



Highlights of [GAO-07-720T](#), testimony before the Committee on Finance, U.S. Senate

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) which can be requested by all individuals and entities that paid the excise tax. GAO was asked to describe IRS's service to taxpayers so far this filing season (including the impact of this year's tax systems changes). GAO was also asked to provide updates of previous assessments of the performance of paid tax preparers, IRS's efforts to modernize its information systems, and what IRS is doing to better measure taxpayer compliance. GAO compared IRS's filing season performance to prior years' and goals and based analyses of paid preparers, information systems, and compliance research efforts on recent reports.

What GAO Recommends

GAO is not making any new recommendations, but notes relevant past recommendations and their implementation status.

www.gao.gov/cgi-bin/getrpt?GAO-07-720T.

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.

2007 TAX FILING SEASON

Interim Results and Updates of Previous Assessments of Paid Preparers and IRS's Modernization and Compliance Research Efforts

What GAO Found

IRS's interim filing season performance is improved in some areas. The number of individual income tax returns processed to date is comparable to last year, and the number filed electronically is almost 6 percent greater. Taxpayers' ability to reach an IRS telephone assistor was somewhat less than last year, but the accuracy of answers to taxpayers' questions was about the same. Use of IRS's Web site increased, important because it is available 24 hours a day and is less costly than some other types of assistance. However, there have been challenges. Taxpayers' use of the Free File program, which provides free tax preparation and electronic filing through IRS's Web site—is 5.2 percent below last year at this time. Also, the Customer Account Data Engine (CADE), a modern tax return processing system, became operational 2 months behind schedule. IRS still expects to post 17 -19 million taxpayer accounts to CADE, which is about two and a half times more than last year. Tax systems changes have not had a significant effect on filing season performance. For example, IRS has received a fraction of the TETR-related telephone calls it expected to date.

Because paid preparers prepared over 62 percent of all individual income tax returns last year, they are a critical quality control for tax administration by helping to prevent noncompliance. Last year, GAO reported to this Committee about errors made by paid preparers. Some of the most serious errors involved not reporting business income and failing to itemize deductions. GAO's limited work last year did not permit observations about the quality of the work of paid tax preparers in general and undoubtedly, many preparers do their best to prepare tax returns that are compliant with tax laws. In response to GAO's report, IRS has scheduled compliance reviews of some preparers. In addition, recent Justice Department suits to stop fraudulent return preparation at more than 125 outlets of one preparation chain for allegedly taking part in tax preparation scams highlight the importance and obligations of paid preparers.

Despite progress made in implementing Business Systems Modernization projects, including CADE, and improving modernization management controls and capabilities, significant challenges and serious risks remain. Delays in the latest release of CADE resulted in continued contention for key resources and will likely impact future releases. Also, IRS has more to do to fully address GAO's prior recommendations such as developing a long-term strategy that would include timeframes for retiring legacy computer systems.

GAO has long supported IRS's research to better understand taxpayers' compliance. IRS's fiscal year 2008 budget request includes a proposal for annual research instead of larger but intermittent efforts. GAO considers this to be a good approach because it will allow compliance data to be continually refreshed and should reduce costs by eliminating the need to plan new studies every few years.