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EXECUTIVE OFFICE OF THE PRESIDENT OF THE UNITED STATES**

**BEFORE THE  
SUBCOMMITTEE ON REGULATORY AFFAIRS  
COMMITTEE ON GOVERNMENT REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES**

**May 25, 2005**

Good afternoon, Madam Chair, and Members of this Subcommittee. I am John D. Graham Ph.D., Administrator, Office of Information and Regulatory Affairs (OIRA), Office of Management and Budget. Thank you for inviting me to testify about OIRA's responsibilities under the Paperwork Reduction Act (PRA) and our efforts to reduce paperwork burden on the public.

I would like to take this opportunity to welcome you to the world of government paperwork. I am confident that, as the new chair of this Subcommittee, your leadership on this issue will benefit greatly from your experiences as a businesswoman and as a government official at the State and local levels. I look forward to working with you and the Subcommittee building on our previous efforts to reduce paperwork burden across the Federal government and ensuring compliance with the requirements of the PRA.

In your letter of invitation, you specifically requested that my testimony address burden reduction efforts undertaken by the Internal Revenue Service (IRS) since 1996 in accordance with the PRA. Before discussing these IRS measures, I would like to review briefly the burden reduction provisions of the PRA.

The 1995 PRA directed OMB to set, in consultation with agencies, annual government goals for the reduction of information collection burdens – 10 percent each for FY 1996 and FY 1997, and 5 percent each for FY 1998-2001. To understand these government-wide burden reduction goals, it is important to put them into context. Specifically, the 1995 PRA states that OMB establish burden reduction goals that (1) “represent the maximum practicable opportunity in each agency”; (2) “are consistent with improving agency management of the process for the review of collections of information, and; (3) “improve information resources management in ways that increase the productivity, efficiency and effectiveness of Federal programs.”

In other words, the PRA set aspirational paperwork reduction goals that called on OMB and agencies to consider the practicality and impact on programs of efforts to alleviate reporting burdens. As the experience with IRS demonstrates, the need to account for factors such as statutory requirements hindered the Federal government's ability to achieve the PRA's burden reduction goals.

## **Internal Revenue Service Efforts to Reduce Burden (1996 – 2003)**

Approximately 80 percent of the Federal paperwork burden is associated with the tax system administered by the IRS within the Department of the Treasury. More than any other Federal agency, IRS relies on individuals and businesses to devote significant amounts of time and resources to ensure compliance with Federal requirements. Specifically, IRS collects information from the public and requires the maintenance of records to (1) determine if the correct amount of taxes, fees, and other revenue has been paid and (2) identify errors and correct them.

Since 1996, IRS has undertaken a range of initiatives targeted at reducing paperwork burden on the public including simplifying and redesigning forms; increasing the use of technology and electronic commerce; and reengineering processes. For example, in 1996 IRS simplified the 1040 individual taxpayer form decreasing respondent burden by almost 60 million hours, in 2002 IRS introduced the Free File system allowing taxpayers to file electronically for free over the internet, and in 2002 IRS created the Office of Taxpayer Burden Reduction to develop burden reduction initiatives that would significantly relieve respondent burden. Despite these efforts, statutory requirements and increased usage of tax forms have more than offset IRS initiatives to reduce paperwork burden. Nonetheless, these initiatives have helped to ensure that paperwork burden is minimized to the extent possible.

OMB has regularly reported on IRS burden reduction measures in the Information Collection Budget (ICB), our annual account to Congress required by the PRA. For an annual summary of IRS efforts from 1996 – 2003, please see Appendix A to my Testimony.

## **Department of the Treasury Burden as Reported in the FY 2005 Information Collection Budget**

In FY 2004 the Department of the Treasury reported a decrease in burden of 184 million hours relative to FY 2003. The majority of this decrease – 147 million hours – resulted from a number of significant adjustments—refinements in the measurement of the number of respondents or burden hours—many of which were due to new estimates of the number of filers of IRS forms.

