

November 2007

TAX ADMINISTRATION

2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated





Highlights

Highlights of [GAO-08-38](#), a report to congressional requesters

Why GAO Did This Study

In 2007, the Internal Revenue Service (IRS) will spend over \$3 billion to process returns and provide taxpayer service. Effective service can reduce taxpayers' burden of complying with tax laws and, many tax experts believe, may improve compliance. GAO was asked to assess IRS's performance relative to 2007 goals and prior years' performance including identifying actions that might generate efficiencies and increase compliance. GAO analyzed IRS performance data, reviewed IRS operations at various locations, and interviewed IRS and paid preparer representatives.

What GAO Recommends

GAO recommends that IRS determine the actions needed to require for software vendors to include bar codes on printed returns, the benefits of having all return information available electronically, and how much electronic filing would have to increase for the benefits of transcribing all paper returns to exceed the costs. GAO also recommends that IRS develop estimates of the effectiveness of its volunteer program, and determine the feasibility of using contact recording to monitor return assistance quality at walk-in sites.

In response, the Acting IRS Commissioner agreed with our recommendations and outlined the actions that IRS would take.

To view the full product, including the scope and methodology, click on [GAO-08-38](#). For more information, contact James White at (202) 512-9110, or WhiteJ@gao.gov.

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2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated

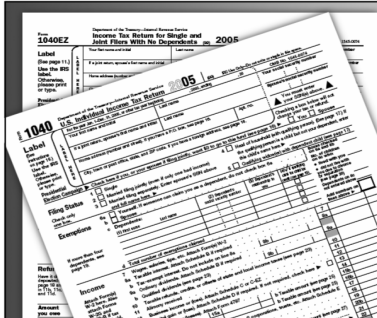
What GAO Found

IRS improved most filing season services during 2007, continuing a longer-term trend. Tax return processing exceeded last year's performance by most measures. Electronic filing grew at a faster rate than IRS anticipated and continued to generate savings. Access to IRS telephone assistors was comparable to last year, and the accuracy of responses to questions remained at about 90 percent. The performance of IRS's Web site improved in several measures, such as customer satisfaction. Continuing past trends, more taxpayers used volunteer sites, which are less costly than IRS's walk-in sites.

Despite these improvements, IRS could reduce the number of paper tax returns processed and also transcribe all lines from the residual paper returns, making that data more available for enforcement. Two options for reducing paper processing are electronic filing mandates, previously suggested by GAO, and bar coding, which could be required for paper returns prepared on computers and reduces processing costs. Currently, because of the cost, IRS does not transcribe all lines from paper returns. Further, IRS policy is to post the same lines from electronic and paper returns to its enforcement databases. As a result, IRS does not use all tax return information in its automated compliance checking programs. However, IRS does not know the actions needed to require software vendors to include bar codes on printed tax returns; the benefits, in terms of processing savings and improved enforcement, of having all return data available electronically; or how much electronic filing would have to increase, either through mandates or bar coding, for the benefits of transcribing all residual paper returns to exceed the costs.

Despite more reliance on its volunteer program, IRS has not evaluated its effectiveness at reaching underserved taxpayers. Further, IRS may be missing an opportunity to assess the quality of return preparation assistance at its walk-in sites through contact recording, a system IRS uses to record and assess the quality of other interactions between its employees and taxpayers.

IRS's 2007 Filing Season Activities

	Returns processing	Paper returns 56 million	@ 5 paper processing centers
		Electronic returns 79 million	@ 5 electronic processing centers
	Taxpayer assistance	Toll-free calls 69 million	@ 24 call sites and automation
		Walk-in contacts 5 million	@ 401 walk-in sites and 12,000 volunteer sites
		Internet downloads 121 million	@ IRS Web site

Source: GAO analysis of IRS data, IRS (images).

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Abbreviations

AMS	Account Management System
BSM	Business Systems Modernization
CADE	Customer Account Data Engine
IRS	Internal Revenue Service
RRA 98	IRS Restructuring and Reform Act of 1998
SSN	Social Security numbers
TAB	Taxpayer Assistance Blueprint
TETR	Telephone Excise Tax Refund
TIGTA	Treasury Inspector General for Tax Administration

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United States Government Accountability Office
Washington, DC 20548

November 15, 2007

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Jim Ramstad
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The quality of the Internal Revenue Service's (IRS) filing season service is important for several reasons. Effective service can reduce the burden for taxpayers, in terms of time and money, of complying with tax laws. Further, many tax experts believe that quality service has a positive effect on compliance, although it is difficult to demonstrate empirically.

Taxpayer service also matters because IRS allocated over 30 percent of its \$11 billion budget to provide such service for fiscal year 2007. IRS spends most of this during the filing season when most taxpayers interact with the agency.¹ Filing season service includes individual income tax return processing as well as telephone, Web site, and face-to-face assistance. In past reports and testimonies we said that IRS has made significant progress improving taxpayer service since the passage of the IRS Restructuring and Reform Act of 1998 (RRA 98).² In an effort to continue improving service, IRS recently released, as mandated by the Congress, its Taxpayer Assistance Blueprint (TAB). TAB is intended to outline a 5-year

¹Most taxpayers file their tax returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing until as late as October 15.

²See, for example, GAO, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) (Washington, D.C.: Nov. 15, 2006). Pub. L. No. 105-206 (1998).

comprehensive strategy for improving taxpayer service while minimizing cost and determining the link between service and compliance.³

In addition to IRS, paid tax return preparers are another important provider of service to taxpayers during the filing season, preparing over half of individual income tax returns. In previous reports, we have expressed concern about the quality of paid preparer service and lack of information IRS has about the extent of problems.⁴

In light of the tax filing season's cost and importance to taxpayers, you asked us to assess IRS's 2007 filing season performance. Our objectives, for each of IRS's main filing season services, were to assess IRS's performance relative to 2007 goals and prior years' performance, including identifying actions that might generate efficiencies and increase compliance, and the extent to which IRS monitors paid preparer performance. Additionally, you asked us to describe the challenges associated with TAB. We testified on IRS's interim 2007 performance before the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate, on May 9, 2007, and before the Committee on Finance, U.S. Senate, on April 12, 2007; we also issued a report to the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives on April 3, 2007.⁵

We based our assessment on the results and analyses of IRS data and reports, workload and performance information, observations of IRS's operations, interviews with IRS officials, information from representatives of some of the larger tax preparation companies and professional associations that represent preparers providing tax assistance, and reports by the Treasury Inspector General for Tax Administration (TIGTA). We have used IRS data in past filing season reports and continue to find them

³Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds), H. R. Rep. No. 109-307 (2005).

⁴See, for example, GAO, *Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors*, [GAO-06-563T](#) (Washington, D.C.: Apr. 4, 2006).

⁵GAO, *Internal Revenue Service: Assessment of the 2008 Budget Request and an Update of 2007 Performance*, [GAO-07-719T](#) (Washington, D.C.: May 9, 2007), *2007 Tax Filing Season: Interim Results and Updates of Previous Assessments of Paid Preparers and IRS's Modernization and Compliance Research*, [GAO-07-720T](#) (Washington, D.C.: Apr. 12, 2007), and *Internal Revenue Service: Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request*, [GAO-07-673](#) (Washington, D.C.: Apr. 3, 2007).

sufficiently reliable for the purposes of this report. Further details on our scope and methodology are provided later in this report. We performed our work from January through October 2007 in accordance with generally accepted government auditing standards.

Results in Brief

IRS improved most of its filing season services—paper and electronic processing and telephone, Web site, and face-to-face assistance—but opportunities to realize additional savings and increase tax compliance exist, but have not been evaluated.

Processing: IRS processed approximately 135 million individual income tax returns during 2007, by most measures exceeding last year's performance and meeting this year's goals. However, further improvements in processing are possible. First, IRS delivered the latest release of its new tax return processing system, the Customer Account Data Engine (CADE), late, which prevented millions of taxpayers from getting faster refunds in 2007. The new release was fully operational in May, which should benefit taxpayers in the 2008 filing season. Second, despite almost 60 percent of returns being filed electronically, taxpayers filed over 50 million returns on paper. Because of the cost, IRS does not transcribe all lines from tax returns, precluding the use of these data in IRS's computerized compliance checks. Further, to avoid disadvantaging taxpayers who file electronically, IRS does not post those lines from electronic returns to its enforcement data bases. At least two options exist for transcribing and posting all lines from tax returns. One, which we previously suggested, is to mandate electronic filing for paid preparers. Another option would be to require paper returns prepared using commercial software to be bar coded, allowing for scanning and some of the efficiencies of electronic filing. Either option might reduce the number of residual paper returns enough to allow for full transcription. Although IRS has done some research on bar coding and full transcription, it does not know the actions needed to require commercial software vendors to include bar codes on printed returns, the benefits in terms of processing cost savings and increased enforcement revenue of having all tax return data available electronically, or how much electronic filing would have to increase (either through mandates or bar coding) for the benefits of fully transcribing all residual paper returns to exceed the costs.

Paid preparers: In 2006, paid preparers accounted for 61 percent of returns filed. IRS gathers basic information on preparers, such as names and Social Security numbers (SSN), but does not compile other information about each preparer, such as the number of returns filed and

type of preparer.⁶ IRS has research and other initiatives under way to gather more information on paid preparers, which should give the Congress and IRS a better basis for making decisions about the future oversight of paid preparers.

Telephone assistance: Access to IRS telephone assistors was comparable to last year and the accuracy of responses to telephone tax law and account questions is at least 90 percent. IRS has several improvement initiatives under way and is reviewing options for reducing excess capacity at call sites, addressing our previous recommendation to timely develop and implement a plan to consolidate excess capacity at call sites.

Web site: IRS's Web site performed well according to independent rating services. IRS's Web site is the least expensive way to provide service and is consistent with IRS's strategy of increasing self-assistance.

Face-to-face assistance: Fewer taxpayers used IRS's walk-in sites, while more used return preparation assistance at volunteer sites. IRS continues to miss opportunities to assess the quality of face-to-face assistance. Despite IRS's increased reliance on community-based volunteers to target underserved populations, such as the elderly, IRS does not know the effectiveness of such targeting. At its walk-in sites, IRS uses direct observation to assess the accuracy of return preparation. However, because this method is likely to yield biased results, IRS lacks valid performance information. In contrast, contact recording—a system capturing the audio portion of the assistor/taxpayer interactions and assistors' computer screen activity—shows promise in monitoring the accuracy of tax law and account assistance.

Taxpayer Assistance Blueprint (TAB): IRS has completed TAB, a data-driven strategy for improving services to taxpayers, lowering costs, and

⁶We use "paid preparer" to refer to any individual acting alone or as an employee of an entity who provides fee-based return preparation assistance. Within this broad classification, there are tax practitioners and commercial preparers. Tax practitioners, who are governed by the Department of the Treasury Circular 230, are authorized to represent taxpayers before IRS. They can include attorneys, certified public accountants, and enrolled agents. Commercial preparers include corporations and self-employed individuals who are not regulated by IRS or governed by Circular 230. While there are currently no federal competence standards or registration requirements for unenrolled commercial preparers, federal legislation has been proposed to mandate Treasury to test and certify tax return preparers.

understanding the link between taxpayer service and compliance. TAB has potential value. In the past we have stressed the importance of reconsidering the level and types of services IRS provides to taxpayers, such as whether to maintain the same number of walk-in sites. Realizing the value of TAB will depend on several factors, such as future funding and progress quantifying the link between service and compliance.

