

January 1993

TAX
ADMINISTRATION

Opportunities to
Increase the Use of
Electronic Filing



148495

■



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-250163

January 22, 1993

The Honorable Daniel P. Moynihan
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

In response to the former Chairman's request, this report discusses steps the Internal Revenue Service can take to increase the use of electronic filing.

As arranged with the Committee, we plan no further distribution of this report until 7 days from the date of issuance. At that time, we will send copies to other congressional committees; the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties. Copies will be made available to others upon request.

The major contributors to this report are listed in appendix VII. Please contact me on (202) 272-7904 if you or your staff have any questions concerning the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Hazel E. Edwards'.

Hazel E. Edwards
Associate Director, Tax Policy
and Administration Issues

Executive Summary

Purpose

Electronic filing provides an alternative to the traditional paper-based return filing and processing system. For the Internal Revenue Service (IRS), the benefits include (1) reduced costs of processing, storing, and retrieving returns and (2) faster and more accurate processing of returns and refunds. For taxpayers, the benefits include (1) receipt of their refunds several weeks sooner than if they had filed paper returns and (2) greater assurance that IRS has received their returns and that the returns are mathematically accurate.

The former Chairman of the Senate Finance Committee asked GAO to provide information on IRS' marketing of electronic filing. In response to that request, GAO sought to (1) determine who is and is not filing electronically and why; (2) determine what, if anything, could be done to broaden the appeal of electronic filing; and (3) identify opportunities, if any, to realize more operational efficiencies from electronic filing.

Background

Since electronic filing became available nationwide in 1990, the number of returns filed in that way has grown from about 4.2 million to nearly 11 million in 1992. To use electronic filing, taxpayers can either have an IRS-approved practitioner prepare and submit the return or take a return that they have prepared to an individual or business that IRS has approved as a transmitter.

The returns are transmitted over communication lines to an IRS service center, where they are automatically edited, processed, and stored. After electronic returns are submitted and acknowledged by IRS, the preparer or transmitter is required to send IRS various documents, including a form with the taxpayer's signature and any Form W-2s.

Electronic filing provides IRS with a more accurate return. For example, IRS data for the 1992 filing season showed a 2.8 percent error rate for electronic returns compared to 18 percent for paper returns. Error rates for electronic returns are lower primarily because (1) computer checks catch errors before the return is filed and (2) computer processing of electronic returns eliminates errors associated with manual processing of paper returns.

To evaluate IRS' electronic filing program, GAO visited four IRS regional offices, eight district offices, and three service centers. GAO also sent questionnaires to random samples of 1,082 preparers and transmitters who participated in electronic filing during 1991 and 1,157 who did not.

Results in Brief

The feature of electronic filing that appears to be most appealing to taxpayers is the ability to get quicker refunds. These expedited refunds come at a price, however. Taxpayers have to pay a third party to prepare and/or electronically transmit the returns and pay an additional fee if they want to obtain the expedited refund through a financial institution. IRS' research suggests that this cost dissuades people who do not need their refunds quickly from participating in electronic filing.

IRS' approach to promoting the electronic filing program has focused on attracting more preparers and transmitters. Although that approach has led to a steady increase in the number of taxpayers filing electronically, approximately 90 percent of all of the individual income tax returns filed in 1992 were not filed electronically.

Given the benefit of electronic filing to both IRS and taxpayers, IRS needs to develop a strategy for making electronic filing more appealing and more available to a broader segment of the population, such as those who are not expecting a refund or who are unwilling to pay the costs associated with going through a preparer or transmitter. In developing a plan, IRS also needs to address various operational issues that if effectively resolved, could enhance the appeal of electronic filing and help IRS more fully realize the benefits available through this technology.

Principal Findings

Quicker Refunds Are the Main Appeal of Electronic Filing and Cost Is the Main Deterrent

According to studies done for IRS and GAO's work, electronic filing has its greatest appeal to taxpayers who are most in need of their refunds and who accordingly would seem least able to afford the cost. IRS can generally issue refunds on electronic returns within 2 to 3 weeks, or about half the time involved in issuing refunds on paper returns. Electronic filers can get their refunds even faster (in about 3 days) by obtaining commercial loans called refund anticipation loans. (See pp. 18 to 21.)

There is a cost associated with these quicker refunds. The results of GAO's survey of preparers and transmitters participating in the electronic filing program in 1991, for example, indicated that the median fee for preparing a Form 1040 was \$70 and the median fee for filing it electronically was \$22. The median fee associated with getting a refund anticipation loan was \$35 for a Form 1040, according to GAO's survey.

Many taxpayers are not using electronic filing because of the cost. IRS focus groups revealed that taxpayers not filing electronically shared certain characteristics that distinguished them from taxpayers who filed electronically. They appeared to be better money managers; considered their refunds money they could live without; and, when they had refunds coming, were in no hurry to receive them. These people were not attracted by the appeal of quicker refunds. To the contrary, they were dissuaded from participating by the cost associated with getting quicker refunds. (See pp. 23 to 24.)

GAO's analysis appears to confirm that those most attracted to electronic filing are those least able to afford it. GAO compared data on taxpayers who filed electronically in 1991 with data on the taxpaying population in general and found that the average electronic filer had a lower adjusted gross income (\$20,000 versus \$30,000) and a higher average refund (\$1,200 versus \$930) than the average taxpayer and was more likely to claim an earned income credit. (See pp. 15 to 18.)

Cost is also a deterrent to some potential preparers and transmitters. Of those not participating who responded to GAO's survey, about 61 percent cited the cost of hardware and software as a barrier to their participation in the electronic filing program. (See pp. 25 to 26.)

IRS Needs a Comprehensive Plan for Broadening the Use of Electronic Filing

Many potential electronic filing market segments remain virtually untapped because IRS promotes electronic filing primarily among tax practitioners who deliver electronic filing services to taxpayers. IRS believes that by concentrating its marketing efforts on this group, which reaches tens of thousands of taxpaying entities, electronic filing can achieve the broadest market exposure. That approach has been primarily successful in attracting taxpayers looking for quick refunds. But not all taxpayers are attracted by that feature. For example, of the 75 million individual income tax returns filed in 1992 that involved refunds, only about 15 percent were filed electronically. (See pp. 30 to 33.)

IRS has taken some steps aimed at further expanding the use of electronic filing, including allowing certain taxpayers to file by telephone and making electronic filing available to taxpayers who owe additional taxes. IRS has also experimented with allowing taxpayers in some states to electronically file both their federal and state income tax returns and providing electronic filing services for certain taxpayers who visit an IRS field office for help in preparing their returns. These measures were not part of a

coordinated strategy to make electronic filing available to a broader segment of the population. (See pp. 26 to 28.)

IRS recently developed an electronic filing marketing plan, but it is narrow in scope, with a continuing focus on tax preparers and transmitters. There is no discussion, for example, of steps IRS might take to make electronic filing more accessible to taxpayers unwilling or unable to incur the costs associated with going through a preparer or transmitter.

To successfully broaden the use of electronic filing, IRS must redirect its focus and devise a plan that gives appropriate attention to other segments of the population. This redirected focus should include strategies for (1) encouraging taxpayers who owe additional taxes to file electronically, (2) encouraging employers and financial institutions to offer electronic filing as a service to their employees and customers, and (3) assessing the feasibility of allowing taxpayers to file electronically through their personal computers. GAO believes that a plan that addresses these potential markets will go far in making electronic filing more accessible.

IRS Needs to Address Certain Operational Issues

Inefficiencies in the electronic filing system adversely affect the accessibility or appeal of electronic filing and prevent IRS from realizing electronic filing's full potential. These inefficiencies include (1) the need to submit paper documents in support of the electronic transmission, thus negating some of the benefits available through a truly paperless process; (2) limitations on the number of forms and schedules that can be filed electronically; (3) the need for IRS to correct electronic return errors on two different systems; (4) the need for IRS to print and transship copies of electronic returns to various IRS locations; and (5) IRS' having to deal with an ever increasing incidence of filing fraud.¹

In developing a plan to broaden the use of electronic filing, IRS needs to ensure that these issues are resolved. GAO believes it would be counterproductive, for example, to promote more widespread use of electronic filing while weaknesses exist in the controls over electronic filing fraud or while the computer system is slowed by inefficient error correction and printing processes. IRS has taken steps to address some of the operational issues discussed in this report. It has, for example, submitted legislation to eliminate the requirement for paper signatures and

¹The issues surrounding electronic filing fraud are discussed more fully in *Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud* (GAO/GGD-93-27, Dec. 30, 1992).

has established a task force to address expanding the list of forms and schedules that can be filed electronically. (See pp. 33 to 39.)

Recommendations

IRS should take steps to broaden the electronic filing of individual income tax returns. Those steps should include identifying market segments and specifying national strategies for attracting those segments to electronic filing, including strategies to encourage employers and financial institutions to provide electronic filing services to their employees and customers. Further, IRS should (1) assess the feasibility of enabling taxpayers to file electronically through their personal computers and providing broader access to electronic filing at IRS field offices and other convenient locations and (2) determine what forms and schedules might be added to the list of documents that can be filed electronically.

As IRS takes steps to broaden the electronic filing of individual returns, it should also ensure that the various operational issues that (1) adversely affect the accessibility or appeal of electronic filing—such as the need to submit paper documents—or (2) prevent IRS from fully realizing the benefits available from electronic filing—such as redundant error correction—are resolved. (See pp. 40 to 41.)

Agency Comments

In commenting on a draft of this report (see app. VI), IRS said that it agreed with GAO's recommendations and has a number of efforts under way to make electronic filing more appealing and more available to all segments of the population. IRS also agreed to address the various operational issues discussed in the report and mentioned various actions IRS planned to take, which, if implemented, would be responsive to GAO's recommendations. (See pp. 41 to 43.)

Contents

Executive Summary		2
Chapter 1		10
Introduction	Objectives, Scope, and Methodology	13
Chapter 2		15
Who Is and Who Is Not Participating in Electronic Filing and Why	A Profile of Electronic Filers	15
	Quick Refunds Attract Taxpayers to Electronic Filing	18
	Factors Encouraging Preparer and Transmitter Participation in Electronic Filing	21
	The Cost of Electronic Filing Is a Major Barrier to Greater Participation	23
	Efforts to Increase the Use of Electronic Filing	26
	Conclusions	28
Chapter 3		30
IRS Needs to Expand the Appeal of and Benefits From Electronic Filing	IRS' Strategy for Promoting Electronic Filing Does Not Cover All Segments of the Population	30
	What Can Be Done to Improve the Electronic Filing System's Operational Efficiency?	33
	Conclusions	39
	Recommendations to the Commissioner of Internal Revenue	40
	Agency Comments and Our Evaluation	41
Appendixes		
	Appendix I: Electronic Filing Surveys Sampling Plan and Methodology	44
	Appendix II: Electronic Filing Participants Questionnaire Results	47
	Appendix III: Electronic Filing Nonparticipants Questionnaire Results	61
	Appendix IV: Example of a 1040-TEL Return	69
	Appendix V: Example of a 1040PC Return	70
	Appendix VI: Comments From the Internal Revenue Service	71
	Appendix VII: Major Contributors to This Report	77
Tables		
	Table 2.1: Comparison of Electronic Filers to Taxpayers in General Based on Returns Filed in 1991.	15
	Table 2.2: Adjusted Gross Income Range of Tax Returns Filed in 1991	16

Contents

Table 2.3: Factors Encouraging or Discouraging Preparer and Transmitter Participation in the Electronic Filing Program in 1991	22
Table 2.4: Percentage of People Who Said They Would “Definitely” or “Probably” Use Electronic Filing if Given a 5-Day Refund	24
Table 2.5: Barriers to Electronic Filing Participation by Preparers and Transmitters in 1991	25
Table I.1: Summary of National Participants Survey by Strata	44
Table I.2: Summary of Nonparticipants Survey by Strata	46

Figures

Figure 1.1: Growth in Electronic Filing: Number of Returns, 1986 Through 1992	11
Figure 1.2: Growth in Electronic Filing: Number of Preparers and Transmitters, 1986 Through 1992	12
Figure 2.1: Total Returns and Electronic Returns Filed in 1991 by IRS Region	17

Abbreviations

EIC	earned income credit
IRS	Internal Revenue Service
RAL	refund anticipation loan
TSM	Tax Systems Modernization

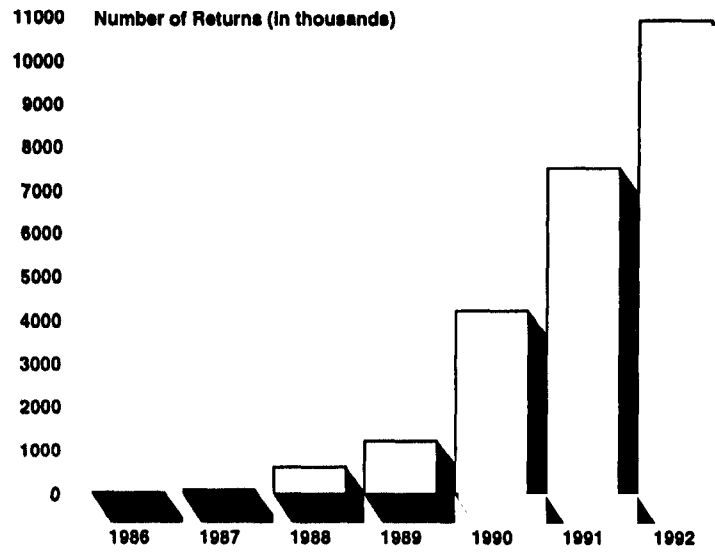
Introduction

Electronic filing provides taxpayers with an alternative to the traditional paper-based way of filing tax returns. To file electronically, taxpayers can have an IRS-approved practitioner prepare and submit the return or they can take a return that they have prepared to an individual or business that IRS has approved as a transmitter.

The returns are transmitted over communication lines to an IRS service center, where they are automatically edited, processed, and stored. In addition to the electronically transmitted information, preparers and transmitters must send IRS various paper documents such as Form 8453, which serves as the taxpayer's signature for the electronic return, and Form W-2, which shows the taxpayer's wages and withheld taxes. IRS requires that preparers and transmitters forward these documents to IRS within 1 working day after IRS accepts the return for processing. Upon receipt of the paper documents, the service centers are required to process the documents and match them with the electronic information to form a complete return.