In addition to an overall decrease of burden hours associated with adjustments, Treasury reported a net reduction in burden associated with program changes, which result from agency actions or implementation of new statutory requirements. While these figures were reported on a department-wide basis they closely parallel changes in IRS burden, which represents the most significant component of Treasury burden. Net program changes for Treasury in FY 2004 resulted in a reduction of 36.3 million hours, despite the fact that new statutory requirements increased Treasury burden by 101 million hours.

Among statutorily driven burden increases, changes in recent legislation enacted to provide tax relief resulted in significant additional burden. For example, changes in the Income Tax Return for Estates and Trusts required by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) resulted in a burden increase of 12.3 million hours. Nevertheless, these program change increases were more than offset by

discretionary program changes that reduced burden by 137 million hours. IRS, for instance, eliminated sections of the individual income tax return in response to public input, which resulted in a net decrease of 34.4 million hours.

Additionally, IRS is evaluating its current burden assessment methodology. The current methodology is based on survey data almost 20 years old and measures only certain types of taxpayer compliance burdens. The new model represents a shift in the approach for measuring burden: it focuses on the taxpayer and the taxpayer's characteristics rather than the forms the taxpayer uses. Key drivers of taxpayer burden in the new model are who prepares the return and the taxpayer's activities. In contrast, the current model primarily focuses on the burden incurred for each form. A major goal of the project has been to provide IRS with the capability to do "what if" analysis to guide burden reduction efforts and to inform agency decisions on tax administration matters. The model represents a major step forward in IRS' ability to assess likely impacts on individual taxpayers before making changes. Please see Appendix B of my Testimony for additional details addressing the new IRS burden accounting methodology.

### **Paperwork Burden Across the Federal Government**

In FY 2004 total paperwork burden was 7.971 billion hours, a decrease of 128 million hours or 1.6% from an FY 2003 total burden of 8.099 billion hours. In FY 2004, total adjustments accounted for a net decrease in Federal paperwork burden. It is principally due to these changes that aggregate burden decreased.

OMB classifies burden hours associated with paperwork transactions into two categories: (i) adjustments (re-estimates of burden resulting from changes in the population affected by a collection or more accurate estimations of the time required to comply with a collection) and (ii) program changes (which result from agency actions or implementation of new statutory requirements). The overall decrease in burden reflected a combination of both net program changes and net adjustments.

During FY 2004, total program changes resulted in a net increase in burden hours, which slightly offset the net decrease in adjustments. This overall program change increase combined changes due to discretionary agency actions and new statutory requirements. Within the first category of program change, discretionary actions, agencies were able to reduce burden by a net of 96.8 million hours. Despite this net reduction, total program changes resulting from new statutory requirements increased paperwork requirements and imposed 119 million hours of burden.

### **Paperwork Reduction Act Compliance**

The PRA requires Federal agencies and OMB to ensure that information collected from the public minimizes burden and maximizes practical utility. The Act assigns each agency's Chief Information Officer (CIO) the responsibility for ensuring that the agency complies with the PRA. OMB's Office of Information and Regulatory Affairs (OIRA) is responsible for approving information collection reviews under the PRA. OIRA desk officers review and approve over 3,200 information collections each year.

During my tenure as OIRA Administrator, OMB has adopted a “zero-tolerance policy” for violation of the PRA. These violations occur when an agency collects information from the public without OMB approval. During the past year, we have worked diligently with agency staff and policy officials toward eliminating expired collections and resolving, if any, violations prior to publication of the ICB report.

I am pleased to report that agencies have reduced outstanding violations, at the time of OMB’s submission to Congress of the *FY 2005 Information Collection Budget*, from 325 in FY 1998 to 0 in FY 2004.

Furthermore, to help the public and the agencies monitor compliance with the information collection provisions of the PRA, OMB annually publishes a list of violations. During FY 2004, the agencies reported 89 information collections that expired during FY 2004 (10/1/2003 to 9/30/2004). In addition, the agencies reported 75 pre-existing collections that had expired before October 1, 2003 and were on-going violations until their reinstatement dates in FY 2004.

