

April 2011

IRS BUDGET 2012

Extending Systematic Reviews of Spending Could Identify More Savings Over Time



G A O

Accountability * Integrity * Reliability

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United States Government Accountability Office
Washington, DC 20548

April 11, 2011

The Honorable Richard J. Durbin
Chairman
The Honorable Jerry Moran
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The financing of the federal government depends largely on the Internal Revenue Service's (IRS) efforts to collect taxes. These efforts focus on providing taxpayer services, such as electronic filing and telephone assistance, to make voluntary compliance easier and enforcing tax laws to ensure everyone meets their obligations to pay taxes. To fund IRS's 2012 operations, the President requested \$13.3 billion spread over five appropriations, including \$6 billion for enforcement, \$4.6 billion for operations support, and \$2.3 billion for taxpayer services.

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, you asked us to review the fiscal year 2012 budget justification for IRS. Special areas of interest included any new tax law enforcement and taxpayer service initiatives, the cost of implementing IRS's responsibilities under the Patient Protection and Affordable Care Act (PPACA), and any opportunities for savings.¹ Based on your request our objectives were to:

¹ PPACA was enacted on March 23, 2010 and contains various tax and other provisions that IRS is responsible for administering. Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (March 23, 2010).

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1. describe IRS's budget and staffing trends for fiscal years 2008 through 2012;
 2. assess IRS's process for identifying potential savings and how it used savings that were greater than projected;
 3. describe new enforcement, taxpayer service and other initiatives in the fiscal year 2012 budget justification, including any estimates of return on investment (ROI);
 4. assess any legislative proposals in the budget justification and how IRS reports their costs;
 5. assess how the budget justification reports on the costs and performance of major information technology (IT) systems;
 6. describe how 2012 PPACA costs are presented in the budget justification; and
 7. document IRS's implementation of our budget recommendations from prior years' reports as well as highlight our open matters for Congress and recommendations to IRS with potential savings or revenues.

We conducted our work in Washington, D.C. and New Carrollton, Maryland where key IRS officials involved with the budget and IT systems are located. Generally, we compared the President's fiscal year 2012 budget justification for IRS to enacted amounts by appropriation from fiscal year 2008 through fiscal year 2010, including the fiscal year 2011 budget justification and annualized continuing resolution (CR) levels. Specifically, to address the first four objectives, we reviewed the budget and supplemental documents and considered other sources such as the *IRS Strategic Plan 2009-2013*, Office of Management and Budget (OMB) Circular A-11, and GAO's *Cost Estimating and Assessment Guide*.² We also interviewed officials in the Chief Financial Officer's (CFO) office. For the fifth objective to assess major IT systems' costs and performance, we reviewed documentation such as the *2010 Enterprise Transition Plan*, and interviewed officials in IRS's Modernization and Information Technology Services office. For the sixth objective to describe how PPACA costs are presented, we reviewed relevant sections of the budget and supplemental documents, and interviewed budget and program office officials working on PPACA implementation. Finally, for the seventh objective we interviewed CFO officials to obtain information on prior year budget recommendations and judgmentally selected and relied on prior work in identifying opportunities for potential savings or increased

²GAO, GAO: *Cost Estimating and Assessment Guide*, [GAO-09-3SP](#) (Washington, D.C.: March 2009).

revenue.³ Based on previous tests of the major data systems IRS uses to prepare its budget justification, we determined the data in those systems were sufficiently reliable for our purposes.

On March 31, 2011 we briefed the Subcommittee on Financial Services and General Government, Committee on Appropriations, United States Senate and on April 7, 2011 we briefed the Subcommittee on Oversight, Committee on Ways and Means, United States House of Representatives on the results of our work on the fiscal year 2012 budget request for IRS. This report summarizes and transmits updated materials we used at these briefings, which are reprinted in appendix I, and includes related conclusions and recommendations.

We conducted this performance audit from November 2010 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The President's fiscal year 2012 budget request for the IRS is presented in two key documents: (1) the Congressional Budget Justification, which provides a detailed justification of proposed IRS spending, and (2) the Appendix to the President's Budget. In general, there are three levels to IRS's budget presentation:

- The first level includes five IRS appropriation accounts: Taxpayer Services, Enforcement, Operations Support, Business Systems Modernization (BSM), and Health Insurance Tax Credit Administration (HITCA).
- The second level is IRS's budget activities, which divide the appropriation accounts into more basic functions. For example, the Operations Support appropriation has three budget activities: Infrastructure, Shared Services and Support, and Information Services.

³GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, [GAO-10-687R](#) (Washington, D.C.: May 26, 2010) and GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 11, 2011).

Infrastructure funds items such as rent, building services, and non-IT equipment. Shared Services and Support includes general policy and management functions such as human resources and strategic planning, as well as other functions like printing and postage. Information Services funds staffing, equipment and related costs to maintain and operate information systems not specifically designated as part of BSM.

- The third level includes multiple program activities for every budget activity. For example, in the Infrastructure budget activity, there are four program activities: Building Delegation, Rent, Space and Housing/Non-IT Equipment, and Security.

Results In Brief

- The IRS fiscal year 2012 budget request is a 9.4 percent, or \$1.14 billion, increase over fiscal year 2010 with most of the increases for the Enforcement and Operations Support appropriations. It is a 20 percent increase over 2008. The budget justification proposes a 6 percent increase in full time equivalent staff since 2010 and an 11 percent increase since 2008.
- IRS projects \$190 million in savings and efficiencies for fiscal year 2012, which includes a \$75 million reduction in IT infrastructure spending. The IT savings resulted from a systematic review of IT systems and contracts and the use of leading practices in systems development. Although IRS looks for savings throughout the agency, these efforts are not as systematic as the IT review. IRS budget officials cited costs as the reason. IRS IT officials told us approximately five full time staff were dedicated to finding the IT savings. In addition to projecting savings for 2012, the budget justification for IRS reported on the amount of savings realized in 2010. According to IRS, realized savings in 2010 were about \$5 million greater than originally projected but the budget justification did not specify how the additional savings were used.
- The fiscal year 2012 budget justification includes 17 new enforcement, taxpayer service, and other initiatives with a total cost of approximately \$839 million. The justification included ROI estimates for 6 of them, with an average ROI of 6.4 to 1.
- The budget justification includes 21 legislative proposals which according to IRS, if enacted, could result in over \$10 billion in savings or increased revenues over 10 years. IRS was able to report costs for 14 of these proposals, but the costs were aggregated. Cost information for each of the 14 proposals is available from IRS and could be more useful to the Congress when weighing the merits of each proposal.
- IRS is requesting \$2.67 billion for IT funding in fiscal year 2012; \$2.3 billion of this funding is for Operations Support and the remaining amount is for BSM. Out of these appropriations, IRS funds about 155

IT systems, including 31 major systems. The justification summarizes cost and schedule performance information for BSM, but not other major IT systems. Without such summary information Congress lacks a high level indicator of performance for most of IRS's IT spending.

- The total justification for PPACA in fiscal year 2012 is \$473.4 million, or 42 percent of the fiscal year 2012 requested funding increase. These costs are spread over five program initiatives within the Enforcement, Operations Support, and Taxpayer Services appropriations. While the PPACA costs are easily identified by initiative, the total cost is not shown. The total can be calculated by adding the PPACA costs across the five initiatives.
- IRS implemented several of our prior recommendations to improve its budget presentation, including comparing projected savings to actual savings.⁴ Several of our open matters for Congress or recommendations to IRS have the potential to increase revenue or savings if implemented.⁵ See appendix II for details on open matters and recommendations.

Conclusions

IRS has taken important steps to identify savings and efficiencies, including its systematic approach to identifying IT savings. Extending this systematic approach agency wide has the potential to identify additional savings. While some resources would be needed to implement such an approach, those costs could be reduced by targeting areas with high potential, i.e., not necessarily examining every area of the budget every year, and would likely be more than offset by newly realized savings and efficiencies.

The budget justification provides useful information to congressional appropriators and others for making decisions about budgetary trade-offs. We identified three areas where further information in the budget justification could be beneficial: describing how any savings in excess of

⁴GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, [GAO-10-687R](#) (Washington, D.C.: May 26, 2010) and GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season*, [GAO-09-754](#) (Washington D.C.: June 3, 2009).

⁵GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C. March 1, 2011) and GAO, *Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance*, [GAO-09-521](#) (Washington, D.C.: May 13, 2009).

projections are used, providing costs estimates for individual legislative proposals, and including IT cost and schedule performance information for major systems in the Operations Support appropriation.