We recommend that the Commissioner of the Internal Revenue direct the appropriate officials to

- determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions;
- determine the benefits, in terms of processing costs and improved enforcement, of having all return information available electronically;
- determine how much electronic filing would have to increase, either through electronic filing mandates or bar coding, for the benefits of transcribing all remaining paper returns to exceed the costs;
- develop estimates of the effectiveness of IRS's volunteer program at targeting underserved populations; and
- determine the feasibility of using contact recording as a method of monitoring and improving the quality of return preparation assistance at IRS's walk-in sites.

In commenting on a draft of this report (see app. II), the IRS Commissioner agreed with our recommendations and outlined IRS's actions to address those recommendations.

Scope and Methodology

To assess IRS's 2007 filing season performance in the key filing season activities compared to goals and past performance, and identify and assess potential improvements or efficiencies in filing season operations, we

- reviewed and analyzed IRS reports, testimonies, budget submissions, and other documents and data, including workload data, data related to IRS's performance measures and goals, and data on taxpayer usage and other statistics such as the number of paid preparers;

-
- observed operations at IRS's Atlanta, Ga. and Andover, Ma. paper processing centers, the Atlanta and Andover call sites, the Joint Operations Center (which manages IRS's telephone services) in Atlanta, and several of IRS's walk-in locations in Atlanta and Baltimore, Md. and selected these offices for a variety of reasons, including the location of key IRS managers, such as those responsible for telephone and walk-in site services;
 - tested for statistically significant differences between annual performance measures based on IRS sample data;
 - analyzed staffing data for paper and electronic filing, telephone assistance, and walk-in assistance;
 - reviewed information from organizations, such as Keynote Systems, that evaluate Internet performance;
 - interviewed IRS officials about current operations, performance relative to 2007 performance goals and prior filing season performance, trends, significant factors and initiatives that affected or were intended to improve performance, monitoring and oversight of paid tax preparers, and research conducted or planned to examine links between taxpayer service and compliance;
 - interviewed representatives of some of the larger private and nonprofit organizations that prepare tax returns, including H&R Block and trade organizations that represent both individual paid preparers, tax preparation companies, and professional associations, including the American Institute of Certified Public Accountants;
 - reviewed TIGTA reports and interviewed TIGTA officials about IRS's performance and initiatives; and
 - reviewed prior GAO reports and followed up on our recommendations made in prior filing season and related reports.

This report discusses numerous filing season performance measures and data that cover the quality, accessibility, and timeliness of IRS's services that, based on our prior work, we consider sufficiently objective and reliable for purposes of this report. To the extent possible, we corroborated information from interviews with documentation and data and where not possible, we report the information as attributable to IRS officials. We reviewed IRS documentation, interviewed IRS officials about computer systems and data limitations, and compared those results to

GAO standards of data reliability.⁷ Data limitations are discussed where appropriate. Finally, we conducted our work primarily at IRS headquarters in Washington, D.C., the Wage and Investment Division headquarters in Atlanta, Ga., as well as the other sites mentioned earlier.

Background

IRS's filing season is an enormous and critical undertaking that consists of two primary activities, processing individual income tax returns and providing taxpayer assistance. It consumes more than \$3 billion annually.

Figure 1: IRS's 2007 Filing Season Activities

Returns processing	Paper returns 56 million	@ 5 paper processing centers
	Electronic returns 79 million	@ 5 electronic processing centers
Taxpayer assistance	Toll-free calls 69 million	@ 24 call sites and automation
	Walk-in contacts 5 million	@ 401 walk-in sites and 12,000 volunteer sites
	Internet downloads 121 million	@ IRS Web site

Source: GAO analysis of IRS data, IRS (images).

Notes: The number of paper and electronic returns are estimated for the time period January 1, 2007, to September 14, 2007; toll-free calls for the time period January 1, 2007 to June 30, 2007; walk-in contacts, which includes returns prepared at IRS walk-in sites from December 31, 2006, through April 21, 2007, and volunteer sites from January 1 through April 30, 2007; and Internet downloads for the time period January through July 2007. We used different dates for the various areas that best reflect IRS's filing season workload in that area.

Taxpayers can file their returns by mailing paper returns to one of IRS's five paper processing centers or submitting the returns electronically.⁸

⁷GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-02-15G](#) (Washington, D.C.: Sept.1, 2002).

⁸While taxpayers and paid preparers can mail a paper return directly to IRS, only paid preparers and tax preparation software companies that IRS has designated as electronic return originators (ERO) can transmit tax returns electronically to IRS, which may involve a fee to the taxpayers. IRS conducts suitability checks of applicants who are applying to become EROs. These checks may include checking applicant's criminal background, credit history, and tax compliance.

Electronic filing has provided IRS with significant cost savings. Electronic filing is faster, which allows taxpayers to receive refunds faster, and is less error prone—IRS does not have to transcribe electronic tax return information and built-in checks eliminate many errors that IRS has to address when processing paper tax returns, such as correcting computational mistakes and SSNs. In addition, taxpayers below an income ceiling can access the Free File program offered through IRS’s Web site by a consortium of 19 tax preparation companies that offer free online tax preparation and filing services.

IRS’s Business Systems Modernization (BSM) program, which began eight years ago, is a high-risk, highly complex effort critical to supporting IRS’s taxpayer service goals, such as increasing electronic filing and providing more accurate and timely responses to taxpayer inquiries. To date, IRS has deployed releases of modernized systems that have delivered substantial benefits to taxpayers and the agency, including e-Services (a new Web portal and services for paid preparers) and parts of CADE, which is the new taxpayer information database that facilitates faster refund processing and provides IRS with more up-to-date account information. CADE is intended to eventually replace IRS’s antiquated Individual Master File legacy processing system, which is the agency’s repository of taxpayer account information, and therefore, is the BSM program’s cornerstone and highest priority project.⁹

IRS also provides a variety of taxpayer services, including tax law assistance, account resolution, limited return preparation, tax forms and publications distribution, outreach, and education, mainly through its telephone operations, Web site, and face-to-face assistance sites. Taxpayers can call IRS’s toll-free assistance telephone lines with questions about tax law or their refunds. Depending on how taxpayers respond to menu choices, questions are answered by an automated message or calls are routed to telephone assistors located at 24 call sites around the country. Calls are routed to the next available assistor assigned to answer specific questions, e.g., tax law, account, or refund questions.

IRS provides many services through its Web site, including “Where’s My Refund,” which enables taxpayers to use the Web site to determine whether the agency received their tax returns and processed their refunds. Taxpayers can also download forms, instructions, and publications,

⁹IRS also has plans to replace its Business Master File legacy processing system.

research their own tax law issues through Frequently Asked Questions or Tax Topics, and receive help with specific tax law questions and procedural questions via e-mail.

IRS's volunteer program has become an increasingly important part of IRS's face-to-face assistance. It expanded to 66 national partners that include financial, social service, corporate, educational, and government organizations and helps IRS serve traditionally underserved taxpayer segments, including the elderly, low-income, disabled taxpayers, taxpayers with limited-English proficiency, Native Americans, and rural taxpayers. Additionally, IRS has 401 walk-in sites where taxpayers can ask basic tax law questions, get account information, receive assistance with their accounts, and have returns prepared if their annual income is \$39,000 or less.¹⁰

In April 2007, IRS released its final TAB report, a 5-year plan designed to assist the agency in providing, evaluating, and improving taxpayer services at lower costs. As part of its research into the costs of taxpayer services, IRS developed estimates of the cost-per-service contact for providing different types of taxpayer services and conducted preliminary research about the effect of taxpayer service on compliance.¹¹ We have reported that IRS lacks quantitative estimates of the impact of taxpayer service and its enforcement efforts on voluntary compliance; TAB should help IRS obtain better estimates. We also have long supported IRS's research efforts to measure the tax gap, which is the difference between what is paid voluntarily and on time and what is owed, and help reduce it.¹²

As we previously reported, despite the 2007 filing season being characterized as high-risk, in large part because of the Telephone Excise

¹⁰According to IRS, this limitation approximates the amount set in the Internal Revenue Code for claiming the Earned Income Tax Credit. IRS has required appointments for taxpayers seeking this assistance since 2003.

¹¹The cost accounting module in IRS's Integrated Financial System is not yet capable of producing the detailed cost information needed to perform estimates. See, GAO, *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements*, [GAO-07-136](#) (Washington, D.C.: Nov. 9, 2006).

¹²IRS estimated the gross tax gap to be \$345 billion for tax year 2001. After late payments by taxpayers and revenue brought in by IRS's enforcement efforts, the resulting net tax gap is estimated to be \$290 billion. See [GAO-07-719T](#).

Tax Refund (TETR), the impact of TETR on taxpayer services has been much less than IRS anticipated.¹³

In addition to IRS, paid preparers are a critical part of the nation's tax administration system because of the wide variety of services they offer and their unique relationship with taxpayers. Paid preparers may combine several taxpayer services, including help understanding tax obligations, answering tax law questions, and providing tax forms and publications, return preparation, and electronic filing. In previous reports and testimony, we have reported that paid preparers have made serious errors, although undoubtedly many do their best to provide their clients with quality service.¹⁴

**Electronic Filing
Continued to
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Reduce Costs and
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Electronic filing and CADE both have the potential to further reduce IRS's costs and improve processing speed and accuracy. Many tax returns are still filed on paper, which increases processing cost, and limits information readily available for IRS's enforcement programs.¹⁵

¹³The IRS Commissioner characterized this year's filing season as high-risk because of challenges related to implementing the new Telephone Excise Tax Refund, a split refund option that allows for direct deposits in up to three separate accounts, and tax law changes that were enacted in December 2006. We reported earlier this year that these challenges had little impact on the filing season performance, in large part because workload failed to materialize. See [GAO 07-720T](#).

¹⁴See, for example, [GAO-07-720T](#).

¹⁵IRS auditors can get the entire paper return. Consequently, all the information can be used during an audit, but not in the automated audit selection process.

Electronic Filing Continues to Increase and Generate Savings

As of September 14, 2007, IRS processed approximately 135 million individual income tax returns. Of those returns, approximately 79 million (58 percent) were filed electronically and the remaining 56 million were filed on paper. The number of returns filed electronically increased 9 percent over last year, which is greater than last year's increase and more than IRS projected.¹⁶ One factor contributing to the growth in electronic filing is mandates. Thirteen states now mandate electronic filing of state returns, which has increased electronic filing of both state and federal tax returns. Despite the overall increase in electronic filing, taxpayer's use of the Free File program continued to decline. For example, as of June 21, IRS processed about 3.8 million returns filed through the Free File program, 2 percent less than last year. IRS officials attributed this decline in part to companies offering free electronic online filing separate from the Free File program.

Growth in electronic filing generates savings for IRS by reducing staff needed for labor-intensive paper processing.¹⁷ In 2006, IRS used almost 1,700 (36 percent) fewer staff for processing tax returns than in 1999. IRS estimates that this saved the agency \$78 million in salary, benefits, and overtime in 2006.¹⁸ In addition, IRS has achieved ancillary space cost savings from the closing of submission processing centers. IRS estimated the cost savings as a result of closing the Brookhaven and Memphis paper processing centers to be \$24.9 million in 2007.¹⁹ IRS closed its Philadelphia paper processing center at the end of September 2007, and plans to close its Andover paper processing center in 2009.

¹⁶The total number of returns processed during the 2007 filing season includes 717,000 1040EZ-T forms, of which 100,000 were filed electronically. This form was for individuals who requested a refund of federal telephone excise tax in 2007 and, therefore, did not apply to previous filing seasons.

