

**The Process of Developing Tax  
Forms for Individual Taxpayers  
Should Be Further Improved**

**March 2000**

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**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

March 31, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, reading "Margaret E. Bezzo".

FROM: for Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Process of Developing Tax Forms for  
Individual Taxpayers Should Be Further Improved

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has an effective, efficient, and well-controlled process to timely design and produce tax forms which minimize taxpayer burden while aiding individual taxpayers in accurately complying with tax laws.

In summary, we found that the IRS' efforts to decrease the complexity of tax forms and to reduce taxpayer burden are reasonable. However, additional IRS procedural and organizational changes could further reduce tax form complexity and taxpayer burden. Also, the IRS should strengthen the system of controls over the tax forms development process to ensure compliance with Federal Internal Control Standards.

We recommend that management improve the tax forms development and revision process by creating and/or improving procedures to enable individual taxpayers to conveniently provide tax form comments to the IRS. The IRS should also develop a process to compile and use these comments to support informed business decisions regarding tax form development and to support legislative proposals that could result in the simplification of tax forms.

The IRS should ensure that known tax forms-related errors are adequately addressed during redesign efforts. In addition, the IRS should develop a proactive strategy to review the tax law and propose legislative changes that could result in the simplification of tax forms.

Furthermore, the IRS should ensure that adequate resources are available to implement tax form improvements and required legislative changes, and to ensure that adequate

internal controls are in place to provide reasonable assurance relative to the efficiency and effectiveness of its tax forms development process. The IRS should also permanently implement key monitoring and oversight controls similar to those used to track the implementation of the IRS Restructuring and Reform Act of 1998.

We provided the IRS with a draft report on February 15, 2000, with a 30 calendar day response period. However, as of the date of this report, IRS management had not provided a response to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 455-2475.

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for Individual Taxpayers Should Be Further Improved**

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# The Process of Developing Tax Forms for Individual Taxpayers Should Be Further Improved

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## Executive Summary

The Internal Revenue Service's (IRS) Tax Forms and Publications Division is responsible for creating and improving federal tax forms.<sup>1</sup> These tax forms should inform individual taxpayers of their federal tax obligations and enhance voluntary compliance by making it as easy as possible for taxpayers to accurately complete these forms. Burden<sup>2</sup> and the complexity of tax law and/or tax forms have been two of the primary problems facing taxpayers in the federal tax system. These problems have been repeatedly reported to the Congress by the Taxpayer Advocate.

The IRS estimates that there are approximately 90 million individual taxpayers.<sup>3</sup> Approximately 76 million of these taxpayers earn less than \$50 thousand a year, and 25 million earn less than \$10 thousand a year. Over 18 million of the individual taxpayers use a paid tax preparer because they need help with the preparation of their tax return.

Our audit objective was to determine if the IRS has an effective, efficient, economical, and well-controlled process to timely design and produce tax forms which minimize taxpayer burden while aiding individual taxpayers in accurately complying with tax laws. Our review focused on the primary IRS functions involved in the tax forms development process including: the Tax Forms and Publications Division, the Multimedia Production Division, the Submission Processing Division, and the Legislative Affairs Division.

## Results

The IRS has a process in place that timely produces tax forms for individual taxpayers. The Tax Forms and Publications Division creates tax forms, within the constraints of tax law complexity and internal IRS data processing barriers, that provide individual taxpayers with a reasonable opportunity to comply with federal income tax laws. Also within these constraints, the IRS has continually acted to reduce tax form complexity and burden.

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<sup>1</sup> The term "tax forms," as used here, encompasses United States (U.S.) individual income tax forms (or sections of these tax forms), and their related schedules, instructions, and worksheets.

<sup>2</sup> The term "burden," as used in this report, represents the time, effort, or financial resources expended by individual taxpayers to prepare and file their federal income tax returns.

<sup>3</sup> Individual taxpayers are those non-business tax filers who file U.S. Individual Income Tax Returns (Forms 1040EZ, 1040A or 1040).

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Additionally, our review of six high-risk tax form issues<sup>4</sup> shows that the IRS' process for the design and production of tax forms includes clear lines of responsibility and accountability, as well as reasonable supervisory oversight. The mission statements of the IRS functions involved with tax form development contain information relative to the effective and interrelated roles in timely producing quality tax forms.

In addition, our review identified that:

### **The Internal Revenue Service's Efforts to Decrease the Complexity of Tax Forms and to Reduce Taxpayer Burden Are Reasonable**

The significant redesign and simplification of tax forms relating to the child tax credit and earned income credit, the solicitation of comments from IRS employees and professional groups and businesses, as well as other efforts have resulted, or could result after future revisions, in easier to read, less complex tax forms.

### **Additional Internal Revenue Service Procedural and Organizational Changes Could Further Reduce Tax Form Complexity and Taxpayer Burden**

The IRS does not currently have a toll-free telephone number that would provide individual taxpayers with a convenient method to provide the IRS with tax form improvement comments. Although miscellaneous comments are received via the IRS' Internet site (Digital Daily), the IRS does not actively solicit tax form improvement comments through this method. In addition, individual taxpayer comments that were received through the Digital Daily were not properly controlled by the IRS' Multimedia Production Division.

Although the instructions for individual income tax forms do solicit individual taxpayers to comment, this solicitation is not repeated on the documents most likely to be read by taxpayers - the tax forms themselves.