Agencies have made great progress in reducing the number of violations that occur and in resolving them more promptly. However, it is still the case that a considerable number of collections become violations each year because agencies do not submit to OMB, on a timely basis, requests for renewal of OMB approval under the PRA.

### **Steps to Improve Agency Compliance**

We believe that the elimination of unresolved violations stems directly from our heightened efforts throughout the last three and a half years. In addition to the routine efforts to inform agency staff, OMB has taken some additional measures to eliminate violations, including:

On September 27, 2004, OMB sent a Memorandum to the President’s Management Council and to agency Chief Information Officers and General Counsels detailing the importance of eliminating agency PRA violations. OMB requested that the Chief Information Officers of each agency provide a description of the structure their agencies had, or will put in place, to ensure the prevention of PRA violations in the future.

This month I have begun meeting individually with the Chief Information Officers and General Counsels of the 8 agencies with the largest number of violations reported in FY 2004 to discuss methods for reducing the number of violations. I am requesting that the agency CIOs ensure all their violations in FY 2005 be reinstated, with OMB approval, by the end of this fiscal year.

### **Agency Initiatives to Reduce Burden**

An underlying goal of the Paperwork Reduction Act is to minimize the Federal paperwork burden on the public. As part of the submission for this year’s ICB report, OMB requested agencies with total burden equal to or in excess of 10 million hours to provide OMB with up to three initiatives that will result in a cumulative burden reduction level of approximately 1% of their FY2004 total agency burden. These burden reduction initiatives vary across government agencies; however, all initiatives are designed to

improve program performance, reduce the burden per response on the public or lead to a comprehensive review of an entire regulation, guidance document or program. Appendix C to my Testimony lists a number of significant burden reduction initiatives.

That concludes my prepared testimony. I would be happy to answer any questions you may have.

## **Appendix A: IRS Burden Reduction Initiatives (1996 – 2003)**

*FY 1996*

Simplifying and Redesigning Forms: The IRS made several changes to the 1040 form and instructions that reduced the paperwork burden of individual taxpayers by almost 60 million hours. These changes included producing a separate, streamlined set of instructions for use by 10 million taxpayers that file the simplest 1040 returns and eliminating a net of 20 lines from the 1040 form and instructions.

*FY 1997*

Increased Use of Technology: IRS expanded the availability of paperless, electronic tax filing options to reduce taxpayer recordkeeping and reporting burdens. Among the benefits of electronic filing are significant reductions in errors, which in turn reduce the number of notices sent to taxpayers, and faster processing of returns by IRS

*FY 1998*

Simplifying and Redesigning Forms: The 1998 individual income tax packages, which include the primary forms and instructions, were improved to highlight tax law and form changes to make it easier for taxpayers to find the information they need. The covers of the packages highlighted the new child tax credits and education benefits, reminded taxpayers that Social Security numbers must be entered on the return since they were no longer on the labels, and promoted electronic filing. Inside the Form 1040 package, there was more white space and larger print for improved readability. In case IRS needed to contact the taxpayer while the return was being processed, there was an optional space on Forms 1040 and 1040A for the taxpayer to enter a daytime telephone number. Information about taxpayer assistance services like Forms by Fax were moved to the front of the booklet.

Increased Use of Technology: IRS made tax forms available on its website, making them easier for taxpayers to obtain. The IRS also improved its early release forms program by making the draft forms available on the IRS Internet website. The drafts are accessible for review and comment by the public to be more responsive to customers' needs and concerns.

*FY 1999*

Increased Use of Technology: IRS made significant investments in information technology as part of its overall modernization efforts. In late FY 1999, the IRS awarded a major contract for a multi-year systems improvement effort. The IRS also made Electronic Tax Administration (ETA) a top priority. ETA reduces taxpayer burden by making it easier and faster to file returns and communicate with the IRS. One key initiative for FY 2000 was expanding the use of identification numbers to facilitate secure filing by tax preparers. The IRS also made electronic payment options available, and accepted more forms and schedules through e-filing. The IRS also provided businesses a growing number of electronic filing and payment options.