Recommendations for Executive Action

To improve the usefulness of the budget request for IRS, we recommend the Commissioner of Internal Revenue take the following four actions:

- further expand efforts to systematically identify savings and efficiencies as part of its budget development process on a periodic, but not necessarily annual, basis;
- report in its budget justification how savings beyond projections were used. The amount of explanation provided should correspond to the amount of the savings;
- provide cost estimates for individual legislative proposals in future budget justifications; and
- include measures of cost and schedule performance for major IT systems in Operations Support, such as it does for BSM.

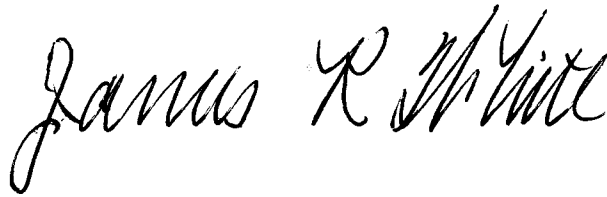
Agency Comments and Our Evaluation

In commenting on a draft of this report, IRS officials said that, due to the short time frame for GAO's report, they did not have time to fully analyze the recommendations and, therefore, were unable to respond to them at the time. They provided technical comments, and we made those changes where appropriate.

As agreed with your offices unless you publicly announce the contents of this report earlier, we plan no further distribution until 2 days from the report date. At that time we plan to send copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget. Copies are also available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions or wish to discuss the material in this report further, please contact me at (202) 512-9110 or

WhiteJ@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, stylized initial "J".

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Updated Briefing for Senate and House Committees



A Review of the Fiscal Year 2012 Budget Justification for the Internal Revenue Service

Prepared for the
Subcommittee on Financial Services and General Government,
Committee on Appropriations, U.S. Senate (March 31, 2011)
and the
Subcommittee on Oversight, Committee on Ways and Means, U.S.
House of Representatives (April 7, 2011)

Updated April 11, 2011

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Objectives

- Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, you asked us to review the fiscal year 2012 budget justification for IRS. Special areas of interest included any new tax law enforcement and taxpayer service initiatives, the cost of implementing IRS's responsibilities under the Patient Protection and Affordable Care Act (PPACA), and any opportunities for savings.¹ Based on your request our objectives were to:
 - describe IRS's budget and staffing trends for fiscal years 2008 through 2012;
 - assess IRS's process for identifying potential savings and how it used savings that were greater than projected;
 - describe new enforcement, taxpayer service and other initiatives in the fiscal year 2012 budget justification, including estimates for return on investment (ROI);

¹PPACA was enacted on March 23, 2010 and contains various tax and other provisions that IRS is responsible for administering. Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (March 23, 2010).

Objectives (continued)

- assess any legislative proposals in the budget justification and how IRS reports their costs;
- assess how the budget justification reports on the costs and performance of major information technology (IT) systems;
- describe how 2012 Patient Protection and Affordable Care Act (PPACA) costs are presented in the budget justification; and
- document IRS's implementation of our budget recommendations from prior years' reports as well as highlight our open matters for Congress and recommendations to IRS with potential savings or revenues.

Scope and Methodology

- To address each objective, we compared the President's FY 2012 budget justification for IRS to enacted amounts by appropriation from FY 2008 through FY 2010, including the FY 2011 budget justification and annualized continuing resolution (CR) levels. Specifically, to
 - address the first four objectives, we reviewed relevant documents and interviewed officials in the Chief Financial Officer's (CFO) office;
 - determine major IT systems, costs, and schedules, we reviewed documentation, such as the *2010 Enterprise Transition Plan*, and interviewed officials in the Modernization and Information Technology Services office;
 - describe how PPACA costs are presented, we reviewed documents and interviewed budget and program office officials working on PPACA implementation; and
 - obtain information on prior year budget recommendations, we interviewed CFO officials; to provide information on open matters and recommendations, we judgmentally selected ones with a potential to increase savings or revenues and primarily relied on GAO's prior work.
- We conducted this performance audit from November 2010 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides that reasonable basis. Based on previous tests of the major data systems IRS uses to prepare its budget justification, we determined the data in those systems were sufficiently reliable for our purposes.

Results in Brief

- The IRS fiscal year 2012 budget request is a 9.4 percent, or \$1.14 billion, increase over fiscal year 2010 with most of the increases for the Enforcement and Operations Support appropriations. It is a 20 percent increase over 2008. The budget justification proposes a 6 percent increase in full time equivalent staff since 2010 and an 11 percent increase since 2008.
- IRS projects \$190 million in savings and efficiencies for fiscal year 2012, which includes a \$75 million reduction in IT infrastructure spending. The IT savings resulted from a systematic review that IRS officials said applied leading practices in systems development and resulted in additional saving. Although IRS looks for savings throughout the agency these efforts are not as systematic as the IT review. IRS budget officials cited costs as the reason. IRS IT officials told us approximately five full time staff were dedicated to finding the IT savings. In addition to projecting savings for 2012, IRS reported on the amount of savings realized in 2010. Realized savings in 2010 were about \$5 million greater than originally projected but the budget justification did not specify how the additional savings were used.
- The fiscal year 2012 budget justification includes 17 new enforcement, taxpayer service, and other initiatives with a total cost of approximately \$839 million. The justification included ROI estimates for six of them, with an average ROI of 6.4 to 1 by fiscal year 2014.

Results in Brief (continued)

- The budget justification includes 21 legislative proposals which IRS estimated, if enacted, could result in over \$10 billion in savings or increased revenues over 10 years. IRS was able to report estimated costs for 14 of these proposals, but the costs were aggregated. Cost information for each of the 14 proposals is available and could be more useful to Congress when weighing the merits of each proposal.
- IRS is requesting \$2.67 billion for IT funding in fiscal year 2012; \$2.3 billion of this funding is for Operations Support and the remaining amount is for Business Systems Modernization (BSM). Out of these appropriations, IRS funds about 155 IT systems, including 31 major systems. The justification summarizes cost and schedule performance information for BSM, but not other major IT systems. Without such summary information Congress lacks a high level indicator of performance for most of IRS's IT spending.
- The total request for PPACA in fiscal year 2012 is \$473.4 million, or 42 percent of the fiscal year 2012 requested funding increase. These costs are spread over five program initiatives within the Enforcement, Operations Support, and Taxpayer Services appropriations. While the PPACA costs are easily identified by initiative, the total cost is not shown. The total can be calculated by adding the PPACA costs across the five initiatives.
- IRS implemented several of our prior recommendations to improve its budget presentation, including comparing projected savings to actual savings.¹ Several of our open matters for Congress or recommendations to IRS have the potential to increase revenue or savings if implemented.² (See Appendix II for details on open matters and recommendations.)

¹GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, GAO-10-687R (Washington, D.C.: May 26, 2010) and GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season*, GAO-09-754 (Washington D.C.: June 3, 2009).

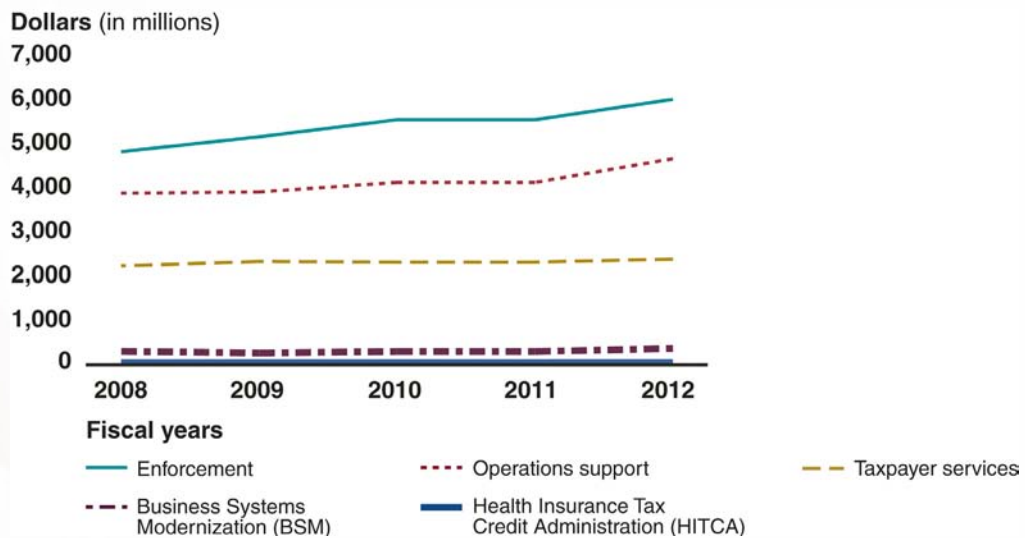
²GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C. March 1, 2011) and GAO, *Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance*, GAO-09-521 (Washington, D.C.: May 13, 2009).

