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**UNDELIVERED TAX
REFUNDS**

**IRS' Handling of Undelivered
Income Tax Refund Checks**

Statement for the Record of
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IRS' HANDLING OF UNDELIVERED INCOME TAX REFUNDS

SUMMARY OF STATEMENT OF
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For the 1992 filing season, IRS sent over 89.3 million refunds, totaling about \$113 billion, to taxpayers. In light of this large volume of refunds and the mobility of Americans, it is not surprising that some of these refunds are not delivered to taxpayers but are returned to IRS. About 279,000 of the 89.3 million refunds, or about one-third of 1 percent, were initially returned by the U.S. Postal Service as undeliverable.

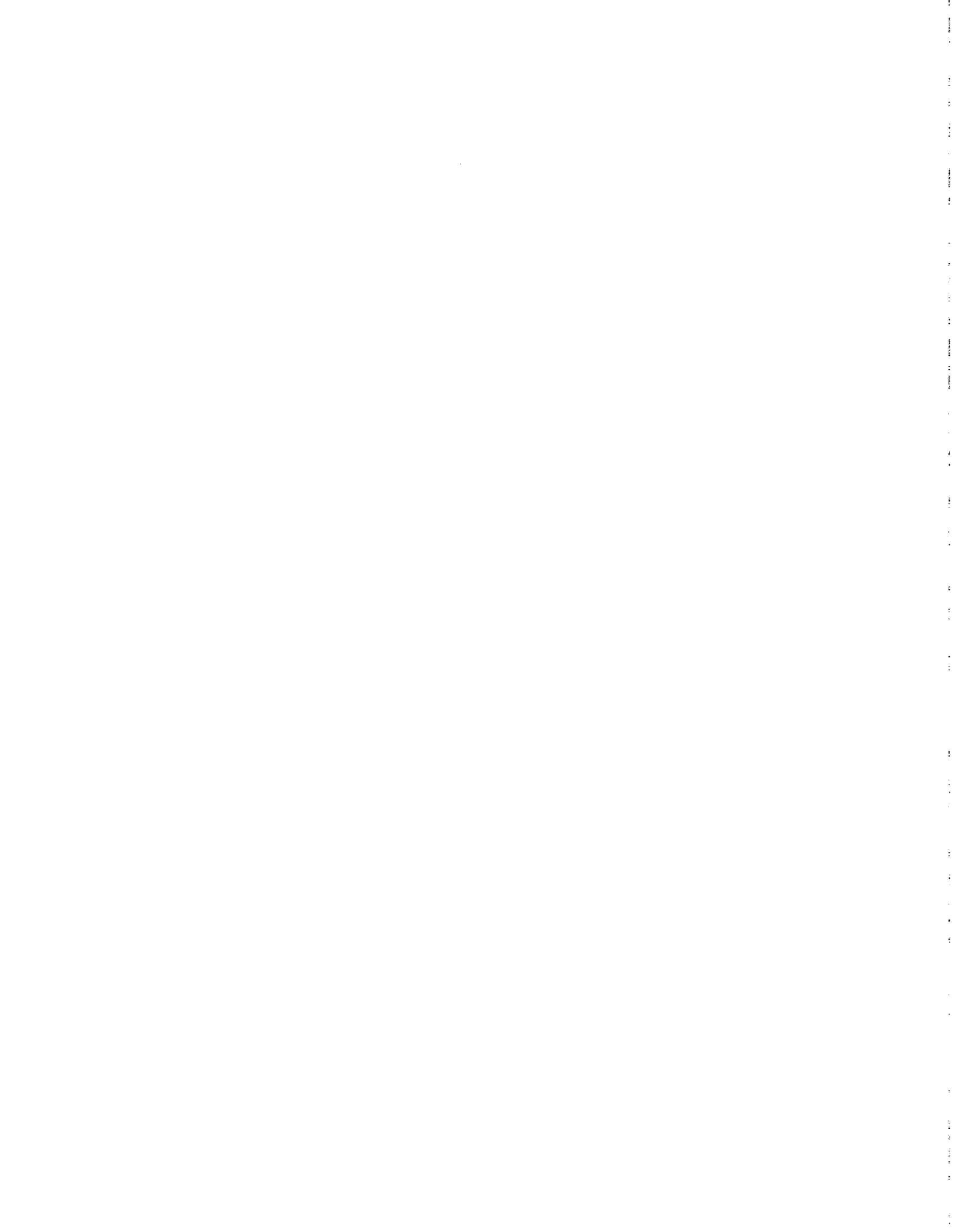
According to IRS, undeliverable refunds are caused by (1) taxpayers moving and leaving no forwarding address with the Postal Service or IRS, (2) the Postal Service not delivering or forwarding refund checks, and (3) IRS incorrectly recording taxpayers' addresses.

IRS follows certain procedures for handling undeliverable tax refunds. These procedures include attempts to locate better addresses for the taxpayers and publicity efforts to notify taxpayers of undelivered refunds.