¹⁷See [GAO-07-727](#).

¹⁸TIGTA found that some technology and start-up costs were not reliable or properly tracked (see Treasury Inspector General for Tax Administration, *Consolidation of Tax Return Processing Sites Is Progressing Effectively, But Improved Project Management Is Needed*, Reference No. 2007-40-165 (Washington, D.C.: Aug. 31, 2007).

¹⁹We have not independently verified this estimate. As we have previously reported, IRS's cost accounting system is not yet able to support preparation of such cost estimates. See, for example, [GAO-07-136](#).

IRS's Processing Performance Continues to Improve

IRS issued over 103 million refunds, totaling almost \$233 billion, as of September 14, 2007. Nearly 60 percent of the refunds were directly deposited, almost 7 percent over the same period last year, which is important because direct deposit is faster, more convenient for taxpayers, and less expensive for IRS than mailing paper checks.

IRS met or exceeded seven out of nine processing performance goals and continues a trend of improvement (see app. I for details). For example, IRS met or exceeded its goals for the percentage of errors included in letters, notices, and refunds. For eight of its nine measures, IRS met or exceeded its previous year's performance. IRS did not meet one goal and paid more interest on delayed refunds than expected, because of problems with a computer system that processes some taxpayer identification numbers and the inexperience of new staff. IRS did not meet its efficiency goal because it received fewer easy to process TETR returns than expected.

Groups and organizations we spoke with, including the National Association of Enrolled Agents, the American Institute of Certified Public Accountants, and large tax preparation and tax preparation software companies, corroborated what the processing performance data showed, saying the filing season went smoothly. Similarly, TIGTA recently reported that IRS had a successful filing season.²⁰

Delays in CADE Prevented Millions of Taxpayers from Benefiting from Faster Refunds

IRS was late in delivering its latest version of CADE, its new tax return database, intended to replace the legacy Individual Master File. CADE Release 2.2 started processing returns in early March but did not become fully operational until late May, nearly 5 months behind schedule, because of problems identified during testing. IRS originally intended CADE to post 33 million taxpayer returns during 2007, more than four times the 7.4 million posted by CADE last year. With the delay IRS revised its estimate down to approximately 17 to 19 million returns, then down to 11 to 12 million returns. As of early August, CADE had posted 11 million returns, or

²⁰TIGTA determined that IRS's 2007 filing season was successful because most key tax law changes were implemented correctly and IRS timely processed returns and issued refunds and electronically filed returns increased 9 percent over last year. See the Treasury Inspector General for Tax Administration, *The 2007 Tax Filing Season was Generally Successful, and Most Returns were Timely and Accurately Processed*, Reference No. 2007-40-187 (Washington, D.C.: Sept. 21, 2007).

about one-third of what IRS expected, and disbursed 11 million refunds totaling over \$11 billion.

A major benefit of CADE is that it is faster than the legacy Individual Master File system. According to IRS officials, direct deposit refunds are issued by CADE 1 to 5 business days faster than the current legacy system, and paper check refunds are issued 4 to 8 business days faster. Because of the delays in CADE millions of taxpayer refunds were not issued as fast as IRS planned.

Even with the latest version of CADE deployed, last year IRS estimated that over \$500 million more would be required to fully implement the individual income tax processing part of the system.²¹ Moreover, the CADE setback adversely affected IRS's ability to deliver the functionality planned for the next release, such as processing the earned income tax credit schedule, and has caused IRS to reconsider the functionality of other future CADE releases. IRS expects future releases of CADE to be linked with its Account Management System (AMS) releases, requiring increased attention to issues of synchronization and coordination between the two systems. According to IRS officials, CADE and AMS working together will enable IRS to process tax returns and address many taxpayer issues, such as address changes, in a near real-time manner, which benefits both IRS and taxpayers.

Further complicating matters, IRS has additional plans for CADE, such as processing tax returns claiming the earned income tax credit, during the 2008 filing season. IRS is aware of these challenges and is working on a revised Release Content Master Plan, which it plans to complete by November 2007, detailing the capabilities and interdependencies associated with future releases of CADE and AMS and the plans for replacing the legacy Individual Master File system.²²

²¹Because of the substantial costs associated with fully implementing CADE, the Congress could find information about the benefits of CADE, such as faster refund timeliness, useful as an indication of both the magnitude and likelihood of the future benefits from full implementation. Consequently, last year we recommended that IRS report to the Congress on refund timeliness for CADE compared to the Master File legacy system. According to IRS officials, IRS is in the process of developing this measure.

²²The most recent release of CADE, originally scheduled for delivery in July 2007, was deployed into production on August 8, 2007, but with reduced functionality. This release will also interface with AMS, currently scheduled to be deployed in October 2007 to allow address changes for CADE accounts.

IRS May Be Missing Opportunities to Further Reduce Costs and Increase Compliance by Not Doing More to Reduce the Number of Paper Returns Processed and Transcribe all Tax Return Data

Paper returns cost IRS tens of millions of dollars to process. In all of 2006, IRS received about 63 million paper returns.²³ Of these, 60 percent (38 million) were prepared on a computer, but then printed and mailed to IRS. IRS codes such returns with a “V.” IRS estimates that a paper return costs \$2.36 more to process than an electronically filed return. This difference implies that, if IRS could convert all v-coders to electronic filing, IRS could save roughly \$90 million annually. Furthermore, if all v-coders could be converted to electronic filing, the number of paper returns remaining and needing to be transcribed would be greatly reduced.

Paper returns also limit the effectiveness of IRS’s enforcement programs. To control costs, IRS does not transcribe all the lines on paper tax returns into its computer databases, such as taxpayers’ telephone numbers, limiting the amount of information available electronically for enforcement purposes. As we previously reported, even small changes in the amount of information IRS transcribes can consume substantial resources that might offset some potential savings from electronic filing.²⁴ Further, to avoid disadvantaging taxpayers who file electronically, IRS has a policy of posting the same information from electronic and paper returns to its databases. Consequently, if a line is not transcribed from paper returns, it is not posted from electronic returns either. Only information posted to computer databases is readily available for use in IRS’s automated compliance checking programs. These programs include matching tax return entries with information returns from third parties, such as Form W-2s from employers or Form 1099s from financial institutions, and selecting suspicious returns for audit.

According to IRS officials, transcribing and posting more comprehensive information from individual income tax returns could facilitate the audit process, expedite contacts for faster resolution, reduce handling costs, allow for improved case selection, and potentially better define specific tax gap issues. Although we have not independently verified IRS’s methodology, for one of its main enforcement programs—the Automated Underreporter Program—IRS officials estimate that having all tax return information available electronically would result in a \$175 million increase in tax revenue annually, while at the same time, reduce its “no-change” rate, making it less likely that IRS would select taxpayers for further

²³Full data for 2007 is not available.

²⁴GAO, *Tax Administration: Electronic Filing’s Past and Future Impact on Processing Costs Dependent on Several Factors*, [GAO-02-205](#) (Washington, D.C., Jan. 10, 2002).

contact where no additional tax was assessed, thus lowering taxpayer burden.²⁵

State experiences provided some corroboration of IRS's views, as officials we spoke with reported that greater electronic access to return information allowed them to verify information on state returns and improved their enforcement programs while reducing the number of compliant taxpayers who were contacted.

At least two options exist to increase electronic filing—mandates and bar coding. Last year we suggested that the Congress mandate electronic filing by paid preparers meeting certain criteria, such as a threshold number of returns.²⁶ Mandating electronic filing would not convert all v-coders, because it would not apply to taxpayers who prepare their own returns on a computer. Still, most v-coders use a paid preparer (68 percent in 2006).

Another option to increase electronic filing is bar coding of all printed returns prepared using commercial software. IRS has done preliminary research showing that 100 percent of the information on a return could be condensed into a bar code, which could be read by hand-held scanners. Consequently, bar coding produces some of the efficiencies of electronic filing by replacing the labor-intensive transcription process and eliminating transcription errors. However, bar coding would still require some processing of paper such as receiving and opening paper mail.

Several states already require bar coding on their printed returns and there is an industry standard among developers and vendors for creating bar codes.²⁷ Moreover, many of the largest software providers already support bar coding.

²⁵IRS officials said that if all data from tax returns were transcribed and posted, the Automated Underreporting Program could eliminate human screeners who currently review return information that has not been transcribed or posted. IRS estimated that if the screeners could be reallocated to performing audits, they could bring an additional \$175 million annually.

²⁶GAO-07-27.

²⁷According to a recent TIGTA report, some states estimate that bar codes reduce the time and effort involved in processing paper returns by 50 to 90 percent and use of bar codes is \$.57 to \$.70 cheaper to process per return than a conventional paper return. See Treasury Inspector General for Tax Administration, *Additional Action is Needed to Expand the Use and Improve the Administration of the Free File Program*, Reference No. 2007-40-105 (Washington, D.C.: June 27, 2007).

IRS's Wage and Investment Operating Division staff developed a proposal for bar coding. However, Wage and Investment officials rejected that proposal in June 2007, in part because it involved upgrading a legacy system. Wage and Investment officials told us they are developing a new funding proposal for no earlier than 2010, which would likely include bar coding.

IRS, however, lacks several pieces of information that would help it make a decision about whether the benefits exceed the costs of bar coding and transcribing the residual paper returns.

- **Actions required:** IRS does not know the actions needed to require commercial software vendors to include bar codes on printed returns. IRS officials told us that they have not conferred with the software vendors about the actions that would be necessary. Nor have they conferred with the states about the actions they took to mandate bar coding. Without knowing the necessary actions, IRS cannot estimate the costs and time frames for a bar code program.
- **Benefits:** While IRS has estimates of the savings from converting from paper to electronic filing, it does not have estimates of the savings from converting paper to bar coded returns. Although it estimated the increased revenue possible from the Automated Underreporter Program, IRS does not have a complete estimate of the revenue gains across all its enforcement programs that would be realized if all tax return information were transcribed and posted.
- **Breakeven:** IRS does not know how much electronic filing would have to increase, through either mandated electronic filing or bar coding, before transcribing the residual paper returns would pass a benefit/cost test.²⁸

Gathering the above information would have some costs to IRS. However, the cost savings to IRS and increased revenue could be in the range of hundreds of millions of dollars. Additionally, taxpayer compliance burden might be reduced.

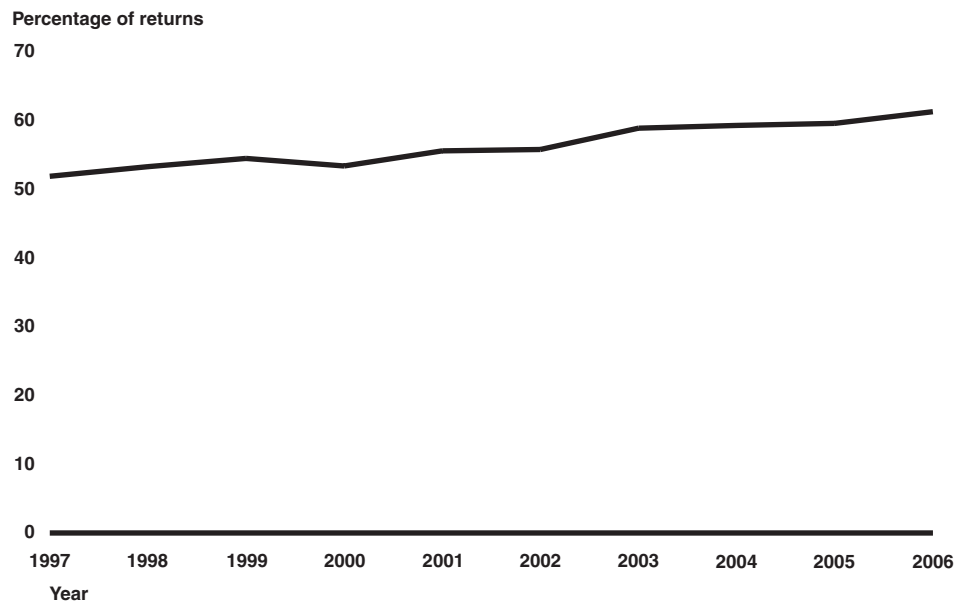
²⁸Such an analysis may have to rely on estimates, since IRS's cost accounting system is not yet capable of producing the detailed cost information. See [GAO-07-136](#).