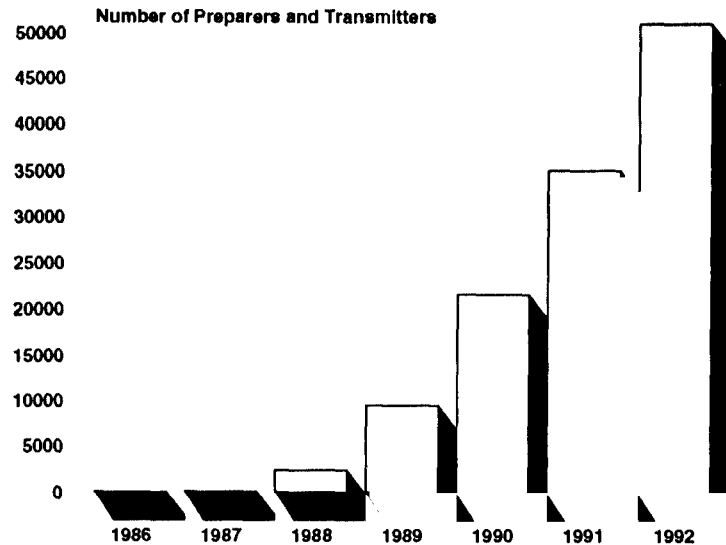
As shown in figures 1.1 and 1.2, electronic filing has grown considerably—from a test in 1986 involving 5 preparers and transmitters and about 25,000 returns to a nationwide program that in 1992 involved over 51,000 preparers and transmitters and about 10.9 million returns received as of June 5. IRS' goal is to continually increase the number of electronic returns received each year—reaching a level of 25 million by 1995.

**Figure 1.1: Growth in Electronic Filing:
Number of Returns, 1986 Through
1992**



Source: IRS.

Figure 1.2: Growth in Electronic Filing:
Number of Preparers and Transmitters,
1986 Through 1992



Source: IRS.

For IRS, electronic filing means fewer errors. During the 1992 filing season, according to IRS data, the error rate for electronic returns was 2.8 percent, compared to 18 percent for paper returns. Error rates for electronic returns are lower primarily because (1) computer checks catch errors before the return is filed and (2) computer processing of electronic returns eliminates errors associated with the manual processing of paper returns. Electronic filing also means less paper for IRS to handle, which reduces the need for storage space. IRS has in its files and at federal record centers over 1.2 billion tax returns stored in over 1 million cubic feet of space. If these returns had been filed electronically, they could be stored on about 200 12-inch optical disk platters. Also, using information provided by IRS, the Office of Management and Budget has estimated that each electronic return costs IRS about \$1.62 less to process (in 1993 dollars) than a paper return.

For taxpayers, electronic filing means faster refunds. According to IRS, taxpayers who file tax returns electronically can receive their refunds about 3 weeks sooner than taxpayers who file paper returns. Electronic filers get even quicker refunds through refund anticipation loans (RAL)

offered by private lenders. Under that arrangement (1) the lender, in return for a fee, gives the taxpayer a loan in the amount of the expected refund and (2) IRS sends the refund check directly to the lender to pay off the debt. Because IRS acknowledges receipt of electronically filed returns and because the process provides various mathematical and consistency checks, electronic filing also provides taxpayers with greater assurance that their returns were received and that the computations therein are accurate.

The Chairman of the Senate Committee on Finance asked us to evaluate IRS' electronic filing program. This report discusses the approach IRS has taken to market electronic filing. We have issued a separate report on IRS' controls for preventing and detecting fraudulent electronic returns.¹

Objectives, Scope, and Methodology

Our objectives were to (1) determine who is and who is not filing electronically and why; (2) determine what, if anything, can be done to broaden the appeal of electronic filing; and (3) identify opportunities, if any, for IRS to realize more operational efficiencies from electronic filing. We focused our work on the electronic filing of individual income tax returns.

To achieve our objectives, we

- interviewed IRS officials who had electronic filing program responsibility at the National Office, four regional offices, and eight district offices, and at the three service centers that were part of the electronic filing system in 1991 (see app. I for information on how the regions and districts were selected);²
- interviewed IRS staff in the four regions and eight districts who were responsible for promoting electronic filing;
- sent questionnaires to a stratified random sample of 1,082 preparers and transmitters who participated in electronic filing in 1991 (see app. I for details of our sampling plan and methodology and app. II for a copy of the questionnaire);
- sent questionnaires to a stratified random sample of 1,157 firms from the eight districts we visited who did not participate in electronic filing (see

¹Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

²In 1991, 3 of IRS' 10 service centers—Andover, Cincinnati, and Ogden—were part of the electronic filing system. In 1992, IRS added two more centers—Memphis and Austin—to that system.

- app. I for details of our sampling plan and methodology and app. III for a copy of the questionnaire);
- obtained an extract from IRS' master file of taxpayers who filed electronically in 1991 to profile the type of taxpayers using electronic filing and, for comparative purposes, obtained Statistics of Income data on the characteristics of taxpayers in general;
 - analyzed IRS documentation relating to program management including a cost/benefit analysis, marketing plans, internal audit reports, and various task force studies;
 - discussed electronic filing with private industry groups, including H&R Block, Inc., the Society of Enrolled Agents, and the City of New York Bar Association; and
 - met with representatives of the South Carolina Tax Commission to discuss the results of an IRS/South Carolina test of joint electronic filing of state and federal tax returns.

We did our work between February 1991 and May 1992 in accordance with generally accepted government auditing standards. IRS provided written comments on a draft of this report. Those comments are presented and evaluated in chapter 3 and are reprinted in their entirety in appendix VI.

Who Is and Who Is Not Participating in Electronic Filing and Why

The feature of electronic filing that most appeals to taxpayers is the ability to get quicker refunds. That desire for quicker refunds has spawned a financial product—RALs—that enables electronic filers to get their refunds even faster. These expedited refunds come at a price, however. Taxpayers generally have to pay a third party to prepare and/or electronically transmit the returns and must also pay to get a RAL. IRS' own research suggests that this cost dissuades people who do not need their refunds quickly from participating in electronic filing. Thus, electronic filing currently has its greatest appeal to taxpayers who are most in need of their refunds but who would seem least able to afford the cost.

A Profile of Electronic Filers

As shown in table 2.1, when compared to the average taxpayer, the average electronic filer had a lower average adjusted gross income and a higher average refund, claimed a higher number of exemptions, and was much more likely to claim an earned income credit (EIC).¹

Table 2.1: Comparison of Electronic Filers to Taxpayers in General Based on Returns Filed in 1991.

Element	Electronic filing taxpayers	Taxpayers in general
Average adjusted gross income	\$20,000	\$30,000
Number of exemptions	2.6	2
Average refund	\$1,200	\$930
Percentage receiving EIC	41%	11%

Sources: GAO analysis of IRS Master File extract and Statistics of Income Division data.

The information in table 2.1 is consistent with the general observation, which we will be discussing in more detail later, that the taxpayers most attracted to electronic filing are those who appear most in need of their refunds. People with adjusted gross incomes at the lower end of the scale and people entitled to the EIC would probably be more in need of their refunds than would other taxpayers.

Table 2.2 provides more specific information on the number of all returns and electronic returns at various adjusted gross income levels. Table 2.2 shows, for example, that 50 percent of electronic filing taxpayers had adjusted gross income of less than \$15,000 while 40 percent of all taxpayers had adjusted gross income of less than \$15,000.

¹EIC is a special credit for lower-income workers who (1) have earned income and adjusted gross income of less than a specified amount and (2) have one or more qualifying children living with them in their home in the United States. For returns filed in 1991, the maximum credit was \$953.

Chapter 2
Who Is and Who Is Not Participating in
Electronic Filing and Why

Table 2.2: Adjusted Gross Income Range of Tax Returns Filed in 1991

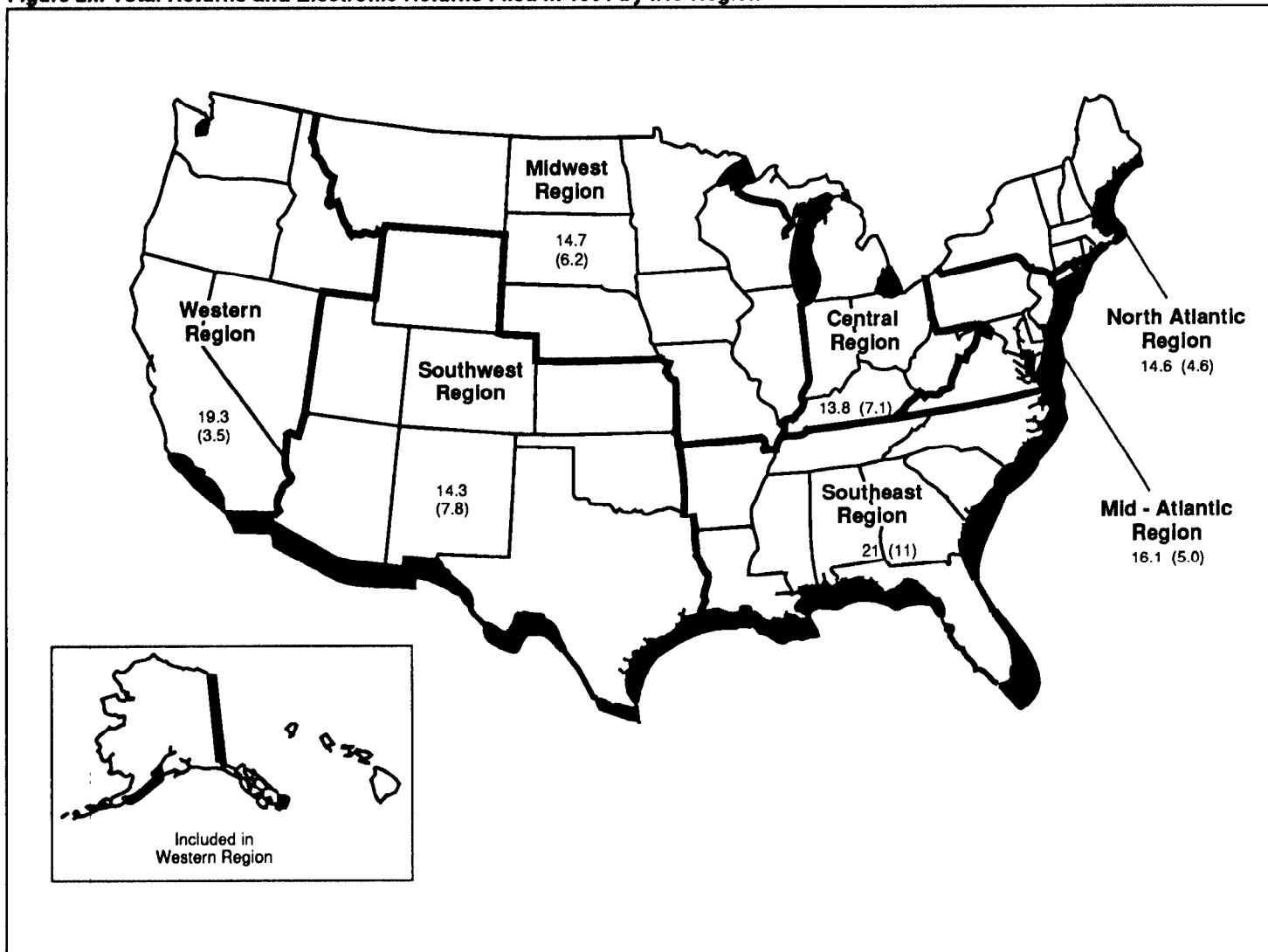
Adjusted gross income range (in dollars)	All returns (in thousands)	Percentage	Cumulative percentage	Electronic returns (in thousands)	Percentage	Cumulative percentage
No adjusted gross income	799	1	1	5	0	0
1-4,999	16,502	14	15	626	8	8
5,000-9,999	14,978	13	28	1,629	22	30
10,000-14,999	13,953	12	40	1,529	20	50
15,000-19,999	11,555	10	50	1,053	14	64
20,000-29,999	17,429	15	65	1,200	16	80
30,000-49,999	21,123	19	84	1,141	15	95
50,000-74,999	10,999	10	94	314	4	99
75,000-199,999	5,610	5	99	68	1	100
200,000-999,999	786	1	100	1	0	100
1,000,000+	64	0	100	.025	0	100

Sources: GAO analysis of IRS Master File extract and Statistics of Income Division data.

IRS data also show that electronic filing was used more in certain areas of the country. For example, as shown in figure 2.1, about 11 percent of the returns filed by individual income tax payers in states comprising IRS' Southeastern Region were filed electronically while in IRS' Western Region, 3.5 percent of individual income tax returns were filed electronically.

**Chapter 2
Who Is and Who Is Not Participating in
Electronic Filing and Why**

Figure 2.1: Total Returns and Electronic Returns Filed in 1991 by IRS Region



Note: Total returns in millions. Percentages of total returns that were filed electronically are shown in parentheses.

Source: GAO analysis of IRS data.

IRS officials in the Western Region said that taxpayers in that area of the country were less apt to file electronically because they are on average

more affluent than taxpayers in other areas and thus do not need to get a quick refund. That assertion is supported by Statistics of Income data for tax year 1990. According to those data, about 17 percent of Western Region tax returns showed adjusted gross incomes of over \$50,000 while 10 percent of the returns from the Southeast Region had adjusted gross incomes of over \$50,000. On the other hand, 40 percent of Western Region returns had adjusted gross incomes of less than \$15,000, while 46 percent of the returns from the Southeast Region had adjusted gross incomes of less than \$15,000.

Western Region officials also said that many taxpayers in the Western Region file more complex returns and generally wait to file until the April 15 due date, even if they are receiving a refund. The implication is that taxpayers who wait that long to file their returns are not going to be attracted by the possibility of getting their refunds earlier.

We did not assess the relative complexity of returns filed in different parts of the country. However, information compiled by IRS' Research Division would seem to indicate that taxpayers in at least part of the Western Region do tend to file later. The information showed that of the tax year 1990 other-than-full-paid returns (of which about 90 percent were refund returns) filed by June 28, 1991, IRS' 10 service centers had received 52 percent by March 15, 1991. By that same date, however, the Fresno Service Center, which serves taxpayers in the San Francisco area, southern California, and Hawaii, had only received 45 percent of its returns. In comparison, the Atlanta and Memphis Service Centers, which serve taxpayers in the Southeast Region, had received 53 percent and 57 percent, respectively, of their returns by that date.

Quick Refunds Attract Taxpayers to Electronic Filing

Electronic filing has several advantages. Among them is IRS' capability to issue a taxpayer's refund in about 3 weeks. That time frame can be reduced to about 2 weeks when taxpayers elect to have their refunds directly deposited to their bank accounts. Some preparers offer electronic filers the option to get their refunds even faster by obtaining commercial loans, called RALS, which enable taxpayers, for a fee, to get their money in about 3 days. Studies done for IRS indicate that the ability to get refunds quickly is the feature that most attracts taxpayers to electronic filing.

