

August 1995

TAX  
ADMINISTRATION

IRS Could Do More to  
Verify Taxpayer  
Identities





**General Government Division**

B-260131

August 30, 1995

The Honorable Margaret M. Richardson  
Commissioner of Internal Revenue  
Department of the Treasury

Dear Mrs. Richardson:

This report, prepared under our basic legislative authority, discusses the Internal Revenue Service (IRS) procedures for processing and posting tax returns in which the primary filer does not provide a Social Security number (SSN) or provides a name and SSN that do not match Social Security Administration (SSA) records.<sup>1</sup> In particular, the report discusses (1) the growth in accounts with missing or incorrect SSNs on IRS' Individual Master File (IMF), (2) IRS' procedures for verifying the identities of tax return filers, and (3) the potential effects of the procedures on IRS' plans to modernize the tax system and on IRS' income-matching program.

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**Background**

IRS relies on data from SSA to determine the accuracy of SSNs and names recorded on tax documents submitted by individual taxpayers. IRS uses this information to establish the identity of each taxpayer and to ensure that each transaction is posted to the correct account on the IMF.

When processing paper tax returns with missing or incorrect SSNs, IRS service centers first try to make corrections by researching IRS files or other documents (for example, Form W-2 wage and tax statements) that accompany a tax return.<sup>2</sup> Returns that can be corrected, along with those that match SSA records, are posted to the "valid" segment of the IMF. Returns that cannot be corrected are posted to the "invalid" segment of the IMF, using either the incorrect SSN on the tax return or a temporary number assigned by IRS.<sup>3</sup> As of January 1, 1995, 4.3 million accounts were posted on the invalid segment of the IMF, and 153.3 million accounts were posted on the valid segment.

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<sup>1</sup>Hereafter, we refer to these returns as returns with missing or incorrect SSNs.

<sup>2</sup>IRS follows more stringent procedures for electronically filed returns. Returns filed electronically with missing or incorrect SSNs are rejected and sent back to the filer for correction.

<sup>3</sup>IRS assigns temporary numbers when a taxpayer (1) cannot legally obtain an SSN from SSA (such as in the case of an illegal or nonresident alien), (2) is in the process of obtaining an SSN from SSA, (3) has been issued the same SSN by SSA as another person, (4) files a return with a missing SSN (and IRS cannot identify one through research), or (5) files with an SSN already used to post another taxpayer's return to the IMF invalid segment.

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IRS created the invalid segment of the IMF to store the accounts of taxpayers who had changed their names, because of marriage or divorce for example, and had not yet informed SSA of the name change. However, IRS has posted returns to the invalid segment of the IMF to cover other situations, such as when a taxpayer (1) uses the SSN of another individual, (2) uses an SSN that is not issued by SSA, or (3) is assigned a temporary number. IRS tries to resolve invalid accounts and move them to the valid segment of the IMF by corresponding with taxpayers to verify their identities, periodically matching invalid accounts against updated SSA records, and reviewing tax documents subsequently filed by taxpayers.

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## Results in Brief

From 1986 through 1994, the average annual growth rate for accounts on the invalid segment of the IMF was more than twice the growth rate for accounts on the valid segment—5 percent versus 2 percent, respectively. The growth in IMF invalid-segment accounts stemmed in part from (1) IRS' increasing use of temporary numbers, (2) a 1990 decision not to ask filers who received temporary numbers to verify their identities, and (3) procedures that did not require filers whose returns were posted with incorrect numbers to provide proof of identity sufficient to resolve the invalid condition. IRS paid \$1.4 billion in refunds on returns that were posted to the invalid segment of the IMF for tax year 1993. No one knows how much, if any, of this amount was erroneously paid, but the risk of issuing erroneous refunds was higher because IRS was less certain of these filers' identities than of the identities of filers who matched SSA's records.

As part of its efforts to combat refund fraud, IRS revised its procedures in 1995 to require that taxpayers who file returns with (1) missing or incorrect SSNs or (2) temporary numbers provide documentation to verify their identities. When fully implemented, the revised procedures could help reduce the number of accounts on the IMF invalid segment. However, the notice IRS sends to filers does not clearly convey that they are required to provide documentation to verify their identities. Thus, IRS has to contact some of these filers more than once to obtain the information it needs. This practice increases processing costs, adds to taxpayer burden, and further delays the issuance of some refunds. IRS has a revised notice under review that would better notify filers of this requirement, but IRS' notice-review process has been lengthy, and the resources available to do the necessary computer reprogramming have been limited. IRS officials told us that they expect the notice to be available for use in the 1996 tax-filing season, which begins in January 1996.