We also found that the IRS has not fully addressed known tax form preparation errors relating to the child tax credit and earned income credit during its redesign efforts. In addition, the IRS does not have adequate resources to fully implement tax form

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<sup>4</sup> These issues included: 1) The Child Tax Credit section of U.S. Individual Income Tax Returns (Form 1040 lines 6c and 43, and Form 1040A lines 6c and 28), and the Child Tax Credit Worksheet; 2) The Earned Income Credit section of U.S. Individual Income Tax Returns (Form 1040 line 59a, and Form 1040A line 37a), the Schedule EIC – Earned Income Credit, and the Earned Income Credit Worksheet; 3) Schedule D - Capital Gains and Losses; 4) The Alternative Minimum Tax section of the U.S. Individual Income Tax Return (Form 1040 line 51), and Alternative Minimum Tax – Individuals (Form 6251); 5) The Education Credit issue (Form 1040 line 44, and Form 1040A line 29), and Education Credits (Form 8863); and 6) The Roth Individual Retirement Account (IRA) section of U.S. Income Tax Forms (Form 1040 line 23, and Form 1040A line 15), and the IRA Deduction Worksheet.

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improvement suggestions, and to ensure changes made to forms based on legislation could be accepted for normal IRS processing. Further reductions to tax form complexity and taxpayer burden are hindered by management's acceptance and satisfaction with the current process to improve tax forms complexity. However, these suggestions and changes, if fully implemented, could result in the further reduction of tax form complexity and burden for the individual taxpayer.

### **The Internal Revenue Service Should Strengthen the System of Controls Over the Tax Forms Development Process to Ensure Compliance With Federal Internal Control Standards**

Improved controls are needed over the recording and tracking of tax form action items relating to enacted legislation. Improved controls are also needed over tax form improvement comments received from the Digital Daily, professional organization telephone calls to the Tax Forms and Publications Division, and IRS employee testing of redesigned tax forms. Additionally, controls should be strengthened relative to the efficiency and accuracy of the IRS' management information systems used to track the status of the tax forms development and production process and the costs associated with changes to tax form printing contracts resulting from the IRS not timely providing the tax form to print contract vendors. These improvements are needed to ensure that the IRS is in compliance with the *Standards For Internal Controls In The Federal Government*.<sup>5</sup> Internal controls would ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making.

### **Summary of Recommendations**

The IRS can improve the tax forms development and revision process by creating and/or improving procedures to enable individual taxpayers to conveniently provide tax form comments to the IRS (such as a toll-free telephone number). These procedures should be clearly detailed on the tax forms. The IRS should also develop a process to compile and use these comments to support informed business decisions regarding tax form development and to support legislative proposals that could result in the simplification of tax forms.

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<sup>5</sup> This General Accounting Office document contains the Comptroller General's internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control as required by the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512[b]).

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The IRS should ensure that known tax forms-related errors are adequately addressed during redesign efforts. In addition, the IRS should develop a proactive strategy to review the tax law and propose legislative changes that could result in the simplification of tax forms.

Furthermore, the IRS should ensure that adequate resources are available to implement tax form improvements and required legislative changes, and to ensure that adequate internal controls are in place to provide reasonable assurance relative to the efficiency and effectiveness of its tax forms development process. The IRS should also permanently implement key monitoring and oversight controls similar to those used to track the implementation of the IRS Restructuring and Reform Act of 1998.<sup>6</sup>

Management's Response: We provided the IRS with a draft report on February 15, 2000, with a 30 calendar day response period. However, as of the date of this report, IRS management had not provided a response to the draft report.

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<sup>6</sup> Pub L. No. 105-206, 112 Stat. 685.



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### Objective and Scope

*Our audit objective was to determine if the IRS' process to timely design and produce tax forms was effective, efficient, and economical.*

The overall objective of our audit was to determine if the Internal Revenue Service (IRS) has an effective, efficient, economical, and well-controlled process to timely design and produce tax forms<sup>1</sup> which minimize taxpayer burden<sup>2</sup> while aiding individual taxpayers<sup>3</sup> in accurately complying with tax laws.

To achieve our overall objective, we reviewed:

- Internal controls relating to the development of tax forms.
- Procedures followed to develop and/or revise tax forms required by enacted tax legislation.
- The IRS' redesign effort of the tax forms relating to the child tax credit<sup>4</sup> and the earned income credit (these are credits that provide benefits to individual taxpayers, primarily those with dependent children).
- The IRS' process for soliciting and evaluating internal and external tax form improvement suggestions.
- Management information systems used to record and track the development and printing of tax forms.

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<sup>1</sup> The term "tax forms," as used here, encompasses United States (U.S.) individual income tax forms (or sections of these tax forms), and their related schedules, instructions, and worksheets.

<sup>2</sup> The term "burden," as used in this report, represents the time, effort, or financial resources expended by individual taxpayers to prepare and file their federal income tax returns.

<sup>3</sup> Individual taxpayers are those non-business tax filers who file U.S. Individual Income Tax Returns (Forms 1040EZ, 1040A or 1040).

<sup>4</sup> The IRS defines a "tax credit" as a credit resulting in a reduction of taxes owed and, in some cases, a refund, even when the taxes owed are zero.

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*Numerous external organizations were contacted to obtain feedback relative to the IRS' process for developing and improving tax forms.*

Fieldwork was conducted in the primary IRS functions involved in the tax forms development process including: the Tax Forms and Publications Division, the Multimedia Production Division, the Submission Processing Division, and the Legislative Affairs Division. Additionally, we contacted numerous external organizations to obtain feedback relative to the IRS' process for developing and improving tax forms. See Appendix IV for a detailed listing of these contacts.