Budget Trends

- The President's FY 2012 budget request for IRS is \$13.3 billion, a 9.4 percent increase (\$1.14 billion) over FY 2010. This was a 20 percent increase over 2008.
- Most of the increase goes toward Enforcement or Operations Support.
 - Operations Support includes facilities, information systems, and general management.
- The \$1.14 billion increase includes:
 - + \$838.8 million for new service, enforcement, and infrastructure initiatives;
 - + \$401.7 million to reach the FY 2011 President's policy level;
 - + \$ 85.7 million for inflation; and
 - - \$189.9 million in savings and efficiencies.
- IRS expects to collect approximately \$384 million from other resources, such as reimbursables and user fees.

Budget Trends, FY 2008 through FY 2012

Figure 1: FY 2008 through FY 2010 Enacted Amounts, FY 2011 Annualized CR levels, and FY 2012 Budget Request for IRS by Appropriation



Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

Note: FY 2011 data are the annualized CR level, which is about 4 percent less than the FY 2011 request.

Budget Data, FY 2008 through FY 2012

Table 1: FY 2008 through FY 2010 Enacted Amounts, FY 2011 Requested, FY 2011 Annualized CR Levels, and FY 2012 Budget Request for IRS by Appropriation (in millions)

Appropriation	FY 2008 enacted	FY 2009 enacted	FY 2010 enacted	FY 2011 requested	FY 2011 annualized CR	FY 2012 requested ^a	Percentage change FY 2010 enacted through FY 2012 requested
Enforcement	4,780	5,117	5,504	5,797	5,504	5,967	8.4%
Taxpayer Services	2,191	2,293	2,279	2,322	2,279	2,345	2.9%
Operations Support	3,841	3,867	4,084	4,108	4,084	4,621	13.1%
BSM	267	230	264	387	264	334	26.4%
HITCA	15	15	16	19	16	18	12.5%
Subtotal	11,095	11,523	12,146	12,633	12,146	13,284	9.4%
Other resources available for obligation	566	390	539	444	526	384	(29%)
Total funding available for obligation	11,661	11,913	12,686	13,077	12,672	13,668	7.7%

Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

Note: Dollars are nominal and not adjusted for inflation and numbers may not add due to rounding.

^a Includes an approximately \$402 million adjustment to reach the FY 2011 President policy level, minus salary increases.

Other Resources Available for Obligation, FY 2008 through FY 2012

Table 2: Other Resources Available for Obligation, FY 2008 through FY 2010 Actual; FY 2011 Projected; FY 2011 Annualized CR Projected; and FY 2012 Projected (in millions)

Other resources	FY 2008 actual	FY 2009 actual	FY 2010 actual	FY 2011 projected	FY 2011 annualized CR projected	FY 2012 projected
User fees	247	166	176	194	204	204
Offsetting collections-reimbursables	140	114	138	145	137	138
Available multi-year/no-year funds	137	86	196	105	185	41
Recoveries	5	0.89	6	N/A	N/A	N/A
50 percent carryover	19	16	36	N/A	N/A	N/A
Transfers in/out	18	8	(12)	N/A	N/A	N/A
Total other resources available for obligation	566	390	539	444	526	384

Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

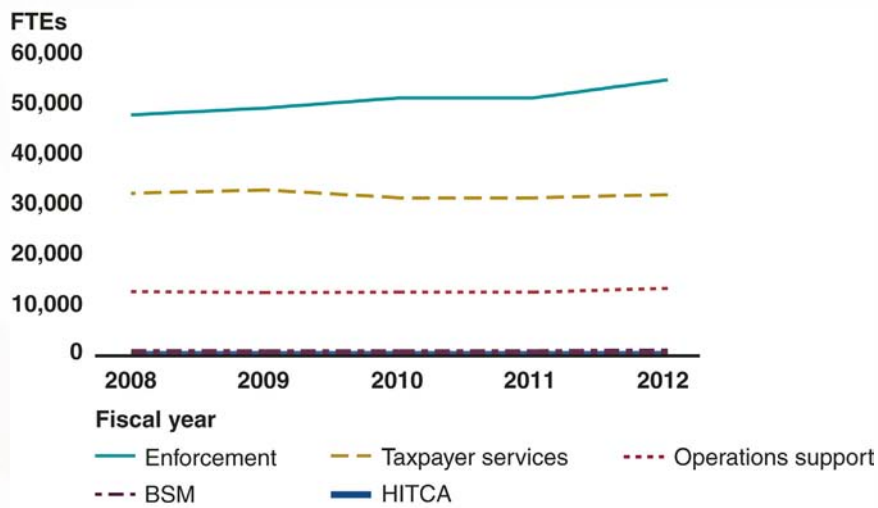
Note: Dollars are nominal and not adjusted for inflation and numbers may not add due to rounding. N/A means data not yet available.

Full-Time Equivalents (FTE) Trends

- Under the budget request, IRS's overall FTEs would increase by more than 5 percent for FY 2012 over FY 2010 levels, with the largest increases in Enforcement and Operations Support.
 - Enforcement would increase by 8 percent (4,182 FTEs), and
 - Operations Support would increase by approximately 7 percent (880 FTEs).
- This is a 6 percent increase in FTE staff since 2010 and an 10 percent increase since 2008.
- Operations Support is the second largest appropriations account. It has, however, the third largest FTE count because it includes non-FTE costs such as rent, IT hardware, and contractor support.

FTEs Funded from Appropriation Accounts, FY 2008 through FY 2012

Figure 2: FY 2008 through FY 2010 FTEs, FY 2011 Annualized CR level FTEs, and FY 2012 Requested FTEs by Appropriation



Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

Note: FY 2011 data is the annualized CR level, which is about 4 percent less than the FY 2011 request.

FTEs Funded from Appropriation Accounts, FY 2008 through FY 2012

Table 3: IRS FY 2008 through FY 2010 FTEs, FY 2011 Requested FTEs, FY 2011 Annualized CR FTEs, and FY 2012 Requested FTEs

Appropriation	FY 2008 actual	FY 2009 actual	FY 2010 actual	FY 2011 requested	FY 2011 annualized CR ^a	FY 2012 requested	Percentage change FY 2010 through FY 2012 requested
Enforcement	46,431	47,361	50,400	52,863	50,983	54,582	8.3%
Taxpayer Services	31,487	32,422	31,607	30,668	31,063	31,686	<1.0%
Operations Support	12,079	12,101	12,262	12,384	12,372	13,142	7.2%
BSM	347	322	337	489	333	453	34.4%
HITCA	10	10	12	15	15	15	25%
Subtotal	90,354	92,216	94,618	96,419	94,766	99,878	5.6%
Other FTEs	1,331	1,153	752	961	659	659	(12.4%)
Total FTEs	91,685	93,369	95,370	97,380	95,425	100,537	5.4%

Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

^a IRS reported FY 2011 FTEs assuming an annualized CR, but officials told us it cannot maintain that level without a funding increase.

FTEs Funded from Reimbursables, User Fees, Transfers, and Available Multi-Year/No-Year Funds, FY 2008 through FY 2012

Table 4: FY 2008 through FY 2010 FTEs Actual, FY 2011 Projected FTEs, FY 2011 Annualized CR FTEs, and FY 2012 Projected FTEs

Other FTEs	FY 2008 actual	FY 2009 actual	FY 2010 actual	FY 2011 projected	FY 2011 annualized CR	FY 2012 projected
Offsetting collections-reimbursables	1038	792	659	961	659	659
User fees	0	273	93	0	0	0
Transfers in/out	293	0	0	0	0	0
Available multi-year/no-year funds	0	88	0	0	0	0
Other FTEs	1,331	1,153	752	961	659	659

Source: FY 2008 through FY 2012 IRS Congressional Budget Justifications.

IRS Projected \$190 Million in Savings and Efficiencies in FY 2012

Table 5: Savings and Efficiencies, FY 2012 (in millions)

	Taxpayer Services	Enforcement	Operations Support	BSM	HITCA	Total
Reduce IT infrastructure	--	--	75.0	--	--	75.0
Reduce training, travel, and programs	9.9	9.4	5.9	1.0	1.2	27.4
Increase E-File savings	21.4	--	1.0	--	--	22.4
Nonrecurring costs reductions	--	--	22.1	--	--	22.1
Reduce contracts	4.5	0.3	15.9	--	--	20.8
Reduce administrative expenses	5.6	8.3	0.5	--	--	14.4
Eliminate lockbox fees	--	4.0	--	--	--	4.0
Reduce certain mailings	--	--	4.0	--	--	4.0
Total savings and efficiencies	41.4	22.0	124.4	1.0	1.2	190.0

Source: FY 2012 IRS Congressional Budget Justification
Numbers may not add due to rounding.