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IRS is not applying the revised documentation requirements to the 1995 filers' returns posted to the IMF invalid segment before 1995. The accounts of these filers, whose identities IRS verified using pre-1995 procedures, are coded to automatically issue a refund when one is requested on a return. As of January 1, 1995, at least 3.2 million accounts on the IMF invalid segment were so coded. We analyzed 58 returns that were posted to the IMF invalid segment in the first 6 months of 1994 and that had accounts coded for automatic refund issuance. Our results suggest that IRS should subject these filers to the revised documentation requirements—27 of the returns were filed by persons who either used SSNs not issued by SSA or used another individual's SSN, including the SSNs of children or deceased persons.

Developing complete and accurate account information on every taxpayer and being able to respond accurately to taxpayer account inquiries are goals IRS hopes to achieve in its modernization efforts, known as Tax Systems Modernization (TSM). Achieving these goals is jeopardized by the current master file structure, which allows two or more taxpayers to have accounts under the same number or one taxpayer to have several accounts under different numbers.

IRS' income-matching program is hampered by posting returns to the IMF invalid segment. For example, IRS cannot, in most cases, match income claimed by taxpayers with temporary numbers against income reported by third parties on information returns because the temporary numbers are unique to IRS and are not recorded on information returns. Omitting these taxpayers from matching programs hampers IRS' efforts to detect underreported income and nonfiling. IRS plans to assign permanent taxpayer identification numbers to filers who are not eligible to obtain SSNs and to encourage the use of those numbers on information returns.

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## Objectives, Scope, and Methodology

Our objectives were to (1) measure the growth of accounts on the invalid segment of the IMF, (2) assess IRS' procedures to verify the identities of tax return filers whose returns were posted to the IMF invalid segment, and (3) identify any effects the procedures may have on IRS' TSM goals and its income-matching program.

To measure the growth of accounts on the IMF invalid segment, we reviewed IRS management and internal audit reports about the growth and composition of accounts on the IMF. We also interviewed officials at IRS'

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National Office on the makeup of the IMF invalid segment and the reasons for the growth in these accounts.

To assess IRS' procedures for verifying taxpayer identities, we reviewed (1) IRS procedures (1995 and pre-1995) for processing returns with missing or incorrect SSNs, (2) the notice IRS uses to verify taxpayer identities, and (3) other pertinent documents. We also interviewed officials at IRS' National Office and at IRS' Austin, TX; Cincinnati, OH; Fresno, CA; Ogden, UT; and Philadelphia, PA service centers on the process for posting returns to the IMF invalid segment and changes implemented in 1995 to verify taxpayer identities. We chose Cincinnati because of its proximity to the audit team conducting the work. We chose the other 4 centers because, out of IRS' 10 service centers, they processed and posted more than 60 percent of the accounts on the IMF invalid segment in 1994.

To identify the potential effects of IRS' posting procedures, we did the following:

- We selected a random sample of 400 tax year 1993 returns from accounts that were posted to the IMF invalid segment before IRS implemented its new procedures. Our sample results are not projectable to the universe of accounts on the IMF invalid segment. Our objective was to determine whether the filers accurately reported their wages and withheld taxes. The sample consisted of returns with refunds of more than \$1,000 that were posted to the IMF invalid segment by the Austin, Fresno, Ogden, and Philadelphia service centers between January 1, 1994, and June 30, 1994. The 400 returns included 50 from each center that had been posted with IRS temporary numbers and 50 from each center that had been posted with incorrect SSNs. The Cincinnati service center's Criminal Investigation Branch contacted employers of the 400 filers to verify employment and wage information. The branch obtained responses on 357 returns. For the 43 returns with no response, we verified the wage information using information return transcripts.
- We analyzed 100 of the 400 returns to determine why they posted to the IMF invalid segment and to profile some of the filers' characteristics. The 100 returns included 25 returns (12 that had been posted with temporary numbers and 13 that had been posted with incorrect numbers) randomly selected from each of the 4 service centers. Among the 100 returns were 58 that were posted to accounts containing a computer code that automatically released refunds.
- We also interviewed cognizant officials from IRS' National Office and the previously mentioned service centers regarding any effects that returns

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with missing or incorrect SSNs may have on IRS' income-matching programs and its TSM plans. We reviewed IRS reports on TSM plans and analyzed documents relating to IRS' processing costs.