Through focus groups held in June 1991, IRS obtained information from taxpayers who filed their tax year 1990 income tax returns electronically.² An overwhelming majority of the respondents agreed that the most important benefit of electronic filing is the ability to get refunds faster. Many participants indicated that they had something they needed to pay immediately and that for them electronic filing was the way to go.

The respondents also cited several other benefits of electronic filing. Some indicated that it was important for them to know that IRS had received their return. Some of the respondents described situations where returns had been lost in the mail or had arrived at IRS too late even though the return had been mailed on time. For them, electronic filing was more efficient and dependable. Some of the other benefits of electronic filing cited by the respondents included direct deposit of their refunds and prompt notification if their returns were rejected. Nearly all the respondents indicated that they planned to file electronically in 1992 and that they would recommend electronic filing to friends.

IRS' Research Division had the Roper Organization survey a sample of approximately 2,000 individuals about electronic filing.³ The persons interviewed comprised a representative sample of the population (continental United States exclusive of institutionalized segments) age 18 and over. These face-to-face interviews were conducted between April 13 and April 20, 1991. Again, the ability to get one's refund quicker was the fact that most motivated those respondents who had filed electronically. The study also pointed out that it was surprising that electronic filing is so popular among those who can least afford the service. We will be discussing the cost of this service later in this chapter.

RALs Contribute to the Appeal of Electronic Filing

Many electronic filing preparers and transmitters offer RALs, which enable taxpayers who file electronically to get money even faster than if they waited to receive their refund from IRS. With an RAL, taxpayers can get their refunds in about 3 days.

²As a prelude to producing two videotapes aimed at increasing electronic filing participation among tax practitioners and taxpayers, IRS contracted to have nine focus groups held between June 17 and June 25, 1991. Four groups (49 respondents) involved both tax practitioners who had as well as tax practitioners who had not participated in electronic filing. Five groups (46 respondents) involved a mix of taxpayers some of whom had and some of whom had not filed their 1990 tax returns electronically. Groups were held in Atlanta; Minneapolis; San Francisco; and Washington, D.C.

³The IRS Research Bulletin, Publication 1500, September 1991.

According to IRS, about 74 percent of the electronic returns filed in 1992 through April 1 involved RALS. Of the preparers and transmitters we surveyed who offered RALS during the 1991 filing season, approximately 80 percent said RALS were the main factor that encouraged their clients to file electronically.

Although RALS enable taxpayers to get money quicker, there is a cost involved. Because there is a fee associated with getting the loan, the amount the taxpayer actually receives is less than the amount of the refund. Our survey of preparers and transmitters indicated that in 1991, the median loan fee was \$35 for 1040s. For Forms 1040A and 1040EZ, that fee was \$30 and \$29, respectively.

Primarily because of the cost involved, RALS have been the subject of some criticism. In a March 12, 1992, letter to the Commissioner of Internal Revenue, for example, the Committee on Personal Income Tax of the City of New York Bar Association expressed concern that

- RALS are being sold principally to unsophisticated taxpayers, most of whom will not be able to understand either the deceptively described interest rates or the limited refund acceleration RALS provide compared to other options;
- the cost of RALS to taxpayers is excessive when compared to the marginal benefit of a 5- to 14-day acceleration of the receipt of cash through an RAL, usually resulting in very high effective annual interest rates that may be usurious in jurisdictions with usury laws; and
- these costs tend to fall on taxpayers in the lowest income brackets who are least able to afford it.

According to the committee, the most significant value of RALS appears to be for banks extending the loans and for tax preparers who can collect fees more easily. With RALS, taxpayers do not have to provide payment at the time of service. Instead, the preparer or transmitter, with approval of the RAL provider, can arrange to have all fees deducted from the refund.

The committee also noted that in January 1992 the New York City Department of Consumer Affairs completed an investigation of the marketing of RALS and concluded that deceptive practices are being used by certain tax preparers promoting RALS in describing the interest rate being charged and that most programs probably involve usurious interest rates. According to the committee, as of April 1, 1992, the New York City

Department of Consumer Affairs was bringing an enforcement proceeding against a number of parties offering RALS.

The Committee on Personal Income Tax recommended that IRS concentrate its efforts on making electronic filing more available and less expensive. It said that with a less expensive, less restricted system, tax preparers could afford to reduce their prices or eliminate extra charges for electronic filing altogether. Further, with a more accessible system, millions of additional computer literate individuals would be candidates for electronic filing at a minimal transmission cost. Although IRS responded to the committee in May 1992, it failed to address the committee's recommendation of making electronic filing more available and less expensive. Instead, IRS is relying, according to its reply to the committee, on increased competition among preparers and transmitters to reduce the cost of electronic filing.

Many electronic filers are apparently not aware that the checks they receive as a result of RALS are loans and not their refunds from IRS. Several respondents in each taxpayer focus group discussed before had taken out loans when they filed their returns electronically. Most of them, however, were not clear that they had received loans. They reported that their refunds came back in 2 or 3 days or that they picked their check up at the transmitter's office. In one of the cities where a focus group was held, participants indicated that when they went to a particular firm, they were told they had to take out a loan in order to file electronically.

Factors Encouraging Preparer and Transmitter Participation in Electronic Filing

Preparer and transmitter participation in electronic filing increased from 5 in 1986 to over 51,000 in 1992. To find out what attracts preparers and transmitters to electronic filing, we surveyed a sample of those who participated in the program in 1991. As shown in table 2.3, the respondents indicated that market demand was the main factor encouraging their participation. These individuals believe that the electronic filing market is increasing, and they offer the service to meet the growing demand. Also as shown in the table, a factor that significantly encouraged electronic filing participation was the belief that electronic filing will eventually become mandatory. About 63 percent of the respondents indicated that this factor at least moderately encouraged their participation in electronic filing.

**Chapter 3
Who Is and Who Is Not Participating in
Electronic Filing and Why**

Table 2.3: Factors Encouraging or Discouraging Preparer and Transmitter Participation in the Electronic Filing Program in 1991

Factors	Percentage encouraged	Percentage neither encouraged nor discouraged	Percentage discouraged
1. Market demand for electronic filing	72.7	16.3	5.0
2. Belief in the possibility that electronic filing will become mandatory	62.8	29.2	^a
3. Overall efficiency of automated process	61.0	25.8	7.3
4. Increased accuracy of return	60.2	34.9	^a
5. IRS support of electronic filing (e.g., IRS' help desk or seminars/workshops)	56.1	38.3	^a
6. Profit potential from electronic filing	54.1	25.8	17.1
7. IRS' acknowledgement of receipt of return	53.0	37.8	^a
8. Computer knowledge	49.9	34.9	9.6
9. Newness of electronic filing	43.4	42.6	8.5
10. Ease or difficulty of transmission	42.7	31.9	17.1
11. Ease or difficulty of using software	42.5	33.1	15.6
12. Size of business	33.0	51.2	10.5
13. IRS' electronic filing requirements	25.9	54.2	13.4
14. Storage need for electronic filing returns	22.0	64.8	7.9
15. Cost (e.g., equipment, software purchases)	12.8	32.3	46.5
16. Other	5.2	^a	^a

^aLess than 5 percent.

Note: Weighted responses equal 15,666 with a sampling error of less than 5 percent.

IRS' June 1991 focus groups of preparers and transmitters who participated in electronic filing produced similar results. These individuals said that they offered electronic filing because it is "the way of the future." Many offered it to keep up with the industry and stay competitive, increase profitability, and provide a service to people who need money fast. Others indicated they offered electronic filing because it eliminates the errors that occur when IRS staff process paper returns, and it is an important service to offer clients. According to focus group discussions, practitioners see electronic filing growing, and many believe that the primary benefit of offering the service is to avoid losing clients and, as a result, remain competitive with their counterparts.

The Cost of Electronic Filing Is a Major Barrier to Greater Participation

The number of electronically filed tax returns has nearly tripled—from 4.2 million in 1990 (when the program first went nationwide) to about 11 million in 1992. Although a significant increase, electronic filing only accounted for about 10 percent of the approximately 110 million tax year 1991 individual income tax returns that IRS had received as of June 5, 1992. Of those 110 million returns, about 75 million involved refunds.

Why are more taxpayers not taking advantage of electronic filing? Responses to our questionnaire and IRS' own research indicated that cost is a major factor. The results also revealed that many taxpayers did not file electronically simply because they did not think of it or were not aware of the option.

Taxpayers Often Cite Cost as the Reason for Not Filing Electronically

IRS' focus group results revealed that taxpayers not using electronic filing were a different type of person than those who used the service. They appeared to be better money managers; considered their refunds money they could live without; and when they had refunds coming, were in no hurry to receive them. The appeal of quicker refunds, which seems to be the predominant attraction of electronic filing, does not work with these people. To the contrary, they were dissuaded from participating by the cost associated with getting quicker refunds. Taxpayers indicated that they were not willing to pay to get their refunds 3 weeks sooner. The study also indicated that taxpayers who used electronic filing mentioned repeatedly that cost was the one thing they did not like about electronic filing.

The results of our survey of preparers and transmitters participating in the electronic filing program in 1991 indicated that the median fees for preparing a Form 1040 and filing it electronically were \$70 and \$22, respectively.⁴

The Roper survey also asked taxpayers why they were not filing electronically. The top five reasons given for not filing electronically were (1) they did not think of it or were not aware of it, (2) they thought it was too expensive, (3) their tax preparer did not offer the service, (4) they did not expect a refund, and (5) they did not know how to go about it or who to ask.

The survey noted an interesting comparison in that almost twice as many people in the West (43 percent) said that they were unaware of the option

⁴The fees cited are for the individual services of preparing a return and transmitting a return. If a taxpayer used a company that both prepared and transmitted electronic returns, the median fee for the combined service was \$72.

as did people in the South (24 percent). As shown previously, IRS' Western Region had the lowest electronic filing participation rate among IRS' seven regions. According to IRS' Western Region Commissioner, H&R Block, Inc., was not a key player early on in that region. This lack of involvement by Block could possibly account for the large number of taxpayers who were not aware of electronic filing as an option. For years Block has been a leader among firms offering tax preparation services, and it is one of the firms that has participated in electronic filing since its infancy.

The Roper survey also questioned taxpayers about price sensitivity to electronic filing. The survey asked taxpayers whether they would file electronically if IRS could directly deposit their refund in 5 business days (a direct deposit refund now takes about 14 days) and, if so, what would be the most they would be willing to pay for the service. As shown in table 2.4, less than half of those willing to file electronically in return for a 5-day refund would pay \$10 or more for that service. In comparison, the median fee taxpayers paid in 1991 just to have their returns transmitted electronically was \$20 (for a 1040 or 1040A) and \$22 (for a 1040EZ).

Table 2.4: Percentage of People Who Said They Would "Definitely" or "Probably" Use Electronic Filing If Given a 5-Day Refund

Maximum amount willing to pay	Percentage	Cumulative percentage
Nothing	27.6	27.6
Less than \$10	25.8	53.4
Between \$10 and \$19	20.3	73.7
Between \$20 and \$29	15.0	88.7
Between \$30 and \$39	4.3	93.0
\$40 or more	3.4	96.4
Do not know	3.6	100.0

Source: The IRS Research Bulletin, Publication 1500, September 1991.

In 1992, H&R Block, Inc., offered free electronic filing to taxpayers at 53 of its offices across the country if Block prepared the return. During 1991, about two-thirds of the taxpayers who filed electronically did so through a Block office. If Block expanded free electronic filing to other cities and other practitioners followed its lead, the barrier posed by cost would be ameliorated and electronic filing participation could increase. As of July 1992, Block had not announced any plans to continue free electronic filing or expand to other locations. Also, neither Block nor IRS had measured the impact that free electronic filing had on overall participation in the program.

**Cost Is Also a Barrier to
Preparers and Transmitters**

Because taxpayers have to go through a preparer or transmitter to file electronically, the extent of taxpayer participation in the program is dependent at least in part on the extent of preparer and transmitter participation. We asked a sample of tax practitioners who did not participate in electronic filing in 1991 as either preparers or transmitters to identify the extent to which various factors were barriers to their participation. As shown in table 2.5, the cost of equipment, software, etc., was the barrier most often cited. As shown earlier in table 2.3, even 46 percent of the preparers and transmitters who participated in the program in 1991 cited cost as a factor that greatly or moderately discouraged participation.

**Table 2.5: Barriers to Electronic Filing
Participation by Preparers and
Transmitters in 1991**

Factors	Percentage yes	Percentage no
1. Cost (e.g., equipment, software purchases)	60.5	16.1
2. Size of business	56.3	24.0
3. Market demand for electronic filing	36.8	34.7
4. Software	36.3	35.0
5. Newness of electronic filing	34.5	39.9
6. Profit potential from electronic filing	30.6	41.1
7. Inability to electronically transmit all forms/schedules for filing individual tax returns	28.3	42.1
8. Transmission of returns	24.9	43.7
9. Computer knowledge	23.1	50.4
10. IRS' electronic filing requirements	20.5	51.5
11. Storage need for electronic returns	13.4	56.7
12. Other	11.1	0.0
13. IRS' support of electronic filing	6.3	65.3

Note 1: Percentages do not add to 100 due to missing responses.

Note 2: Weighted responses equal 17,129 with a sampling error of less than 5 percent.

Source: Based on 525 useable responses to a GAO questionnaire.

The Commissioner of Internal Revenue acknowledged that the cost of hardware has discouraged preparer and transmitter participation in electronic filing. She said that IRS plans to test a less costly means of transmitting electronic returns during the 1993 filing season that could save preparers and transmitters about \$650 to \$700 on the cost of a modem to transmit returns electronically.

IRS' focus group results indicated that most of the attending preparers and transmitters who did not participate in electronic filing in 1991 saw no benefit to their clients from offering electronic filing. Others indicated that even after they purchased software, there was no client demand for electronic filing. Consequently, they could see no reason to participate in electronic filing unless it is mandated. Practitioners did indicate in both our survey and IRS' focus groups that if IRS provided incentives such as free software, tax credits to preparers for providing the service, or tax credits to taxpayers for filing electronically, they would be encouraged to participate.

Efforts to Increase the Use of Electronic Filing

IRS has taken several steps to increase the use of electronic filing. Those steps include tests that involve the joint filing of federal and state tax returns, the filing of simple returns over the telephone, and making electronic filing available to taxpayers at some of its field offices. IRS also expanded the electronic filing program to accept electronic returns from taxpayers who owe more taxes, not just those due a refund.

