to use data collected for 2007 to set an annual goal for accounts accuracy.<sup>35</sup> While IRS provided return assistance for almost 210,000 taxpayers, it lacks information on the accuracy of that assistance. For volunteer sites, as of April 12, for a small non-statistical sample, IRS reported a 64 percent accuracy rate for return preparation, compared to its goal of 55 percent. Independent from IRS, but using similar methods, TIGTA showed a 56 percent accuracy rate.

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### TAB is Intended to Improve Taxpayer Services in a Cost-effective Manner

IRS developed TAB to provide the agency with information on taxpayers' needs and preferences to improve taxpayer service at lower cost as part of a 5-year plan, in response to a November 2005 law and a congressional directive.<sup>36</sup> IRS notes that with TAB, it has more information than ever before about taxpayers, partners, employees, and the effect of service-related decisions on taxpayers to help the agency provide, evaluate, and improve services.

IRS issued two reports under TAB:

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<sup>35</sup> As of April 14, IRS reported tax law and accounts assistance accuracy rates of 76 and 84 percent respectively at its walk-in sites. However, because IRS could not provide confidence intervals for these estimates, we do not know how precise these estimates are and, whether the tax law accuracy rate of 76 percent would achieve the goal if a confidence interval were considered.

<sup>36</sup> Pub. L. No. 109-115, § 205 (2005) and H. Rep. No. 109-307, 109th Cong. (2005).

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- The Phase I report, released in April 2006, outlines the results of preliminary research on taxpayer expectations and establishes five strategic themes for improving taxpayer services.<sup>37</sup>
  - Phase II, released in April 2007, includes the results of additional research, numerous areas and initiatives both funded and unfunded for service improvement, and a set of recommended performance measures.

IRS has identified 54 initiatives, some of which are underway, that include taxpayer service upgrades such as improvements to the Spanish version of “Where’s My Refund” and research studies. IRS identified 28 of the initiatives as unfunded and included several as part of its FY 2008 budget request as noted above.

As part of its strategy, IRS developed estimates of the cost per service contact for providing different types of taxpayer services, although there were qualifications to those estimates.<sup>38</sup> As table 6 indicates some assisted services, such as e-mail, are far more expensive than self-assisted services, such on IRS’s Web site. However, while there may be some overlap in services (e.g., taxpayers can receive similar return assistance at both walk-in sites and volunteer sites), they are likely to serve different taxpayers and may provide different levels of service (e.g., taxpayers can receive account assistance at walk-in sites, but not at volunteer sites). But, even between the two self-assisted options, there is a difference in unit costs,

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<sup>37</sup> These themes are (1) improve and expand taxpayers’ education and awareness; (2) optimize IRS’s use of partner services (e.g., paid preparers and community-based organizations); (3) elevate self-service options, such as IRS’s Web and automated phone assistance; (4) improve and expand IRS’s employee training and support tools; and (5) develop short-term performance and long-term outcome goals and metrics.

<sup>38</sup> IRS qualified these estimates noting that they fall short of the cost per contact estimates being developed for its Integrated Financial System because they do not fully allocate all indirect overhead and support costs. From our perspective, it would be important to know more about the indirect and support cost to see if they might significantly change the cost estimates. Further, according to IRS, these estimates represent the average costs per contact rather than the marginal costs per contact, which could be significant lower due to the unused capacity and the fixed costs associated with many forms of services. Moreover, we previously commented that because of long-standing limitations in IRS’s cost accounting capability, cost data at this detailed level have not been audited (see, for example, [GAO-07-310](#) and [07-247](#)).

It is our determination that IRS is a competent source for these cost estimates and that they seem to be reasonable; therefore, we have determined these estimates to be sufficiently reliable for describing how IRS could potentially use the information to improve taxpayer service at a lower cost.

with automated phone calls estimated to be more than five times higher than Web contacts. Having reliable cost information, together with a better understanding of taxpayers' preferences, needs, and expectations, could assist IRS in determining whether it could provide taxpayers with the same taxpayer service benefits at a lower cost through alternative methods. However, to further evaluate IRS's strategy, additional information would be required, for example, on how savings estimates were developed.

**Table 6: IRS's Fiscal Year 2005 Estimated Unit Costs**

Service	Estimated cost per contact
Answering tax law questions via E-mail	\$52.51
Providing assistance at walk-in sites	28.73
Answering correspondence	24.97
Providing assistance by assistors via toll-free telephones	19.46
Providing assistance through VITA sites	12.01
Providing assistance by automation via toll-free telephones	0.71
Providing assistance such as downloads and searches on IRS's Web site	0.13

Source: IRS.