The audit was conducted from May 1999 to September 1999 in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

### **Background**

To assist individual taxpayers in complying with their federal tax obligations and reporting requirements, the IRS will publish approximately 115 tax forms for use in filing 1999 tax returns. The IRS is revising 99 of these forms as a result of legislation and/or internal and external tax form improvement suggestions.

*Over 18 million of the individual taxpayers use a paid tax preparer because they need help with the preparation of their tax return.*

The IRS estimates that there are approximately 90 million individual taxpayers. Approximately 76 million of these taxpayers earn less than \$50 thousand a year, and 25 million earn less than \$10 thousand a year. Over 18 million of the individual taxpayers use a paid tax preparer because they need help with the preparation of their tax return.

*The Tax Forms and Publications Division is primarily responsible for creating and improving tax forms.*

Although most organizational components of the IRS are involved in the development and issuance of tax forms, the Tax Forms and Publications Division is primarily responsible for creating and improving tax forms. These tax forms should inform individual taxpayers of their obligations under the tax laws. The Tax Forms and Publications Division also enhances

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voluntary compliance by making it as easy as possible for taxpayers to fulfill these obligations.

When a change to a tax form also requires a change to IRS' computer systems, the Submission Processing Division (Office of the Chief Information Officer) is responsible for performing the necessary computer programming to enable the IRS to properly process this information.

### **Results**

*The IRS' process to produce and revise tax forms for individual taxpayers is timely.*

The IRS has a process in place that timely produces tax forms for individual taxpayers. The Tax Forms and Publications Division creates tax forms, within the constraints of tax law complexity and internal IRS data processing barriers, that provide individual taxpayers with a reasonable opportunity to comply with federal income tax laws. Also, within these constraints, the IRS has acted to reduce tax form complexity and burden. These actions include contracting with an external vendor to assist in a significant redesign of the tax forms relating to the child tax credit and the earned income credit. They also include soliciting, evaluating, and facilitating tax form improvement suggestions from tax professionals, tax preparation businesses, professional organizations, and IRS employees.

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Additionally, our review of six high-risk tax form issues<sup>5</sup> showed that the IRS' process for the design and production of tax forms includes clear lines of responsibility and accountability, as well as reasonable supervisory oversight. The mission statements of the IRS functions involved with tax form development contain information relative to the effective and interrelated roles in timely producing quality tax forms. The IRS' management practices regarding hiring and training provide reasonable assurance that personnel responsible for the development and printing of the tax forms are technically capable to perform these responsibilities.

*Additional IRS procedural and organizational changes could further reduce tax form complexity and taxpayer burden. The IRS should also strengthen its system of internal controls over the tax forms development process.*

However, we concluded that:

- Additional IRS procedural and organizational changes could further reduce tax form complexity and taxpayer burden.
- The IRS should strengthen the system of controls over the tax forms development process to ensure compliance with the *Standards For Internal Controls In The Federal Government*.<sup>6</sup>

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<sup>5</sup> These issues included: 1) The Child Tax Credit section of U.S. Individual Income Tax Returns (Form 1040 lines 6c and 43, and Form 1040A lines 6c and 28), and the Child Tax Credit Worksheet; 2) The Earned Income Credit section of U.S. Individual Income Tax Returns (Form 1040 line 59a, and Form 1040A line 37a), the Schedule EIC – Earned Income Credit, and the Earned Income Credit Worksheet; 3) Schedule D - Capital Gains and Losses; 4) The Alternative Minimum Tax section of the U.S. Individual Income Tax Return (Form 1040 line 51), and Alternative Minimum Tax – Individuals (Form 6251); 5) the Education Credit issue (Form 1040 line 44, and Form 1040A line 29), and Education Credits (Form 8863); and 6) the Roth Individual Retirement Account (IRA) section of U.S. Income Tax Forms (Form 1040 line 23, and Form 1040A line 15), and the IRA Deduction Worksheet.

<sup>6</sup> This General Accounting Office (GAO) document contains the Comptroller General's internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control as required by the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512[b]).

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### The Internal Revenue Service's Efforts to Decrease the Complexity of Tax Forms and to Reduce Taxpayer Burden Are Reasonable

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*The IRS has taken actions to reduce the complexity and burden that individual taxpayers may have with tax forms.*

The IRS has taken actions to reduce the complexity and burden that individual taxpayers may have with tax forms. Some of the specific actions included:

- A 1998 contract for over \$835,000 with Xerox Corporation to assist in a significant redesign of the tax forms relating to the child tax credit and the earned income credit to enable taxpayers to correctly navigate these documents with the least amount of burden. These credits provide benefits to individual taxpayers, primarily those with dependent children. Taxpayers claiming these credits for the 1999 tax-filing season totaled approximately 23 million and 18 million, respectively. Additionally, for the 1999 tax-filing season these credits resulted in the highest taxpayer errors.
- The Taxpayer Advocate's issuance of an annual report to the Congress, since 1996, proposing policy, procedural and/or legislative changes that may reduce the problems taxpayers have with tax forms.
- The solicitation and evaluation of tax form improvement comments from business and professional organizations, IRS employees, and internal tax form improvement committees. The IRS provides numerous means for professional organizations and businesses, IRS employees, and tax form improvement committees to provide these comments including mail, telephone, and the IRS' Internet site (Digital Daily).
- An on-going effort initiated in 1998, by the National Research Division, to develop a methodology to prioritize how tax forms should be considered for future redesign initiatives.