IRS Has Limited Information on Paid Preparers Who Prepare the Majority of Tax Returns, but Has Efforts Underway to Acquire More

Although they are an important part of the tax administration system, IRS has limited information about paid preparers. However, IRS has research and other initiatives under way intended to gain more information.

As shown in figure 2, paid preparers have filed an increasing majority of all individual income tax returns over the last decade.²⁹ During the 2006 filing season, paid preparers prepared nearly 78 million (61 percent) of the 127 million individual income tax returns. Of the preparer returns, nearly 70 percent were filed electronically.

Figure 2: Percentage of Returns with a Paid Preparer Signature



Source: GAO analysis of IRS data.

As we said in past reports, paid preparers are a critical quality-control checkpoint for the tax system and, as with IRS, the quality of the service they provide is important.³⁰ However, we also said that some paid preparers made serious errors. For example, in 2006 we found that all 19

²⁹ GAO previously reported statistics that support that this upward trend has existed since at least 1981. See GAO, *Tax Administration: Most Taxpayers Believe They Benefit from Paid Tax Preparers, but Oversight for IRS Is a Challenge*, [GAO-04-70](#) (Washington, D.C.: Oct. 31, 2003).

³⁰ [GAO-06-563T](#).

of the commercial preparers we visited made errors completing returns. Some of the most serious errors involved not reporting business income and failing to itemize deductions. Our limited work did not permit generalizing about the quality of all paid preparers' work and undoubtedly, many preparers do their best to prepare returns that are compliant with tax laws. We also previously reported that, while many taxpayers believe they benefited from using a paid preparer, millions may have been poorly served.³¹

IRS has some information on paid preparers. For example, IRS requires paid preparers to identify themselves on all income tax returns they prepare by entering their SSN or PTIN. However, IRS does little to monitor or track basic information about individual paid preparers. For example, IRS does not collect information on the type of preparers, such as whether the preparer is an enrolled agent or part of a commercial chain, or the number or types of returns filed by preparers. Having such information could allow IRS to better identify filing errors and target its outreach to specific preparers or preparer groups.

IRS currently has efforts under way intended to begin remedying the lack of information about paid preparers. One important step was the Return Preparer Summit, which took place in late September 2007. According to IRS, the Summit included officials from multiple IRS offices who discussed how to better coordinate and communicate between offices with paid preparer responsibilities. IRS officials expect to present their findings and potential recommendations in March 2008 when IRS updates its recent report on voluntary compliance and the tax gap.³²

IRS is exploring the development of a database that will serve as a centralized repository of paid preparer information. IRS envisions that such a database could facilitate more robust compliance efforts and allow taxpayers to access information on the status of an enrolled agent. Additionally, the database could potentially be expanded to operate as a tracking system if proposed legislation mandating universal enrollment and testing of preparers was to be passed by the Congress.³³ In the

³¹[GAO-04-70](#).

³²Internal Revenue Service, U.S. Department of the Treasury, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (Washington, D.C.: Aug. 2, 2007).

³³ Legislation has been introduced in the Congress to regulate paid preparers. See the Taxpayer Protection and Assistance Act of 2007, S. 1219, 110th Cong. § 1 (2007).

meantime, IRS is working to better utilize and potentially improve existing databases to share preparer information across its offices with paid preparer responsibilities.

Further, according to IRS, the agency plans to conduct research on paid preparers as outlined in TAB. Paid preparer initiatives include

- studying how taxpayers select a paid preparer,
- evaluating the scope and nature of paid preparer errors,
- assessing IRS's outreach strategy to paid preparers, and
- observing paid preparers' business models in order to better understand how to provide effective services to reduce errors.

Paid preparers can support IRS's efforts to improve compliance. They assist the majority of individual income tax filers, and the assistance they offer can potentially help taxpayers avoid errors. Having additional information on paid preparers could help the agency identify and possibly prevent systematic errors and noncompliance, and could be important in guiding IRS's outreach and education strategies for paid preparers. TAB and other initiatives IRS has planned are steps that should give the Congress and IRS a better basis for making decisions about the future oversight of paid preparers.

Access to IRS's Telephone Assistors Was Comparable to Last Year, Accuracy Remains High, and IRS Is Reviewing Options for Reducing Excess Capacity at Call Sites

Access and accuracy are key measures of IRS's telephone performance, because IRS received 69 million calls during the filing season. At the same time, reducing excess capacity at call sites is important, because of the magnitude of IRS's telephone operations.

Telephone Access Was Comparable to Last Year and Accuracy of Responses to Telephone Inquiries Remains High

Taxpayers' access to IRS's telephone assistors was comparable to last year and IRS's goal, as measured by level of service which is the percentage of taxpayers who wanted to talk with an assistor and actually got through and received service (see table 1).³⁴

For two other access measures, average speed of answer—the length of time taxpayers wait to get their calls answered—and taxpayer disconnects—the rate at which taxpayers waiting to speak with an assistor abandoned their calls to IRS—IRS's performance weakened somewhat compared to the same period last year, but the comparison is complicated by a policy change. As of June 30, average speed of answer increased about 15.4 percent and was slightly higher than IRS's goal, and the taxpayer disconnect rate also increased. According to IRS officials, both increases were due, in part, to a decision by IRS to disconnect fewer taxpayers waiting to speak with an assistor. This decision resulted in taxpayers having the option of either waiting to speak with an assistor or hanging up rather than IRS deciding for them by disconnecting the call, resulting in increased taxpayer choice along with increases to both the average speed of answer and the taxpayer disconnect rate. Finally, IRS officials noted that Customer Voice Portal, a new call queuing process that routes calls directly to available assistors instead of to call sites, resulted in a more equalized wait-time for taxpayers calling to speak with an assistor this year.

³⁴IRS does not have a specific productivity measure for telephone assistance, but instead uses two measures, average handle time—the average amount of time assistors spend assisting taxpayers—and customer contacts resolved per staff year—the number of contacts resolved in relation to time expended based on staff usage. As of last June, average handle time was 10 minutes and comparable to last year and the number of contacts resolved far surpassed IRS's goal.

Table 1: IRS Telephone Assistors Performance, 2001—2007 Filing Seasons

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	Fiscal year 2007 goals
Telephone assistance ^a								
Assistor level of service ^b	68.6%	68.6%	83.7%	85.9%	82.2%	81.0%	81.6%	82%
Average speed of answer ^c	5.5	4.6	2.8	2.8	4.3	3.9	4.5 ^e	4.3
Taxpayer disconnect rate ^d	16.0%	14.6%	8.3%	8.6%	12.0%	10.6%	13.3% ^e	NA

Source: GAO analysis of IRS data.

^aTelephone assistance data are based on the date range of January 1 through June 30.

^bThe percentage of callers who want to speak to an assistor who get through and receive service.

^cAverage number of minutes a taxpayer waits in queue for an assistor.

^dThe percentage of callers who hang up while waiting in queue for an assistor.

^eIRS officials attributed increases in average speed of answer and taxpayer disconnects to a conscious decision by IRS to decrease the times IRS disconnects taxpayers, which resulted in taxpayers being able to decide whether or not to hang up (taxpayer disconnect) or wait to speak with an assistor (average speed of answer).

IRS estimates that the accuracy of telephone assistors' responses to tax law and account questions was comparable to the same time period last year and met IRS's goals. Moreover, as noted in table 2, since 2005, accuracy has been about 90 percent or more and was significantly better than in 2001.

Table 2: IRS Telephone Assistor Accuracy Performance, 2001—2007 Filing Seasons

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	Fiscal Year 2007 goals
Accuracy measures ^a								
Tax law accuracy rate (in percent) ^b	79.1 +/-0.6	84.9 +/-0.5	81.3 +/-0.7	79.5 +/-0.8	89.5 +/-0.6	90.6 +/-0.6	90.7 +/-0.9	91.0
Accounts accuracy rate (in percent) ^b	88.1 +/-0.6	90.5 +/-0.4	88.6 +/-0.4	89.0 +/-0.5	91.3 +/-0.4	93.3 +/-0.3	93.2 +/-0.5	93.3

Source: GAO analysis of IRS data.

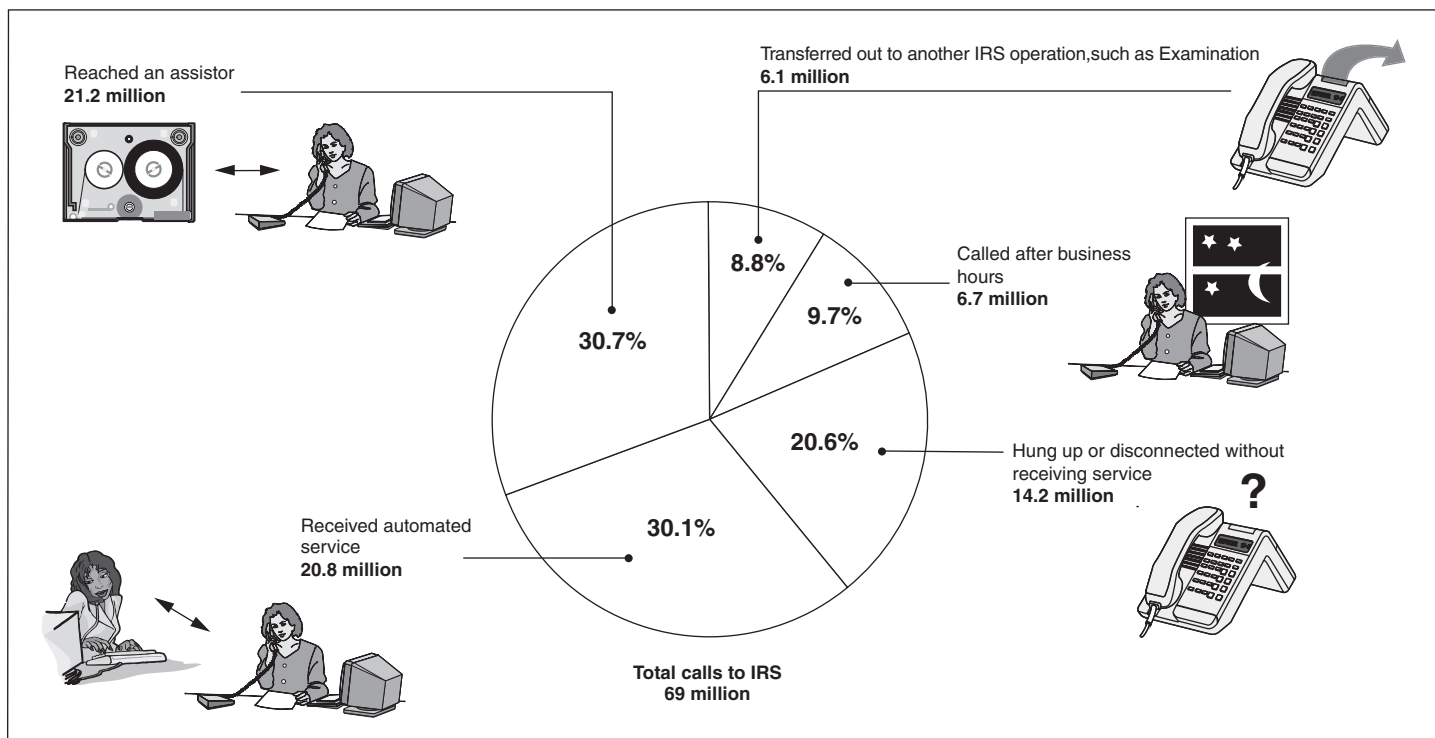
^aBased on representative samples from January through June for 2001, 2002, 2003, 2004, 2005, 2006, and 2007.