## Progress Made in BSM Implementation, but Challenges and Risks Remain

BSM is critical to supporting IRS's taxpayer service and enforcement goals and reducing the tax gap. For example, BSM includes projects to allow taxpayers to file and retrieve information electronically and to provide technology solutions to help reduce the backlog of collections cases. Despite progress made in implementing BSM projects and improving modernization management controls and capabilities, significant challenges and serious risks remain, and further program improvements are needed, which IRS is working to address.

Over the past year, IRS has made further progress in implementing BSM projects and in meeting cost and schedule commitments, but two key projects experienced significant cost overruns during 2006—CADE and Modernized e-File. During 2006 and the beginning of 2007, IRS deployed additional releases of the following modernized systems that have delivered benefits to taxpayers and the agency: CADE, Modernized e-File, and Filing and Payment Compliance (a tax collection case analysis support system). Each of the five associated project segments that were delivered during 2006 were completed on time or within the targeted

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10 percent schedule variance threshold, and two of them were also completed within the targeted 10 percent variance threshold for cost. However, one segment of the Modernized e-File project as well as a segment of the CADE project experienced cost increases of 36 percent and 15 percent, respectively. According to IRS, the cost overrun for Modernized e-File was due in part to upgrading infrastructure to support the electronic filing mandate for large corporations and tax-exempt organizations, which was not in the original projections or scope.

IRS has also made significant progress in implementing our prior recommendations and improving its modernization management controls and capabilities, including efforts to institutionalize configuration management procedures and develop an updated modernization vision and strategy and associated 5-year plan to guide information technology investment decisions during fiscal years 2007 through 2011. However, critical controls and capabilities related to requirements development and management and post-implementation reviews of deployed BSM projects have not yet been fully implemented. In addition, more work remains to be done by the agency to fully address our prior recommendation of developing a long-term vision and strategy for completing the BSM program, including establishing time frames for consolidating and retiring legacy systems. IRS recognizes this and intends to conduct further analyses and update its vision and strategy to address the full scope of tax administration functions and provide additional details and refinements on the agency's plans for legacy system dispositions.

Future BSM project releases continue to face significant risks and issues, which IRS is taking steps to address. IRS has reported that significant challenges and risks confront its future planned system deliveries. For example, delays in deploying the latest release of CADE to support the current filing season have resulted in continued contention for key resources and will likely impact the design and development of the next two important releases, which are planned to be deployed later this year. The potential for schedule delays, coupled with the reported resource constraints and the expanding complexity of the CADE project, increase the risk of scope problems and the deferral of planned functionality to later releases. Maintaining alignment between the planned releases of CADE and the new Accounts Management Services project is also a key

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area of concern because of the functional interdependencies.<sup>39</sup> The agency recognizes the potential impact of these project risks and issues on its ability to deliver planned functionality within cost and schedule estimates and, to its credit, has developed mitigation strategies to address them. We will, however, continue to monitor the various risks IRS identifies and the agency's strategies to address them and will report any concerns.

IRS has also made further progress in addressing high-priority BSM program improvement initiatives during the past year, including efforts related to institutionalizing the Modernization Vision and Strategy approach and integrating it with IRS's capital planning and investment control process, hiring and training 25 entry-level programmers to support development of CADE, developing an electronic filing strategy through 2010, establishing requirements development/management processes and guidance (in response to our prior recommendation), and defining governance structures and processes across all projects. IRS's high-priority improvement initiatives continue to be an effective means of assessing, prioritizing, and incrementally addressing BSM issues and challenges. However, more work remains for the agency to fully address these issues and challenges.

In addition, we recently reported that IRS could improve its reporting of progress in meeting BSM project scope (i.e., functionality) expectations by including a quantitative measure in future expenditure plans.<sup>40</sup> This would help to provide Congress with more complete information on the agency's performance in implementing BSM project releases. IRS recognizes the value of having such a measure and, in response to our recommendation, is in the process of developing it.

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<sup>39</sup>Accounts Management Services (AMS) is a strategic project intended to deliver improved customer support and functionality by leveraging existing IRS applications and new technologies to bridge the gap between modernization initiatives, such as CADE, and legacy systems. AMS is to enhance CADE by providing applications for IRS employees and taxpayers to access, validate, and update accounts on demand. The development and implementation of the AMS project is also essential to enabling CADE to accept more complicated tax returns and to deal with taxpayer issues. AMS project releases are to provide functional components synchronized with the CADE development schedule as well as other components delivered independent of the CADE schedule.

<sup>40</sup>[GAO-07-247](#).

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## Conclusions

IRS's budget submission is important because it shows the resource tradeoffs IRS intends to make between enforcement and taxpayer service—both of which have potential to reduce the tax gap. One way that IRS reallocates resources is through new spending initiatives. However, in order for Congress and other external parties to assess the merits of new initiatives, basic information about the description of the initiatives and their costs and expected performance is necessary. Without such information, decisions makers do not have an informed basis on whether to approve and fund new initiatives. Of course, the costs of developing justifications must also be taken into account. More costly initiatives generally would be expected to have more detailed justifications.