## *FY 2000*

Reengineering processes: IRS worked to improve its administration of the tax laws to reduce the time the public spends working on taxes. For example, IRS transferred 2 million taxpayers from the 1040 to the simpler 1040A, which reduced overall burden by 2.4 million hours. The agency also continued to work on electronic filing to make the public's task easier and less likely to result in errors.

Reengineering processes: IRS sought to reduce taxpayer burden in a variety of ways including regulations and guidance. For example, several items of recently published guidance reduced paperwork requirements, made it easier for taxpayers to file returns and other information with the IRS, or made it easier for taxpayers to comply with tax laws and regulations e.g.: *Participation in Annuity and Deferred Compensation Plans, Revenue Rulings 2000-33 and 35, and Announcement 2000-60*: IRS also allowed for automatic enrollment of participants in 403(b) annuity plans, 457 governmental and tax exempt deferred compensation plans, and 401(k) prototype plans. This made the participation process easier to initiate for both workers and employers.

## *FY 2001*

Increased Use of Technology: Each year, the Internal Revenue Service (IRS) receives well over 200 million tax returns. The majority of these transactions are submitted by standard mail, not electronic filing. While electronic filing is easier and can reduce the amount of time taxpayers spend filling out their returns, it requires citizens to purchase commercial software products. Thus, the burden on taxpayers who choose electronic filing is not been eliminated; it has simply been shifted from time to cost. Free File was introduced to reduce the burden on taxpayers who choose electronic filing by removing the costs to the public of filing and preparing taxes electronically. Under this initiative, taxpayers were able to use the Internet to input data on-line and file their taxes quickly and easily. Free File, an industry partnership, gave most individuals the option to file and prepare his or her tax return online for free.

## *FY 2002*

Reengineering processes: The IRS devotes considerable resources to development of forms in a manner that minimizes burden. Forms development within IRS is a rigorous procedure that utilizes the policy and graphic layout expertise of numerous individuals as well as, when appropriate, public focus groups.

Office of Taxpayer Burden Reduction: In recognition of the importance of reducing paperwork, in January 2002, IRS created the Office of Taxpayer Burden Reduction (OTBR). This office seeks to achieve significant burden reduction for taxpayers by developing proposals that foster burden reduction; by coordinating and championing burden reduction efforts throughout the IRS; and by working with others in IRS, Congress, States, other Federal agencies, and the small business community to develop, coordinate and implement meaningful burden reduction efforts that are consistent with IRS's customer service and compliance goals.

Simplifying and Redesigning Forms: IRS redesigned Form 941. This project to review and redesign this form affected 6.6 million employers. IRS's form redesign group determined that some existing space on the form was used for internal processing and could be made available for improved formatting and readability.

*FY 2003*

Simplifying and Redesigning Forms: In the 2002 tax year IRS implemented an increased threshold affecting small businesses who file corporate income tax returns. Companies with less than \$250,000 of gross receipts and less than \$250,000 in assets no longer needed to report certain information. For larger companies these schedules are necessary tools in the examination of corporate returns but for most small businesses they have limited application. The changes were estimated to affect 2.6 million small businesses and were computed to reduce burden by 33.7 million hours for Form 1120 and 3.4 million hours for Form 1120-A.



## **Appendix B: New IRS Burden Accounting Methodology**

IRS is evaluating its current burden assessment methodology, which although vastly more sophisticated than that used by most Federal agencies, has recognized shortcomings. The current methodology is based on survey data almost 20 years old and measures only certain types of taxpayer compliance burdens. It has limited ability to predict changes in compliance burden resulting from changes in tax policy or tax system administration.

The new Individual Taxpayer Burden Model (ITBM) will revise the benchmark indicators of the levels of burden experienced by individual taxpayers when complying with the Federal Income Tax Code. Improved technology, increased computer capabilities and modeling sophistication afford IRS the capability to improve the method for estimating burden and develop a complex microsimulation model. IRS and its consultant, IBM Business Consulting Services, developed the ITBM over a period of six years. An interagency advisory group has contributed expertise throughout the project development. The transition to the ITBM estimates will occur in 2005, and the 2005 tax forms (for use by 2006 filers), will include the new estimates.