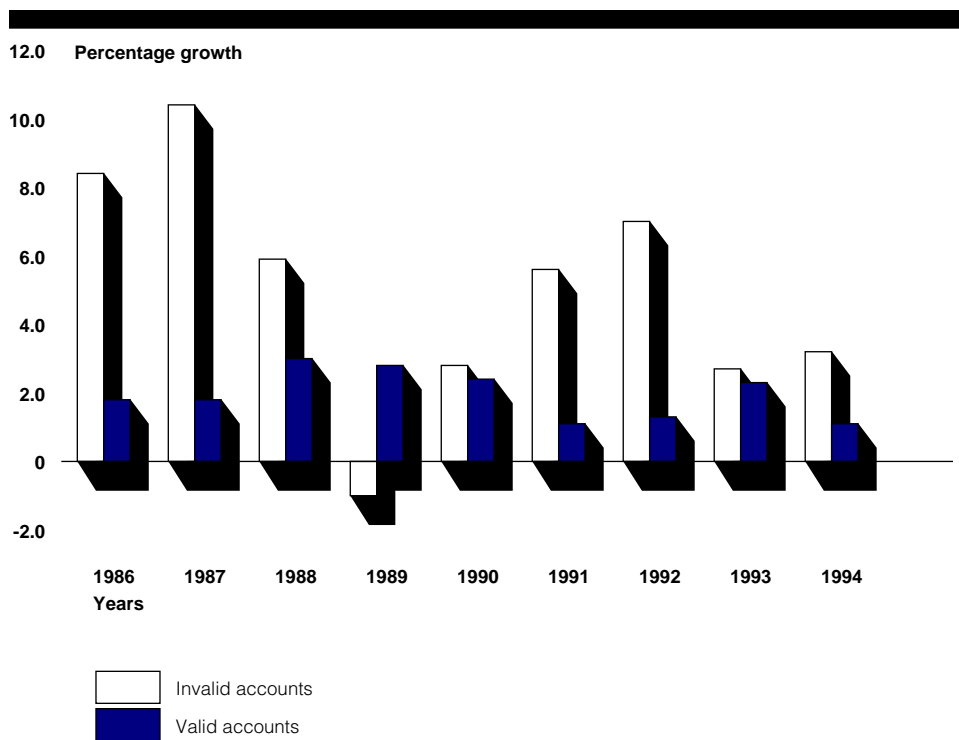
We did our audit work from December 1993 through May 1995 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from you or your designee. On June 21, 1995, the Assistant Commissioner for Taxpayer Services, the Staff Chief for the National Director of Submission Processing, and other IRS staff, including representatives from the Office of Chief Counsel, provided us with oral comments. Their comments are summarized and evaluated on pages 13 and 14 incorporated in this report where appropriate.

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## Number of IMF Invalid Segment Accounts Growing at Faster Rate Than the Number of Valid Segment Accounts

From 1986 through 1994, according to IRS data, the average annual growth rate of accounts on the invalid segment of the IMF was more than twice the growth rate of accounts on the valid segment—5 percent versus 2 percent, respectively. Figure 1 shows year-to-year growth rates since 1986. During this period, the number of accounts on the invalid segment of the IMF grew from 2.8 million on January 1, 1986, to 4.3 million on January 1, 1995, while the number of valid accounts grew from 130.2 million to 153.3 million.

**Figure 1: Annual Growth Rates of Accounts on the Valid and Invalid Segments of the IMF (1986 Through 1994)**



Source: IRS data.

From 1990 through 1994, the size of the IMF invalid segment grew by about 821,000 accounts. Most of that growth (52 percent) resulted from IRS' increased use of temporary numbers to process and post returns. Accounts with incorrect numbers made up the other 48 percent.

The IRS National Office official responsible for monitoring accounts on the master file explained that the increase in accounts with temporary numbers stemmed from IRS' decision in 1990 to not send verification notices to taxpayers whose returns were processed with temporary numbers. Many of these filers, he said, cannot obtain SSNs because they are not legal residents of the United States but are entitled to refunds of withheld taxes or earned income credits. He said that most of these taxpayers were using temporary numbers verified in previous years and that requiring reverification each year would have unduly increased taxpayer burden. He speculated that when IRS' decision not to require



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verification became more widely known, more taxpayers who could not obtain SSNs began filing tax returns.

Another factor affecting the number of accounts on the invalid segment of the master file was IRS' willingness to release refunds and allow the accounts to remain on the invalid segment, even though taxpayers' responses to the verification notice did not resolve the invalid condition. Before 1995, IRS accepted a taxpayer's response that a return was "correct as filed," and taxpayers were not required to provide documentation (marriage certificate, birth certificate, etc.) to verify their identities.