IRS Expanded Efforts to Identify Savings and Efficiencies, but Did Not Systematically Review All Spending

- To develop the FY 2012 budget, the IRS Commissioner directed business units to perform a “bottom up” review—including an employee suggestion component. According to IRS budget officials, most of the \$115 million in non-IT savings shown in Table 5 were identified through this process. These savings were about one percent of total non-IT spending (\$10.6 billion).
- The \$75 million in IT infrastructure savings shown in Table 5 were identified, according to IRS IT officials, through a systematic review of contract and other IT activities. These officials said the review identified opportunities to streamline costs for providing IT services while maintaining service levels. One result was the elimination of unused software licenses. IRS also applied leading practices in systems development which resulted in additional savings. Total savings achieved were about three percent of total IT spending (\$2.7 billion).
- IRS budget officials told us that systematic reviews—such as the IT review—are not conducted agency wide because of costs. IT officials said that IRS devoted about five FTEs to their review.
- Best practices suggest that agencies routinely identify savings and efficiencies.¹
- By not applying the more systematic and productive IT approach agency wide, IRS might be missing opportunities to realize savings and efficiencies. The cost of the systematic approach could be reduced by not reviewing each budget area annually.

Recommendation: IRS should further expand its efforts to systematically identify savings and efficiencies as part of its budget development process on a periodic, but not necessarily annual, basis.

¹GAO, *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1 (Washington, D.C.; November 1999). GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.; March 1, 2011).

IRS Realized Efficiencies in Excess of Projections

- IRS implemented our recommendation to provide information comparing projected to actual savings.
- IRS's approach to projecting savings is conservative and consistent with GAO guidance.¹
- IRS realized 7 percent (\$5 million) more than projected from increased e-filing and IT infrastructure and process improvements.
- The budget justification did not explain how excess savings were used. IRS officials stated the information was available.
- Our prior work has emphasized the importance of transparency in agencies' budget presentations.²
- Knowing how an agency spent excess savings, particularly in years when the excess is significant, could help Congress assess budgetary needs in the future.

Recommendation: IRS should report in its budget justification how savings beyond projections were used. The amount of explanation provided should correspond to the amount of the savings.

¹ GAO, GAO: *Cost Estimating and Assessment Guide*, GAO-09-3SP (Washington, D.C.: March 2009).

² GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

FY 2012 Budget Justification Includes 17 New Program Initiatives

- The 17 new program initiatives have a total IRS estimated cost of approximately \$839 million.
 - Enforcement initiatives: \$606 million
 - Taxpayer Service initiatives: \$114 million
 - Infrastructure initiatives: \$119 million
- IRS estimated an ROI projection for six of the Enforcement initiatives.

Enforcement Initiatives

Table 6: Enforcement Initiatives Expected to Produce an ROI, Costs, Revenue, and Purpose (in millions)

Enforcement initiative	Estimated Cost (FY 2012)	Estimated Cost (FY 2014)	Estimated Revenue in FY 2014 and ROI ^a	Purpose
Increase international service and enforcement	\$ 72.6	\$57.1	\$ 467.1 Projected ROI: 8.2 to 1	Implement changes required by Foreign Account Tax Compliance Act (FATCA).
Increase collection coverage	\$ 52.0	\$45.2	\$ 398.3 Projected ROI: 8.8 to 1	Expand work on the collection inventory and improve collection processes.
Ensure accurate delivery of tax credits	\$ 51.0	\$45.0	\$ 183.3 Projected ROI: 4.1 to 1	Improve delivery of existing credits. Note: The full estimated cost of this initiative is \$260.3 million ^b
Implement merchant card and basis reporting	\$ 35.8	\$30.8	\$ 185.7 Projected ROI: 6 to 1	Implement merchant card payment and third party reimbursements and basis reporting on security sales.
Increase coverage to address tax law changes and other compliance issues	\$ 29.8	\$27.3	\$ 80.8 Projected ROI: 3 to 1	Compliance programs for new provisions such as direct-pay bonds, tax-exempt hospitals, fees on manufacturers and importers of prescription drugs, the excise tax on indoor tanning, etc. Note: The full cost of this initiative is \$96.7 million ^b
Administer new statutory reporting requirements	\$ 2.6	\$2.4	\$ 16.9 Projected ROI: 7 to 1	Implement new 1099 reporting requirements and health coverage information reporting associated with PPACA. Note: The full estimated cost of this initiative is \$58.5 million ^b
Total	\$243.7	\$207.8	\$1,332.1 Projected ROI: 6.4 to 1	

Source: GAO analysis of IRS's FY 2012 Congressional Budget Justification.

^aFY 2014 projected revenue when staff reach full potential.

^bFor the purpose of ROI calculation, capital IT expenses related to the implementation of PPACA and nonrevenue-producing portions of initiatives are excluded from this table.

IRS Is Making Progress in Its Ability to Provide Actual ROI Information

- We previously recommended that IRS provide Congress with information comparing projected ROI information to actual ROI.¹
- In response, IRS developed a preliminary means of determining actual revenue collected from enforcement initiatives proposed in FY 2009.
- Initial comparisons of actual to projected revenue show revenue was much higher than projected. IRS officials told us actual revenue data included outliers—one time, large-scale revenue collection efforts—that were not included in projections. We did not determine the reliability of the figures.
- IRS's ROI calculations have limitations that reflect the challenges of estimating ROIs. For example, they do not include benefits of improved voluntary compliance. In addition, the "investment" or costs should ideally recognize not just IRS costs but any costs borne by others. IRS's ROI estimates provide useful information but, given the limits of current data, are not complete estimates of benefits and costs.

¹GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request*, GAO-09-754, (Washington, D.C.: Jun 3, 2009).

Taxpayer Service Initiatives

Table 7: Taxpayer Service Initiatives, Costs, and Expected Benefits (in millions)

Taxpayer Service initiative	Costs	Expected benefits
Improve taxpayer service	\$ 81.3	Staffing to address rising demand and increase the Customer Service Representative Level of Service (LOS) from the planned target of 71 percent in FY 2010 to 80 percent in FY 2012 and handle increased calls from new tax law provisions, including PPACA. Note: increasing the LOS to 80 percent assumes that IRS also receives the \$25.9 million requested in the FY 2011 budget justification.
Expand online options through IRS.gov improvements	\$33.0	Moves high-volume transactions to IRS.gov, improving self-service, reducing taxpayer burden, increasing compliance, reducing costs, and improving security.
Total	\$114.3	

Source: IRS's FY 2012 Congressional Budget Justification.

Related to these initiatives, GAO has recently recommended that IRS establish a customer service telephone standard and has reported that visits to IRS.gov have increased. *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010)

Other Enforcement, Infrastructure, and IT Initiatives

Table 8: Non-ROI Initiatives, Cost and Purpose and Related GAO Work (in millions)

Program initiative	Cost	Purpose and Related GAO work
Continue migration from aging tax administration system	\$333.6	Funding for several ongoing Business Systems Modernization (BSM) projects; GAO-08-420 Business Systems Modernization: Internal Revenue Service's Fiscal Year 2008 Expenditure Plan
Implement individual coverage requirement and employer responsibility payments	\$62.5	Fund the development of IT and infrastructure related to PPACA
Upgrade Integrated Financial System	\$27.5	Upgrade for financial system
Leverage return preparer program to reduce noncompliance	\$16.6	Enforcement of preparer compliance with IRS rules; GAO-06-563T Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors
Enhance physical security for federal employees	\$15.5	Upgrade physical security of IRS facilities; GAO-10-873 Building Security: New Federal Standards Hold Promise, but Could Be Strengthened to Better Protect Leased Space
Enhance security and disaster recovery systems capability	\$12.0	Improve critical disaster recovery capabilities for systems; GAO-11-308 Information Security: IRS Needs to Enhance Internal Control over Financial Reporting and Taxpayer Data, pg. 19
Address appeals workload growth	\$9.1	Increase staffing to handle rising appeals inventories; GAO-07-112 Tax Administration: Little Evidence of Procedural Errors in Collection Due Process Appeal Cases, but Opportunities Exist to Improve the Program
Implement uncertain tax position reporting requirements	\$4.1	Provide guidance and certainty on tax positions; GAO-11-278 High-Risk Series: An Update, pg. 139
Leveraging data to improve compliance	\$1.4	Capitalize on recent increases in data reported to IRS
Total	\$482.30	

Source: GAO analysis of FY 2012 IRS Congressional Budget Justification and previous GAO reports.