Joint Filing of Federal and State Tax Returns

In 1991, IRS and the South Carolina Tax Commission participated in a joint research project that allowed selected taxpayers to file their federal and state income tax returns through IRS' electronic filing system. Using approved preparers and transmitters, a taxpayer's federal and state data are combined into one electronic record that is then transmitted to IRS, where it is checked for proper format. IRS acknowledges receipt of the data and, in turn, makes the state portion of the data available to the state. IRS deemed the test a success and in 1992 extended it to include seven states, with varying degrees of participation. For example, the test in one state was limited to a single practitioner who accepted returns statewide while the tests in three other states limited participation to state employees whose returns were transmitted from in-house. As of July 27, 1992, IRS had received 161,603 joint electronic returns. In 1993, IRS plans to extend the project to a total of 15 states.

Telefile

Under TeleFile, which IRS piloted in Ohio in 1992, certain taxpayers were allowed to file their returns over the telephone. To qualify, a taxpayer had to have filed a 1040EZ in 1991 and had to be living at the same address as in 1991. IRS estimated that about 700,000 Ohio taxpayers would be eligible to use TeleFile in 1992 and that about 150,000 would actually use it. As of June 5, 1992, IRS had received about 126,000 TeleFile returns.

Under TeleFile, taxpayers interact with an IRS computer using a touch tone telephone. Through the telephone, taxpayers enter identifying information and the amount of their wages, withholding, and interest. IRS' computer calculates the tax liability and any refund or balance due, immediately provides this information to the taxpayer, and asks if the taxpayer wants to file. If the taxpayer indicates "yes," the return is considered filed, and it is processed through the Electronic Filing System.

To complete the transaction, taxpayers must mail a signed paper document (called 1040-TEL) showing the amounts they entered into the computer and the amounts the computer gave them. (See app. IV for an example of 1040-TEL.) In 1993, IRS intends to again restrict the test to residents of Ohio and experiment with voice signatures, which could eliminate the need to mail a 1040-TEL.

Because TeleFile returns are processed through the Electronic Filing System, taxpayers using TeleFile can expect to get their refunds faster—in about 3 weeks—than if they filed a paper return. Also, returns filed via TeleFile are more accurate because the computer, rather than the taxpayer, calculates the tax liability and any resultant refund or balance due. Unlike the more typical form of electronic filing, taxpayers do not have to go through a third party to file and, thus, no fee is involved.

Availability of Electronic Filing in Selected IRS Field Offices

To identify a more practical, accurate, and efficient system of assisting taxpayers in preparing and electronically transmitting their income tax returns, IRS tested the automated preparation and transmission of tax returns in 2 of its 63 district offices in 1991. The test was limited to forms 1040A and 1040EZ with an adjusted gross income of less than \$25,000.

IRS did not publicize the service. Instead, it made the service available to certain taxpayers who came into the office for help in preparing their returns. Taxpayers entering the field offices were screened to determine the type of assistance needed. Taxpayers who requested assistance in preparing their tax returns and who appeared eligible for the test were directed to a computer workstation where an assistor entered their tax information. Once the return was completed, the taxpayer was given the option to have the return filed electronically. Both of the participating districts found that the test produced a high-quality return and made the tax return preparation and transmission process more efficient and accurate.

There were 4,042 returns prepared through the test. Of these, 2,446 were transmitted electronically to the service center. The returns that were not transmitted electronically included joint returns that could not be transmitted because only one of the taxpayers was present to sign the return and returns that the taxpayer chose not to have transmitted electronically. IRS did not collect information on why taxpayers chose not to have their returns transmitted electronically.

During 1992, IRS expanded the test to include a third district office. As of June 1992, 2,974 returns were filed electronically through the test. As of June 17, 1992, IRS was preparing a report on that year's test and had not yet decided on whether to continue the test in 1993.

Electronic Filing Expanded to Include Balance Due Returns

In 1991, IRS tested the feasibility of electronically filing balance due returns—returns on which the taxpayer owes money—in 9 states and received 3,843 such returns. In 1992, IRS expanded the option of balance due electronic filing nationwide. As of April 30, 1992, IRS had received approximately 57,000 balance due electronic returns—.2 percent of the 24 million balance due returns received overall.

Taxpayers and practitioners see little advantage for taxpayers to file electronically when they owe money. This is especially true because the service is generally not free. IRS recognizes that the advantages are not as obvious as for those taxpayers who choose electronic filing to get a quick refund. There are some advantages (such as a more accurate return and acknowledgment of receipt from IRS), however, that IRS believes taxpayers will find so attractive that they will file their balance due returns electronically. Also, as with paper returns, taxpayers may electronically file balance due returns any time during the filing season but defer paying the additional tax due until April 15.

Conclusions

Electronic filing has grown considerably since its inception and will probably continue to grow, especially if economic conditions make quicker refunds even more appealing. IRS has taken some steps in an attempt to further expand the use of electronic filing but not as part of any comprehensive strategy. If IRS is to fully realize the potential benefits available through electronic filing, it needs to develop and implement a strategy for making electronic filing more appealing and more available to a broader segment of the population. That matter is discussed in chapter 3,

Chapter 2
Who Is and Who Is Not Participating in
Electronic Filing and Why

along with various issues that IRS must address as it works toward developing such a strategy.

IRS Needs to Expand the Appeal of and Benefits From Electronic Filing

IRS believes that its efforts to increase participation in electronic filing have been successful because the number of taxpayers taking advantage of electronic filing has steadily increased. Although participation is increasing, only about 10 percent of all of the individual income tax returns filed in 1992 were filed electronically.

IRS' approach to promoting electronic filing has focused on attracting more preparers and transmitters into the program. A focus on preparers and transmitters during the early years of electronic filing was the most efficient way to introduce this new technology and foster broad participation because many tax practitioners already used computers to prepare their clients' tax returns. Now that electronic filing is firmly established as a viable filing alternative and considering the benefits to IRS, we believe that it is time for IRS to adopt a more aggressive strategy designed to broaden the appeal of and participation in electronic filing. In developing that strategy and to facilitate its implementation, IRS needs to address certain operational issues that if not effectively resolved, could either (1) dissuade some people from participating or (2) cause existing problems to intensify as the volume of electronically filed returns increases.

IRS' Strategy for Promoting Electronic Filing Does Not Cover All Segments of the Population

Currently, to take advantage of electronic filing, taxpayers must pay to either have their returns prepared by practitioners who participate in the program or to have a third party transmit their returns to IRS. IRS needs to develop a plan that identifies strategies for bringing other taxpayers into the program—taxpayers who do not want to use a paid preparer, who are not interested in paying to get their refund faster, and who are not getting a refund. The TeleFile alternative discussed in chapter 2 is a step in this direction. As previously mentioned, taxpayers qualifying for this option do not have to go through a third party to file and, thus, no fee is involved.

IRS' Promotional Efforts Are Directed at Preparers and Transmitters

IRS' approach to promoting electronic filing has focused on attracting more preparers and transmitters into the program. Preparers and transmitters participating in electronic filing told us that IRS reached them primarily through seminars and letters. Between September 1990 and March 1991, IRS district offices held over 300 seminars and workshops for participants and prospective participants. These events were attended by almost 21,000 individuals.

Preparers and transmitters participating in the program also told us that they believe IRS has been more effective in promoting electronic filing to preparers than to taxpayers. Much of the promotional effort directed at taxpayers seems to be done by practitioners, who emphasize the speedier refund aspect of electronic filing.

IRS' approach to promoting electronic filing has left various segments of the taxpaying population and certain regions of the country virtually untapped. As we mentioned earlier, taxpayers who used electronic filing had lower than average adjusted gross incomes, were more likely to receive the earned income credit than the average taxpayer, and wanted their refunds fast. These taxpayers were attracted by the speedier refunds available through electronic filing. To other taxpayers, however, especially those who do not expect a refund, that feature is of little consequence. IRS needs to segment these other taxpayers, identify the selling point that would most attract them to electronic filing, and develop strategies for achieving that end.

IRS Has No Comprehensive Strategy for Promoting Electronic Filing

Although IRS' National Office is responsible for developing an electronic filing marketing plan, promotion of electronic filing is left primarily to its field offices. As such, a nationwide coordinated strategy for reaching all electronic filing target populations does not exist. Without such a plan, electronic filing will continue to suffer from limited accessibility.

Electronic filing coordinators in IRS' 7 regional and 63 district offices, with the assistance of public affairs officers, are primarily responsible for promoting electronic filing. We interviewed these individuals in the four regions and eight districts we visited. All of the coordinators had developed some form of a plan for promoting electronic filing locally. The coordinators generally targeted the same audiences (preparers and transmitters), emphasized the same advantages (e.g., faster refunds, an additional fringe benefit to offer employees, increased clientele for tax preparers, and increased revenue to preparers and transmitters), and used similar promotional tools (workshops, seminars, newsletters, news releases, speaking engagements, and personal visits) to reach the audiences.

Most of the coordinators and public affairs officers we interviewed said that they wanted more guidance. The most common things they felt they needed were a marketing plan and guidance on how to market and how to identify audiences. According to the personnel we interviewed, there were

no national studies or market analyses available for use in 1991 or 1992 to help identify (1) potential target groups, (2) benefits that appeal to those target groups, and (3) strategies for reaching the target groups.

According to the Internal Revenue Manual, the National Office is responsible for developing a marketing plan for electronic filing and providing direction to field offices. Toward that end, IRS developed a marketing plan for electronic filing in September 1991. The plan is far from comprehensive; it addresses only one market segment—paid preparers with small computers. This market, according to Electronic Filing Project Office officials, is the one they felt would give IRS the most results.

The strategy laid out in the plan is to continue to concentrate promotional efforts on preparers and transmitters who will deliver electronic filing services to taxpayers. A more comprehensive strategy would include steps to (1) address the low participation rates in some sections of the country and (2) encourage taxpayers to file balance due returns electronically. A comprehensive strategy would also discuss promotional efforts directed at prospective players other than preparers and transmitters, such as employers, military installations, financial institutions, and federal agencies. With these additional entities offering electronic filing, more segments of the population would have access to the service.

Some district offices have taken steps in this regard (e.g., approaching employers about providing electronic filing as a benefit to employees) but not as part of any coordinated nationwide strategy. In some of the districts we visited, coordinators told us that they had been successful in setting up Volunteer Income Tax Assistance sites at military installations, colleges, and universities to provide electronic filing services within their districts. However, none of the coordinators we interviewed had been successful in getting employers or financial institutions to offer electronic filing as an employee benefit or customer service. One of their explanations for the lack of success was that employers wanted IRS to provide the necessary equipment and software.

As part of a comprehensive strategy for expanding the use of electronic filing, IRS could determine the costs and benefits of providing electronic filing software to employers in return for its employees filing their returns electronically. IRS could also consider ways to make electronic filing directly accessible and, thus, less costly to taxpayers. Further expansion of electronic filing in IRS field locations could be a step in that direction. IRS

could also consider the feasibility of providing electronic filing sites at convenient locations in major urban areas.

The proliferation of home computers offers another possibility for increasing electronic filing's accessibility. IRS has a filing option, known as 1040PC, available to persons who use computers to prepare their returns. Through the use of IRS-approved commercial software, individuals using this option produce a tax return in answer sheet format that is typically only one page long (see app. V for an example). However, rather than being transmitted electronically, the return must be printed and mailed to IRS and manually processed like other paper returns.¹

We believe that IRS needs to assess the feasibility of taking 1040PC to the next step—enabling taxpayers to electronically file the returns through their computers. At one time, IRS planned to do a feasibility study to determine if there is an acceptable method for individuals to file electronically from their home personal computers. However, as of August 1992, no such study had been undertaken.

What Can Be Done to Improve the Electronic Filing System's Operational Efficiency?

In conjunction with the development of a plan for promoting electronic filing, we believe that IRS needs to address various operational issues that detract from the appeal of electronic filing and keep IRS from reaping the full benefits of electronic filing. These issues include the need to (1) look for ways to eliminate the paper associated with electronic filing, (2) correct problems service centers have encountered in trying to print electronic documents, (3) eliminate the redundancy associated with correcting errors in electronic returns, and (4) look for ways to increase the number of returns and schedules that can be filed electronically. IRS also needs to resolve issues related to system capacity and refund fraud.

Electronic Filing Still Requires Some Paper Processing

Electronic filing is still not a paperless process. After filing electronically, taxpayers must submit certain paper documents, including a signature document (Form 8453), copies of relevant Form W-2s, and other supporting documents or schedules such as Form 2120 (Multiple Support Declaration) and Form 2848 (Power of Attorney).

¹The 1040PC option was available nationwide in 1992 and could be used to file refund and balance due returns. As of June 5, 1992, IRS had received about 1.5 million 1040PC returns. In 1992, there were two approved 1040PC software packages. IRS expects that other software companies will be marketing 1040PC packages in 1993.

Processing these paper documents requires many of the same actions that electronic filing was designed to eliminate. IRS receives, batches, transcribes, and files a paper document for almost every electronic return. In addition, it must match the electronic return with the signature document, research discrepancies, and contact electronic filers to obtain missing signature documents. Based on fiscal year 1990 cost estimates for associating paper documents with electronic returns, performing these functions cost IRS at least \$675,000 in 1991.

According to IRS' Office of Chief Counsel, a signature is needed to make the electronic filing complete, and officials in the Criminal Investigation Division told us they need the Form W-2s to investigate potential illegal refund schemes. Electronic transmission of wage and information documents would enable IRS to more quickly verify the information and make it available sooner to match against wage information claimed on electronic tax returns. IRS is investigating alternatives to the signature requirements for electronically filed returns and the requirements for submitting Form W-2s. Until any alternatives are implemented, the system will continue to be burdened by paper processing. Likewise, potential users of electronic filing might find the process more appealing if they knew that the electronic submission would satisfy their entire filing requirement.

Problems With the
Graphics Subsystem
Continue

Although IRS uses advanced technology to receive and process electronic returns, it must still print paper copies of those returns when they are needed by other functions, such as Examination, or by another service center. For example, if Fresno, CA, (a nonelectronic filing service center) needs returns for its compliance functions, it must submit a written request to Ogden, UT, (an electronic filing service center), which will then print copies of the returns and ship them to Fresno. Electronic returns are archived, retrieved, and printed by the graphics subsystem of the electronic filing system. We previously reported that this subsystem did not work properly during the 1988, 1989, and 1990 filing seasons.² This subsystem has been a trouble spot for years and has caused delays in retrieving and printing returns.