*The IRS provides numerous means for professional organizations and businesses, IRS employees, and tax form improvement committees to provide comments relating to tax forms.*

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*The IRS' efforts have, or could result in, easier to read, less complex tax forms that attempt to reduce taxpayer burden.*

- The effective and timely monitoring and notification by the Legislative Affairs Division to the Tax Forms and Publications Division of pending legislation that could impact on the development and/or revision of tax forms.

The above-mentioned efforts have, or could result in, easier to read, less complex tax forms that attempt to reduce taxpayer burden. Additionally, the IRS efforts have attempted to identify tax forms that could be improved through legislative, organizational, or redesign changes.

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### **Additional Internal Revenue Service Procedural and Organizational Changes Could Further Reduce Tax Form Complexity and Taxpayer Burden**

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*Additional IRS procedural and organizational changes could further reduce tax form complexity and taxpayer burden.*

The IRS has continually strived to reduce tax form complexity and taxpayer burden. However, further improvements to tax forms for individuals have been hindered by resource constraints, along with management's acceptance of their current process. Our review identified changes that, if fully implemented, could result in further reduction of tax form complexity and burden for the individual taxpayer.

*The IRS should enable individual taxpayers to conveniently provide tax form comments (such as a toll-free telephone number).*

#### **The IRS does not currently have a convenient process in place for individual taxpayers to provide tax form comments**

A December 1994 GAO Report<sup>7</sup> details that the IRS recognized that it had no systemic way to determine what individual taxpayers specifically find confusing about tax forms. The report detailed that while the IRS has established a dialogue with professional organizations regarding their concerns with tax forms,

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<sup>7</sup> Tax Administration: IRS Efforts to Improve Forms and Publications, GAO/GGD-95-34.

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*The solicitation and evaluation of comments from businesses and professional organizations were effective.*

the IRS was still trying to find a way to readily identify the specific concerns of individual taxpayers.

In our review, we found that this condition still exists. The solicitation and evaluation of comments from businesses and professional organizations were effective and included providing access to responsible tax form development individuals by telephone. However, the procedures used to solicit tax form comments from individual taxpayers are not convenient for these taxpayers.

The IRS does not have a convenient process in place for individual taxpayers to contact the IRS with their input and suggestions for tax form improvements, such as a toll-free telephone number. Currently, individual taxpayers with suggestions are required to contact their congressional representatives, take the time to write a letter, or send a comment through the Digital Daily.

Although it is possible for individual taxpayers to communicate through the Digital Daily, the IRS does not actively solicit tax form improvement comments through this method. Also, communication through the Digital Daily is limited to people who know of the site and who have access to the Internet.

Additionally, while the instructions for individual income tax forms do solicit individual taxpayers to comment, this solicitation is not repeated on the documents most likely to be read by taxpayers - the tax forms themselves.

*The IRS does not have a process in place to compile and use tax form comments from individual taxpayers.*

**The IRS does not have a process to compile and use comments from individual taxpayers to support informed business decisions regarding tax form development and possible legislative proposals for tax form simplification**

The IRS does not have a process in place to compile and use tax form comments and suggestions from individual taxpayers. This data could be used by the IRS to determine which tax forms had the most pressing problems for the average taxpayer, or which suggestions are most commonly received.

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*The IRS burden and complexity estimates detailed on tax forms are computed using an outdated, abstract, computerized formula.*

Additionally, the IRS could use data compiled from individual taxpayers to calculate the burden and complexity estimates that are detailed on tax forms. Presently, the IRS burden and complexity estimates detailed on tax forms are computed using an outdated, abstract, computerized formula, that does not include actual taxpayer data. Therefore, these burden estimates cannot be used to accurately identify the burden and complexity associated with existing tax forms and those that are developed and/or revised in the future. However, management advised us that they are currently working with a contractor to design a new methodology to calculate burden.

*Inadequate IRS computer-programming resources are a barrier to tax form improvements.*

### **Inadequate IRS computer programming resources are a barrier to implementing tax form improvement suggestions and legislatively required tax form changes**

Suggestions made by the Tax Forms and Publications Division to make tax forms easier for taxpayers to understand and use, and to reduce specific errors taxpayers had with these forms, were not adopted because of limited computer-programming resources. These suggestions included:

- *Rearranging the reporting lines for the child tax credit and education credit on the U.S. Individual Income Tax Returns (Forms 1040A and 1040).* Currently, the order of these lines requires many taxpayers to read unnecessary instructions to accurately calculate the amount for the child tax credit. During the 1999 tax-filing season, approximately 23 million taxpayers claimed the child tax credit.



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- *Rearranging the placement of the qualifying child information, name and social security number (SSN), on the Earned Income Credit (Schedule EIC) so the reporting for the name and SSN is recorded on lines 1 and 2.* The current order separates the reporting of the name and SSN (name is located on line 1 with the SSN being entered on line 4 of the Schedule EIC). The Tax Forms and Publications Division has stated that the rearranging of these lines would reduce taxpayer errors. During the 1999 tax-filing season, approximately 18 million taxpayers claimed the earned income credit.

*In some instances, the tax forms that included changes based on tax legislation could not be accepted for normal IRS computer processing.*

Our review also identified instances where changes to tax forms were made based on tax legislation. However, as a result of limited computer programming resources, the forms could not be accepted for normal IRS computer processing. As a result of the incomplete computer programming, the IRS was required to develop costly manual systems to process the informational changes made to the tax form based on enacted legislation. To accept legislatively required changes to tax forms used in the 1999 tax-filing season, the IRS implemented four manual processing systems.