^bThe percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.

Call Demand Was Comparable to Last Year, and Telephone Service Remains Important for Taxpayers

IRS received about 69 million calls on its toll-free telephone lines through June 2007, which was less than expected, but slightly more than in 2006. IRS's automated service handled roughly the same number of calls as those handled by IRS assistors, although the number of automated calls received was fewer than last year (22.1 million), while the calls answered by assistors was equivalent to last year.³⁵

Figure 3: How IRS Handled Calls During 2007



Source: GAO analysis of IRS data and Art Explosion (images).

Note: Data cover the period January 1 through June 30, 2007. Due to rounding, percentages do not add to 100.

Of the calls received by IRS, 28.8 million calls were from taxpayers trying to obtain information on the status of their tax refunds, despite increasing use of IRS's Web site feature, "Where's My Refund." Another 22.2 million

³⁵Of the 42 million calls answered by automation or assistors as of June 30, only about 716,000 were related to the telephone excise tax refunds, a small portion of the 17.6 million expected calls.

were about account questions, and 13.1 million were about tax law questions.

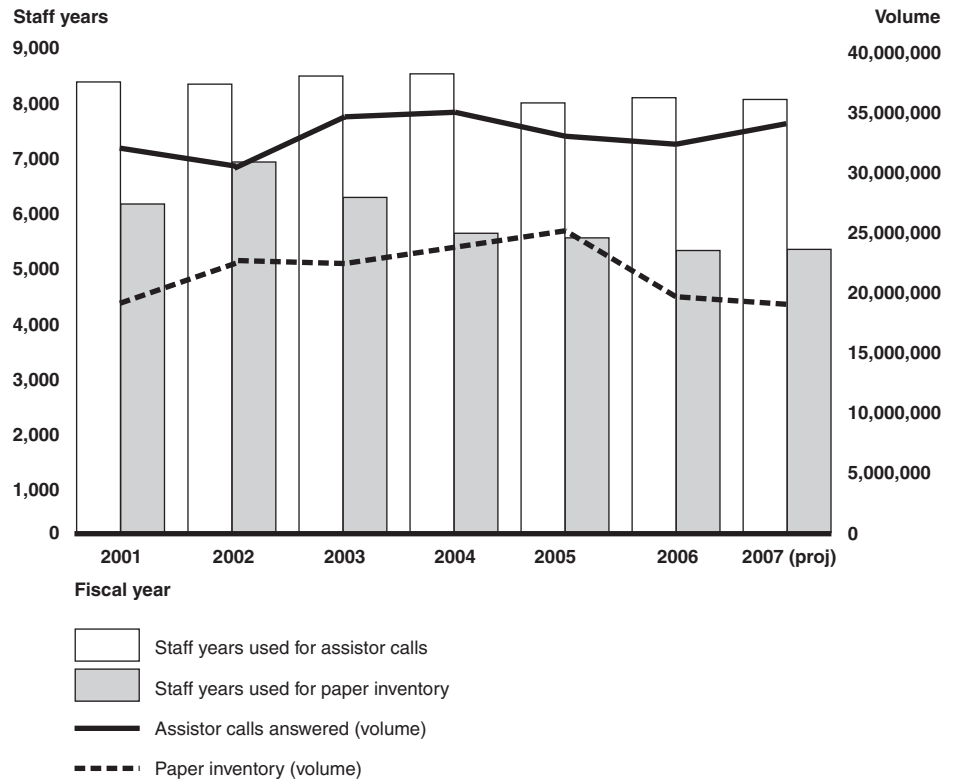
Because millions of taxpayers continue to depend on IRS's telephone assistance, it remains a critical part of taxpayer services. Moreover, IRS and our prior reports have noted that assisting taxpayers with tax questions reduces burdensome notices and inadvertent noncompliance.³⁶ As part of TAB and other initiatives, IRS plans to conduct more research into the effect of telephone assistance on compliance.

IRS's telephone operations consume most of IRS's taxpayer service budget. According to TAB, assisted telephone services accounted for 65 percent and automated assistance accounted for 2 percent of the nearly \$1 billion total costs to the agency for providing taxpayer assistance in 2005. At this time IRS does not have plans to automate more calls, since the agency has already shifted easier calls to automation and Web assistance, leaving the more difficult and time-consuming account and tax law calls that require the attention of assistors.

In addition to answering telephones, IRS devotes resources to processing paper inventory, such as amended returns and taxpayer correspondence at some of its call sites. Because of limited TETR call demand, IRS closed more paper inventory than anticipated, meaning that taxpayer issues were resolved more quickly. As seen in figure 4, call volume has not declined and accordingly, resources devoted to answering telephones have not declined noticeably since 2001, while resources devoted to paper inventory have declined almost 14 percent since 2001.

³⁶GAO, *IRS Modernization, Continued Progress Requires Addressing Resource Management Challenges*, [GAO-05-707T](#) (Washington, D.C.: May 19, 2005) and *IRS Telephone Assistance: Opportunities to Improve Human Capital Management*, [GAO-01-144](#) (Washington, D.C.: Jan. 30, 2001). Internal Revenue Service, U.S. Department of the Treasury, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (Washington, D.C.: Aug. 2, 2007).

Figure 4: Telephone Assistance and Paper Inventory Resources by Workload



Source: GAO analysis of IRS data.

Note: The figure includes data for entire fiscal years, not just for the filing season.

IRS has initiatives to expand and improve on telephone services including

- Centralized Customer Contact Forecasting and Scheduling to modernize the current system of workload forecasting, scheduling, and tracking workload and training requirements.
- Working groups looking into ways of improving taxpayer services, such as developing ways to synchronize telephone message information with Web site services to better link different service channels. IRS's goal is to revise the messages heard by taxpayers calling to speak with assistors after business hours, during holidays, or when telephone lines are too crowded to accommodate them, so that taxpayers are told not only when to try back, but are also referred to IRS's Web site for further information.

IRS Is Reviewing Options for Reducing Excess Capacity at Call Sites

Last year we recommended that IRS timely develop, validate, and implement a plan to consolidate call sites because, at the filing season's peak, IRS determined that it had 850 unused assistor workstations spread across its 24 call sites.³⁷ According to IRS officials, the number of unused workstations has not changed. IRS completed a workload analysis designed to evaluate changes in telephone staff resources and call demand and used business criteria, such as the types of calls answered at call sites and facility and employee costs, to identify call sites for potential closure. IRS plans to conduct an extensive cost-analysis review of different options for reducing excess capacity prior to potentially closing any sites, has secured funding for the analysis, and is in the process of obtaining a contractor to assist with the review.

Web Site Performance Remains High, and Initiatives Are On-going to Enhance Web Capabilities and User Experience

Web site performance remains high, which is important because IRS's Web site is used by millions of taxpayers, is available to taxpayers 24 hours a day, is much less costly than other types of assistance, and will remain important as more taxpayers use self-assistance.

Use of IRS's Web site increased this filing season compared to prior years' except for downloads of files such as tax forms and publications, as shown in table 3 below. According to IRS officials, one reason for the decrease in downloads is the conversion of IRS publications and instructions from file format to another format, which IRS does not count as part of downloads. Additionally, the increased use of electronic filing and tax preparation software reduces the need for taxpayers to download tax forms and publications. However, because of the decline, IRS will continue to monitor the number of downloads and identify possible issues associated with downloading files.

³⁷ GAO-07-27.

Table 3: IRS Web Site Use, 2006 and 2007 (data are in thousands)

Uses	2006	2007	Percentage change
Visits ^a	152,345	168,332	10.5
Downloads ^a	160,477	120,596	-24.9
Searches ^a	88,250	101,072	14.5
Where's My Refund ^b	30,663	40,325	31.5
Number of TETR-related visits ^c	N/A	4,570	N/A

Source: GAO analysis of IRS data.

Note: N/A means not applicable.

^aWeb site visits, searches, and downloads are from January through July 2006 and 2007. A visit begins when a visitor views their first page on IRS.gov, and ends when the visitor leaves the site. A visit is not a count of the number of unique individuals accessing the site.

^bFor January 1 through July 29, 2006, and July 28, 2007.

^cVisits to a Web page specific to TETR, which was not operational in 2006. Data are for October 1, 2006, through June 9, 2007.

Evidence that IRS's Web site is performing well includes the following:

- According to the American Customer Satisfaction Index, for the 2007 filing season, January 1 through April 17, 2007, IRS's Web site scored above other government agencies, nonprofits, and private sector firms for customer satisfaction (74 for IRS versus 72 for all government agencies versus 71 for all business surveyed), and better than during the 2006 filing season.³⁸
- An independent weekly study by Keynote Systems, Inc., a company that evaluates Web sites, reported that, as of July 16, 2007, IRS's Web site repeatedly ranked in the top 6 out of 40 government agency Web sites evaluated in terms of average download time.
- According to IRS, the number of e-mails and telephone calls to the Web site HelpDesk decreased compared to the 2006 filing season, and average page views per visit decreased, indicating that visitors to the Web site are finding information more quickly.

Additionally, this year IRS implemented a new sales tax deduction calculator, which IRS wants to use as a standard for developing other

³⁸The American Customer Satisfaction Index tracks trends in customer satisfaction and is considered to be an industry leader.

online calculators, and updates to the Free File, Alternative Minimum Tax, and Earned Income Tax Credit applications.³⁹ Also, this year the “Where’s My Refund” feature allowed taxpayers to check on the status of split refunds, and told the taxpayer if one or more deposits were returned from the bank because of an incorrect routing or account number.

IRS has initiatives to expand and improve on its Web site services.