An IRS task force reported in May 1991 that the existing graphics subsystem was awkward in design and inadequate for the demands future volumes would place on the system. IRS officials told us that the printer

²Tax System Modernization: Status of IRS' Input Processing Initiative (GAO/IMTEC-91-9, Dec. 12, 1990).

control device used by the subsystem to print reports, tax returns, and forms could not handle the existing workload. According to the officials, IRS had not envisioned the need to print large volumes of electronic returns. Between January and June 1992, for example, the system printed 413,107 returns.

IRS said that it plans to install return retrieval capability in the five nonelectronic filing service centers but had yet to act on those plans as of the time of our study. These sites would then handle any transactions (such as retrieving returns in response to special requests, printing returns, and dealing with preparer problems) that occur after the return is posted to the master file at the Martinsburg Computing Center. This would eliminate the need to ship copies of returns from one service center to another as well as reduce the printing workload of the five electronic filing service centers.

As of August 1992, none of the nonelectronic filing service centers had electronic return retrieval capability. Electronic Filing System Project Office officials told us that the contract to expand electronic filing to the Austin, TX, and Memphis service centers also includes a return retrieval system for two nonelectronic filing service centers. According to a Project Office official, the systems will be installed at the Brookhaven, NY, and Fresno, CA, service centers, but no installation date had been set as of the time of our study.

Electronic Return Error Correction Is Redundant

As part of the processing of both paper and electronic returns, returns with errors are sent to the service center's error resolution unit for correction via the Error Resolution System. The returns must be corrected before posting to the master file. Because the graphics subsystem stores the electronic record, it must also be corrected and updated. Presently, these corrections require two separate actions.

An IRS task force recommended that IRS explore connectivity options that would enable it to provide correction via a single point of input. This would eliminate the need for dual entry and subsequent rework necessary to keep both systems synchronized. IRS officials told us they attempted to provide connectivity between the two systems but ran into difficulties. According to the Assistant Commissioner for Information Systems Management, the graphics subsystem had difficulty generating the corrected pages produced by the Error Resolution System. As a result, the project was discontinued.

The graphics subsystem has experienced other problems with corrected returns that are unrelated to connectivity. During the 1992 filing season, certain electronic returns could not be retrieved from the subsystem at the Cincinnati Service Center. These returns involved ones that had been corrected, and the corrected pages were missing. According to a service center official, the problem occurred in the past and was caused by the way the system indexes tax return data before being stored. IRS personnel are trying to determine what caused the problem in 1992 so that corrective measures can be taken. According to IRS officials, all electronic filing service centers have experienced similar problems. Service center personnel are reviewing master file transcripts of electronically filed returns to recover and restore the missing returns.

Not All Returns Can Be Filed Electronically

IRS currently excludes certain tax returns filed by individual taxpayers from electronic filing. Some examples are

- decedent returns, including joint returns filed by surviving spouses;
- returns with a power of attorney in effect that calls for the refund to be sent to a third party;
- amended or corrected returns (only one valid electronic return can be filed per taxpayer);
- returns for any tax period other than January 1 to December 31 of a given year;
- returns for taxpayers with foreign addresses; and
- returns showing additional taxes such as a tax on lump-sum distributions, foreign tax credits, general business credits, or a minimum tax credit.

The Electronic Filing System Project Office asked IRS' field locations to identify potential forms and schedules that could be included in the electronic filing program. The Project Office prepared a list of the suggested forms and schedules and forwarded it to the Assistant Commissioner for Returns Processing in January 1992. That list included most of the examples cited previously as being excluded from electronic filing.

We understand that certain returns might best be excluded from electronic filing because their inclusion may cause compliance problems or may not be cost-effective. However, IRS needs to determine which ones should be included, thereby opening the door for additional taxpayers to use electronic filing. For example, since IRS processes about 1.4 million

amended returns annually it may want to consider having them filed electronically.³

Current System May Not Have Enough Capacity to Handle Anticipated Future Demand

IRS has estimated that 25 million returns will be filed electronically in 1995. In May 1991, an IRS task force concluded that the existing electronic filing system is not adequate to meet that demand. The task force made several recommendations regarding an interim strategy that would support electronic filing until replacement components planned as part of Tax Systems Modernization (TSM)—IRS' multibillion dollar effort to upgrade its information systems—are functional. Among the recommendations included in the strategy was one that called for using the new Integrated Collection System to handle communications and some processing functions of electronic filing and another that called for redesigning the graphics subsystem.

According to the Assistant Commissioner for Returns Processing, IRS' Information Systems Policy Board did not accept the recommendations because there were several issues that might place additional demands on capacity and would need to be considered when looking at the long-term redesign for electronic filing. Some of the issues that would need to be addressed included the extent to which electronic filing of balance due returns would increase if IRS was allowed to accept credit card payments⁴ and the potential impact of full implementation of TeleFile. These items might put an additional demand on system capacity. According to the Assistant Commissioner for Information Systems Development, the current electronic filing system will remain in place until the Electronic Management System (the TSM replacement for electronic filing) is in place around 1995 or 1996.⁵ Although the current system might require some enhancements, the Electronic Filing System Project Manager expressed the belief that IRS has sufficient capacity until the Electronic Management System comes on line.

³There are other documents besides tax returns, such as applications for extensions to file, that IRS could consider for electronic filing. In preparing this report, however, we were concerned only with the electronic filing of individual income tax returns.

⁴The proposed Revenue Act of 1992 included a provision that would have allowed IRS to accept credit card payment of taxes. That legislation was vetoed in November 1992.

⁵The Electronic Management System is the TSM system that is to process all electronic and magnetic inputs and outputs for IRS. Besides its use as an entry point for electronically transmitted data, the system is also to serve as a means of supplying certain types of account and reference data to taxpayers and practitioners in an on-line mode.

IRS' solution for handling capacity problems has been to add additional electronic filing service centers. IRS recognized that from a cost standpoint it was not economical to add additional service centers to handle electronic filing, but according to the Assistant Commissioner for Information Systems Development, the only option IRS had was to spread the workload among existing centers.

According to the Assistant Commissioner for Information Systems Management, it is better to have as many service centers as possible accepting electronic returns because of the way IRS currently does business. He explained that because of the way IRS' taxpayer files are structured, two taxpayer accounts have to be created and maintained—one at the center where the electronic return is filed and the other at the home center of the taxpayer. Thus, the more centers that receive electronic returns, the less IRS has to duplicate accounts. Once TSM is fully implemented, around the year 2000, this constraint should not exist because IRS offices are to have ready access to accounts via a telecommunications link. IRS is considering options for how service centers should operate under TSM, which includes consideration of the number of service centers that will accept and process electronic returns. IRS stated that it expects to report on the results of its deliberations in early 1993.

IRS Needs to Improve Controls Over Electronic Filing Fraud

One of the dilemmas IRS faces with electronic filing is that the very thing that appeals to taxpayers—faster refunds—increases IRS' vulnerability to fraudulent refund schemes. The fast turnaround IRS gives electronic refunds allows service center staff less time to investigate questionable tax returns. IRS attempts to minimize the number of fraudulent electronic returns by (1) preventing unscrupulous persons from gaining entry into the program as preparers or transmitters of electronic returns and (2) screening out and investigating tax returns that appear questionable when they arrive at the service center for processing.

As we discussed in a prior report, additional controls can be reasonably implemented to reduce IRS' vulnerability to electronic filing refund fraud.⁶ In that report, we made several recommendations that fell into two general areas: (1) providing IRS staff with the information they need to make an informed decision whether to accept a preparer or transmitter into the program and (2) providing fraud detection teams at the service centers

⁶Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

with adequate time and better techniques to identify and investigate questionable returns before issuing fraudulent refunds.

Conclusions

Electronic filing participation has grown dramatically since its inception—from 5 preparers and transmitters and 25,000 returns in 1986 to over 51,000 preparers and transmitters and nearly 11 million returns in 1992. Notwithstanding these increases, many potential market segments remain virtually untapped because IRS promotes electronic filing primarily to the tax practitioner community and leaves it to that community to attract taxpayers. That approach has primarily been successful in attracting taxpayers looking for quick refunds. Considering the many benefits associated with electronic filing, IRS needs to develop a comprehensive plan directed at broadening the use of electronic filing.

Although IRS has developed an electronic filing marketing plan, the plan is narrow in scope. It does not, for example, address low participation rates in some sections of the country nor provide strategies for encouraging (1) filers of balance due returns to file electronically or (2) employers and financial institutions to provide electronic filing as a benefit to their employees and a service to their customers. The plan does not discuss strategies for making electronic filing more accessible to taxpayers unwilling or unable to pay the costs associated with going through a preparer or transmitter. There is no discussion, for example, of steps IRS might take to make electronic filing available at convenient locations such as IRS field offices and shopping centers. Unlike the limited test IRS did at three of its district offices, these steps might include advertising the availability of that service and making it available to anyone who wanted it, not just people who met certain eligibility requirements. The plan also says nothing about exploring the feasibility of allowing taxpayers to file electronically from their personal computers.

In conjunction with development of such a plan, IRS needs to resolve various issues that (1) adversely affect the accessibility or appeal of electronic filing—such as the need to submit paper documents or limitations on the forms and schedules that can be filed electronically—and (2) prevent IRS from fully realizing the benefits available from electronic filing—such as redundant error correction, problems with the graphics subsystem, and refund fraud. It would be counterproductive, for example, to broaden the appeal and promote more widespread use of electronic filing if there were unresolved concerns about the adequacy of IRS' capacity to handle an increased volume of

returns or uncorrected weaknesses in the controls needed to minimize the risk of fraud.

IRS is addressing some of these problems. It has, for example, submitted legislation to Congress that would allow it to test alternatives to the requirement for paper signature documents and has established a task force to consider, among other things, the possibility of expanding the list of forms and schedules that can be filed electronically. IRS needs to resolve other issues raised in this chapter by eliminating redundant processes within the system, eliminating the need to print and transship copies of electronic returns to other locations, and developing a contingency plan to meet capacity needs until the TSM replacement for electronic filing is available.

Recommendations to the Commissioner of Internal Revenue

We recommend that the Commissioner take steps to broaden the electronic filing of individual income tax returns. Those steps should include

- identifying market segments and
- specifying national strategies for attracting those segments to electronic filing, including strategies to encourage employers and financial institutions to provide electronic filing services to their employees and customers.

Further, IRS should

- assess the feasibility of (1) enabling taxpayers to file electronically through their personal computers and (2) providing broader access to electronic filing at IRS field offices and other convenient locations and
- determine what forms and schedules might be added to the list of documents that can be filed electronically to broaden the accessibility of electronic filing.

The Commissioner should also ensure that the various operational issues discussed in this chapter are resolved. Toward that end, IRS should

- follow through on plans to install return retrieval capability in the nonelectronic filing service centers and, thus, eliminate the need to copy and transship tax returns to other locations;
- take steps to avoid the need for redundant correction of errors on electronic returns; and

-
- prepare a contingency plan to ensure that sufficient capacity is available to process electronic returns until its TSM replacement is operational.⁷

Agency Comments and Our Evaluation

In a December 22, 1992, letter commenting on a draft of this report, the Commissioner of Internal Revenue agreed that IRS needs to make electronic filing more appealing and more available to all segments of the population. Toward that end, IRS formed an executive-led task group to develop a comprehensive electronic filing strategy. The task group is scheduled to have an action plan and proposed strategies completed by early 1993.

The Commissioner noted that IRS had already taken a number of steps in 1992 to attract additional market segments to file electronically. She referred to several mailings to a total of 1,430 large employers, financial institutions, trade and labor unions, and federal agencies encouraging them to provide electronic filing as an employee or customer benefit. We recognize that some steps have been taken in an attempt to expand electronic filing. What our recommendation envisions, however, is development of a comprehensive strategy that identifies all market segments and specific actions to attract those segments to electronic filing. The efforts of the task group seem responsive to that recommendation.

According to the Commissioner, IRS has begun investigating the feasibility of allowing taxpayers to file electronically through their personal computers. In June 1992, Syracuse University's Maxwell School of Citizenship and Public Affairs completed a study for IRS that according to the report, was intended to "act as a basis for developing an analysis to answer the question, 'what is the potential market of home filers of electronic tax returns?'" The Commissioner said that the executive task group will use this information in developing its overall electronic filing strategy.

The Commissioner said that the electronic filing strategy will also include further study into permitting taxpayers to file their own returns electronically through an IRS field office instead of requiring them to use a tax practitioner. She said that IRS' long range strategic goal is to provide general access for all taxpayers to electronic filing at IRS field offices and

⁷We also have several recommendations related to IRS' controls over electronic filing fraud. Those recommendations are contained in Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

to provide several alternative methods of filing in addition to electronic filing, thus easing taxpayer burden and reducing paper filing.

While supportive of the concept, the Commissioner noted that a limited test of making electronic filing accessible in IRS field offices indicated that the costs are currently prohibitive. She also mentioned other issues that must be considered before this approach to electronic filing can be instituted. Those issues include (1) IRS' ability to protect the privacy of taxpayer information at the transmission site, (2) the cost to acquire and install telecommunications hardware, (3) the cost to obtain space and additional software, and (4) the cost of staffing needed to fully support the additional field transmission sites.

We welcome IRS' agreement to continue pursuing this option, and we realize that there are various issues that need to be resolved. We agree, for example, with the need to ensure privacy of taxpayer information at the transmission site. We would expect that the requirements at IRS field locations would be similar to those currently imposed on preparers and transmitters who are filing electronically. Also, the need for telecommunications hardware, space, software, and staff might be tempered by the fact that many of IRS' district offices already have electronic filing capability that they use to transmit employees' tax returns.

The Commissioner said that based on feedback received from taxpayer surveys, focus groups, and other research sources, IRS plans to convert the remaining nonelectronic forms and schedules as rapidly as possible over the next 5 years. She noted that efforts in this regard would be primarily constrained by computer capacity.

The Commissioner agreed that IRS needs to address the various operational issues discussed in this chapter. She said, for example, that a one-step error correction process will be available in 1994 and will eliminate the redundant correction of errors on electronic returns. According to IRS staff, the one-step process, which was tested and refined in 1992, will be tested again in 1993.

In discussing our recommendation about installing return retrieval capability in nonelectronic filing service centers, the Commissioner said that IRS currently has the capability to provide return information to all sites regardless of how returns are filed. As we understand that capability, however, it only applies to certain information on the tax return. If IRS

employees want other return information, such as the detailed information needed to ensure that taxpayers have accurately reported all of their interest and dividend income, they have to get a copy of the return. In that regard, the Commissioner said that IRS plans to evaluate the need to provide increased return retrieval capabilities for the nonelectronic filing service centers as it proceeds with its systems modernization effort over the next 5 years. Until that happens, the electronic filing system will continue to be burdened with copying and transshipping copies of electronically filed tax returns.