In 1994, IRS paid out \$1.4 billion in refunds on returns posted to the IMF invalid segment.

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## Revised Verification Procedures Not Completely Implemented

As part of its efforts to combat refund fraud, IRS revised its procedures in January 1995 to require that taxpayers provide documentation to verify their identities. In announcing that IRS would delay refund claims for individuals lacking proper identification numbers, you stated that, consistent with the way financial institutions manage withdrawals of funds, IRS should not permit refunds from the federal treasury without a valid taxpayer identification number.

Under the revised procedures, when a taxpayer's return with a refund request is posted to the IMF invalid segment for the first time, IRS is to freeze the refund and correspond with the taxpayer in an attempt to verify the taxpayer's identity.<sup>4</sup> Filers with missing or incorrect SSNs who request a refund are to be required to provide a reasonable explanation for the discrepancy and proof of their identity (such as a marriage certificate, birth certificate, earnings statement, or passport) before the refund will be released.<sup>5</sup> The requirement applies to filers whose returns are posted with temporary numbers as well as filers whose returns are posted with incorrect numbers. Once a taxpayer responds satisfactorily to IRS' verification notice, IRS is to release the refund. Previously, IRS automatically issued refunds to filers with temporary numbers and did not require proof of identity from filers with incorrect numbers before releasing their refunds.

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<sup>4</sup>When processing a tax return with a missing or incorrect SSN that is accompanied by a payment, according to procedures, IRS is to deposit the payment, post the return to the IMF invalid segment, and send the taxpayer an information notice about the invalid condition.

<sup>5</sup>An example of a reasonable explanation might be "I recently married and have not yet changed my name with SSA," accompanied by a copy of a marriage certificate.

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## Revised Verification Notice Not Finalized

IRS uses the CP54B notice to verify taxpayers' identities before issuing a refund. The current version of the CP54B notice does not reflect IRS' revised procedures. It does not clearly convey that persons who file with missing or incorrect numbers, including filers who were issued temporary numbers, are required to provide documentation verifying their identities. (Appendix I contains a copy of the CP54B notice annotated to show misleading or potentially confusing sections.)

A revised version of the CP54B notice has been developed that reflects IRS' revised procedures but, as of July 1995, had not been finalized. Until the revised notice is available, IRS National Office officials told us that they plan to use the current version of the notice, followed by additional correspondence if the taxpayer does not respond in accordance with the revised procedures. This practice will increase IRS' processing costs, create additional taxpayer burden, and delay the issuance of some refunds. IRS expects to send out about 616,000 CP54B notices in 1995.

IRS officials said that review and approval of the revised notice was taking longer than expected. As of June 21, 1995, the revision had been approved by the National Office Notice Clarity Unit and was being reviewed by the National Automation Advisory Group. That group is to assign a priority for making the computer programming changes necessary to finalize the notice. If the notice is not assigned the highest priority, we are concerned, on the basis of past work, that it will not be revised in time for use during the 1996 tax-filing season, beginning in January 1996.

In December 1994, we reported on the lengthy notice-review process and noted that many recommended notice revisions were delayed or never made because of IRS' limited computer-programming resources.<sup>6</sup> As one way of avoiding computer-programming delays, we recommended that IRS test the feasibility of transferring notices to its Correspondex System—a more modern computer system that produces other types of IRS correspondence.

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## Revised Procedures Not Applied to Certain Pre-1995 Filers

IRS National Office officials told us that they do not plan to apply the revised procedures to filers with prior accounts on the IMF invalid segment who file again using the same name and number combination. Thus, these filers would not need to verify their identities before receiving future refunds, although the mismatch with SSA records may continue to exist. According to IRS data, at least 3.2 million of the 4.3 million accounts on the

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<sup>6</sup>Tax Administration: IRS Notices Can Be Improved (GAO/GGD-95-6, Dec. 7, 1994).

IMF invalid segment, as of January 1, 1995, will not be subject to the new procedures. Instead, IRS placed a permanent computer code on the accounts so that the system will automatically release future refunds.

IRS' rationale for exempting these accounts from the revised verification procedures is that most of these filers had already responded to a previous CP54B and requiring them to respond again would increase taxpayer burden. But responses to the previous CP54B were done under IRS' old verification procedures, which, as we noted previously, did not require proof of identity. Thus, IRS has no assurance that the earlier responses were satisfactory.