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## Recommendation for Executive Action

We recommend that the Commissioner of Internal Revenue

- have available basic descriptive, cost, and expected performance information on the spending initiatives proposed in the 2008 budget submission to the extent to such information has not been provided, and
- include in future budget submissions, basic descriptive, cost, and performance information on new spending initiatives, with supplementary documentation available if needed.

In comments on a draft of this statement, IRS's Chief Financial Officer agreed with the second recommendation, but not the first. She stated that the FY 2008 budget and justification did provide basic descriptive, cost, and expected performance information for each initiative. IRS agreed that the amount of performance data provided for each initiative varied, stating that some of the initiatives did not necessarily merit such performance indicators and, for those initiatives, IRS provided explanations of general benefits or reasons behind the request. While we agree that for every initiative IRS provided the total proposed spending, some initiatives lacked basic information on how the amount to be spent was determined and work to be done. For example, the initiative for improving compliance estimates provided no explanation of how the 258 FTEs were determined or basic information on the work such as the number of examinations to be conducted. Without such information, at the end of the fiscal year, Congress would be unable to tell whether IRS spent the money as intended.

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Mr. Chairman, this concludes my prepared statement. Mr. Powner and I would be happy to respond to questions you or other members of the Committee may have at this time.

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## Contacts and Acknowledgments

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# Appendix I: IRS Is Addressing TETR Compliance Issues during the Filing Season

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TETR is the only one of the three tax changes that created new compliance concerns for IRS (filers could request greater TETR amounts than they are entitled to). The split refund option does not create compliance concerns for IRS since it relates to the accounts into which taxpayers want their refunds deposited rather than to complying with tax provisions.<sup>1</sup> Since these provisions extending the tax laws already existed, IRS anticipates that any compliance concerns for 2006 returns will be the same as for previous years.

IRS developed a plan before the filing season began to audit suspected TETR overclaims before issuing refunds. IRS's plan for TETR was consistent with good management practices identified in previous GAO reports. IRS's plan included appointing an executive, developing an implementation plan for TETR that included standard amounts that individuals could request, developing a compliance plan to select TETR requests for audit, and monitoring and evaluating compliance by using real-time data to adjust TETR compliance efforts. For example, each week, IRS reviews the requests for TETR, selects some for audit, and revises the criteria for audit selection as necessary.

As of April 21, 2007, about 324,000 individuals had requested the actual amount of telephone excise tax paid for a total of \$128 million. IRS selected about 3.4 percent of these requests for audit, involving about \$33 million.<sup>2</sup> IRS has closed 464 of the individual audits with the taxpayer agreeing to accept the standard amount; it has not completed the remaining individual audits. About 346,000 businesses had requested TETR for a total of about \$161 million. IRS selected over 1,000 for audit, involving about \$22 million. IRS has closed four business audits. IRS reassigned about 77 FTEs from discretionary audits and Earned Income Tax Credit audits to conduct TETR audits. Additionally, Criminal Investigation has spent 13 FTEs staff on TETR activities in 2007.

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<sup>1</sup> While there are no compliance concerns, there is a potential for errors due to taxpayers entering incorrect account numbers on Form 8888 (Direct Deposit of Refund to More Than One Account) or IRS incorrectly transcribing the account numbers or the dollar amounts to be deposited into each account.

<sup>2</sup> According to IRS officials, as of May 2, 2007, only individuals claiming the actual amount of telephone excise tax paid have been selected for audit. None claiming the standard amount were selected for audit. Individuals can claim a standard amount ranging from \$30 to \$60, depending on the number of exemptions they claim or they can use Form 8913 (Credit for Federal Telephone Excise Tax Paid) to claim the actual amount paid.



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# Appendix II: List of Recent GAO Reports on IRS's Filing Season, Budget, BSM, and Tax Gap

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## IRS's Budget and Filing Season

*Tax Filing Season: Interim Results and Updates of Previous Assessments of Paid Preparers and IRS's Modernization and Compliance Research Efforts*, [GAO-07-720T](#) Washington, D.C.: April 12, 2007.

*Internal Revenue Service: Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request*, [GAO-07-673](#) Washington, D.C.: April 3, 2007.

*Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) Washington, D.C.: November 15, 2006

*Internal Revenue Service: Assessment of the Interim Results of the 2006 Filing Season and Fiscal Year 2007 Budget Request*, [GAO-06-499T](#) Washington, D.C.: April 27, 2006.