*Tax form preparation errors were not adequately addressed during the IRS' redesign effort.*

### **The IRS did not effectively ensure that tax form preparation errors were adequately addressed during its redesign of the tax forms relating to the child tax credit and earned income credit**

Specifically, our review identified that:

- *The IRS did not address the cause of taxpayer errors resulting from the IRS' placement of qualifying information on tax forms used by taxpayers to claim the child tax credit.* During the 1999 tax-filing season, the Tax Forms and Publications Division was informed that taxpayer errors relating to the child tax credit may have resulted from the design of the tax form.
- *The IRS did not ensure that redesigned tax forms alerted taxpayers of the need to provide accurate dependent last names and SSNs.* Specifically,

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taxpayers should be alerted to ensure that dependent's last names and SSNs match the individual's social security card; if not, the taxpayer should be informed to contact the Social Security Administration to rectify the problem. The IRS has identified dependent last name and SSN mismatches as a frequent taxpayer error when claiming the earned income credit.

*The IRS could more effectively pursue legislative changes in an attempt to reduce tax form complexity and taxpayer burden.*

### **The IRS could more effectively pursue legislative changes in an attempt to reduce tax form complexity and taxpayer burden**

Although the IRS has the ability to attempt to reduce the complexity and burden of tax forms by proposing changes to enacted tax law, we found that there is no on-going strategy to identify tax forms that could be simplified as a result of this process. In addition, we found that the Legislative Affairs Division has not conducted a solicitation for legislative change proposals since July 1996. Management advised us that subsequent solicitations for proposals were put on hold due to more pressing needs, such as preparation for upcoming restructuring and reform legislation, as well as the Commissioner's reorganization of the IRS.

The Legislative Affairs Division is responsible for maintaining an active interest throughout the IRS in producing an effective legislative program. However, the Tax Forms and Publications Division has the ability, at any time, to proactively provide legislative proposals to the Legislative Affairs Division for consideration.

*The Tax Forms and Publications Division cited concerns regarding the multitude of customer service and other calls not related to tax forms that may result from the IRS providing taxpayers with a toll-free number to provide tax form comments.*

The Tax Forms and Publications Division management cited concerns regarding the implementation of a toll-free number for tax forms comments. The primary concern related to the multitude of customer service and other calls not related to tax forms that may be received. Additionally, our review found that the IRS' inability to fully evaluate and implement legislative change proposals, tax form improvement suggestions, and legislatively required tax form changes resulted from a lack of adequate resources.

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### **Recommendations**

1. The Assistant Commissioner (Forms and Submission Processing) should develop and/or improve procedures that provide individual taxpayers with a convenient method to provide tax form comments to the IRS (such as a toll-free telephone number). These procedures should be clearly detailed on the tax forms.
2. The Assistant Commissioner (Forms and Submission Processing) should enhance its process to compile and use the tax forms information provided by individual taxpayers to support business decisions regarding tax form development and possible legislative proposals for tax form simplification.
3. The Assistant Commissioner (Forms and Submission Processing) should improve future tax form redesign efforts by addressing known tax form preparation errors during the redesign process.
4. The Assistant Commissioner (Forms and Submission Processing) and the Chief Communications and Liaison should develop and implement a strategy to review the tax law to propose legislative changes that could result in the simplification of tax forms.
5. The Chief Information Officer and the Chief Operations Officer should ensure that adequate resources are available to implement tax form improvement suggestions and legislatively required changes that can reduce complexity and taxpayer burden.

Management's Response: Management's response to the draft report was not available at the date this report was released.

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### The Internal Revenue Service Should Strengthen the System of Controls Over the Tax Forms Development Process to Ensure Compliance With Federal Internal Control Standards

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*Internal controls are an integral component of an organization's management structure that provides reasonable assurance of the effectiveness and efficiency of operations.*

The Federal Managers' Financial Integrity Act of 1982<sup>8</sup> requires agencies to establish and maintain systems of internal controls. Internal controls are an integral component of an organization's management structure that provides reasonable assurance that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making.

To ensure compliance with government-wide *Standards For Internal Controls In The Federal Government*, the IRS should strengthen its controls relating to:  
1) documenting the internal control structure;  
2) recording and tracking transactions; and 3) improving the accuracy of management information systems.

#### **Documenting the internal control structure**

Internal control systems, all transactions, and other significant events need to be clearly documented, and the documentation readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals.

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<sup>8</sup> 31 U.S.C. 3512(b).

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*The IRS does not document procedures for the sorting and distribution of taxpayer tax form comments received from the Digital Daily.*

Our review identified that:

- The Multimedia Production Division does not document procedures for the sorting and distribution of taxpayer tax form comments received from the Digital Daily.
- The Tax Forms and Publications Division does not document procedures to be followed for the handling of tax form improvement comments, and for the evaluation and documentation of results and recommendations from internal and general public testing of redesigned forms.

### **Recording and tracking of transactions and events relating to tax form development and printing**

Transactions and other significant events are to be promptly recorded from initiation and authorization through final classification in summary records. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

Our review identified the following:

*The IRS does not adequately record tax form improvement comments received from professional organizations by telephone.*

- The Tax Forms and Publications Division does not adequately record tax form improvement comments received from professional organizations by telephone. Additionally, we found that documentation supporting the written tax form improvement comments received by the Division was not always maintained.
- The Tax Forms and Publications Division does not record the recommendations and results of the IRS' employee testing of redesigned tax forms.
- The Legislative Affairs Division does not always timely and accurately track the status of tax form action items relating to enacted legislation. Specifically, our review of 17 open and past due action items, detailed on Legislative Affairs

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Implementation Plans<sup>9</sup> as of May 1999 identified that required monthly reports were not issued timely for 14 of these action items. In addition, the remaining 3 reports were not issued to the Tax Forms and Publications Division to obtain feedback on the status of required tax form revisions and/or development.