Our analysis of the reasons 58 tax year 1993 returns were posted to the IMF invalid segment with automatic refund release codes raised questions about IRS' plans. We noted, for example, that 27 of the returns were filed by persons who either used SSNs not issued by SSA or used another individual's SSN, including 11 filers who used SSNs belonging to children and 5 filers who used SSNs belonging to deceased taxpayers. Under these circumstances, IRS was less certain of filers' identities than if taxpayers had filed using names and numbers that matched SSA files. Table 1 shows the circumstances under which those 58 returns were posted to the invalid segment of the IMF.

**Table 1: Reasons Returns With Automatic Refund Release Codes in GAO's Sample Were Posted to the Invalid Segment of the IMF**

Type of posting	Reason for posting	Number of returns
Temporary number	Filers used a temporary number assigned prior to 1990 <sup>a</sup>	6
Incorrect number	Filers had not changed their names with SSA	22
	Filers used another individual's SSN	21
	Filers used an SSN not issued by SSA	6
	Other	3
<b>Total postings with automatic refund releases</b>		<b>58</b>

<sup>a</sup>Filers whose returns were posted with temporary numbers from 1990 through 1994 did not have automatic release codes placed on their accounts because they did not receive a CP54B notice. They are subject to IRS' revised documentation requirements.

Source: GAO sample of 100 returns from 4 IRS service centers.

Another reason for IRS to reconsider its decision to exclude some filers from the revised procedures is the fraud risk associated with accounts on the IMF invalid segment.

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Our analysis of 400 refunds of \$1,000 or more that were issued to taxpayers whose returns were posted on the IMF invalid segment surfaced only one instance in which a taxpayer appeared to have misstated his wages and withheld taxes. In that instance, a return was filed with a wage and tax statement that had been issued to another person. However, there are other ways to get fraudulent refunds besides claiming improper wages and/or withholdings.

IRS has developed a profile of high-risk filers that it uses to help identify potentially fraudulent returns. According to that profile, many filers whose returns are posted to the invalid segment of the IMF pose a higher risk of fraud than filers whose returns are posted to the valid segment. For example, IRS has determined that filers claiming the Earned Income Credit (EIC) are more likely to claim fraudulent refunds than those who do not. In April 1995, IRS' Internal Audit Office reported that returns on the IMF invalid segment are four times more likely than returns on the valid segment (54 percent versus 12 percent, respectively) to include an EIC claim. Internal Audit also noted that 41 percent of the cases identified through September 1994 by IRS' EIC Unallowable Program were filed with invalid SSNs. In contrast, according to Internal Audit, returns with invalid SSNs represented only 1 percent of the total individual Form 1040 population. Of the unallowable cases closed by IRS, 84 percent with invalid SSNs had EIC amounts reversed, compared with 69 percent with valid SSNs.

Of the 100 returns posted to the IMF invalid segment in our sample, 90 claimed the EIC. Also, the filing status claimed on 40 of the returns in our sample matched another characteristic in IRS' profile of high-risk filers. IRS' new verification procedures, if applied to filers with pre-1995 accounts on the IMF invalid segment, could help to limit these risks because they would enable IRS to more easily identify filers who attempt to claim duplicate refunds.

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## Failure to Clean Up Master File Accounts Could Adversely Affect IRS' Modernization Plans

Under TSM, IRS plans to access account information on taxpayers, using either the primary or secondary<sup>7</sup> SSN. IRS also plans to consolidate existing, separate taxpayer databases into a single database. With a single database and the ability to access account information on every taxpayer, IRS would be in a much better position to maintain accurate, up-to-date accounts and respond to taxpayer inquiries.

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<sup>7</sup>A secondary SSN is generally the one used by the spouse on a joint return.

Before IRS can effectively implement its plans, it will have to identify and merge multiple taxpayer accounts on its current files. For example, the current master file structure with its valid and invalid segments allows two or more taxpayers to have accounts under the same SSN, or one taxpayer to have several accounts under different numbers. To begin the clean-up process, IRS mailed out 189,000 letters in December 1994 to taxpayers whose returns were posted to the IMF invalid segment because they used an SSN that had not been issued by SSA. The letter instructed taxpayers to contact SSA to obtain a correct SSN. This effort is only a first step, however, and IRS will need to do much more to clean up the rest of its IMF records.

IRS' clean-up task is further complicated because IRS plans to include secondary filers (generally the spouse on a joint return) in its database. According to IRS data, as of February 1995, IRS had at least 47 million IMF accounts with secondary filers. Presently, IRS does not require that secondary IMF filers verify their identities. One particular complication, according to an IRS official, will involve merging the accounts of taxpayers who are secondary filers on the IMF valid segment and primary filers on the invalid segment. Currently, IRS does not try to merge these accounts.