The ITBM will provide the IRS a more comprehensive methodology for assessing taxpayer burden, both current levels and the potential impact of legislative and administrative changes, than previous approaches. A major goal of the project has been to provide IRS with the capability to do “what if” analysis to guide burden reduction efforts and to inform agency decisions on tax administration matters. The model represents a major step forward in IRS’ ability to assess likely impacts on individual taxpayers before making changes. For example, if dollar thresholds for a provision are adjusted, IRS officials need to understand the impact on taxpayer burden beforehand. IRS’ administrative efforts to reduce burden by redesigning tax forms, changing record keeping requirements, or addressing changes in taxpayers’ behavior, such as increased use of software or paid professionals can be evaluated using the new model.

The new model represents a shift in the approach for measuring burden: it focuses on the taxpayer and the taxpayer’s characteristics rather than the forms the taxpayer uses. Key drivers of taxpayer burden in the new model are who prepares the return and the taxpayer’s activities. In contrast, the current model primarily focuses on the burden incurred for each form. The changes between the current and new burden estimates are due to improved methodology and the expanded scope of what is measured. This will create a one-time shift in burden levels.

## **Appendix C: Agency Burden Initiatives**

Summaries of agencies that reported a 1% burden reduction are as follows:

- *Employers Annual Federal Tax Program (Form 944)* - The IRS is undertaking a Taxpayer Burden Reduction project to reduce burden on the smallest of small business taxpayers by establishing new rules and processes that will allow certain employers to file their Employment Tax (ET) returns, as well as pay the ET tax due, on an annual basis. Currently all employers are required to file a Form 941, Employer's Quarterly Federal Tax Return, on a quarterly basis. This form is used to report wages paid federal income tax and Social Security/Medicare taxes withheld from the employees' compensation and the employer's matching Social Security tax amount. The Form 941, in general, must be filed quarterly, regardless of the amount the employer owes. Submission of the amounts withheld must be paid with the return if less than \$2500 per quarter. If the total is \$2500 or greater, then the taxpayer must make more frequent Federal Tax Deposits based upon a specific schedule. There are approximately 6 million entities that file Form 941 each year, for a total of 24 million returns.

To accomplish the initiative of reducing burden on the very smallest of business taxpayers, the IRS is developing a new Form 944, Employer's Annual Federal Tax Return. This program will be for those employers who owe less than \$1000 a year in total Employment Taxes (i.e., withheld income, Social Security and Medicare taxes, as well as the employer's matching amount for Social Security). They will also be allowed to pay what they owe with the annual return due each January 31st for the prior calendar year. This means a significant reduction in burden for these taxpayers: they will have only one form to file rather than four forms, and only one annual payment due with the annual return. IRS estimates this initiative will result in a burden reduction of 51,000,000 hours

- *Controlled Substances Ordering System (CSOS)* - The Justice Department currently requires controlled substances manufacturers, distributors, practitioners, and pharmacies to use form DEA-222 to transfer or purchase Schedule I and II controlled substances. Use of this form is mandated by the Control Substance Act to document the movement of these controlled substances. DEA is implementing a system using Public Key Infrastructure technology to permit the electronic transmission of these controlled substances orders resulting in a burden reduction of 1,127,464 hours.
- *Performance Based Data Management Initiative (PBDMI)* - During FY 2005 PBDMI will be the focus of the Department of Education's efforts to reduce respondent burden. PBDMI will fundamentally transform the way that the Department accesses information and meets the requirements of the *No Child Left Behind Act*. The initiative will produce an Education Data Exchange Network (EDEN), providing State Education Agencies and the Federal government the capacity to transfer and analyze information about education programs. When

fully implemented, EDEN will not only provide timely performance data to education decision makers and grant managers but also streamline the data collection process and reduce the burden of grant reporting by an estimated 410,000 hours.