The Commissioner noted that the existing electronic filing system is able to handle a volume of up to 25 million returns, which, based on IRS' projections, should provide adequate capacity through 1995. She said that the executive-led task group referred to earlier will address contingencies for handling the volume between then and the time the system's TSM replacement is implemented. Although the task group's action would be responsive to our recommendation, we wonder whether the projected volume of 25 million returns by 1995 might be understated if, as IRS officials have suggested, IRS plans to take steps to expand the electronic filing program.

Electronic Filing Surveys Sampling Plan and Methodology

We are presenting the results of two surveys. The first was a survey of tax preparers and transmitters who participated in the electronic filing program in 1991. The second was a survey of tax preparers who did not participate in the electronic filing program in 1991.

Participants Survey

IRS provided us with the universe of all tax preparers who had enrolled in the electronic filing program for 1991. Tax preparers can enroll in three categories: to prepare returns only (preparers-only), to prepare and transmit returns (preparer-transmitters), and to transmit returns only (transmitters-only). Because we wanted representative samples from all three categories, we stratified the universe. A summary of this survey is provided in table I.1.

After the sample was selected, we found that a few individuals had enrolled in more than one category and appeared in more than one strata. We deleted the names of these individuals as well as the names of individuals who appeared more than once in the same strata. We also deleted transmitters-only who work for IRS and transmit electronic returns for IRS employees. In all, we deleted the names of 78 individuals.

We mailed questionnaires to 1,082 individuals. Our initial mailing was on November 14, 1991, and we did a follow-up mailing on January 8, 1992. We deleted 17 names from our sample because the postal service returned these questionnaires marked "undeliverable." We received 788 responses to the mailings, which is a completion rate of 74 percent. Three hundred and twenty-six of the responses came from preparers-only, 336 came from preparer-transmitters, and 126 came from transmitters-only.

Table I.1: Summary of National Participants Survey by Strata

Strata	Universe	Original sample	Duplicates	Final sample	Deletions	Responses	Nonelectronic filers	Usable responses
Preparers-only	27,449	450	2	448	7	326	93	233
Preparer-transmitters	1,856	450	3	447	3	336	3	333
Transmitters-only	260	260	73	187	7	126	5	121
Total	29,565	1,160	78	1,082	17	788	101	687

When we analyzed the data, we found that 101 of the respondents reported that they did not file electronic returns. Because these respondents had no experience with electronic filing, we excluded them from our analysis.

When we looked at the data we found that some of the questions had high levels of nonresponses. Therefore, the percentages reported here are based on all respondents and include nonresponses to each question. We present results that are weighted by each strata.

This survey was designed to have sampling errors of about 5 percent. However, the large number of preparers-only who did not file electronic returns meant that in some cases, the sampling errors exceeded 5 percent. Unless otherwise indicated, all the statistics presented in the report have sampling errors below 5 percent.

Nonparticipants Survey

IRS provided us with mailing lists they created for the eight districts in our case studies. We selected these eight districts judgmentally. Our selection included districts with high, medium, and low rates of electronic filing participation and districts in four of IRS' eight regions (Central, Mid-Atlantic, Southeast, and Western). The 8 mailing lists contained a total of 38,604 names. While the mailing lists were the best available sampling frame for tax preparers, some of the individuals on the mailing list were not tax preparers, merely individuals who wanted detailed tax information from IRS. The mailing lists also included tax preparers who had enrolled in the electronic filing program.

Because we could not identify individuals who were not tax preparers or tax preparers who had enrolled in the electronic filing program, we deliberately drew larger samples than we needed from the sampling frames. We did this to ensure that we got an adequate number of responses from tax preparers who were not enrolled in the electronic filing program. We drew a stratified sample of 1,180 from the 8 districts. A summary of this survey is provided in table I.2.

We compared this sample with the national participants sample and with a sample of participants from the eight districts that we selected. As a result, we eliminated 23 duplicates from the preparers sample.

We mailed questionnaires to 1,157 individuals. Our initial mailing was on November 14, 1991, and we did a follow-up mailing on January 8, 1992. We deleted 17 names from our sample because the postal service returned these questionnaires marked "undeliverable." We received 895 responses, which is a completion rate of 79 percent. Response rates were roughly similar across the eight districts in the sample.

**Appendix I
Electronic Filing Surveys Sampling Plan and
Methodology**

When we analyzed the data, we found that about 20 percent of the respondents to this survey were not tax preparers. Another 20 percent of the respondents stated that they were enrolled in the electronic filing program. In all, 59 percent of all respondents (525 out of 895) were tax preparers who were not enrolled in the electronic filing program. All percentages presented in this report are based on these 525 responses.

Table I.2: Summary of Nonparticipants Survey by Strata

Strata	Universe	Original sample	Duplicates	Final sample	Deletions	Responses	Not preparers	Electronic filing enrollees	Usable responses*
Philadelphia	8,654	140	1	139	3	106	21	23	61
Pittsburgh	4,457	140	7	133	1	111	27	15	69
Cincinnati	5,763	170	6	164	2	130	19	26	84
Indianapolis	6,027	140	2	138	1	113	19	25	69
Columbia	2,444	140	1	139	0	108	20	29	59
Atlanta	6,326	170	2	168	2	122	29	33	60
Las Vegas	1,275	140	1	139	6	101	18	18	65
San Francisco	3,658	140	3	137	2	104	31	14	58
Total	38,604	1,180	23	1,157	17	895	184	183	525

*Three individuals who indicated that they were tax preparers did not respond to the question on enrollment in the electronic filing program. These three individuals were deleted from the analysis.

When we looked at the data we found that many of the questions had high levels of nonresponses. Therefore, the percentages reported here are based on all respondents and do not exclude nonresponses to each question. We present weighted results for the combined universe of eight districts.

This survey was designed to have sampling errors of about 5 percent for the combined universe of eight districts. In fact, many of the questions have sampling errors that are about 3 percent to 4 percent. Unless otherwise indicated, all the statistics presented in the report have sampling errors below 5 percent.

Electronic Filing Participants Questionnaire Results



United States General Accounting Office

Survey of Participation in IRS' Electronic Tax Filing Program for Tax Year 1990

Introduction

The U.S. General Accounting Office (GAO) is an independent agency of Congress responsible for evaluating federal programs. GAO is not part of any other federal agency, including IRS. The purpose of this questionnaire is to assist us in determining what IRS needs to do to make the electronic filing of income tax returns 1040, 1040A, and Your participation in this survey is voluntary. Your responses will be treated confidentially, combined with other responses, and reported only in summary form to Congress. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your responses. After the questionnaires have been processed, the link between you and your responses will be destroyed, and no one will be able to tell how you or any other preparer or transmitter answered.

The questionnaire can be completed in about 20 minutes. Most of the questions can easily be answered by checking boxes or filling in blanks. Space is provided for any additional comments at the end of the questionnaire. If needed, please attach additional pages.

Please return the completed questionnaire in the enclosed preaddressed envelope within 10 days of receipt. In the event the envelope is misplaced, please mail the completed questionnaire to:

U.S. General Accounting Office
Attn: Mr. Ken Bibb
600 Vine Street, Suite 2100
Cincinnati, OH 45202-2430

If you anticipate any difficulty in returning the questionnaire promptly or if you have any questions, please call Mr. Ken Bibb on (513) 684-7120.

Thank you for your cooperation.

* * * * *

I. Participation

1. For which of the following tax years were you accepted into the IRS electronic filing program?
(Check all that apply.)

1. *	1985
2. *	1986
3. <u>6.5%</u>	1987
4. <u>23.0%</u>	1988
5. <u>64.3%</u>	1989
6. <u>98.5%</u>	1990

n = 788

2. Which of the following best describes your participation in electronic filing for tax year 1990?
(Check one.)

1. <u>56.3%</u>	Transmitted electronic returns directly to IRS
2. <u>30.8%</u>	Used a third party, such as a service bureau, to produce and/or transmit electronic returns to IRS
3. <u>12.8%</u>	Did not file electronic returns for <u>tax year 1990</u>

n = 788

Note: There were 788 responses to this survey. 101 were from tax preparers who enrolled in electronic filing but did not participate in the program. These 101 preparers were deleted from the remaining questions. The 687 remaining respondents were weighted by strata, and represent 15,666 preparers nationwide.

**Appendix II
Electronic Filing Participants Questionnaire
Results**

3. About how many individual income tax returns (Forms 1040, 1040A, 1040EZ) did you file (1) total and (2) electronically for each of the last three tax years? (Enter number. If none filed, enter "0.")

TAX YEAR	Individual returns filed (1)			Individual returns filed electronically (2)		
	Median	Mean	Weighted n	Median	Mean	Weighted n
1. 1988	548	250	11,082	110	0	10,527
2. 1989	608	250	13,125	281	6	13,017
3. 1990	638	300	14,924	497	30	15,038

4. For electronically filed Forms 1040, 1040A, and 1040EZ, please enter your average fee in calendar years 1990 and 1991 for each of the following services. (Please round to the nearest dollar. If no fee, enter "0"; if electronic services are not offered for a particular form, enter "N/A.")

SERVICES	Calendar Year 1990			Calendar Year 1991		
	Mean fee (1)	Median fee (2)	Weighted n	Mean fee (1)	Median Fee (2)	Weighted n
1040						
1. Prepare return only	\$88	\$65	8,662	\$96	\$70	11,895
2. Prepare and transmit return	\$84	\$70	848	\$92	\$72	1,116
3. Transmit return only	\$19	\$20	75	\$21	\$22	96
1040A						
1. Prepare return only	\$31	\$25	5,124	\$34	\$26	7,198
2. Prepare and transmit return	\$48	\$45	576	\$51	\$50	744
3. Transmit return only	\$18	\$16	70	\$20	\$20	93
1040EZ						
1. Prepare return only	\$21	\$20	4,575	\$22	\$20	6,039
2. Prepare and transmit return	\$40	\$35	516	\$41	\$40	648
3. Transmit return only	\$17	\$15	69	\$19	\$20	92

Note: This table presents the results by strata. The fees reported for preparing only are the fees reported by those listed as preparers-only. The fees reported for preparing and transmitting returns are the fees for Preparer-transmitters only. The fees reported for transmitting return only are the fees reported by transmitters-only.

**Appendix II
Electronic Filing Participants Questionnaire
Results**

5. Did you offer refund anticipation loans (RALs) for tax year 1990? (Check one.)

- 1. 23.1% Yes (Continue to Question 6.)
- 2. 75.1% No (Skip to Question 8.)

6. For tax year 1990, how many of your clients who filed their tax returns electronically applied for and received RALs? (Enter numbers. If none, enter "0." If you did not offer RALs, enter "N/A.")

Refund
Anticipation
Loans (RALs)

- 1. Number who applied Mean response = 1,250
 Median response = 10
 n = 4,478
- 2. Number who received Mean response = 1,216
 Median response = 10
 n = 4,478

7. For electronically filed forms 1040, 1040A, and 1040EZ, please enter your average fee for RALs in calendar years 1990 and 1991. (Enter amounts. Please round to the nearest dollar.)

ELECTRONICALLY FILED FORMS	Calendar year 1990 average fee (1)	Calendar year 1991 average fee (2)
	1. 1040	Mean= \$27 Median= \$25 n= 2,878
2. 1040A	Mean= \$19 Median= \$0 n= 2,357	Mean= \$30 Median= \$30 n= 2,997
3. 1040EZ	Mean= \$16 Median= \$0 n= 2,353	Mean= \$24 Median= \$29 n= 2,924

**Appendix II
Electronic Filing Participants Questionnaire
Results**

II. Program Information

8. Did the following factors encourage or discourage your participation in the electronic filing program for tax year 1990?
(Check one box in each row.)

FACTORS	Greatly encouraged (1)	Moderately encouraged (2)	Neither encouraged nor discouraged (3)	Moderately discouraged (4)	Greatly discouraged (5)
1. IRS support of electronic filing (e.g., IRS' help desk or seminars/workshops)	22.8%	33.3%	38.3%	*	*
2. IRS' electronic filing requirements	7.8%	18.1%	54.2%	13.4%	*
3. Cost (e.g., equipment, software purchases)	*	12.8%	32.3%	35.8%	10.7%
4. Ease or difficulty of transmission	15.0%	27.7%	31.9%	17.1%	*
5. Ease or difficulty of software	16.7%	25.8%	33.1%	15.6%	*
6. Your computer knowledge	20.1%	29.8%	34.9%	9.6%	*
7. Your belief in the possibility that electronic filing will become mandatory	32.5%	30.3%	29.2%	*	*
8. Market demand of electronic filing	31.0%	41.7%	16.3%	5.0%	*
9. Profit potential from electronic filing	19.2%	34.9%	25.8%	10.5%	6.6%
10. Overall efficiency of automated process	23.1%	37.9%	25.8%	7.3%	*
11. Storage need for electronic filing returns	9.5%	12.5%	64.8%	7.9%	*
12. Size of your business	10.5%	22.5%	51.2%	10.5%	*
13. IRS' acknowledgement of receipt of return	23.2%	29.8%	37.8%	*	*
14. Increased accuracy of return	28.2%	32.0%	34.9%	*	*
15. Newness of electronic filing	14.0%	29.4%	42.6%	8.5%	*
16. Other (Please specify.) _____	5.2%	*	*	*	*

**Appendix II
Electronic Filing Participants Questionnaire
Results**

9. Did the following factors encourage or discourage your clients' participation in electronic filing in calendar year 1991?
(Check one box in each row.)

FACTORS	Greatly encouraged (1)	Moderately encouraged (2)	Neither encouraged nor discouraged (3)	Moderately discouraged (4)	Greatly discouraged (5)	No basis to judge/ not applicable (6)
1. Refund anticipation loan program	12.9%	12.5%	29.1%	*	*	37.2%
2. Refund within 3 weeks	48.1%	37.0%	6.7%	*	*	*
3. IRS' acknowledgment of receipt of return	15.7%	23.9%	52.9%	*	*	*
4. Increased accuracy of return	15.6%	22.8%	54.6%	*	*	*
5. Newness of electronic filing	9.5%	28.9%	42.3%	13.0%	*	*
6. Fee paid to transmit return	5.2%	9.5%	29.6%	35.1%	12.4%	5.6%
7. Fee paid to prepare/transmit return	5.9%	8.7%	38.4%	31.1%	7.2%	5.1%
8. Other (Please specify.) _____ _____	*	*	*	*	*	*

10. How satisfied or dissatisfied were you with each of the following IRS resources for electronic filing for tax year 1990?
(Check one box in each row.)