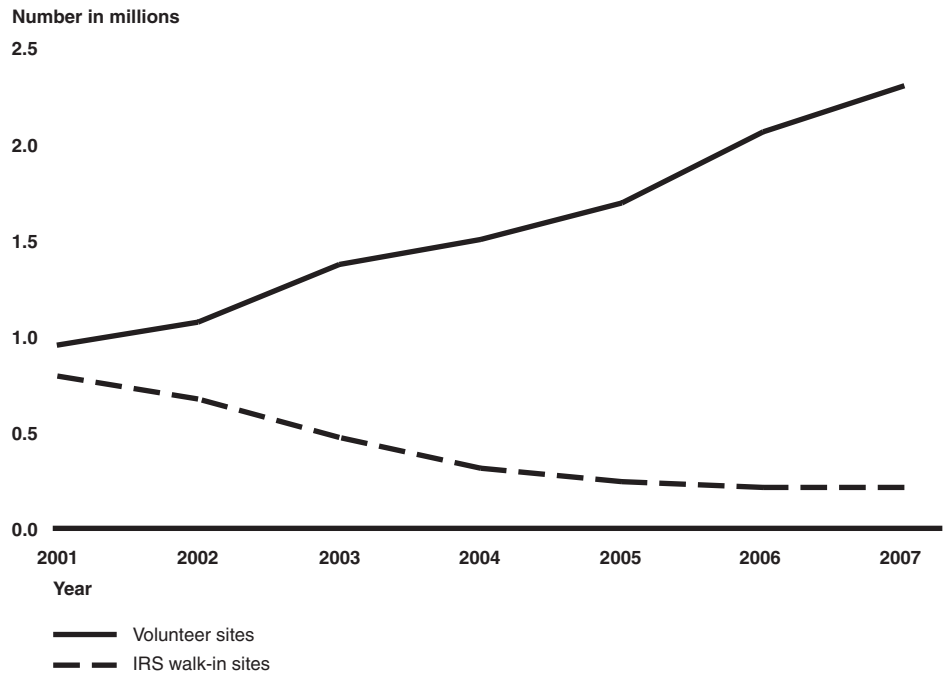
- Tax Law Support Tools will provide Web site self-assistance tools to taxpayers and other external stakeholders, allowing users to conduct keyword and natural language queries.
- The first release of Internet Customer Account Services will allow individual taxpayers to view their account information online and is expected to be deployed in July 2008.
- A Spanish version of “Where’s My Refund” will enable Spanish speaking taxpayers to check refund status and receive account information.

Taxpayer Assistance Continued to Grow at Volunteer Sites and Decline at IRS’s Walk-in Sites; While Quality has Improved in Some Areas, More Reliable Data Are Needed

Volunteer sites play an increasingly important role in the tax system and are part of IRS’s and the Department of Treasury’s integrated multiyear strategy to reduce the tax gap by better identifying and recruiting partners that are more skilled than IRS at reaching underserved taxpayers, including the elderly, disabled, low-income, Native American, and rural taxpayers. Volunteer sites prepared 2.4 million returns, an increase of 17 percent over last year and higher than projected through April 21, 2007. As illustrated in figure 5, this is consistent with previous trends for volunteer and walk-in sites. Return preparation at volunteer sites has more than doubled since 2001, while return preparation at IRS’s walk-in sites has declined by almost 74 percent during the same period.

³⁹ According to IRS, the sales tax deduction calculator allows taxpayers to figure out the amount of optional general sales tax they are eligible to claim.

Figure 5: Trends in Face-to-face Return Preparation, 2001 through 2007



Source: GAO analysis of IRS data.

Note: For walk-in sites, data covers the time periods of December 31, 2006 through April 21, 2007. According to IRS, most taxpayers having their returns prepared at volunteer sites do so during the filing season, which is from January 1 through April 30.

Increased return preparation assistance at volunteer sites, rather than at walk-in sites, allows IRS to devote more resources to services such as account assistance, which can only be provided by IRS staff. Further, TAB data show return preparation assistance provided at walk-in sites is four times more expensive per return than at volunteer sites. Moreover, TAB data show that walk-in sites are used by a small percentage of taxpayers, yet account for over 20 percent or, \$201 million, of the almost \$1 billion spent on taxpayer assistance in 2005.

Despite an increase in the number of returns prepared at volunteer sites, the quality of volunteer-prepared returns remains largely unknown and what is known is not statistically reliable. IRS's current initiative to monitor the quality of returns at volunteer sites is in its second year of

implementation and includes mystery shopping, site and return reviews.⁴⁰ However, according to IRS officials, volunteer sites had advanced notice of site and return reviews, but not mystery shopping. Consequently, IRS acknowledged that the advance notice of these reviews was likely to bias the results.

While IRS plans to continue to perform site and return reviews in 2008, officials said that following a sampling plan that would yield results that could be generalized to the universe of volunteer sites would be too costly. Instead, IRS plans to conduct unannounced return reviews, continue site reviews, and increase the number of mystery shopping visits from the 39 done in 2007 to 100. According to IRS officials, mystery shopping yields the best evaluative result of the three reviews IRS uses to assess the quality of volunteer-prepared returns. We agree that having unannounced visits and increasing the number of mystery shopping visits is likely to yield a better evaluative result than the potentially biased methods previously used for monitoring return preparation. Furthermore, we and TIGTA acknowledge the difficulties in collecting statistically valid information about return preparation assistance at volunteer sites.⁴¹

In addition to quality, IRS uses some other measures to monitor the performance of its volunteer program, such as the number of returns prepared, percentage prepared electronically, and the satisfaction of its partners, such as financial, social service, corporate, and government organizations. While useful, these measures do not reflect the extent to which the volunteer program improves taxpayer compliance and participation in programs such as the earned income tax credit. IRS has increased its reliance on the volunteer program and plans to commit more resources. However, as we testified earlier this year, IRS's budget submission did not include basic performance information about the program.⁴² More specifically, IRS does not know the extent to which the program influences the taxpaying behavior of its target populations.

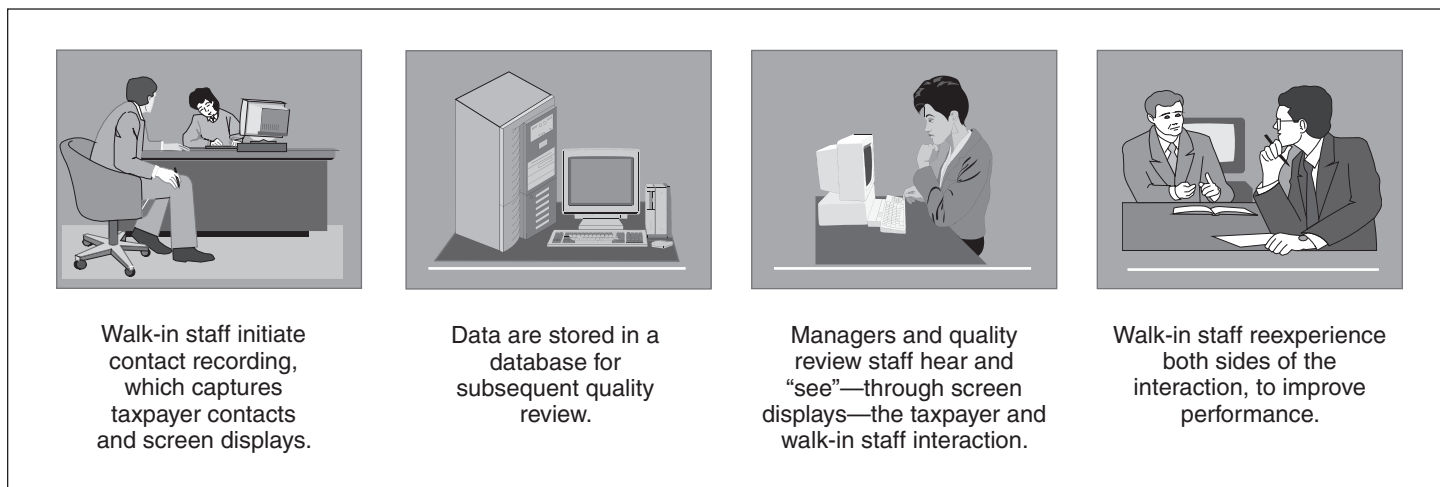
⁴⁰Mystery shopping involves IRS officials visiting volunteer sites posing as taxpayers to assess the experience of the taxpayer. Site reviews assess whether volunteer preparers were adhering to minimum quality standards required by all sites. Return reviews determine whether the tax law was applied properly for critical items and resulted in an accurate return based on the taxpayer interview and supporting documentation.

⁴¹Treasury Inspector General for Tax Administration, *Internal Revenue Service FY 2008 Budget Request*, (Washington, D.C.: 2007).

⁴²[GAO-07-719T](#).

Regarding IRS's walk-in sites, IRS recently started implementing contact recording intended to better measure the accuracy of tax law and account assistance.⁴³ As shown in figure 6, contact recording automatically captures the audio portion of a taxpayer contact and synchronizes it with an IRS walk-in site assistor's computer screen activity. With the exception of a microphone that sits atop the desk of the walk-in site assistor, contact recording is similar to the system IRS uses to monitor and assess the quality of telephone interaction between taxpayers and telephone assistants. IRS has deployed contact recording at 127 of its 401 walk-in sites, which represents 46 percent of walk-in site contacts. As of May 26, 2007, IRS data show accuracy rates of 85 percent for accounts assistance and 80 percent for tax law assistance, and IRS officials expect accuracy rates to improve as IRS deploys contact recording at more sites.⁴⁴

Figure 6: Contact Recording at Walk-in Sites



Source: GAO analysis of IRS data and Art Explosion (images).

Although IRS currently has plans to fully deploy the contact recording systems to all walk-in sites by 2009, contact recording is not included in its

⁴³According to IRS officials, the benefits of contact recording include, for example, IRS's ability to monitor site activity, train employees, and improve quality of service without having to visit the site. Importantly, contact recording provides managers with a statistically valid sample.

⁴⁴The accuracy measures include precision margins of +/- 2 percentage points.

plans to assess the quality of return preparation assistance.⁴⁵ IRS intends on relying on managerial observation of employee/taxpayer interactions while providing return assistance. We have previously reported that employees' performance could be influenced by the knowledge that they are being observed by managers, biasing the results. Additionally, managers were not consistently coding employee performance.⁴⁶ Consequently, without an unbiased method, IRS lacks reliable information to assess performance, establish obtainable goals, and measure progress toward goals.⁴⁷

According to IRS officials, contact recording used to measure the accuracy of tax law and account assistance could be extended to include return preparation assistance. For example, the equipment is already at many of the sites—it is used to measure the accuracy of tax law and account assistance, but turned off for return assistance. IRS officials said that IRS had not yet determined the feasibility of using contact recording for return assistance. IRS officials were concerned that contact recording, as it is currently configured, might miss some aspects of return preparation assistance, such as verifying taxpayers' documents. Further, IRS officials noted that because it takes longer to prepare a return than answer a tax law or account question, managerial review of return preparation takes longer than for tax law or account assistance. However, officials also noted that managers would be likely to spend the same amount of time using the manager observation method as with contact recording but manager observation would not yield reliable results. Without fully determining the feasibility of using contact recording for return assistance,

⁴⁵There are challenges that may delay further deployment. First, according to IRS officials and a recent TIGTA report, contact recording will have to compete with other systems that may have priority—see the Treasury Inspector General for Tax Administration, *System Updates and Control Improvements Are Needed to Ensure Contact Recording Will Provide an Accurate Assessment of Taxpayer Assistance Quality*, Reference No. 2007-40-115 (Washington, D.C.: July 9, 2007). Second, many walk-in sites will not be able to accommodate contact recording without additional modifications to the offices. Finally, IRS is in the process of evaluating the viability of its walk-in sites to determine which and how many of its sites should be consolidated, expanded or closed.

⁴⁶GAO-05-51.

⁴⁷GAO, *Tax Administration: IRS Improved Performance in the 2004 Filing Season, but Better Data on the Quality of Some Services are Needed*, GAO-05-67 (Washington, D.C.: Nov. 10, 2004).