Legislative Proposals

- **The budget justification includes 21 legislative proposals which, if enacted, could result in over \$10 billion in savings or increased revenues over 10 years. Some of the proposals are related to prior GAO work:**
 1. Provide Treasury with the regulatory authority to require electronic filing of all Form 5500 Annual Report information.
 - [GAO-05-491](#) *Private Pensions: Government Actions Could Improve the Timeliness and Content of Form 5500 Pension Information.*
 2. Require taxpayers who prepare their returns electronically, but file their returns on paper, to print their returns with a 2-D bar code.
 - [GAO-08-38](#) *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated. pp. 15-16.*

Legislative Proposals (continued)

3. Allow IRS to collect data from the U.S. Bureau of Prisons to reduce fraudulent claims.
 - GAO has previously published reports citing the benefits of sharing data with other agencies to better ensure taxpayers are meeting their tax obligations, including [GAO-06-100](#) *Taxpayer Information: Options Exist to Enable Data Sharing Between IRS and USCIS but Each Presents Challenges*.
4. Allow IRS to absorb credit and debit card processing fees for certain tax payments.
 - [GAO-10-11](#) *Budget Issues: Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure Is Needed*.
5. Increase the penalty imposed on paid preparers who fail to comply with Earned Income Tax Credit due diligence requirements.
 - [GAO-06-563T](#) *Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors*.

IRS Reported Cost Estimates for Some Legislative Proposals

- IRS implemented our prior recommendation to provide more information about the costs of legislative proposals. It projected that aggregate implementation costs for 14 proposals would be \$50.4 million over 3 years.¹ Cost information, however, exists for each individual proposal.
- Congress often considers individual legislative proposals. Without knowing the estimated costs to implement an individual proposal, Congress is left without important information when weighing proposals.
- IRS officials cautioned that there is some uncertainty with cost estimates and noted that enacted legislation can be different from initial proposals.

Recommendation: IRS should provide cost estimates for individual legislative proposals in future budget justifications.

¹IRS did not have time to estimate costs for new legislative proposals presented for the first time in the FY 2012 budget request.

IT Spending is \$2.67 Billion of the IRS Budget Request

- IRS's IT funding is primarily in two appropriations accounts:
 - Operations Support: \$2.3 billion
 - BSM: \$333.6 million
- IRS funds 155 IT systems. Of these, about 31 are considered "major," each having an overall life-cycle cost of greater than \$50 million or an annual budget of greater than \$5 million. The other 124 systems are "non-major."

Top IT Investments

- According to the *IRS Enterprise Transition Plan 2010*, the top IT investments based on funding allocation and mission impact are:
 - Customer Account Data Engine (CADE) 2 – \$199 million
 - Modernized e-File (MeF) – \$ 34 million
 - IRS Portal Strategy – \$113 million
 - Information Returns and Document Matching (IRDM) – \$23 million
 - Implement Return Review Program (RRP) – \$21 million
 - Enterprise Data Access Strategy (EDAS) – Integrated Production Mode (IPM) – \$7 million

IRS Summarizes Cost and Schedule Performance for BSM, but Not for Other Major Systems

- The budget justification includes information on the percentage of BSM projects within 10 percent of initial cost and schedule goals, but not for major IT projects in Operations Support.
- IRS has detailed cost and schedule performance information for non-BSM major IT projects, but has not been directed to include it in the budget.
- Congressional stakeholders we met with stated that having a summary of cost and schedule performance data for major IT systems in Operations Support would be helpful for oversight.

Recommendation: IRS should include measures of cost and schedule performance for major IT systems in Operations Support, such as it does for BSM.

Cost of Implementing PPACA

- The total FY 2012 request for PPACA is \$473.4 million.
 - PPACA costs are spread over five initiatives, under 3 appropriation accounts.
 - PPACA costs by initiative are labeled; PPACA costs by appropriation are not shown.
 - Total PPACA costs are not shown, but can be calculated by adding the costs in the five initiatives.
- IRS received funding to implement the PPACA in FY 2010 and FY 2011 from the Department of Health and Human Service's (HHS) Health Insurance Reform Implementation Fund (HIRIF). IRS does not plan to use HIRIF funds after FY 2011. According to IRS officials, it received
 - \$20 million in FY 2010 and
 - \$72 million for first two quarters in FY 2011. Officials expect to request more for the remainder of FY 2011, but do not plan to use HIRIF funds after FY 2011.

PPACA Costs Are Spread Across Five Initiatives and Three Appropriation Accounts

Table 9: FY 2012 PPACA Costs and FTEs (dollars in millions)

FY 2012 initiatives with PPACA costs	Taxpayer Services		Enforcement		Operations Support ^a		Total	
	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE
Improve taxpayer service	20.7	150			30.6		51.3	150
Increase coverage to address tax law changes and other compliance issues	4.9	46	\$22.8	174	45.9	143	73.6	363
Ensure accurate delivery of tax credits	4.9	49	23.0	233	199.5	222	227.5	504
Administer new statutory reporting requirements ^b	1.1	7	5.1	48	52.4	132	58.5	187
Implement individual coverage requirement and employer responsibility payments					62.5	65	62.5	65
Total FY 2012 PPACA initiatives	31.6	252	\$50.9	455	390.9	562	473.4	1,269

Source: IRS FY 2012 Congressional Budget Justification and GAO analysis of IRS data.

^aPPACA costs by appropriation were provided through supplemental data from IRS.

^bThe administration has proposed to repeal the PPACA provision to "Implement New 1099 Reporting Requirements" from the initiative Administer New Statutory Reporting Requirements, estimated to be \$23.3 million. Congress approved H.R. 4 and the bill is currently in front of the President for signature. If enacted, H.R. 4 would repeal the 1099 reporting requirements in PPACA.

Most PPACA Costs Are for Contractors, Software, Equipment, and Infrastructure

Table 10: FY 2012 Non-FTE and FTE Related PPACA Costs by Program Initiative (dollars in millions)

	Non-FTE Costs					FTE Costs	Total PPACA costs
	Contractor services	Software	Computer equipment	Facilities and infrastructure	Total	Total	
FY 2012 PPACA Program initiatives							
Improve taxpayer service				29.1	29.1	\$22.2	\$51.3
Increase coverage to address tax law changes and other compliance issues	12.1	.750	7.5		20.3	53.3	73.6
Ensure accurate delivery of tax credits	112.0	10.9	17.0	13.8	153.6	73.8	227.5
Administer new statutory reporting requirements	19.9	3.2	5.0		28.1	30.4	58.5
Implement individual coverage requirement and employer responsibility payments	43.0	1.0	7.0		51.1	11.4	62.5
Total FY 2012 PPACA non-FTE related cost	187.0	15.9	36.5	42.9	282.2	191.1	473.4

Source: IRS FY2012 Congressional Budget Justification and GAO analysis of IRS data.
 Note: Numbers may not add due to rounding.

IRS Has Made Progress In Implementing Recommendations From Prior GAO Budget Work

- IRS changed its budget justification so it:
 - provides information comparing estimated prior year savings to actuals,
 - provides the aggregate costs of most legislative proposals, and
 - provides a brief description of performance measures used in the budget.¹
- IRS is making progress in its ability to provide actual ROI information.²
- All of these changes will help improve transparency and provide decision makers with better information.

¹ GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, GAO-10-687R (Washington, D.C.: May 26, 2010).

² GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request*, GAO-09-754 (Washington D.C.: June 3, 2009).

Open Recommendations from Past Budget Reviews

- Provide additional information, which could be qualitative if necessary to avoid losing existing reprogramming flexibility, about the program activities in the budget justification to better indicate IRS's priorities.¹
- Explain in the budget justification noteworthy changes in performance goals that reflect changes from previous performance and describe the impact on funding.¹
- Extend the use of ROI in future budget proposals to include major enforcement programs.²

¹ GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, GAO-10-687R (Washington, D.C.: May 26, 2010).

² GAO, *Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season*, GAO-08-567 (Washington D.C.: Mar. 13, 2008).

Open Matters for Congress and Recommendations to IRS Could Result in Potential Savings or Increased Revenues

- Twenty-four GAO reports contain 7 matters for Congress and 77 recommendations to IRS.
 - 39 increase revenue; 14 increase both savings and revenue; and 31 have indirect financial benefits.
- For example, if IRS implemented our recommendations to help make taxpayers better aware of what real estate taxes are nondeductible IRS could increase revenue by tens or hundreds of million dollars per year.¹

¹GAO, Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue, GAO-11-318SP (Washington, D.C. March 1, 2011) and GAO, Real Estate Tax Deduction: Taxpayers Face Challenges in Determining Related What Qualifies; Better Information Could Improve Compliance, GAO-09-521 (Washington, D.C.: May 13, 2009).