IRS RESOURCES	Greatly satisfied (1)	Moderately satisfied (2)	Neither satisfied nor dissatisfied (3)	Moderately dissatisfied (4)	Greatly dissatisfied (5)	No basis to judge (6)
1. IRS publications	21.8%	49.6%	17.5%	5.6%	*	*
2. Seminars and workshops	21.2%	30.9%	21.6%	*	*	19.3%
3. District Office Electronic Filing Coordinator	34.1%	28.8%	17.3%	*	*	13.9%
4. Service center personnel (e.g., Help desk)	21.7%	26.6%	22.6%	*	*	22.1%
5. Other (Please specify.) _____ _____	*	*	*	*	*	*

**Appendix II
Electronic Filing Participants Questionnaire
Results**

11. To what extent, if at all, did your participation in electronic filing bring in new clients to file electronically in calendar year 1991? (Check one.)

- 1. 6.6% Very great extent
- 2. 6.2% Great extent
- 3. 14.5% Moderate extent
- 4. 19.4% Some extent
- 5. 47.8% Little or no extent
- 6. * Not applicable

12. In your opinion, how satisfied or dissatisfied were your clients with electronic filing in calendar year 1991? (Check one.)

- 1. 21.2% Very satisfied
- 2. 57.0% Generally satisfied
- 3. 6.9% Neither satisfied nor dissatisfied
- 4. 7.5% Generally dissatisfied
- 5. * Very dissatisfied
- 6. * No basis to judge

13. In your opinion, how successful or unsuccessful was IRS in calendar year 1991 in getting refunds to taxpayers within 3 weeks after filing their returns electronically? (Check one.)

- 1. 40.1% Very successful
- 2. 37.1% Moderately successful
- 3. 8.9% Uncertain
- 4. * Moderately unsuccessful
- 5. * Very unsuccessful
- 6. * No basis to judge
- 7. * Not applicable

14. Do you plan to participate in electronic filing for tax year 1991? (Check one.)

- 1. 74.4% Definitely yes
 - 2. 14.5% Probably yes
 - 3. * Undecided
 - 4. * Probably no
 - 5. * Definitely no
- } (Skip to 16.)
- } (Go to 15.)

**Appendix II
Electronic Filing Participants Questionnaire
Results**

15. If you are undecided about participating in electronic filing for tax year 1991 or if you have decided not to participate, which of the following explains why? (Check all that apply.)

- 1. 29 Not cost beneficial to you
- 2. 14 Not cost beneficial to the taxpayer
- 3. 10 No market demand
- 4. * Do not want to increase the size of business
- 5. * Does not attract desirable clientele
- 6. 12 Staffing costs/requirements
- 7. * Limited computer skills
- 8. * IRS requirements
- 9. * Inadequate IRS support
- 10. * Software problems
- 11. * Problems transmitting to IRS
- 12. * Not all forms/schedules can be filed electronically
- 13. * Hardware problems
- 14. * Other (Please explain.)

n = 43 (As the n is so small, the frequencies are not weighted. An asterisk means that less than 10 respondents gave this reason.)

16. In your opinion, which of the following: (1) are participants doing; and (2) can participants do to prevent fraudulent electronic tax refund schemes? (Participants include preparers and/or transmitters. Check all that apply.)

FRAUD PREVENTION MEASURES	Currently being done (1)	Can be done (2)	Unsure (3)
1. Verify identity of filer	73.3%	13.8%	8.6%
2. Review/look at W-2s for authenticity	69.4%	11.3%	14.6%
3. Forward W-2 and Form 8453 (signature document) in a timely manner	84.4%	5.0%	6.0%
4. Notify IRS of anything suspicious	29.2%	44.3%	19.4%
5. Other (Please specify.) _____ _____ _____	*	*	*

17. In your opinion, what can IRS do to prevent fraudulent electronic filing refund schemes? (Please explain.)

29.4% of the respondents had suggestions

**Appendix II
Electronic Filing Participants Questionnaire
Results**

III. Marketing and Promotion

18. For tax year 1990, (1) which of the following methods did IRS use to promote electronic filing to participants (preparers and/or transmitters) and (2) how successful or unsuccessful was each method? (Check one box for each row under Column A and one box in each row in Column B, if applicable.)

METHODS IRS USED	COLUMN A			COLUMN B					
	Method used?			If method used, how successful?					
	Yes (1)	No (2)	Don't know (3)	Very successful (1)	Moderately successful (2)	Undecided (3)	Moderately unsuccessful (4)	Very unsuccessful (5)	No basis to judge (6)
1. Letters to participants	68.7%	*	16.0%	20.4%	43.9%	12.3%	*	*	20.4%
2. Radio ads	12.8%	17.2%	52.2%	*	14.2%	13.7%	*	*	66.3%
3. Television ads	21.8%	15.1%	47.5%	12.1%	17.3%	13.3%	*	54.4%	*
4. Newspaper ads	17.7%	13.7%	51.0%	*	18.1%	12.6%	*	*	61.0%
5. Posters	33.1%	8.8%	41.4%	*	25.5%	18.1%	*	*	46.0%
6. Seminars/workshops	69.8%	*	16.0%	25.0%	32.8%	12.2%	*	*	25.3%
7. Telephone contact with participants	15.1%	23.8%	44.4%	13.9%	10.9%	11.1%	*	*	61.7%
8. Other (Please specify.) _____ _____	*	*	*	9.6%	18.7%	*	*	*	69.5%

Note: Percentages for part "A" of this question, like those for all other questions, do not add to 100% due to missing responses that are not reported. Percentages in part B are based on those who answered "Yes" to part A.

**Appendix II
Electronic Filing Participants Questionnaire
Results**

19. For tax year 1990, (1) which of the following methods did IRS use to promote electronic filing to taxpayers and (2) how successful or unsuccessful was each method? (Check one box in each row under Column A and one box in each row in Column B, if applicable.)

METHODS IRS USED	COLUMN A			COLUMN B					
	Method used?			If method used, how successful?					
	Yes (1)	No (2)	Don't know (3)	Very successful (1)	Moderately successful (2)	Undecided (3)	Moderately unsuccessful (4)	Very unsuccessful (5)	No basis to judge (6)
1. Radio ads	25.6%	5.1%	54.8%	8.8%	25.7%	10.1%	*	*	53.7%
2. Television ads	35.4%	6.1%	45.8%	15.5%	24.7%	10.6%	*	*	45.7%
3. Newspaper ads	27.1%	5.3%	52.9%	7.6%	23.8%	11.4%	*	*	54.9%
4. Posters	36.4%	3.4%	45.2%	7.5%	23.0%	18.1%	*	*	46.7%
5. Newspaper/ magazine articles	37.2%	*	44.7%	12.9%	24.9%	13.3%	*	*	44.3%
6. Other (Please specify.) _____ _____	5.9%	*	*	30.1%	26.5%	*	*	*	41.3%

Note: Percentages for part "A" of this question, like those for all other questions, do not add to 100% due to missing responses that are not reported. Percentages in part B are based on those who answered "Yes" to part A.

20. Overall, how effective or ineffective were IRS's efforts to market electronic filing for tax year 1990 to you, and to taxpayers? (Check one box in each row.)

	Very effective (1)	Generally effective (2)	Neither effective nor ineffective (3)	Generally ineffective (4)	Very ineffective (5)	No basis to judge (6)
1. You	16.7%	39.8%	22.1%	5.6%	*	9.1%
2. Taxpayers	7.0%	40.4%	16.3%	12.0%	5.7%	15.7%

**Appendix II
Electronic Filing Participants Questionnaire
Results**

21. In your opinion, which of the following should IRS do to improve its marketing and promotion of electronic filing to participants and taxpayers? (Check all that apply. If no improvements needed, check "N/A.")

1. 24.3% Provide more workshops/seminars to potential participants
2. 8.1% Target different audiences (Please specify.)

3. 33.8% Increase radio advertising
4. 48.6% Increase television advertising
5. 32.1% Increase newspaper advertising
6. 47.0% Increase advertising in tax packages
7. 7.0% Change timing of when electronic filing is promoted by IRS (Please explain.)

8. 20.8% Emphasize specific aspects of electronic filing when marketing it to preparers and taxpayers (Please explain which aspects should be emphasized.)

9. 25.9% Establish a system to refer taxpayers to tax preparers and/or transmitters participating in IRS' electronic filing program (Please explain the type of system(s) you think should be established.)

10. 14.6% Other (Please explain.)

11. 8.6% N/A - No improvements needed

**Appendix II
Electronic Filing Participants Questionnaire
Results**

22. For tax year 1990, (1) which of the following methods did you use to promote electronic filing to taxpayers and (2) how successful or unsuccessful was each method? (Check one box for each row under Column A and one box in each row in Column B, if applicable.)

METHODS YOU USED	COLUMN A			COLUMN B					
	Method used?			If method used, how successful?					
	Yes (1)	No (2)	Don't know (3)	Very successful (1)	Moderately successful (2)	Undecided (3)	Moderately unsuccessful (4)	Very unsuccessful (5)	No basis to judge (6)
1. Client letters	54.3%	24.7%	*	15.4%	35.4%	9.7%	10.6%	*	21.8%
2. Radio ads	8.3%	53.0%	*	*	6.6%	*	*	*	73.5%
3. Television ads	*	55.8%	*	8.7%	*	*	*	*	84.8%
4. Community newspaper ads	37.8%	31.9%	*	6.4%	31.9%	11.6%	7.5%	6.9%	30.7%
5. Other newspaper ads	9.2%	51.2%	*	4.8%	12.3%	*	*	*	71.0%
6. Coupon mailers	9.8%	50.7%	*	9.2%	*	*	8.1%	*	71.1%
7. Flyers/ brochures	21.9%	43.0%	*	8.3%	23.8%	6.9%	5.7%	*	49.7%
8. Yellow page ads	16.8%	47.3%	*	11.1%	14.5%	9.8%	5.2%	*	57.0%
9. Door hangers	8.7%	52.0%	*	*	10.6%	6.3%	*	*	73.9%
10. Seminars	*	55.6%	*	*	*	*	*	*	88.9%
11. Posters/signs (your own or any provided by IRS)	40.4%	31.2%	*	11.2%	33.1%	12.8%	7.5%	*	27.0%
12. Newsletter articles	8.1%	51.3%	*	*	9.9%	6.5%	*	*	74.4%
13. Statement stuffers	*	54.2%	*	*	*	*	6.5%	*	84.7%
14. Other (Please specify.) _____ _____ _____	9.2%	*	*	38.4%	25.0%	15.7%	7.6%	*	9.1%

Note: Percentages for part "A" of this question, like those for all other questions, do not add to 100% due to missing responses that are not reported. Percentages in part B are based on those who answered "Yes" to part A.

**Appendix II
Electronic Filing Participants Questionnaire
Results**

23. To increase participation in electronic filing, do you plan to do anything differently for electronic filing for tax year 1991 than you did for 1990? (Check one.)

1. 41.8% Yes (Continue to Question 24.)

2. 41.6% No

3. 10.8% Don't know

} (Skip to Question 25.)

**Appendix II
Electronic Filing Participants Questionnaire
Results**

24. Which of the following activities, if any, describe what you plan to do differently to increase participation in electronic filing? (Check all that apply.)

1. 24.0% Send letters to taxpayers explaining electronic filing benefits
2. 6.9% Increase use of radio/television ads
3. 19.1% Increase use of print media (e.g., newspaper ads)
4. 17.0% Provide refund anticipation loans
5. 3.0% Reduce fees for preparation of returns
6. 7.4% Reduce fees for transmission of returns
7. 14.1% Offer incentives for customer referrals
8. 3.9% Add services, such as transmitting returns directly to IRS
9. 9.9% Other (Please explain.) _____

IV. Security

25. Including yourself, how many current employees have access to or know your Electronic Filing Identification Number (EFIN), Electronic Transmission Identification Number (ETIN), or Password? (Enter number of individuals. If not applicable, enter "N/A.")

Number of
current employees
(including self)
who have access

1. To the EFIN number Mean = 2.1
 Median = 1
 n = 14,676
2. To the ETIN number Mean = 1.4
 Median = 1
 n = 9,147
3. To the Password Mean = 1.2
 Median = 1
 n = 9,389

26. Has your EFIN/ETIN/Password been changed since you started participating in the electronic filing? (Check one box in each row. If not applicable, enter "N/A.")

CHANGED?	Yes (1)	No (2)
1. EFIN	11.0%	83.0%
2. ETIN	3.7%	47.8%
3. Password	6.8%	41.7%

If "No" to all categories in Question 26, skip to Part V, next page.

27. If your EFIN/ETIN/Password has been changed, who initiated the change? (Check one.)

1. 4.2% You (Continue to Question 28.)
2. 11.3% IRS (Skip to Question 29.)

28. If you changed your EFIN/ETIN/Password, which of the following best describes your reasons? (Check all that apply in each column.)

REASONS	EFIN (1)	ETIN (2)	Password (3)
1. As a routine precaution	*	*	*
2. When an employee who knew, left	*	*	*
3. Concerned about security	*	*	*
4. Other (Specify.) _____ _____	*	*	*

**Appendix II
Electronic Filing Participants Questionnaire
Results**

V. Other

Question 29 should be answered only by those participants who were approved by IRS to participate in electronic filing but did not file any electronic returns in calendar year 1991.

29. Why did you not transmit any electronic returns in calendar year 1991 after applying to participate in the program? (Please explain or enter "N/A.")

Question 30 should be answered only by those participants who were approved by IRS to participate in electronic filing in calendar year 1991 but then dropped out of the program.

30. Why did you ask to be dropped from the Electronic filing program in calendar year 1991? (Please explain or enter "N/A.")

VI. Comments

31. If you have any comments regarding any previous questions, questions we should have asked but did not, or electronic filing in general, please use the space provided below and, if needed, attach additional pages.

THANK YOU FOR YOUR COOPERATION!

GGD/MS/8-92
268487

Electronic Filing Nonparticipants Questionnaire Results

United States General Accounting Office

10/29/92

Survey of Tax Preparers on IRS' Electronic Tax Filing Program for Tax Year 1990

Introduction

The U.S. General Accounting Office (GAO) is an independent agency of Congress responsible for evaluating federal programs. GAO is not part of any other federal agency, including IRS. The purpose of this questionnaire is to assist us in determining what IRS needs to do to make the electronic filing of individual income tax returns 1040, 1040A, and 1040EZ more attractive and accessible to the general public.