As a result of these procedures, which IRS usually completes by August following the year the tax returns were filed, IRS was able to resolve over 251,000 of the 279,000 undeliverable 1992 refunds. Thus, only about 28,000 undelivered refunds, totaling \$12.4 million, were not resolved as of August 1993. This represents less than 1/35th of 1 percent of the total number of refunds issued during the 1992 filing season.

It should also be pointed out that while about 28,000 refunds could not be delivered, IRS credits taxpayers' accounts for the refund amount. This ensures that the refunds are available to the taxpayers in the future.

GAO believes that IRS is acting responsively in its handling of undelivered income tax refunds. IRS has, in GAO's judgment, reached the point where the burden of further responsibility for obtaining refunds due should shift to the taxpayers.



Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss IRS' handling of undelivered income tax refunds. Such refunds are those that the U.S. Postal Service returns to the Department of the Treasury's Regional Finance Centers that issued them. IRS generally locates most of the taxpayers who are due these refunds and sends the funds to them. For those taxpayers who are not located, IRS credits the refund amount to each taxpayer's account for future action should the taxpayer contact IRS about their refund or file a subsequent tax form with a new address.

Judging from the results of our work, it appears that IRS takes the issue of undelivered income tax refunds seriously and takes various steps to ensure that taxpayers receive their refunds. The success of IRS' procedures is reflected in the fact that only about 28,000 of the 89.3 million refunds issued in 1992, the latest year for which we have complete data, were undelivered as of August 1993. The 28,000 represent less than 1/35th of 1 percent of the total refunds issued. According to IRS data, the percentage of undelivered refunds was about the same for the 1991 filing season.

Our testimony today will focus on the following issues:

- the extent and causes of undeliverable refunds,
- IRS' efforts to resolve undeliverable refunds, and
- IRS' continuing efforts to reduce undeliverable mail.

EXTENT AND CAUSES OF
UNDELIVERABLE REFUNDS

For the 1992 filing season, according to IRS data, IRS issued 89.3 million refunds to taxpayers, totaling about \$113 billion. Of these refunds, approximately 89 million were delivered to the taxpayers while the remaining 279,000 were returned by the Postal Service as undeliverable. This represented about one-third of 1 percent of the total number of refunds issued.

According to IRS representatives and relevant IRS studies, most undeliverable refunds are caused by

- taxpayers moving and leaving no forwarding address with either the Postal Service or IRS,
- the Postal Service not delivering or forwarding refund checks, and
- IRS incorrectly recording taxpayers' addresses.

American society is very mobile. According to the Postal Service about 20 percent of Americans move every year. Even a small percentage of people moving and not providing a change of address

could cause IRS difficulties in mailing refunds. It is important to note that taxpayers bear responsibility for their delayed or undelivered refunds when they fail to notify the Postal Service or IRS of their address change.

Even when the Postal Service has current forwarding addresses, it does not always forward refund checks. According to Postal Service policy, all first class mail is to be forwarded for up to 1 year when a valid forwarding address is on file. However, according to Postal Service and IRS officials this policy is not always followed for government checks because of security or other concerns. In these cases, the checks are returned as undeliverable.

In addition, some undeliverable refunds are caused when IRS staff update computer files with an incorrect address. Some of these errors occur because IRS staff have difficulty reading taxpayers' handwritten addresses. The majority of taxpayers write their addresses on their tax returns rather than use the preprinted address labels provided on their tax packages. According to IRS, generally only 40 percent of all taxpayers use the preprinted address labels. Errors also occur when IRS staff either do not or incorrectly transfer information on the tax return to computer records.

IRS' EFFORTS TO RESOLVE UNDELIVERABLE REFUNDS

As I mentioned earlier, about one-third of 1 percent of all refunds issued for the 1992 filing season was initially returned to IRS as undeliverable. While this represents a high level of success, IRS still devotes considerable effort to ensuring that taxpayers receive those refunds that are returned.

According to Postal and Treasury procedures, when refund checks cannot be delivered, the Postal Service is to return them to the appropriate Treasury Department Regional Finance Center. The finance centers cancel the checks and create a computer tape for IRS with data concerning those refunds. When IRS receives the information, it credits the taxpayers' accounts for the refund amount. This credit ensures that the undeliverable refunds are a matter of record and are available to the taxpayers if they should contact IRS or if IRS locates them. According to IRS staff, many undeliverable refunds are resolved because taxpayers contact IRS to inquire about their refunds.

When the undeliverable refunds are credited to taxpayers' accounts, information concerning the refunds also is sent to the responsible IRS service center. The information is used by service center staff who are to follow several steps in attempting to locate these taxpayers.

Initially, they are to compare the address on the tax return with the address on the refund. This may result in the immediate reissuance of the refund if the return shows a different address. If IRS does not find a different address on the return, the staff are to look for addresses on attachments to the tax returns, such as a Form W-2 or Form 1099, and information in other IRS databases relating to that taxpayer.

After completing this research, IRS staff are to mail notices to these addresses, if any, in addition to the original address on the refund. These notices advise the taxpayer of the pending refund and request the taxpayer to furnish certain information so that IRS can reissue the refund. For the 1992 filing season, service centers resolved over 198,000, or 71 percent, of the 279,000 refunds that were initially undeliverable.