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## IRS' Income-Matching Program Hampered by Posting Returns to the IMF Invalid Segment

Each year, IRS matches the income claimed by taxpayers with the income reported by third parties on information returns. IRS relies on a taxpayer's name and SSN, as reported on a tax return and associated information returns, to perform the matches. Discrepancies in reported income are used by IRS to detect underreported income or nonfiling of tax returns.

In most cases, returns posted to the IMF invalid segment with temporary numbers are not available for use in IRS' matching program. This occurs because temporary numbers are unique to IRS and cannot be matched against taxpayer identifiers on information documents. Omitting these taxpayers from IRS' matching program hampers efforts to detect underreported income and nonfiling. In addition, posting returns with incorrect SSNs may complicate IRS' matching program if information returns report income for a different name and/or SSN. Unless IRS is able to make corrections through the additional research it does to check for erroneous mismatches, false leads could be generated that siphon IRS resources away from more productive cases.

IRS has developed a proposal that could alleviate some of the problems associated with matching returns posted with temporary numbers. IRS officials told us that many of the returns assigned temporary numbers

involved nonresident or illegal aliens who are not eligible to obtain SSNs. Under the proposal, IRS would assign permanent Individual Taxpayer Identification Numbers (ITIN) to these taxpayers, following a process similar to that used by SSA to verify identities and assign SSNs. Taxpayers with ITINS would then be required to use their ITINS when filing tax returns, and their returns could be posted to the valid segment of the IMF. Persons with ITINS would also be encouraged to use their ITINS when engaging in financial transactions that are subject to information reporting. Those who did so would be included in IRS' matching program. IRS is currently obtaining public comments on a regulation, signed by the Department of the Treasury on March 9, 1995, to implement the ITIN proposal.

## Conclusions

Since 1986, the number of accounts on the IMF invalid segment has grown faster than the number of accounts on the valid segment. IRS risks errors when issuing refunds to filers on the IMF invalid segment because it cannot verify a filer's identity against SSA records. Moreover, some accounts on the IMF invalid segment cannot be included in IRS' income-matching program. IRS took steps in 1995 that, when fully implemented, could help reduce the number of accounts on the IMF invalid segment. For example, IRS is doing more to verify the identities of taxpayers who file returns with missing or incorrect SSNs, and it plans to issue permanent identification numbers to taxpayers that could be used in IRS' matching program. We identified several areas where IRS could make additional improvements.

IRS has not finished revising the notice used to verify taxpayer identities, and our past work indicates that the revision process has been lengthy. The current version of the notice does not adequately explain IRS' revised documentation requirements and is causing additional taxpayer contacts. To reduce taxpayer burden and IRS costs, it is important that the revised notice be available for the 1996 filing season.

IRS is not applying its revised documentation requirements to taxpayers whose returns were posted to the IMF invalid segment prior to 1995 and who have a permanent refund release code on their accounts. Our review of accounts posted on the IMF invalid segment that would be exempted under IRS' plan and IRS' profile of high-risk filers raises questions about whether IRS should exclude such filers from its revised documentation requirements. Verification of these filers' accounts should also help complete the cleanup of taxpayer accounts that will be necessary as part of IRS' modernization.

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## Recommendations to the Commissioner of Internal Revenue

To improve the processing of returns with missing or incorrect SSNs and help clean up accounts currently posted on the IMF invalid segment, we recommend that you

- finalize the CP54B notice in time for use during the 1996 tax-filing season, and
- apply the revised documentation requirements to taxpayers who filed tax returns that were posted to the IMF invalid segment before 1995 and whose accounts now have a permanent refund release code.

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## Agency Comments and Our Evaluation

We requested comments on a draft of this report from you or your designee. The draft included three proposed recommendations. IRS officials, including the Assistant Commissioner for Taxpayer Services and the Staff Chief for the Director of Submission Processing, provided oral comments in a meeting on June 21, 1995. On the basis of their comments, which are summarized in this section, we modified one of our proposed recommendations and withdrew another. IRS agreed with the other recommendation.

Because of the delays inherent in IRS' current notice-revision process, our draft report included a recommendation that IRS assess the feasibility of producing the CP54B verification notice on the Correspondex System, as discussed in our December 1994 report. The Assistant Commissioner for Taxpayer Services agreed that a revised notice was needed, but she said that the best way to accomplish this is to proceed with the revision process currently under way. She assured us that the revised notice would be available for use during the 1996 filing season. Given the Assistant Commissioner's assurances, we have revised our recommendation to delete any reference to the use of the Correspondex System.