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Table 1: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
Congress may wish to consider requiring IRS to periodically adjust for inflation, and round appropriately, the fixed dollar amounts of the civil penalties to account for the decrease in real value over time and so that penalties for the same infraction are consistent over time. (To see the current status of this recommendation view: http://gao.gov/products/GAO-07-1062#recommendations)	Increase revenue	Enforcement	Tax Compliance: Inflation Has Significantly Decreased the Real Value of Some Penalties (07-1062)
The Secretary of the Treasury should ensure that the tax gap strategy includes (1) a segment on improving sole proprietor compliance that is coordinated with broader tax gap reduction efforts and (2) specific proposals, such as the options we identified, that constitute an integrated package. (To see the current status of this recommendation view: http://gao.gov/products/GAO-07-1014#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: A Strategy for Reducing the Gap Should Include Options for Addressing Sole Proprietor Noncompliance (07-1014)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-38#recommendations)	Increase savings and revenue	Enforcement	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine how much electronic filing would have to increase, either through electronic filing mandates or bar coding, for the benefits of transcribing all remaining paper returns to exceed the costs. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-38#recommendations)	Increase savings and revenue	Enforcement	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
The Acting Commissioner of Internal Revenue should direct the appropriate officials to determine the benefits, in terms of processing costs and improved enforcement, of having all return information available electronically. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-38#recommendations)	Increase savings and revenue	Enforcement	Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated (08-38)
The Commissioner of Internal Revenue should extend the use of return on investment (ROI) in future budget proposals to include major enforcement programs. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-567#recommendations)	Indirect financial benefit	Enforcement	Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season (08-567)

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop a process to monitor collection actions taken by revenue officers against egregious payroll tax offenders to ensure collection actions appropriately utilize all available collection tools contained in the Internal Revenue Manual. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop and implement procedures to expeditiously file a Notice of Federal Tax Lien against property as soon as possible after payroll tax debt is identified (including cases in the queue awaiting assignment) and ensure liens are filed on both businesses with unpaid payroll taxes and owners/officers assessed a TFRP. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop and implement procedures to monitor and report on revenue officers' compliance with the new TFRP assessment time frames to ensure revenue officers are making TFRP determinations and assessments in a timely manner. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Increase revenue	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should develop performance goals and measures that specifically evaluate the accumulation of unpaid payroll taxes by businesses (especially egregious businesses with over 20 quarters of payroll tax debt), the extent and timeliness of TFRP assessments, and the effectiveness of actions taken to collect unpaid payroll taxes and TFRP assessments. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should review current case prioritization and assignment practices to determine if IRS's enforcement and collection procedures could be enhanced by requiring, to the maximum extent feasible, businesses with egregious payroll tax debt and the responsible owners/officers with a Trust Fund Recovery Penalty (TFRP) assessment be treated as a single unified and coordinated collection effort assigned to a single revenue officer. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)
<p>To provide better monitoring and more detailed guidance on collection actions to be pursued against egregious payroll tax offenders, to strengthen existing collection tools, and to develop additional enforcement tools to effectively identify potential levy sources, the Commissioner of Internal Revenue should work with states that have developed procedures for matching financial accounts to tax debts to evaluate the potential for IRS to either develop and implement similar measures or partner with states that currently have that tool to leverage their efforts to assist revenue officers in identifying a business's leviable assets. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-617#recommendations)</p>	Increase revenue	Enforcement	Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes (08-617)
<p>To provide clarity for which taxpayers with rental real estate activity must report expense payments on information returns and to provide greater information reporting, Congress may wish to consider amending the Internal Revenue Code to make all taxpayers with rental real estate activity subject to the same information reporting requirements as other taxpayers operating a trade or business. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-956#recommendations)</p>	\$3.1 billion over 10 years	Enforcement	Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance (08-956)
<p>To help IRS identify taxpayers who may have misreported their rental real estate activity, the Commissioner of Internal Revenue should require third parties to report mortgaged property addresses on Form 1098 mortgage interest statements. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-08-956#recommendations)</p>	Increase revenue	Enforcement	Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance (08-956)

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
The Commissioner of the Internal Revenue Service should determine why U.S. withholding agents and Qualified Intermediaries report billions of dollars in funds flowing to unknown jurisdictions and to unidentified recipients. Based on this determination, IRS should take appropriate steps to recover any withholding taxes that should have been paid and to better ensure that U.S. taxes are withheld when account owners do not properly identify themselves. (To see the current status of this recommendation view: http://gao.gov/products/GAO-08-99#recommendations)	Increase revenue	Enforcement	Tax Compliance: Qualified Intermediary Program Provides Some Assurance That Taxes on Foreign Investors Are Withheld and Reported, but Can Be Improved (08-99)
The Commissioner of Internal Revenue should develop an action plan for its reject working group that includes such elements as the scope of responsibility, a plan for testing changes, and a schedule for implementing changes. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-1026#recommendations)	Increase savings and revenue	Enforcement and taxpayer services	Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season (09-1026)
The Commissioner of Internal Revenue should develop and document a strategy to prevent and resolve errors causing electronically filed returns to be rejected. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-1026#recommendations)	Increase savings and revenue	Enforcement and taxpayer services	Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season (09-1026)
The Commissioner of Internal Revenue should involve stakeholders from the paid preparer and tax software industries in IRS's current reject working group. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-1026#recommendations)	Increase savings and revenue	Enforcement and taxpayer services	Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season (09-1026)
The Commissioner of Internal Revenue should provide paid preparers and software providers with clearer descriptions of why returns are rejected. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-1026#recommendations)	Increase savings and revenue	Enforcement and taxpayer services	Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season (09-1026)
Given the potential for improving compliance now and in the future, Congress may wish to provide IRS with the authority to use math error checks to identify and correct returns with ineligible (1) IRA "catch-up" contributions, and (2) contributions to traditional IRAs from taxpayers over age 70-1/2. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-146#recommendations)	Increase savings and revenue	Enforcement	Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing (09-146)
To simplify the burden that the corporate exemption places on payers to distinguish payees' business status and also provide greater information reporting, Congress may wish to consider requiring payers to report payments to corporations on the form 1099 MISC, as we previously suggested and as proposed in the Bush Administration's budget. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
To gauge the extent of 1099-MISC payer noncompliance and its contribution to the tax gap, the Commissioner of Internal Revenue should, as part of future research studies, determine the nature and characteristics of those payers that do not comply with 1099-MISC reporting requirements so that this information can be factored into an IRS-wide strategy for increasing 1099-MISC payer compliance. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Indirect financial benefit	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
To gauge the extent of 1099-MISC payer noncompliance and its contribution to the tax gap, the Commissioner of Internal Revenue should, as part of future research studies, develop an estimate of 1099-MISC payer noncompliance. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Indirect financial benefit	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
To help IRS improve its use of 1099-MISC information, the Commissioner of Internal Revenue should collect and analyze data on the types of unproductive AUR cases to help identify reoccurring errors for use in the AUR case selection process and for identifying ways to improve guidance and outreach to help payers and payees more accurately report 1099-MISC payments. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Indirect financial benefit	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
To help payers better understand their 1099-MISC reporting responsibilities, the Commissioner of Internal Revenue should assess whether adding a checkbox to business tax returns, inquiring whether all 1099-MISCs have been submitted, to serve as a reminder to payers would help increase 1099-MISC payer compliance. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Indirect financial benefit	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
To help payers better understand their 1099-MISC reporting responsibilities, the Commissioner of Internal Revenue should include a chart on the Form 1099-MISC as well as business income tax instructions for distinguishing reportable from non-reportable payments and for calculating whether reportable payments reached the 1099-MISC reporting threshold. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
To increase IRS's ability to detect 1099-MISC payer noncompliance, the Commissioner of Internal Revenue should test the option of developing a stop filer notice program to target business, state, and local entities that submitted 1099-MISC one year but did not do so the next. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)

**Appendix II: List of Open Matters for
Congress and Recommendations to IRS That
Could Result in Potential Savings or
Increased Revenues**