Subsequent to the service center efforts, IRS district offices take the lead in trying to locate taxpayers whose refunds remain undelivered. The districts direct their efforts at using various media to publicize the fact that IRS is holding taxpayers' undelivered refunds. For example, district offices provide news releases to the media (newspapers, television, and radio) to increase the public's awareness of undelivered refunds within their geographic locations. In addition to newspapers with broad circulations, IRS sends releases to a variety of community-based newspapers.

The news releases usually include a list of taxpayers who are due refunds and provide information about how to receive an undelivered refund and how to prevent this situation in the future. It should be pointed out that IRS provides the news releases to the media as a public service and does not pay advertising fees. Thus, the media are not under any obligation to include the information in their publications or programming.

Besides the news releases, IRS officials participate in radio and television programs and public service announcements to further publicize undeliverable refunds. As a result of district office publicity efforts, IRS resolved an additional 53,000 of the 81,000 refunds that remained undeliverable after service center efforts.

Efforts by IRS service centers and district offices to locate taxpayers generally take up to 15 months to complete. Together, the service centers and district offices resolved all but about 28,000 of the initial 279,000 undeliverable refunds for the 1992 filing season. These 28,000 refunds totaled about \$12.4 million, an average of about \$440 per refund.

For those refunds that remain undeliverable, IRS continues to maintain information that should allow the refunds to be claimed in the future. However, after 15 months, IRS no longer actively searches for the taxpayers and does not keep statistics on how many of the refunds are ultimately claimed.

To obtain additional perspectives regarding the handling of undeliverable tax refunds, we contacted seven states that we randomly selected from states that have an individual income tax and discussed with appropriate tax officials the procedures the states follow. One state made no immediate attempts to locate taxpayers but waited until the following tax filing year to match mailing addresses. The other six states had procedures similar to those followed by IRS. Two states also performed additional steps including telephoning some taxpayers and searching state databases such as drivers' license records. Most of the states we contacted believed that it is the taxpayers' responsibility to contact them if their tax refunds are not timely received.

We understand from IRS staff that, like two of the states we contacted, certain IRS offices at one time also used the telephone to try to locate taxpayers whose refunds were undeliverable. While data were unavailable to determine how extensive or productive this procedure was, it may be appropriate, given IRS' increasing use of telephone technology, for IRS to test using the telephone again to locate taxpayers whose refunds are undeliverable.

Some years ago we thought that the Social Security Administration's (SSA) beneficiary files might provide IRS an additional source of current addresses. However, we no longer believe SSA's files would help IRS much in obtaining addresses for undeliverable refunds. In response to a recommendation we made in a 1981 report¹ to this subcommittee, IRS and SSA conducted a test in 1982 matching names and addresses on undeliverable refunds with data from SSA's beneficiary files. More recent addresses were found for only about 5 percent of the taxpayers, according to test records we could find in preparing for this testimony. IRS concluded that future matches with SSA data would not be worthwhile given the low test success rate.

IRS' CONTINUING EFFORTS TO REDUCE UNDELIVERABLE MAIL

IRS recognizes the need to continually improve its level of service, including the effective use of the mail to contact taxpayers. In that regard, IRS' Taxpayer Ombudsman recently sponsored a study to review the recommendations from past IRS

¹IRS' Handling of Undelivered Income Tax Refund Checks (GAO/GGD-81-71, April 10, 1981).

studies of undeliverable mail and to focus on efforts to minimize such mail, including undeliverable refunds. The study group's report has not been completed, so we cannot say what it will recommend.

I mention the Ombudsman-sponsored study to illustrate that IRS is concerned with undeliverable mail and may initiate future actions to reduce the instances of such mail.

In addition, IRS' implementation of the Tax Systems Modernization (TSM) program over the next decade has the potential to also reduce the volume of undeliverable refunds. One of TSM's goals is to shift from a paper-based to an electronic tax processing system through the use of electronic filing and electronic funds transfer. If this shift materializes as envisioned, IRS would rely less on the mail to deliver refunds because many refunds would be deposited directly into taxpayers' bank accounts. This change would not necessarily come without its own set of obstacles such as the possibility of fraud and data recording errors.

CONCLUSIONS

We believe that IRS is acting responsively in attempting to reach taxpayers whose refunds are undelivered. As I have previously mentioned, the vast majority of taxpayers who file a tax return and are due a refund receive them. Of the 89.3 million refunds initially issued in the 1992 filing season, more than 99 percent were delivered. As for the very small fraction that was returned to IRS as undeliverable, most were subsequently delivered.

Considering IRS' success rate and the steps that it does take to follow up on undeliverable refunds, we do not have any suggestions for IRS to change or intensify its present efforts other than the possibility of testing the use of the telephone to locate additional taxpayers due refunds. IRS has, in our judgment, reached the point where the burden of further responsibility for obtaining refunds due should shift to the taxpayers.

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