IRS will not know if the concerns could be addressed and the existing equipment could be more fully utilized.⁴⁸

The Value of TAB Depends on Funding and Ability to Link Taxpayer Service to Compliance

TAB is a data-driven strategy that includes the results of extensive research designed to assist IRS in better understanding taxpayers' service needs.⁴⁹ For example, TAB research included several surveys that provided IRS with information about the services that taxpayers use or would use. TAB also provides plans to improve taxpayer services and a multiyear portfolio of research designed to provide information on the value of IRS services to taxpayers and partners and the effect of taxpayer service on compliance. According to IRS officials, with TAB, they now have more information about taxpayers than ever before.

IRS developed estimates of the cost-per-service contact for providing different types of taxpayer services, although there were qualifications to those estimates.⁵⁰ According to TAB, these estimates will provide a baseline methodology for computing and comparing the costs of services in the future. Having reliable cost information, together with a better understanding of taxpayers' preferences, needs, and expectations, will assist IRS in determining whether it can provide taxpayers with the same services and benefits at lower cost through alternative methods. As table 4 shows, these costs vary widely depending on the type of service provided.

⁴⁸ Additionally, by extending contact recording to return preparation, IRS would have an opportunity to learn more about the steps taxpayers and preparers need to follow to ensure filing accurate returns.

⁴⁹ IRS issued TAB reports in two phases. Phase I outlined the results of preliminary research on taxpayer expectations and established five strategic themes for improving taxpayer services including optimizing use of partner services (e.g., paid preparers and community-based organizations) and elevating self-service options, such as on IRS's Web site. Phase II included research results on taxpayer service needs and preferences and 54 recommended initiatives for service improvements.

⁵⁰ IRS qualified these estimates by noting that they do not fully allocate all indirect overhead and support costs and represent the average cost per contact rather than the marginal costs per contact, which could be significantly lower due to the unused capacity and fixed costs associated with many services. Moreover, we previously commented on long-standing limitations in IRS's cost accounting capabilities (see for example, [GAO-07-310](#) and [GAO-07-247](#)). However, it is our determination that IRS is a competent source for these cost estimates, which seem to be reasonable; therefore, we consider these estimates to be sufficiently reliable for describing how IRS could potentially use the information to provide taxpayer services at a lower cost.

Table 4: IRS's Fiscal Year 2005 Estimated Unit Costs

Service	Estimated cost-per-contact
Answering tax law questions via e-mail	\$52.51
Providing assistance at walk-in sites	28.73
Answering correspondence	24.97
Providing assistance by assistors via toll-free telephones	19.46
Providing assistance through VITA sites	12.01
Providing assistance by automation via toll-free telephones	0.71
Providing assistance such as downloads and searches on IRS's Web site	0.13

Source: GAO analysis of IRS data.

TAB has potential value. In the past, we have stressed the importance of reconsidering the level and types of services IRS provides to taxpayers, such as whether to maintain the same number of walk-in sites.⁵¹ While we support IRS's efforts to develop a data-driven strategy, the value of TAB will depend on several factors, such as

- Quantifying the linkage between taxpayer service and voluntary compliance. As noted above, TAB outlines a research portfolio that includes additional research on the impact of taxpayer service on voluntary compliance, which is consistent with the Department of Treasury tax gap report. According to TAB, a better understanding of the causes of noncompliance and the impact of specific taxpayer services on compliance would allow IRS to focus investments in taxpayer service to positively impact compliance. However, TAB recognizes that previous research has shown that quantifying this linkage is difficult.
- Coordinating and managing oversight responsibilities for TAB initiatives. IRS recently established a TAB Program Management Office responsible for facilitating, coordinating, and integrating TAB activities. The Program Management Office currently does not have authority to allocate funding for initiatives, and TAB officials said that it could be difficult to develop initiatives that require funding or coordination between different organizations without such authority.

⁵¹See GAO, *IRS's 2002 Tax Filing Season: Returns and Refunds Processed Smoothly; Quality of Assistance Improved*, [GAO-03-314](#) (Washington, D.C.: Dec. 20, 2002).

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- Obtaining funding. While some of the initiatives under TAB are funded mostly as extensions of existing efforts, most are not yet funded, and TAB does not contain any information related to how much, as a whole, it will cost. According to IRS, unfunded and future initiatives will have to compete with other IRS projects for funding within approved annual budgets.
 - Including submission processing services. IRS officials acknowledge that submission processing is a significant component of service delivery and must be integrated into TAB. The timely processing of returns supports tax compliance and possibly reduces the need for taxpayer services.

Conclusions

Over the last decade, IRS has improved its performance processing tax returns and providing taxpayer assistance. We see value in two IRS initiatives intended to further improve this performance. TAB, besides being a data-driven strategy for further improving service, may provide IRS with a better understanding of the effect of taxpayer service on compliance and thus of the return on IRS's large investment in service. Similarly, obtaining more information about paid preparers is valuable because doing so should give the Congress and IRS a better basis for making decisions about the future oversight of paid preparers.

In addition to these initiatives, we have identified other potential means for improving service. One opportunity is to increase electronically filed returns, either through mandates or bar coding, and transcribing the remaining lines on residual paper returns. However, IRS does not have the benefit/cost estimates that would be useful to make decisions about how to proceed. In particular, IRS does not know the actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions; the benefits, in terms of processing costs and improved enforcement, of having all information available electronically; and how much electronic filing would have to increase for the benefits of transcribing all remaining paper returns to exceed the costs. Such information would allow IRS to compare the costs of additional transcription to the benefits of processing costs savings, additional enforcement revenues and reduced taxpayer burden.

Additionally, despite increasing reliance on volunteer organizations to target underserved taxpayer groups, IRS lacks information on the effectiveness of its efforts. Finally, while IRS has been implementing contact recording at walk-in sites to monitor the accuracy of tax law and account assistance, it has not determined the feasibility of extending

contact recording to its low-income return preparation assistance program. In both cases, the missing information impedes IRS's ability to make data-based decisions about how to improve assistance to underserved taxpayers.

Recommendations for Executive Action

We recommend that the Acting Commissioner of Internal Revenue direct the appropriate officials to

- determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions;
- determine the benefits, in terms of processing costs and improved enforcement, of having all return information available electronically;
- determine how much electronic filing would have to increase, either through electronic filing mandates or bar coding, for the benefits of transcribing all remaining paper returns to exceed the costs;
- develop estimates of the effectiveness of IRS's volunteer program at targeting underserved populations; and
- determine the feasibility of using contact recording as a method of monitoring and improving the quality of return preparation assistance at IRS's walk-in sites.

Agency Comments and Our Evaluation

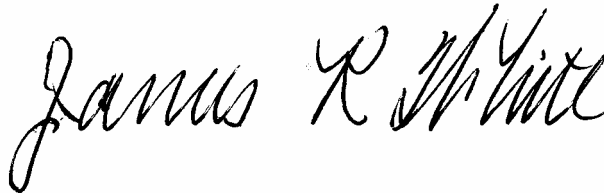
The Acting Commissioner of Internal Revenue provided written comments in a November 7, 2007 letter in which she agreed with all our recommendations and outlined IRS's actions to address those recommendations. With respect to reducing processing costs and improving enforcement, IRS plans on specifically addressing these recommendations in a report to the Congress. With respect to assessing the effectiveness and quality of IRS's face-to-face services, IRS reported it plans to develop methods of estimating how it can provide better face-to-face assistance.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies of this report to the Secretary of the Treasury; the Acting Commissioner of Internal Revenue; the Director,

Office of Management and Budget; relevant congressional committees; and other interested parties. This report is available at no charge on GAO's web site at <http://www.gao.gov>.

For further information regarding this testimony, please contact James R. White, Director, Strategic Issues, on 202-512-9110 or whitej@gao.gov. Contacts for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Joanna Stamatiades, Assistant Director; Amy Dingler; Evan Gilman; Timothy D. Hopkins; Jennifer McDonald; Paul B. Middleton; Emily Norman; Karen O'Connor; Cheryl Peterson; Neil Pinney; and Lerone Reid.

If you or your staffs have any questions, please contact me at (202) 512-9110 or WhiteJ@gao.gov.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, prominent initial "J".

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: IRS's Processing Performance Relative to 2001-2006 Performance and 2007 Goals

As of June 30, the Internal Revenue Service met or exceeded seven out of nine processing performance goals and continues a general trend of improvement. As shown in table 6 below, IRS met or exceeded its goals for the percentage of errors included in letters, notices, refunds, and deposits; deposit timeliness (i.e., interest foregone by untimely deposits); and productivity. IRS met its goal for refund timeliness but did not meet its goals for refund interest paid and Individual Master File efficiency. IRS officials said that the lighter than expected TETR volume meant that IRS's goal for Individual Master File efficiency could not be achieved because TETR returns were the easiest to process. Additionally, problems with a computer system that processes some taxpayer identification numbers and the inexperience of new staff adversely affected performance on refund interest paid. Table 5 also shows that IRS's processing performance has significantly improved in some areas, such as the deposit and refund error rates, since 2001.

Table 5: IRS's Processing Performance, Fiscal Years 2001—2007

Measure name	Definition	Fiscal year 2001 actual ^a	Fiscal year 2002 actual	Fiscal year 2003 actual	Fiscal year 2004 actual	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual (through June) ^b	Fiscal year 2007 goal
Deposit error rate ^c	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted the overpayment credited to next year's tax bill.	5.0%	4.8% (+/- .3%)	4.2% (+/- .3%)	3.5% (+/- .31%)	2.2% (+/- .26%)	1.6% (+/- .24%)	1.3% (+/- .25%)	1.5%
Deposit timeliness – paper	Interest foregone by not depositing monies the business day after receipt, per \$1 million in deposits. Measure assumes an 8 percent interest rate.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	\$407	\$390	\$354	\$343	\$380

**Appendix I: IRS's Processing Performance
Relative to 2001-2006 Performance and 2007
Goals**

Measure name	Definition	Fiscal year 2001 actual ^a	Fiscal year 2002 actual	Fiscal year 2003 actual	Fiscal year 2004 actual	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual (through June) ^b	Fiscal year 2007 goal
Letter error rate ^c	Percentage of letters issued to taxpayers with errors (includes systemic errors). ^d	Not comparable because of revisions to the measure.	7.4% (+/- .6%)	7.1% (+/- .5%)	6.6% (+/- .38%)	3.1% (+/- .30%)	3.6% (+/- .34%)	2.3% (+/- .37%)	3.0%
Notice error rate ^c	Percentage of incorrect notices issued to taxpayers (includes systemic errors). ^d	Not comparable because of revisions to the measure.	18.7% (+/-2.4%)	9.4% (+/- 1.2%)	9.5% (+/- 1.3%)	9.2% (+/-1.6%)	5.4% (+/-1.1%)	4.3% (+/-1.0%)	7.3%
Refund error rate - individual (paper) ^c	Percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name, Social Security number, or refund amount); includes systemic errors. ^d	9.8%	8.0% (+/- .46%)	5.3% (+/- .41%)	4.9% (+/- .44%)	5.0% (+/- .48%)	4.5% (+/- .46%)	2.8% (+/- .41%)	4.6%
Refund interest paid	Amount of refund interest IRS paid per \$1 million of refunds issued.	Not comparable because of revisions to the measure.	Not comparable because of revisions to the measure.	\$36.29	\$20.55	\$29.21	\$30.12	\$36.09	\$34.00
Refund timeliness - individual (paper) ^c	Percentage of refunds issued within 40 days or less.	95.2%	98.2% (+/- .32%)	98.8% (+/- .26%)	98.3% (+/- .17%)	99.2% (+/- .18%)	99.3% (+/- .13%)	99.3% (+/- .18%)	99.2%
Productivity	Weighted volume of documents processed per staff year expended at the processing centers.	30,133	28,389	30,179	30,405	31,444	33,237	33,535	32,640
Individual Master File efficiency	Measure of Individual Master File returns processed per staff year expended.	Measure not in existence	Measure not in existence	Measure not in existence	Measure not in existence	14,965	16,124	23,532	24,650

Source: GAO.