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
<p>To reduce the submission burden facing many payers each submitting small numbers of 1099-MISCs, the Commissioner of Internal Revenue should collect data on the numbers of computer-generated black and white 1099-MISCs submitted by payers and the labor spent reentering forms that cannot be scanned, and evaluate the cost-effectiveness of eliminating or relaxing the red ink requirement. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-238#recommendations)</p>	Indirect financial benefit	Enforcement and taxpayer services	Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (09-238)
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to assess the extent to which the reliance on tax software creates significant risks to tax administration, particularly in the areas of tax return accuracy, the security and privacy of taxpayer information, and the reliability of electronic filing. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)</p>	Indirect financial benefit	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to develop and implement a plan for effectively monitoring compliance with recommended security and privacy standards for the 2010 filing season. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)</p>	Indirect financial benefit	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to determine if tax software companies that are authorized to participate in online filing are adhering to advisory security and privacy standards for the 2009 filing season. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)</p>	Indirect financial benefit	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to ensure that, as part of the second phase of IRS's Advancing E-file Study, surveys ask taxpayers the effect of tax software pricing changes and the opportunity to file for free using online tax forms on IRS's Web site on their decision to either file or not file tax returns electronically. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)</p>	Indirect financial benefit	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)
<p>To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to require tax software companies, as soon as practical, to include a software identification number that specifically identifies the software package used to prepare tax returns, which can be used in IRS research efforts. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)</p>	Increase savings and revenue	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
To help increase electronic filing and allow IRS to better target its efforts, the Commissioner of Internal Revenue should direct the appropriate officials to the extent possible, study the effect of the 2009 pricing changes and the opportunity to file for free using online tax forms on IRS's Web site on taxpayers' use of tax software and electronic filing rates. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-297#recommendations)	Indirect financial benefit	Enforcement and taxpayer services	Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (09-297)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to local governments to explore options for clarifying charges on the local tax bills or adding disclaimers to these bills that some charges may not be deductible. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to mortgage servicers to discuss adding disclaimers to their annual statements that some charges may not be deductible. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To help ensure that individual taxpayers are getting the best information and assistance possible from third parties on how to comply with the real-estate tax deduction, the Commissioner of Internal Revenue should reach out to tax-preparation software firms and other tax preparers to ensure that they are alerting taxpayers that some local charges are not deductible and that they are aware of any enhancements to IRS's guidance. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
To improve IRS's guidance to its examiners auditing the real-estate tax deduction, the Commissioner of Internal Revenue should revise the guidance to indicate that evidence of deductibility should not rely on mortgage escrow statements, Forms 1098, and cancelled checks (which can be evidence of payment), and may require more than reliance on a real-estate tax bill. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
<p>To improve IRS's guidance to its examiners auditing the real-estate tax deduction, the Commissioner of Internal Revenue should revise the guidance to require examiners to ask taxpayers to substantiate the deductibility of the amounts claimed whenever they are examining the real-estate tax deduction and they have reason to believe that taxpayers have claimed nondeductible charges that are large, unusual, or questionable. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)</p>	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
<p>To learn more about where tax noncompliance is most likely, the Commissioner of Internal Revenue should identify a cost-effective means of obtaining information about charges that appear on real-estate tax bills in order to identify local governments with potentially large nondeductible charges on their bills. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)</p>	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
<p>To learn more about where tax noncompliance is most likely, the Commissioner of Internal Revenue should, if such local governments are identified, obtain and use the information, including uses such as compliance research focused on nondeductible charges; outreach to such local governments to help them determine which charges are deductible charges and help affected taxpayers correctly compute the deduction; targeted outreach to the tax-preparation and mortgage-servicer industries, and targeted examinations of the real-estate tax deduction in the localities. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-521#recommendations)</p>	Increase revenue	Enforcement and taxpayer services	Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance (09-521)
<p>The Commissioner of Internal Revenue should collect and retain the cost and revenue data needed to develop ROI estimates for programs requiring businesses to demonstrate federal tax compliance to obtain state business licenses. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-569#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Opportunities Exist to Improve Tax Compliance of Applicants for State Business Licenses (09-569)
<p>The Commissioner of Internal Revenue should evaluate the ROI of existing arrangements where states require federal tax compliance to qualify for state business licenses to determine whether the ROI of these programs is sufficient to merit their expansion. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-569#recommendations)</p>	Indirect financial benefit	Enforcement	Tax Compliance: Opportunities Exist to Improve Tax Compliance of Applicants for State Business Licenses (09-569)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
The Commissioner of Internal Revenue should, to the extent that existing data-sharing arrangements have a sufficiently high ROI, coordinate with states to expand requirements to comply with federal taxes to qualify for state business licenses and monitor the ROI of these expansions to gauge their success. (To see the current status of this recommendation view: http://www.gao.gov/products/GAO-09-569#recommendations)	Increase revenue	Enforcement	Tax Compliance: Opportunities Exist to Improve Tax Compliance of Applicants for State Business Licenses (09-569)
The Commissioner of the IRS should take steps to develop ROIs for IRS's enforcement programs using actual revenue and full cost data and compare the actual ROIs to the projected ROIs included in the budget requests. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-754#recommendations)	Increase revenue	Enforcement	Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request (09-754)
The Commissioner of Internal Revenue should conduct a test to evaluate whether mortgage interest deduction-related outreach programs to taxpayers and tax return preparers could be a cost-effective way to reduce noncompliance; outreach might include sending correspondence covering key rules and common mistakes or promoting seminars on common types of misreporting. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-769#recommendations)	Increase revenue	Enforcement	Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance (09-769)
The Commissioner of Internal Revenue should investigate whether using information from private sources would be productive in detecting mortgage interest noncompliance, especially for home equity debt. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-769#recommendations)	Increase revenue	Enforcement	Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance (09-769)
The Commissioner of Internal Revenue should revise Form 1098 to require third parties to provide information on mortgage balances, the address of a home securing a mortgage, and an indicator of whether the mortgage is for a current year refinancing. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-769#recommendations)	Increase revenue	Enforcement	Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance (09-769)
The Commissioner of Internal Revenue should revise examiner training materials by adding examples cited as common problems by auditors and paid tax return preparers, such as those involving multiple homes or home-based businesses, and after the Chief Counsel's final determination on the acquisition limit, revise examiner training and the worksheet in guidance to reflect the project's outcome. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-769#recommendations)	Increase revenue	Enforcement	Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance (09-769)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
In order to better assess whether changes are needed in the way IRS administers activities not engaged in for profit provisions, the Commissioner of Internal Revenue should take steps to collect information on examinations of activities not engaged in for profit issues from the compliance program. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-815#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses (09-815)
In order to better assess whether changes are needed in the way IRS administers activities not engaged in for profit provisions, the Commissioner of Internal Revenue should take steps to estimate the extent of activities not engaged in for profit noncompliance from its ongoing research programs. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-815#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses (09-815)
To better ensure the notice phase is achieving desired results at the lowest costs, the Commissioner of Internal Revenue should establish objectives and performance measures to reflect the desired results for the notice phase. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-976#recommendations)	Increase savings and revenue	Enforcement	Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals (09-976)
To better ensure the notice phase is achieving desired results at the lowest costs, the Commissioner of Internal Revenue should periodically and regularly evaluate the business rules in terms of efficiency and effectiveness or other results and ensure the results are available to managers so the data and methodologies can be used or considered in future evaluations. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-976#recommendations)	Increase savings and revenue	Enforcement	Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals (09-976)
To better ensure the notice phase is achieving desired results at the lowest costs, the Commissioner of Internal Revenue should provide IRS collection managers and executives accessible, reliable information on what the business rules are. (To see the current status of this recommendation view: http://gao.gov/products/GAO-09-976#recommendations)	Increase savings and revenue	Enforcement	Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals (09-976)
To improve compliance with shareholder basis rules, Congress may wish to require S corporations to calculate and report shareholder's stock and debt basis as completely as possible. S corporations would report the calculation on the Schedule K-1 and send it to shareholders as well as IRS. If Congress judges that stock purchase price information that is currently only available to shareholders should not be transmitted to the S corporation due to privacy concerns, an alternative is to require that S corporations report less complete basis calculations using information already available to the S corporation. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-195#recommendations)	Increase revenue	Enforcement	Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (10-195)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
To help address the compliance challenges with S corporation rules, the Commissioner of Internal Revenue should identify and evaluate options for improving the performance of paid preparers who prepare S corporation returns, such as licensing preparers and ensuring that appropriate penalties are available and used. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-195#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (10-195)
To help address the compliance challenges with S corporation rules, the Commissioner of Internal Revenue should provide more specific guidance to shareholders and tax preparers, such as that provided to IRS examiners, on determining adequate shareholder compensation through means such as IRS's Web site. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-195#recommendations)	Increase revenue	Enforcement	Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (10-195)
To help address the compliance challenges with S corporation rules, the Commissioner of Internal Revenue should require examiners to document their analysis such as using comparable salary data when determining adequate shareholder compensation or document why no analysis was needed. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-195#recommendations)	Increase revenue	Enforcement	Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (10-195)
To help address the compliance challenges with S corporation rules, the Commissioner of Internal Revenue should send additional guidance on S corporation rules and record-keeping requirements to new S corporations to distribute to their shareholders, including providing guidance on calculating basis and directing them to the specific IRS Web site related to S corporation tax rules. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-195#recommendations)	Increase revenue	Enforcement	Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (10-195)
Congress may wish to consider providing IRS with math error authority (MEA) to use prior years' tax return information to automatically verify taxpayers' compliance with the limit on the number of years the Hope credit can be claimed. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-225#recommendations)	Increase savings and revenue	Enforcement and taxpayer services	2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved (10-225)
To reduce taxpayer confusion and enhance compliance with the eligibility requirements for higher education benefits, IRS should determine the feasibility of using current information reported on Form 1098-T, such as school location and taxpayer identification number or social security number (SSN), in IRS's compliance programs. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-225#recommendations)	Increase revenue	Enforcement and taxpayer services	2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved (10-225)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
To reduce taxpayer confusion and enhance compliance with the eligibility requirements for higher education benefits, IRS should revise Form 1098-T to improve the usefulness of information on qualifying education expenses. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-225#recommendations)	Increase revenue	Enforcement and taxpayer services	2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved (10-225)
The Congress may wish to consider broadening IRS's ability to use math error authority (MEA), with appropriate safeguards against misuse of that authority. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-349#recommendations)	Increase savings and revenue	Enforcement	Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed (10-349)
The Commissioner of Internal Revenue should determine if creating an automated program to identify nonresident aliens who may have improperly filed Form 1040 instead of Form 1040NR by using ITIN information would be a cost-effective means to improve compliance. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-429#recommendations)	Indirect financial benefit	Enforcement	Tax Compliance: IRS May Be Able to Improve Compliance for Nonresident Aliens and Updating Requirements Could Reduce Their Compliance Burden (10-429)
To ensure federal contractors comply with filing requirements, the Commissioner of Internal Revenue should establish a process similar to the Federal Employee/Retiree Delinquency Initiative (FERDI) program for federal workers and retirees that will give a high priority to businesses identified as potential nonfilers that have federal contracts. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Increase revenue	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To ensure that IRS does not inappropriately close cases as not liable to file returns, the Commissioner of Internal Revenue should reinforce to collections staff the need to check for business activity using information return data and selection codes. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Increase revenue	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To ensure that IRS does not inappropriately close cases as not liable to file returns, the Commissioner of Internal Revenue should study the feasibility and cost-effectiveness of using private sector business activity data and federal contract data to make a determination of whether federal contractors and other businesses are liable for filing tax returns. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year-GAO report number)
To identify additional actions to help achieve the goal of fewer unproductive cases, the Commissioner of Internal Revenue should add closing codes that would better indicate all known causes for “not liable to file” determinations and use this information to analyze causes of unproductive cases and use them as appropriate to identify any actions IRS could take either administratively or through education and outreach that could reduce the number of business nonfiler cases where the filing requirement in IRS’s records is not applicable. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To monitor the performance of business nonfiler activities, the Commissioner of Internal Revenue should develop a separate efficiency measure for business nonfilers insofar as doing so is cost-effective. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To monitor the performance of business nonfiler activities, the Commissioner of Internal Revenue should develop an evaluation plan for the BMF CCNIP selection codes, including both an initial evaluation and an ongoing monitoring plan, and conduct an evaluation based on this plan. Results from the study and the ongoing monitoring could be used to refine the selection codes to improve the effectiveness of the program. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To monitor the performance of business nonfiler activities, the Commissioner of Internal Revenue should set a deadline for developing data that can be used to measure the performance of the BMF CCNIP and its business nonfiler compliance activities overall. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
To understand the scope of the business nonfiler population, the Commissioner of Internal Revenue should estimate the magnitude of business nonfiling among businesses registered with IRS, using data from its operational files to select cases for further investigation. Based on the results of this work IRS should develop a tax gap estimate for the impact of business nonfiling insofar as doing so is cost-effective. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-950#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (10-950)
The Commissioner of Internal Revenue should ensure that staff members who will be using current and additional network tools fully understand the tools’ capabilities. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-968#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities (10-968)