*Tax Administration: IRS Improved Some Filing Season Services, but Long-Term Goals Would Help Manage Strategic Trade-offs*, [GAO-06-51](#) Washington, D.C.: November 14, 2005.

*Tax Administration: IRS Improved Performance in the 2004 Filing Season, but Better Data on the Quality of Some Services Are Needed*, [GAO-05-67](#) Washington, D.C.: November 10, 2004.

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## Business Systems Modernization

*Business Systems Modernization: Internal Revenue Service's Fiscal Year 2007 Expenditure Plan*, [GAO-07-247](#) Washington, D.C.: February 15, 2007.

*Business Systems Modernization: IRS Needs to Complete Recent Efforts to Develop Policies and Procedures to Guide Requirements Development and Management*, [GAO-06-310](#) Washington, D.C.: March 20, 2006.

*Business Systems Modernization: Internal Revenue Service's Fiscal Year 2006 Expenditure Plan*, [GAO-06-360](#) Washington, D.C.: February 21, 2006.

*Business Systems Modernization: Internal Revenue Service's Fiscal Year 2005 Expenditure Plan*, [GAO-05-774](#) Washington, D.C.: July 22, 2005.

*IRS Modernization: Continued Progress Requires Addressing Resource Management Challenges*, [GAO-05-707T](#) Washington, D.C.: May 19, 2005.

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## Tax Compliance

*Tax Compliance: Thousands of Federal Contractors Abuse the Federal Tax System*, [GAO-07-742T](#) Washington, D.C.: April 19, 2007.

*Tax Compliance: Using Data from the Internal Revenue Service's National Research Program to Identify Potential Opportunities to Reduce the Tax Gap*, [GAO-07-423R](#) Washington, D.C.: March 15, 2007.

*Tax Compliance: Multiple Approaches Are Needed to Reduce the Tax Gap*, [GAO-07-488T](#) Washington, D.C.: February 16, 2007.

*Tax Compliance: Multiple Approaches Are Needed to Reduce the Tax Gap*, [GAO-07-391T](#) Washington, D.C.: January 23, 2007.

*Tax Compliance: Challenges to Corporate Tax Enforcement and Options to Improve Securities Basis Reporting*, [GAO-06-851T](#) Washington, D.C.: June 13, 2006.

*Capital Gains Tax Gap: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, [GAO-06-603](#) (Washington, D.C.: June 13, 2006).

*Tax Gap: Making Significant Progress in Improving Tax Compliance Rests on Enhancing Current IRS Techniques and Adopting New Legislative Actions*, [GAO-06-453T](#) Washington, D.C.: February 15, 2006.

*Tax Gap: Multiple Strategies, Better Compliance Data, and Long-Term Goals Are Needed to Improve Taxpayer Compliance*, [GAO-06-208T](#) Washington, D.C.: October 26, 2005.

*Tax Compliance: Better Compliance Data and Long-Term Goals Would Support a More Strategic IRS Approach to Reducing the Tax Gap*, [GAO-05-753](#) Washington, D.C.: July 18, 2005.

*Tax Compliance: Reducing the Tax Gap Can Contribute to Fiscal Sustainability but Will Require a Variety of Strategies*, [GAO-05-527T](#) Washington, D.C.: April 14, 2005.

*Compliance and Collection: Challenges for IRS in Reversing Trends and Implementing New Initiatives*, [GAO-03-732T](#) Washington, D.C.: May 7, 2003.

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## Miscellaneous

*Tax Administration: Telephone Excise Tax Refund Requests Are Fewer Than Projected and Have Had Minimal Impact on IRS Services*, [GAO-07-695](#) Washington, D.C.: April 11, 2007.

*Taxpayer Service: State Experiences Indicate IRS Would Face Challenges Developing an Internet Filing System with Net Benefits*, [GAO-07-570](#) Washington, D.C.: April 5, 2007.

*Internal Revenue Service: Procedural Changes Could Enhance Tax Collections: Enhancing IRS Collection Procedures*, [GAO-07-26](#) Washington, D.C.: November 15, 2006.

*Tax Debt Collection: IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources*, [GAO-06-1065](#) Washington, D.C.: September 29, 2006.

*Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors*, [GAO-06-563T](#) Washington, D.C.: April 4, 2006.

*21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) Washington, D.C.: February 2005.

*High Risk Series: An Update*, [GAO-07-310](#) Washington, D.C.: January, 2007.

*Tax Administration: Most Taxpayers Believe They Benefit from Paid Tax Preparers, but Oversight for IRS is a Challenge*, [GAO-04-70](#) Washington, D.C.: October 31, 2003.

*Tax Administration: IRS Is Implementing the National Research Program as Planned*, [GAO-03-614](#) Washington, D.C.: June 16, 2003.

*Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) Washington, D.C.: November 22, 2002.

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