Note: GAO analysis of IRS data.

^aAccording to IRS officials, they did not compute a margin of error for these measures in 2001.

**Appendix I: IRS's Processing Performance
Relative to 2001-2006 Performance and 2007
Goals**

^bThe measures for fiscal year 2006 are through July 31, which were the latest data available at the time we ended our audit work. According to IRS officials, the 2006 results through July 31 are reflective of IRS's performance during the filing season. In addition, IRS officials told us that the results for the measures should not change significantly through September 30.

^cIRS estimates these measures to have a 90 percent confidence interval.

^dSystemic errors are computer-generated errors over which a particular processing center would have no control.

Appendix II: Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 7, 2007

Mr. James R. White
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. White:

I have reviewed your draft report entitled *TAX ADMINISTRATION: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated*. I appreciate your recognition of our significant achievements in successfully delivering the 2007 filing season, which as you note continues a long-term trend of continually improving IRS services to taxpayers.

Processing – We had an outstanding filing season, successfully implementing significant and sometimes extremely late tax law changes. Through September 28, 2007, we processed over 134 million individual income tax returns and issued over 103 million refunds, totaling nearly \$234 billion.

Electronic filing grew again this year with 78.7 million, or 58.5 percent, of individual taxpayers filing electronically. The remaining 55.9 million were filed on paper. The number of returns filed electronically increased 9 percent over last year, which exceeds the 6 percent increase we achieved in the prior year. So far, this year's e-file rate has also exceeded our projection for an 8 percent increase for the year.

The most significant increase in e-file occurred in the number of taxpayers who filed from their home computer. Over 22.4 million returns were filed from home, nearly an 11 percent increase from the prior year. Over 3.8 million taxpayers took advantage of the free online filing services offered by the Free File Alliance. Also notable is the fact that over 66.6 million taxpayers electronically signed their electronic returns, further increasing the efficiency of e-file. Additionally, more than 65,000 individuals have registered for e-services and over 53 percent of applications to electronically file were submitted online.

Through May 2007, the IRS received 84.5 million individual tax returns with Telephone Excise Tax Refund (TETR) claims totaling \$3.6 billion. The IRS processed over 600,000 paper, and 100,000 e-file, Forms 1040EZ-T for taxpayers without a return

filing requirement that claimed the TETR. The IRS also received 400,000 business tax returns with TETR claims totaling \$204.5 million.

For the first time, the IRS offered taxpayers the opportunity to split their refunds and direct deposit them into multiple accounts. We successfully processed approximately 80,000 split refund requests, which was significantly lower than the anticipated 1.4 million. However, several major software vendors did not provide the ability to split refunds in their tax preparation software and may have contributed to the lower than expected volume.

Late passage of the Tax Relief and Health Care Act of 2006 included an extension of the tuition and fees deduction, state and local sales tax deduction, and the deduction for educator expenses. The late passage of this legislation caused IRS delays in processing some returns until mid-February. Nonetheless, the IRS successfully managed taxpayer, practitioner, and tax software-provider expectations through extensive information and outreach. As a result, there were minimal negative consequences for taxpayers from this delay.

Successful Implementation of the Customer Account Data Engine (CADE) continued during 2007. Release 2.2, although delayed, successfully deployed in March 2007 followed by the successful deployment of Release 3.1 into production in August 2007. This portion of Release 3.1 introduced Disaster Area Designation Processing into CADE and has resulted in the ability to maintain over 616,000 accounts within CADE that would have returned to the Individual Master File without this functionality. The second portion of Release 3.1 introduces online address changes, which enables CADE to process and post address changes for the first time. In addition to faster refunds, these new functionalities working together set the framework to enable IRS to post additional account changes in a near real-time manner in the future. As of September 28, 2007, CADE posted over 11.2 million returns and disbursed over 10.9 million refunds for over \$11.6 billion.

Telephone Service - We appreciate your recognition that customer access was better this year than last year. This increase in access was made possible through proper planning and the IRS ability to quickly respond to actual demand by redeploying resources. Although we overestimated the demand for telephone assistance related to TETR, the demand for other telephone assistance services was slightly higher than last year. We achieved an 81.6 percent Level of Service for the filing season, exceeding the planned Level of Service of 81.1 percent and ended the fiscal year at 82.1 percent, exceeding the goal of 82 percent. We also successfully managed our staffing to ensure non-telephone correspondence inventories were maintained at levels below Fiscal Year 2006.

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In October 2006, we transitioned to Customer Voice Portal, which is a key telephone technology implemented to improve customer experience by equalizing wait times within the various topics. This revealed approximately nine to twelve seconds that was not previously accounted for when calculating the length of time a caller waits before connecting to an agent. We report the average of this wait time as average speed of answer (ASA). This additional time increased our ASA. Despite this, we achieved an ASA of 273 seconds, four seconds higher than the planned filing season ASA of 269 seconds, and delivered a fiscal year ASA of 266 seconds, six seconds above the goal of 260 seconds.

During peak periods, we will sometimes advise the taxpayer to call back at a less busy time and disconnect the call. In an effort to improve the customer experience this year, we administered fewer courtesy disconnects up front allowing customers to determine how long they were willing to wait to receive assistance. This decision contributed to a 10 percent decrease when combining taxpayer and courtesy disconnects for the filing season.

We appreciate your continued recognition of our improvement and high performance in the accuracy of our tax law and account answers on the toll-free telephone lines. The 2007 accuracy rates for toll-free tax law and accounts surpassed FY 2006 achievements. Through September 2007, we achieved a Toll-Free Tax Law accuracy rate of 91.2 percent. We continually focus on identifying defects and provide the information to call sites to share with telephone assistors. Through September 2007, the Toll-Free Accounts accuracy rate was 93.4 percent. Accuracy gains can be attributed to the improved quality review process, conference calls held to address specific tax law or accounts topics, and Contact Recording that allows managers to listen to and review recorded customer contacts as a part of performance feedback to employees. Customer satisfaction for toll-free through July was 94 percent, with a 2 percent dissatisfaction rate demonstrating the excellent service that we continue to provide our customers.

Website – The IRS website, IRS.gov, is consistently one of the most heavily used government sites. So far in 2007, our website has been visited more than 214 million times, a 10.3 percent increase over 2006. These visits resulted in more than 1.3 billion page views, an almost 4 percent increase over 2006. Visits are the measurement of actions beginning when a visitor views their first web page on IRS.gov and ends when the visitor leaves our website. Taxpayers and practitioners also downloaded more than 128 million forms, publications, instructions, and other documents.

Walk-In Assistance - During the 2007 filing season, the IRS continued to provide services at all of its 401 Taxpayer Assistance Centers. As of May 26, 2007, accuracy of the services we provided in these walk-in sites was 85 percent for accounts assistance and 80 percent for tax law assistance. To better measure the accuracy of tax law and

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account assistance, the IRS recently started implementing Contact Recording. As you note in your report, we have deployed Contact Recording in 127 of the 401 walk-in sites and plan to fully deploy this systems to all walk-in sites by 2009.

In addition, the IRS successfully responded to late legislation by hiring seasonal employees to lessen the impact of anticipated demands of the TETR legislation. The IRS also conducted additional training for all employees to address legislative changes enacted after our regular fall 2006 Continuing Professional Education classes.

Volunteer Assistance - During the 2007 filing season, approximately 76,619 IRS supported volunteers in 11,922 locations provided assistance to traditionally underserved populations. These include individuals with low incomes, the elderly, the disabled, rural, Native American, and those with Limited-English proficiency. Through September 2007, over 2.6 million returns were filed through our Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, an increase of 15.8 percent over the prior year. Of these, 84.6 percent were e-filed, a 2.4 percent increase over 2006. To increase awareness of these services, as well as taxpayer education on basic income tax return filing and payment requirements, the availability of the Earned Income Tax Credit, e-file, and other tax related issues, more than 410 million outreach contacts were made during 2007. These contacts include multiple messages on varied topics to targeted taxpayer segments through both media and non-media channels. In order to serve more taxpayers through these programs, we also expanded our partnerships with community-based coalitions to approximately 326 in 2007. These strategic partnerships leverage IRS resources and allow us to reach far more taxpayers through trusted local community sources.

Responses to your specific recommendations are enclosed. I appreciate your observations on the successful filing season for 2007, and if you have any questions, please contact me or Floyd Williams, Director, Legislative Affairs, at (202) 622-3720.

Sincerely,



Linda E. Stiff
Acting Commissioner of Internal Revenue

Enclosure

Enclosure

Recommendation for the Commissioner:

Determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions.

Response:

We agree with this recommendation. Senate Report 110-129 of the Financial Services and General Government Appropriations Bill of 2008 requires the IRS to provide to Congress a report addressing 2-D Bar Coding as stated, *“Accordingly, the Committee directs the IRS, in consultation with stakeholders, such as the National Taxpayer Advocate, to develop a detailed strategic plan to meet the 80 percent e-File goal. This plan should address alternate electronic filing strategies, including Telefile and 2-D Bar Coding and methods of e-filing directly with the IRS for free.”*

The report to Congress will include the information requested in your recommendation and specifically address:

- The impact on commercial software providers to include bar codes on paper returns.
- The IRS cost for processing bar coded returns.
- Cost-benefit analysis of capturing all tax return information.
- “Break-even” point paper processing versus electronic filing.

Recommendation for the Commissioner:

Determine the benefits, in terms of processing costs and improved enforcement, of having all return information available electronically.

Response:

We agree with this recommendation. Our planned actions in response to the first recommendation above will also address this recommendation.

Recommendation for the Commissioner:

Determine how much electronic filing would have to increase, either through electronic filing mandates or bar coding, for the benefits of transcribing all remaining paper returns to exceed the costs.

Response:

We agree with this recommendation. Our planned actions in response to the first recommendation above will also address this recommendation.

Recommendation for the Commissioner:

Develop estimates of the effectiveness of IRS's volunteer program at targeting underserved populations.

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Response:

We agree with the recommendation. Our Stakeholder Partnerships, Education and Communication (SPEC) organization is currently working to develop appropriate measures to determine the success of targeted activities in specific underserved markets. Our territories throughout the country have targeted their local underserved markets (including low-income, disabled, rural, elderly, and Limited-English Proficient) since the October 2000 standup of the organization. The type and extent of activities vary, depending upon the local population, identified partners, partner needs and that of their customers, and the amount of available SPEC resources. The SPEC organization has recently taken steps to bring additional focus to these efforts by developing national initiatives to address these markets. National teams comprised of headquarters and field managers and employees are assessing current activities, identifying gaps, and developing action plans for nationwide direction.

Recommendation for the Commissioner:

Determine the feasibility of using contact recording as a method of monitoring and improving the quality of return preparation assistance at IRS's walk-in sites.

Response:

We agree with this recommendation. The IRS will determine the feasibility of testing the use of contact recording as a tool for monitoring the quality of return preparation assistance at walk-in sites. We will assess several methodologies using a Data Collection Instrument to monitor accuracy of return preparation. This is a new area of review with additional contingencies not experienced in accounts and tax law contacts. At the end of testing, we plan to recommend whether or not to adopt Centralized Quality Review Systems as a new review process.

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