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Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
The Commissioner of Internal Revenue should establish an IRS-wide strategy with goals, which may need to be developed incrementally, to coordinate and plan ongoing and future efforts to identify and pursue network tax evasion. The strategy should include: (1) assessing the effectiveness of network analysis tools, such as yK-1; (2) determining the feasibility and benefits of increasing access to existing IRS data, such as scanning additional data from Schedule K-1, or collecting additional data for use in its network analysis efforts; (3) putting the development of analytical techniques and tools that focus on networks as the unit of analysis, such as GraphQuery, on a specific time schedule; and (4) deciding how network efforts will be managed across IRS, such as whether a core program team or management group is needed. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-968#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities (10-968)
The Commissioner of Internal Revenue should establish formal mechanisms for front-line users to interact directly with tool programmers and program analysts to ensure future network analysis tools, such as GraphQuery, are easy to use and help achieve goals. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-968#recommendations)	Indirect financial benefit	Enforcement	Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities (10-968)
To enhance IRS's ability to detect noncompliance with mortgage debt forgiveness provisions, the Commissioner of Internal Revenue should determine if available data (including IRS and third-party data) would allow IRS to better identify whether the debt being excluded is for a principal residence. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To enhance IRS's ability to detect noncompliance with mortgage debt forgiveness provisions, the Commissioner of Internal Revenue should modify Form 1099-C to require lenders to identify in a more useable format (check boxes or coding, for example) the specific type of cancelled debt and capture the information in IRS's databases. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To enhance IRS's ability to detect noncompliance with mortgage debt forgiveness provisions, the Commissioner of Internal Revenue should modify Form 982, Part 1 to segregate the total dollar amount of forgiven debt by exclusion type and capture the information in IRS's databases. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)

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To enhance IRS's ability to detect noncompliance with mortgage debt forgiveness provisions, the Commissioner of Internal Revenue should modify the Form 982 and Form 1099-C so that filers disclose the address of the secured property for which the debt is being forgiven and capture the information in IRS's databases. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To enhance IRS's ability to detect noncompliance with mortgage debt forgiveness provisions, the Commissioner of Internal Revenue should use the additional data reported on the revised Form 982 and Form 1099-C to assess the extent to which taxpayers are compliant. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To provide better information for paid preparers and taxpayers to determine eligibility for excluding forgiven mortgage debt from taxable income, the Commissioner of Internal Revenue should explore and implement readily available low-cost options to help clarify the tax treatment of forgiven debt, including options such as either sending notices to taxpayers when a lender files a Form 1099-C indicating a forgiven mortgage and the taxpayer does not file a Form 982 or documenting that the costs of doing so would exceed the benefits. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To provide better information for paid preparers and taxpayers to determine eligibility for excluding forgiven mortgage debt from taxable income, the Commissioner of Internal Revenue should explore and implement readily available low-cost options to help clarify the tax treatment of forgiven debt, including options such as making IRS's interactive tool for cancelled debt publicly available for the 2011 filing season. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)
To provide better information for paid preparers and taxpayers to determine eligibility for excluding forgiven mortgage debt from taxable income, the Commissioner of Internal Revenue should explore and implement readily available low-cost options to help clarify the tax treatment of forgiven debt, including options such as using IRS's telephone software to obtain better information about why, if at all, taxpayers call IRS with questions about forgiven mortgage debt. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)

Appendix II: List of Open Matters for Congress and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

Matter for congressional consideration or recommendation for executive action	Potential financial impact	Management area	Title of report (fiscal year- GAO report number)
To provide better information for paid preparers and taxpayers to determine eligibility for excluding forgiven mortgage debt from taxable income, the Commissioner of Internal Revenue should explore and implement readily available low-cost options to help clarify the tax treatment of forgiven debt, including options such as working with software companies to more fully support complex debt cancellation issues, particularly those related to forgiven mortgage debts. (To see the current status of this recommendation view: http://gao.gov/products/GAO-10-997#recommendations)	Increase revenue	Enforcement and taxpayer services	Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt (10-997)

Source: GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 11, 2011) and GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, [GAO-10-687R](#) (Washington, D.C.: May 26, 2010).

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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In addition to the contact named above, Libby Mixon, Assistant Director; Mark Abraham; Shea Bader; Amy Bowser; Bill Cordery; Chuck Fox; Carol Henn; Hannah Hunt; Sairah Ijaz; Shirley Jones; Paul Middleton; Sabine Paul; Melanie Papasian; Tomas Ramirez, Jr.; Cynthia Saunders; Steve Sebastian; Tom Short; Joanna Stamatiades; Meredith Trauner; and Kate Wulff made key contributions to this report.

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