IRS agreed with our recommendation that it apply the revised documentation requirements to the IMF invalid segment accounts with permanent refund release codes. The Staff Chief said that a task force, working in cooperation with internal auditors, is determining the best way to verify accounts placed on the IMF invalid segment before 1995. IRS plans to focus on verifying active accounts, which they estimate make up 38 percent of the accounts on the IMF invalid segment. (An account containing a recent tax return, for example, would be considered active.) IRS also plans to remove IMF invalid segment accounts that have been inactive for a certain period, similar to the treatment of accounts on the valid segment. The task force is also working to reverse the permanent

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refund release code on the IMF invalid segment accounts that were established before 1995. IRS' actions, if properly implemented, would respond to our recommendation.

We also included a proposed recommendation in our draft report that IRS send back to taxpayers returns that are filed with missing SSNs or SSNs that were not issued by SSA. IRS data indicated that it was less costly to send these returns back to taxpayers than it was to post the returns to the master file, send taxpayers a CP54B notice, and process their responses. IRS disagreed with our proposal on the basis that an individual income tax return with a missing SSN or an SSN that was not issued by SSA is considered a valid return under the Internal Revenue Code. Because the return is valid, they asserted that a court would hold that the statute of limitations on assessment and collection would begin when the return was first filed, even though it was returned to the taxpayer because of the invalid condition. Thus, IRS might limit its ability to recover the return from the taxpayer and take any necessary enforcement actions if the process of resolving the invalid condition became lengthy. We considered IRS' argument persuasive and have withdrawn our proposed recommendation.

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This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight not later than 60 days after the date of this letter. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

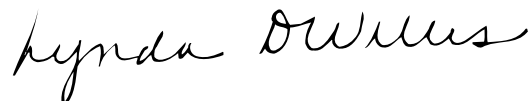
We are sending copies of this report to various congressional committees, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. We will also make copies available to others on request.



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The major contributors to this report are listed in appendix II. If you or your staff have any questions about this report, you can reach me at (202) 512-9110.

Sincerely yours,

A handwritten signature in black ink that reads "Lynda D. Willis". The signature is written in a cursive style with a large, stylized initial "L".

Lynda D. Willis  
Associate Director, Tax Policy and  
Administration Issues

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## Abbreviations

EIC	Earned Income Credit
IMF	Individual Master File
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
SSA	Social Security Administration
SSN	Social Security Number
TSM	Tax Systems Modernization

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# IRS Notice CP54B (1994 Version)

Note: GAO comments supplementing those in the report text appear at the end of this appendix.


See comment 1.

See comment 2.

See comment 3.

See comment 4.


See comment 5.



Department of the Treasury  
Internal Revenue Service  
Andover, MA 05801

Date of this notice: May 10, 1994  
Social Security Number: Form: 1040

Tax Period: Dec. 31, 1993



**PROBLEM WITH NAME AND SOCIAL SECURITY NUMBER  
REFUND DELAYED**

SSN IN QUESTION:  
NAME IN QUESTION:

**YOUR TAX RETURN FOR 1993 SHOWS A LAST NAME OR SOCIAL SECURITY NUMBER DIFFERENT FROM THE INFORMATION GIVEN TO US BY THE SOCIAL SECURITY ADMINISTRATION (SSA). THIS CAN HAPPEN IF YOU USE A MAIDEN, MARRIED OR PROFESSIONAL NAME ON YOUR RETURN THAT SSA DOES NOT HAVE ON RECORD. IT ALSO CAN HAPPEN IF A NAME IS MISPELLED OR NUMBERS ARE TRANSPOSED.**

**PLEASE HELP US BY COMPARING THE NAME AND SOCIAL SECURITY NUMBER ON YOUR MOST RECENT SOCIAL SECURITY CARD WITH THE NAME AND SOCIAL SECURITY NUMBER AS THEY APPEAR AT THE TOP OF THIS LETTER.**