*The IRS does not properly process tax form comments received from its Digital Daily.*

- The Multimedia Division's Electronic Information Services Branch does not properly process tax form comments received from the Digital Daily. We found that the Multimedia Division's Electronic Information Services Branch deleted tax form comments when received, without providing the comments to the Tax Forms and Publications Division for evaluation. Comments were deleted if they did not include a taxpayer's mailing address, telephone number, or electronic mail address, even though the IRS alerts taxpayers not to provide any personal tax information (names, addresses, and SSNs) when providing comments.
- The Multimedia Production Division does not track the costs associated with changes to tax form printing contracts resulting from the IRS not timely providing the tax form to print contract vendors.

*The Multimedia Production Division does not track costs associated with changes to tax form printing contracts.*

### **Improving the efficiency and accuracy of the IRS' management information systems over the tax forms development and production process**

Another important internal control that IRS management needs to strengthen is that pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently.

Our review found that:

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<sup>9</sup> Our sample review included action items from the Small Business Act of 1996 and the Taxpayer Relief Act of 1997 with status due dates of June through December 1998.

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*The primary automated control system to track the status of tax form action items was inaccurate, incomplete, and not compatible with the Legislative Affairs Division's tracking system.*

*We found that IRS management was not consistently familiar with requirements relating to federal internal control standards.*

- The primary automated control system used by the Tax Forms and Publications Division to track the status of tax form action items was inaccurate, incomplete, and not compatible with the required Legislative Affairs Division's tracking system.
- The Tax Forms and Publications Division maintained multiple, separate, and redundant automated systems to record and track internal and external tax form comments. The maintenance of the separate systems often resulted in the same information being manually input into as many as three systems.
- The primary automated control system used by the Multimedia Production Division to track and report tax form printing was inaccurate and incomplete.

The Tax Forms and Publications Division and the Legislative Affairs Division management cited that a lack of non-technical personnel has contributed to the internal control weaknesses identified. As a result of the lack of resources, management has been forced to assign technical personnel to the internal control recording and tracking duties. However, Tax Forms and Publications Division management's first priority for the technical personnel assigned these duties is to timely develop and print tax forms. We also found that IRS management was not consistently familiar with requirements relating to federal internal control standards.

Additionally, a lack of management oversight in the Multimedia Division's Electronic Information Services Branch resulted in the inappropriate handling of individual taxpayer tax form comments from the Digital Daily.

### Recommendations

6. The Chief Information Officer and the Chief Operations Officer should provide adequate resources to ensure that internal controls provide

## The Process of Developing Tax Forms for Individual Taxpayers Should Be Further Improved

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reasonable assurance relative to the efficiency and effectiveness of its tax forms development process.

7. The Assistant Commissioner (Forms and Submission Processing) and the Chief Communications and Liaison should, through training and employee memoranda, increase Divisional familiarity with the requirements relating to the *Standards For Internal Controls In The Federal Government* to ensure IRS compliance with these standards.
8. The Assistant Commissioner (Forms and Submission Processing) should ensure that procedures are developed and adhered to for the processing of tax forms comments received from the Digital Daily.
9. The Chief Communications and Liaison should permanently implement controls similar to those used to monitor the implementation of the IRS Restructuring and Reform Act of 1998.<sup>10</sup> Specifically, permanent implementation should include the use of the consolidated Intranet site to monitor plans and the assigning of action items to executives, allowing for cross-functional oversight of the implementation of these action items.

*The IRS should include the use of the consolidated Intranet site to monitor plans and the assigning of action items to executives, allowing for cross-functional oversight of the implementation of these action items.*

Management's Response: Management's response to the draft report was not available at the date this report was released.

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<sup>10</sup> Pub L. No. 105-206, 112 Stat. 685.



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### Conclusion

*Our review found that the IRS has a process in place that produces tax forms in a timely manner, and has initiated many changes in an attempt to reduce the burden and complexity of tax forms. However, additional improvements can be made.*

The IRS does not have a convenient process in place for individual taxpayers to contact the IRS with their input and suggestions, such as a toll-free telephone number. Even if such information were efficiently solicited, the IRS does not have a method in place to use this data to make informed business decisions regarding tax form development and possible legislative proposals for tax form simplification.

Improvements to the tax forms development process that enable individual taxpayers to conveniently provide tax form comments to the IRS will ensure that specific concerns of the individual taxpayers are fully known. This will put the IRS in a better position to focus on improving burdensome tax returns during its redesign efforts. Also, adequate resources will help ensure that tax form improvements and changes are implemented and that the IRS has the ability to proactively identify tax forms which can be simplified as a result of legislative changes.

Full implementation of these changes and improvements could result in further reduction of tax form complexity and taxpayer burden.

Additionally, internal controls over the IRS' tax forms development process should be improved to provide better compliance with government-wide internal control standards. This would help to ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making.

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**Appendix I**

**Detailed Objective, Scope, and Methodology**

The overall objective was to determine if the Internal Revenue Service (IRS) has an effective, efficient, economical, and well-controlled process to timely design and produce tax forms which minimize taxpayer burden while aiding individual taxpayers in accurately complying with tax laws.

