INTERNAL REVENUE SERVICE

Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request

Why GAO Did This Study

The Internal Revenue Service's (IRS) tax filing season performance is a key indicator of how well IRS serves taxpayers. This year's filing season was expected to be risky because of tax system changes, including the telephone excise tax refund (TETR). IRS's fiscal year (FY) 2008 budget request shows its spending proposal for taxpayer service, enforcement, and Business Systems Modernization (BSM). The request includes initiatives to reduce the tax gap, the difference between what taxpayers owe and what they voluntarily pay on time. IRS recently estimated the net tax gap to be $290 billion in 2001. GAO was asked to (1) describe IRS's 2007 filing season performance, (2) determine how IRS's proposed FY 2008 budget compares to prior years', provides information on how proposals may impact the tax gap, justifies new spending, and whether there are opportunities to reduce or reallocate resources, and (3) evaluate the status of IRS's efforts to develop and implement BSM.

What GAO Recommends

GAO is not making any new recommendations, but notes relevant past recommendations, their implementation status, and where our previous work has identified opportunities for additional savings.

www.gao.gov/cgi-bin/getrpt?GAO-07-673.

To view the full product, including the scope and methodology, click on the link above. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.
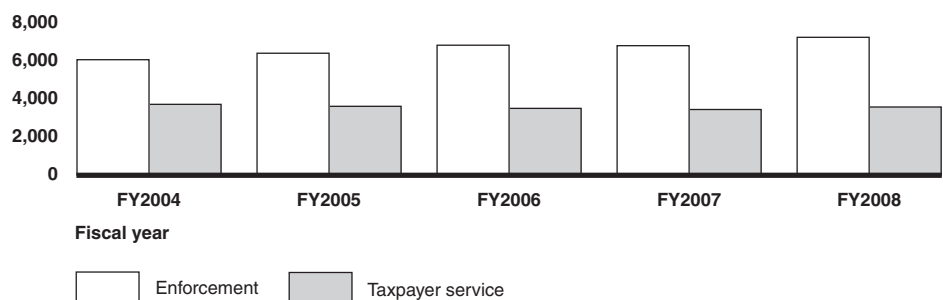
What GAO Found

Despite initial concerns about this year's filing season being high risk due to increased workload from TETR and other tax system changes, early data suggest that the impact has been minimal because anticipated volume has not materialized. IRS has processed over 63 million returns, most filed electronically. However, one of IRS's key tax return processing systems became operational two months behind schedule, resulting in slower posting of returns and delayed refunds for several days for millions of taxpayers.

IRS's 2008 budget request of $11.6 billion would increase spending by 5.6 percent and continue a trend since 2004 of shifting overall spending toward enforcement. The proposed budget provides limited information on the impact of proposed initiatives on the tax gap. Expected direct enforcement revenue to be gained is small—less than 1 percent of the net tax gap. The indirect effect of the initiatives on voluntary compliance is unknown although some research suggests that the indirect effect might be larger than the direct effect. Further, justifications for selected taxpayer service and enforcement initiatives varied. While documents for some initiatives had useful detail for assessing them, others lacked this information. For example, the initiative to determine the impact of taxpayer service on compliance lacked details such as a problem statement, a research approach, and how IRS determined needed resources. While GAO has been supportive of this kind of research, without a more detailed justification GAO cannot comment on specifics of the proposal. GAO is continuing to assess the justifications. IRS may be able to deliver taxpayer service more cost effectively, but its study of taxpayer service delivery options is several months behind schedule; in March 2007, the IRS Commissioner testified that the report will be issued soon.

Despite progress made in implementing BSM projects and improving modernization management controls and capabilities, significant challenges and serious risks remain, and IRS has more to do to fully address our prior recommendations.

Funding for IRS Enforcement and Taxpayer Service Programs and Related Support Functions, Fiscal Years (FY) 2004-2008

Source: GAO analysis of IRS data.

United States Government Accountability Office