- **IF THERE IS A DIFFERENCE (MISPELLING, TRANSPOSED NUMBERS, ETC), AND YOU DID NOT CHANGE YOUR NAME:**  
PLEASE COMPLETE THE BOTTOM PART OF THIS NOTICE, SIGN AND RETURN IT IN THE ENCLOSED ENVELOPE BY JUNE 13, 1994. KEEP THE TOP PART OF THIS NOTICE FOR YOUR RECORDS. IF YOU OWE NO OTHER TAXES OR LEGAL DEBTS WE ARE REQUIRED TO COLLECT, WE WILL SEND YOU YOUR REFUND ABOUT FOUR WEEKS FROM THE TIME WE RECEIVE YOUR REPLY.
- **IF YOUR NAME IS DIFFERENT BECAUSE YOU CHANGED IT, AND IT DOES NOT AGREE WITH THE NAME ON YOUR MOST RECENT SOCIAL SECURITY CARD:**  
NOTIFY SSA OF THE CHANGE. IF YOU HAVE ALREADY DONE THIS, YOU DO NOT NEED TO NOTIFY THEM AGAIN. KEEP THIS ENTIRE NOTICE FOR YOUR RECORDS. IF YOU WISH, YOU MAY PROVIDE IRS WITH A COPY OF YOUR MARRIAGE CERTIFICATE OR COURT DOCUMENT INDICATING A LEGAL NAME CHANGE. WE WILL UPDATE OUR RECORDS.
- **IF THERE IS NO DIFFERENCE:**  
CONTACT SSA AT THEIR TOLL FREE NUMBER 1-800-772-1213 TO MAKE SURE THEIR RECORDS ARE CORRECT. KEEP THIS ENTIRE NOTICE FOR YOUR RECORDS.

**NOTE: IF YOU PAY SOMEONE ELSE TO PREPARE YOUR TAX RETURN, YOU MAY WANT TO PROVIDE A COPY OF THIS NOTICE TO THAT PERSON FOR HIS OR HER RECORDS.**

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on phone calls.

Form 3012 (Rev. 01-82)

Keep this part for your records  
"Tear off stub" - "Use this part to reply"

<p style="font-size: x-small;">The name and security number on my card is different from the information shown on this notice. My card shows the following information:</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="font-size: x-small; padding: 2px;">Please print or type name exactly as shown on last SSN card</td> <td style="font-size: x-small; padding: 2px;">Enter number exactly as shown on last SSN card</td> </tr> </table>	Please print or type name exactly as shown on last SSN card	Enter number exactly as shown on last SSN card
Please print or type name exactly as shown on last SSN card	Enter number exactly as shown on last SSN card		
<p style="font-size: x-small;">The name and social security number on this notice matches exactly the information on my social security card.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="font-size: x-small; padding: 2px;">Sign here using your present name (Do not print)</td> <td style="font-size: x-small; padding: 2px;">Today's date</td> </tr> </table>	Sign here using your present name (Do not print)	Today's date
Sign here using your present name (Do not print)	Today's date		

<p style="font-size: x-small;">548 INTERNAL REVENUE SERVICE ANDOVER, MA, 05801</p>	<p style="font-size: x-small;">Your telephone number ( )</p>	<p style="font-size: x-small;">Best time to call</p>
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00
30 0 8312
64 - 9418
0821-130-80028-4

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The following are GAO's comments on IRS' Notice CP54B (1994 Version).

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## GAO Comments

1. The wording "REFUND DELAYED" is the only indication at the beginning of the notice that the taxpayer will not be receiving his/her refund and that the refund will be delayed until the taxpayer resolves the discrepancy to IRS' satisfaction.
2. The notice does not accommodate filers who were issued temporary numbers. It gives instructions on what to do when there are differences in the last name or SSN, but it does not explain what filers with temporary numbers must do to have their refunds released.
3. A taxpayer might presume from the wording in this section that providing the information IRS requests will release the refund, when in fact, the refund would be released only if the new information matches SSA's records.
4. This section of the notice does not require that a taxpayer send anything back to IRS and, again, does not make it clear that the taxpayer's refund will not be released until the discrepancy is cleared up. All it says is "If you wish, you may provide IRS with . . ." Service center staff told us that taxpayers are expected to provide this kind of information, and if it is not provided, IRS will correspond again with taxpayers to obtain it.
5. This section has problems similar to those described in comment 4. It does not require that taxpayers send anything to IRS and thus is not clear about how or on what basis IRS will decide to release the refund.

# Major Contributors to This Report

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General Government  
Division, Washington,  
D.C.

David J. Attianese, Assistant Director

---

Cincinnati Regional  
Office

Deborah Y. Smith, Evaluator-in-Charge  
Robert I. Lidman, Regional Assignment Manager  
Mary C. Morrison, Evaluator

---

Office of General  
Counsel, Washington,  
D.C.

Rachel DeMarcus, Assistant General Counsel  
Shirley A. Jones, Attorney Advisor

---

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