In order to accomplish this objective, we conducted the following audit tests:

- I. Identified, analyzed, and evaluated the IRS' process for determining changes and improvements in tax forms, and the related controls over that process.
  - A. Identified the overall IRS policy/mission/objective statement(s) along with those from the specific functions involved with designing and producing the highest quality tax forms and instructions in an efficient, economical, and timely manner, and analyzed for completeness and compatibility with each other and to the overall IRS mission.
    1. Determined if the objectives are coordinated with each other to build a cohesive overall IRS forms objective among the various IRS functions involved, were in writing, and specified the highest quality forms, timeliness, and minimal burden on taxpayers in completing the tax forms and understanding the instructions.
    2. Determined, if applicable, why any objectives of any major functions involved were not coordinated with the others, were not in writing, and did not specify highest quality, timeliness, or minimal burden on taxpayers in completing the tax forms and understanding the instructions.
  - B. Identified and analyzed any IRS management information systems over the tax forms development and production process, for completeness, accuracy, efficiency, timeliness, and usefulness throughout the process.
  - C. Through interviews and review of IRS documentation, we identified the IRS process and the IRS control system in place to determine the success of the IRS process for timely designing and producing the highest quality tax forms and instructions in an efficient, economical, and timely manner.
    1. Structured the questions and the identification of internal controls on government-wide standards/guidelines on controls issued by the Office of Management and Budget, the General Accounting Office

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- (GAO), and IRS standards as stated in the Internal Revenue Manual and performance expectations of managers and executives.
2. Conducted the interviews, analyzed the documentation, and prepared a summary of the control system.
    - a. Identified the process for identifying, communicating, and tracking key legislation involving changes to tax forms and instructions.
    - b. Identified key legislation that could affect tax forms and instructions for the 1998 and 1999 filing seasons.
- D. Analyzed the normal IRS process identified, and determined if the process provided for accurate, effective, and efficient identification, coordination among functions, tracking, and validating the development and improvement of all tax forms and instructions necessitated by the key legislation identified.
1. Analyzed the overall IRS process and the internal process at each key function involved, for identifying, coordinating, and tracking legislatively necessitated tax form and instruction changes.
  2. Determined if the IRS process ensures complete implementation of the legislative change. Determined how the IRS verifies that any necessary programming and/or operational changes associated with the new tax forms and legislation were implemented.
  3. Determined if internal IRS constraints, such as the inability of the IRS to program changes, which would reduce taxpayer burden or make forms preparation clearer or simpler, prevented these taxpayer-friendly improvements.
  4. Determined if the IRS has a special process or other quick response control to deal with late-session legislative actions, which may necessitate tax form or instruction changes.
  5. Determined if the normal IRS process for tracking legislative changes can promptly and accurately document and validate the overall implementation status of key legislation that required changes to tax forms and instructions.
- E. Through interviews and review of documentation, identified the ad-hoc process set up for implementation of the IRS Restructuring and Reform

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Act of 1998<sup>1</sup> in the Taxpayer Treatment and Service Improvements (TTSI) operation, as far as improving tax forms and instructions are concerned.

1. Compared the traditional IRS process and controls identified in previous steps to the process and controls identified by the Office of the TTSI.
  2. Drew a conclusion as to whether some or all of the features of the TTSI system should be made permanent to benefit taxpayers and improve controls.
- F. Walked through the control system with management to obtain concurrence that our analysis was accurate.
- G. Considered the overall control environment (specifically in comparison with the *Standards For Internal Controls In The Federal Government*,<sup>2</sup> issued by the GAO) surrounding the identified process and developed risk assessment matrixes which showed primary segments in the process, as well as identified:
1. The risks associated with the controls performing as designed, regarding the design and production of the highest quality tax forms and instructions in an efficient, economical, and timely manner.
    - a. Included as criteria in the risk assessment the age and reliability of any management information or case control system involved.
    - b. Included as criteria in the risk assessment the completeness of resources available, such as the competency of personnel involved.
    - c. Used the results of the internal control questionnaires to include in the risk assessment the familiarity with federally mandated internal controls.
  2. Any apparent significant gaps in the control system.
  3. The need for detailed audit testing of specific parts of the process and/or controls over the process.

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<sup>1</sup> Pub L. No. 105-206, 112 Stat. 685.

<sup>2</sup> This General Accounting Office (GAO) document contains the Comptroller General's internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control as required by the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512[b]).

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- II. Selected six high-risk tax issues and executed tests to determine whether the appropriate controls were in place and were functioning properly, relating to the forms impacting the issues. For two of these high-risk tax issues, determined whether the associated tax forms, worksheets and instructions were accurate, clear, and conformed with legal requirements as stated in the Internal Revenue Code (I.R.C.).
  - A. Used the following as criteria for selection of the tax forms for detailed review:
    - 1. The age and/or reliability of any computer applications associated with the control.
    - 2. The volume of various types of tax forms filed.
    - 3. The volume of known taxpayer errors associated with the tax forms.
    - 4. The level of public or congressional interest.
    - 5. The degree of difficulty and/or complexity of the tax form or section of the form.
    - 6. The revenue impact of the tax form or section of the tax form.
    - 7. The newness of the tax form/tax form section/statutory provision.
  - B. Tested and analyzed the handling and control of the design and production of six high-risk tax form issues in each of the primary points of the IRS process, as identified in Objective I, for effective forms design, quality, timeliness, and coordination between IRS functions.
  - C. Based on data from audit step A above, selected two tax forms and analyzed them to determine whether the tax forms and related instructions were accurate, clear, and conformed with legal requirements as stated in the I.R.C.
  - D. Drew a conclusion on the effectiveness of each internal control tested and analyzed for the six high-risk tax form issues.
- III. Determined whether the IRS process effectively, efficiently, and timely considered internal and external suggestions to simplify and improve tax forms and instructions, reduce errors, and reduce taxpayer burden.
  - A. Identified the various sources for internal and external suggestions to improve tax forms and instructions. These included: taxpayers, IRS employees, professional groups, audits, e-mail, call-sites, and other internal sources.

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- B. Identified and reviewed the process used to record, track, and evaluate internal and external suggestions to improve tax forms and instructions.
  - C. For the six high-risk tax form issues identified above, we identified suggestions submitted during calendar years (CY) 1998 and 1999 (through July 12, 1999), and determined whether the IRS timely, accurately and efficiently recorded, tracked, responded, and, if appropriate, implemented these suggestions.
  - D. Contacted external and internal stakeholders and determined whether they had submitted suggested tax form and instruction changes to the IRS, the reason for the change, the status of the suggestion, and their overall opinion on the IRS' response and/or action to their suggestion.
  - E. Drew a conclusion on the effectiveness, efficiency, timeliness, and controls over the IRS' process for soliciting, analyzing, and implementing possible improvements, coming from both internal and external sources, for simplifying and improving tax forms and instructions, reducing errors, and reducing taxpayer burden.
- IV. Determined whether the IRS has an effective, timely, controlled, and organized program for (1) proactively identifying the tax forms or instructions causing problems for taxpayers and IRS processing, and (2) submitting to the United States Treasury Department legislative proposals to reduce the problems, simplify the forms, and reduce taxpayer burden.
- A. Analyzed the IRS' process for proactively identifying the problem tax forms and submitting legislative proposals to reduce the problem, simplify the tax form, and reduce taxpayer burden.
  - B. Determined how and which function initiates legislative proposals for forms improvement, what triggers a proposal (suggestions, complaints and/or errors), what documentation is required, which function evaluates the proposal and decides to submit it to the Congress for consideration, and who markets the improvement proposal.
  - C. Determined which function is responsible for tracking the process of legislative proposals.
  - D. Through interviews with IRS officials, determined the IRS' involvement, if any, with legislative proposals from external stakeholders that would simplify tax forms and instructions. If the IRS was involved, we documented and reviewed the information.
  - E. Contacted pertinent organizations (National Association of Enrolled Agents, American Association of Retired Persons, etc.) and determined if

## **The Process of Developing Tax Forms for Individual Taxpayers Should Be Further Improved**

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they submitted suggestions that warranted legislative proposals to address problem tax forms. If yes, determined why, the IRS' involvement, and the status of the legislation.

- F. For CY 1997 through CY 1999 (through July 29, 1999), identified and reviewed all internally initiated legislative proposals, including proposals currently being developed.
  - 1. Determined which IRS function initiated the proposal(s) and the status of the proposal(s).
  - 2. Documented the results of any legislative proposal(s) that were enacted.
- G. Drew a conclusion as to the effectiveness, timeliness, organization, and controls over IRS identification of problematic tax forms or instructions, and the effectiveness of IRS actions to get the tax form problems reduced through tax legislation.
- V. Determined if the IRS' process for designing and producing tax forms and instructions is efficient and economical.
  - A. Determined if the IRS incurred any additional costs due to the late delivery of 1999 processing tax forms to vendors for printing, or for other reasons.
  - B. Identified any tax forms that did not involve a legislatively mandated tax form change. From these, we selected a sample of 18 tax forms (out of a universe of 183) based on the additional costs incurred, the volume of the tax forms filed, and the number of days late to the vendor and determined:
    - 1. The number of days late to the vendor.
    - 2. The additional costs incurred.
    - 3. The reason for the delay in delivering the form for printing.Evaluated the above information and determined the reasonableness of the delays and subsequent additional costs.
  - C. Analyzed computer-based and manual record keeping systems used in tracking changes and controlling tax-form related work for efficiency, duplication, compliance with control standards such as security and backing up data, compatibility with other IRS databases or systems, and other efficiency/economy problems.
  - D. Drew a conclusion as to the efficiency and economy of the IRS process for designing and producing tax forms.

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**Appendix II**

**Major Contributors to This Report**

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**Appendix III**

**Report Distribution List**

Deputy Commissioner Operations C:DO  
Chief Information Officer IS  
Chief Operations Officer OP  
Chief Communications and Liaison CL  
Assistant Commissioner (Forms and Submission Processing) OP:FS  
Assistant Commissioner (Submission Processing Division) IS:S:SP  
National Director, Multimedia Production OP:FS:M  
National Director, Submission Processing OP:FS:S  
National Director, Tax Forms and Publications Division OP:FS:FP  
National Director for Legislative Affairs CL:LA  
National Taxpayer Advocate C:TA  
Director, Office of Program Evaluation and Risk Analysis M:O  
Office of Management Controls M:CFO:A:M  
Office of Chief Counsel CC

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**Appendix IV**

**List of External Organizations Contacted**

American Association of Retired Persons  
H&R Block  
Intuit  
National Association of Enrolled Agents  
Nelco  
New York State Tax and Finance, Production Support  
United States Government Printing Office  
United States Treasury Department, Office of Tax Analysis