Your participation in this survey is voluntary. Your responses will be treated confidentially, combined with other responses, and reported only in summary form to Congress. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your responses. After the questionnaires have been processed, the link between you and your responses will be destroyed, and no one will be able to tell how you or any other preparer answered.

The questionnaire can be completed in about 20 minutes. Most of the questions can easily be answered by checking boxes or filling in blanks. Space is provided for any additional comments at the end of the questionnaire. If needed, please attach additional pages.

Please return the completed questionnaire in the enclosed preaddressed envelope within 10 days of receipt. In the event the envelope is misplaced, please mail the completed questionnaire to:

U.S. General Accounting Office
Attn: Mr. Martin de Alteriis
441 G Street, N.W., Room 3126
Washington, D.C. 20548

If you anticipate any difficulty in returning the questionnaire promptly or if you have any questions, please call Ms. Mary Morrison or Mr. Ken Bibb on (513) 684-7120.

Thank you for your cooperation.

* * * * *

Definition

"Tax year" is the year for which the individual income tax return is being filed. For example, tax year 1990 returns cover the period from January 1 through December 31, 1990 and are due to IRS by April 15, 1991.

I. Participation

1. Did you or your firm prepare tax year 1990 individual tax returns for the public? *(Check one.)*
 1. 79.4% Yes *(Continue to Question 2.)*
 2. 20.6% No *(If no, STOP here and return this questionnaire in the envelope provided. Thank you.)*

2. Were you or your firm accepted into IRS' electronic filing program to prepare and/or file individual tax returns to IRS for tax year 1990? *(Check one.)*
 1. 20.4% Yes *(If yes, STOP here and return this questionnaire in the envelope provided. Thank you.)*
 2. 59.2% No *(Continue to Question 3.)*

20.3% Missing Responses

Note: There were 895 respondents to this survey. After those who were not tax preparers, or were enrolled in electronic filing, this left 525. These 525 responses were weighted, and represent 17,129 tax preparers in the 8 districts the survey was conducted in. The percentages presented here are based on the weighted responses. In all questions, the percentages of missing responses are not reported, and this is why the totals given do not sum to 100 percent.

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

3. For which of the following tax years did you or your firm prepare individual tax returns? (Check all that apply.)

- 1. 75.2% 1985
- 2. 77.0% 1986
- 3. 79.6% 1987
- 4. 85.6% 1988
- 5. 90.0% 1989
- 6. 95.0% 1990

4. About how many individual income tax returns (Forms 1040, 1040A, 1040EZ) did you or your firm prepare for each of the last 3 tax years? (Enter number. If none were filed, enter "0.")

<u>Tax years</u>	<u>Number of individual tax returns prepared</u>
1. 1988	<u>Median response = 70</u> <u>Average response = 163</u> <u>n = 15,439</u>
2. 1989	<u>Median response = 65</u> <u>Average response = 164</u> <u>n = 15,691</u>
3. 1990	<u>Median response = 73</u> <u>Average response = 169</u> <u>n = 16,133</u>

5. What was your or your firm's average fee for preparing Forms 1040, 1040A, and 1040EZ? (Please enter the average fees charged for calendar years 1990 and 1991. Please round to the nearest dollar. If no fee was charged, enter "0;" if you did not prepare a certain form, enter "N/A.")

TYPE OF FORM	AVERAGE FEE		
	Calendar Year 1990		
	Med.	Avg.	n
1. 1040	\$60	\$119	14,949
2. 1040A	\$20	\$34	10,007
3. 1040EZ	\$10	\$23	8,836
	Calendar Year 1991		
1. 1040	\$65	\$118	13,935
2. 1040A	\$21	\$35	9,584
3. 1040EZ	\$10	\$24	8,351

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

II. Program Information

6. For tax year 1990, were the following factors barriers to your or your firm's participation in electronic filing. If yes, to what extent, if any, did these barriers affect your decision to participate in electronic filing? (In each row, check one box in Column A and, if applicable, one box in Column B.)

FACTORS	A. BARRIERS?		B. IF YES, TO WHAT EXTENT?				
	Yes (1)	No (2)	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little or no extent (5)
1. IRS' support of <u>electronic</u> filing	6.3%	65.3%	28.5%	25.6%	19.0%	2.5%	22.1%
2. IRS' <u>electronic</u> filing requirements	20.5%	51.5%	25.6%	29.3%	24.8%	13.2%	3.6%
3. Cost (e.g., equipment, software purchases)	60.5%	16.1%	45.1%	29.9%	14.5%	7.3%	0.4%
4. Transmission of returns	24.9%	43.7%	27.5%	31.9%	20.3%	13.7%	3.4%
5. Software	36.3%	35.0%	38.2%	28.8%	14.7%	10.5%	3.3%
6. Your computer knowledge	23.1%	50.4%	40.1%	27.0%	14.4%	6.6%	6.9%
7. Market demand of <u>electronic</u> filing	36.8%	34.7%	23.5%	37.9%	21.7%	8.6%	3.5%
8. Profit potential from <u>electronic</u> filing	30.6%	41.1%	33.6%	34.6%	18.8%	4.2%	2.3%
9. Storage need for <u>electronic</u> returns	13.4%	56.7%	24.7%	24.7%	29.7%	4.7%	6.0%
10. Newness of <u>electronic</u> filing	34.5%	39.9%	28.1%	25.7%	22.4%	12.1%	4.3%
11. Size of business	56.3%	24.0%	50.3%	24.2%	11.4%	3.9%	1.6%
12. Inability to electronically transmit all forms/schedules for filing individual tax returns	28.3%	42.1%	40.0%	31.8%	9.9%	5.9%	1.9%
13. Other (Please specify.) _____ _____	11.1%	1.9%	80.2%	10.1%	0.0%	7.0%	2.6%

Note: Percentages for part "A" of this question do not add to 100% due to missing responses that are not reported. Percentages in part B are based on those who answered "Yes" to part A.

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

7. Do you or your firm plan to participate in IRS' electronic filing program for tax year 1991? (Check one.)

- | | | |
|-----------------|---------------------------------------|-------------------|
| 1. <u>2.9%</u> | Definitely yes (Skip to Question 10.) | |
| 2. <u>3.3%</u> | Probably yes (Skip to Question 9.) | |
| 3. <u>8.7%</u> | Undecided | } (Continue to 8) |
| 4. <u>16.9%</u> | Probably no | |
| 5. <u>59.0%</u> | Definitely no | |

8. If you are undecided about participating in IRS' electronic filing program for tax year 1991 or if you or your firm have decided not to participate, which of the following explains why? (Check all that apply.)

- | | |
|------------------|--|
| 1. <u>45.5%</u> | Too costly |
| 2. <u>31.3%</u> | No market demand |
| 3. <u>11.2%</u> | Software problems |
| 4. <u>9.8%</u> | IRS' requirements |
| 5. <u>22.2%</u> | Do not want to increase the size of business |
| 6. <u>14.6%</u> | May not attract desirable clientele |
| 7. <u>15.6%</u> | Not all forms/schedules can be filed <u>electronically</u> |
| 8. <u>15.9%</u> | Have limited computer skills |
| 9. <u>8.5%</u> | Hardware problems |
| 10. <u>15.7%</u> | Other (Please explain.) |

9. How important, or not, would each of the following IRS incentives be in encouraging you or your firm to participate in the electronic filing program? (Check one box in each row.)

IRS INCENTIVES	Very greatly important (1)	Greatly important (2)	Moderately important (3)	Somewhat important (4)	Little or no importance (5)
1. Provide free <u>electronic</u> filing software to <u>preparers</u>	38.7%	15.8%	10.1%	4.4%	13.7%
2. Provide tax credit to <u>preparers</u> who provide <u>electronic</u> filing services	26.7%	14.7%	13.0%	7.0%	19.4%
3. Increase promotional activities in <u>electronic</u> filing to taxpayers	12.8%	11.0%	15.4%	8.8%	30.7%
4. Provide tax credit to <u>taxpayers</u> if they file <u>electronically</u>	19.0%	12.8%	15.2%	7.0%	26.0%
5. Include capability to electronically transmit all forms/schedules for filing individual tax returns	26.7%	19.6%	14.9%	3.4%	15.2%
6. Other (Please specify.) _____ _____	4.6%	0.4%	0.0%	0.2%	1.7%

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

III. Marketing and Promotion

10. For tax year 1990, which of the following methods did IRS use to encourage tax preparers to participate in the electronic filing program? (Check one box in each row.)

METHODS IRS USED	Yes (1)	No (2)	Don't know (3)
1. Radio ads	8.3%	5.8%	64.8%
2. Television ads	14.3%	6.2%	58.4%
3. Newspaper ads	12.7%	7.0%	59.5%
4. Posters	15.8%	6.1%	56.5%
5. Articles in publications (e.g., newspapers or magazines)	39.1%	2.3%	56.5%
6. Seminars/workshops	44.6%	2.0%	33.6%
7. Other	2.5%	0.4%	5.0%

11. Were you or your firm contacted directly by IRS about participating in the electronic filing program for tax year 1990? (Check one.)

1. 17.1% Yes (Continue to Question 12.)
2. 70.8% No (Skip to Question 13.)

12. For tax year 1990, which of the following methods were used by IRS to encourage you or your firm's participation in IRS' electronic filing program? (Check one box in each row.)

IRS METHODS	Yes (1)	No (2)
1. You or your firm received a letter from IRS	18.8%	16.9%
2. You or your firm received a brochure from IRS	19.2%	16.4%
3. An IRS official visited you or your firm	0.5%	33.5%
4. An IRS official called you or your firm	0.9%	33.1%
5. You or your firm received a notice about an IRS seminar or workshop on <u>electronic filing</u>	26.8%	10.8%
6. Other (Please specify.) _____ _____ _____	0.8%	1.4%

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

13. In soliciting participation in the electronic filing program for tax year 1990, to what extent, if any, did IRS emphasize to preparers the following as benefits of electronic filing? (Check one box in Column A for each row. If yes, check one box in each row in Column B.)

BENEFITS	A. IRS EMPHASIZED?		B. IF YES, TO WHAT EXTENT?				
	Yes (1)	No (2)	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little or no extent (5)
1. Faster refund	63.3%	9.7%	34.6%	35.1%	14.7%	6.0%	2.3%
2. Increases clientele	16.5%	49.6%	26.3%	35.3%	12.3%	9.4%	5.9%
3. Acknowledgement of return receipt by IRS	33.4%	33.9%	18.8%	26.0%	30.5%	10.5%	4.6%
4. More accurate return	30.9%	36.3%	17.5%	35.4%	26.5%	8.4%	3.7%
5. Saves taxpayers money	13.1%	52.8%	8.2%	25.8%	33.7%	7.2%	16.9%
6. Automates your office	16.9%	48.6%	7.6%	20.5%	35.9%	13.1%	13.5%
7. Increases revenue	16.9%	48.8%	9.7%	18.4%	37.6%	14.5%	13.0%
8. Less paperwork	28.0%	39.0%	14.2%	28.6%	34.7%	10.7%	6.5%
9. Other (Please specify.) _____ _____	0.3%	1.9%	41.9%	0.0%	0.0%	0.0%	29.1%

Note: Percentages for part "A" of this question do not add to 100% due to missing responses that are not reported. Percentages in part B are based on those who answered "Yes" to part A.

14. To what extent, if at all, were you or your firm aware of IRS' seminars or workshops on the electronic filing program? (Check one.)

- 1. 9.7% Very great extent
- 2. 19.2% Great extent
- 3. 18.2% Moderate extent
- 4. 18.4% Some extent
- 5. 21.7% Little or no extent

15. Have you or your firm ever attended an IRS seminar or workshop on the electronic filing program? (Check one.)

- 1. 12.1% Yes (Continue to Question 16.)
- 2. 76.0% No (Skip to Question 18.)

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

16. Overall, to what extent, if at all, were IRS' seminars/workshops an effective vehicle for promoting electronic filing? (Check one.)

- 1. 1.7% Little or no extent
- 2. 1.5% Some extent
- 3. 4.4% Moderate extent
- 4. 2.8% Great extent
- 5. 1.3% Very great extent
- 6. 0.8% No basis to judge

18. Overall, how effective or ineffective were IRS' efforts to market the electronic filing program to preparers for tax year 1990? (Check one.)

- 1. 1.5% Very effective
- 2. 14.3% Generally effective
- 3. 19.9% Neither effective nor ineffective
- 4. 7.6% Generally ineffective
- 5. 4.0% Very ineffective
- 6. 40.5% No basis to judge

18. In your opinion, which of the following should IRS do to improve its marketing and promotion of electronic filing to tax preparers and taxpayers? (Check all that apply. If no improvements needed, check "N/A.")

- 1. 36.5% Provide more workshops/seminars to potential participants (preparers)
- 2. 6.4% Increase radio advertising
- 3. 13.9% Increase television advertising
- 4. 9.1% Increase newspaper advertising
- 5. 24.4% Increase advertising in tax packages
- 6. 4.9% Target different audiences (Please specify.)

- 7. 5.3% Change timing of when IRS promotes electronic filing (Please explain.)

- 8. 7.5% Emphasize different aspects of electronic filing (Please explain.)

- 9. 9.5% Other (Please explain.)

- 10. 6.0% N/A - No improvements needed
- 11. 33.3% No basis to judge

**Appendix III
Electronic Filing Nonparticipants
Questionnaire Results**

IV. Comments

20. If you have any comments regarding any previous question or general comments regarding IRS' electronic filing program, please use the space provided below and, if needed, attach additional pages.

32.6% of the respondents had comments.

THANK YOU FOR YOU COOPERATION!

GGD/MS/11-91

Example of a 1040-TEL Return

Department of the Treasury — Internal Revenue Service
Form 1040-TEL **TeleFile Income Tax Return for Single Filers With No Dependents** **1991** OMB No. 1545-1277

Name and address

Attach the IRS Label
 (If the label is not correct, you cannot use TeleFile this year — Use Form 1040EZ)

For Privacy Act Notice, see page 4 in the booklet.

PLEASE SEE INSTRUCTIONS ON BACK

A Do you want \$1 to go to the Presidential Election Campaign Fund? <small>(Checking "Yes" will not change your tax or reduce your refund.)</small>	YES	NO	
	<input type="checkbox"/>	<input type="checkbox"/>	
B Can your parents (or someone else) claim you on their tax return?	<input type="checkbox"/>	<input type="checkbox"/>	
C Enter total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach Copy B of your W-2 form(s).)	DOLLARS ONLY		
	[][]	,	[][][][]
D Enter Federal income tax withheld from Box 9 of your W-2 form(s).	[][]	,	[][][][]
E Enter taxable interest income of \$400 or less. If the total is more than \$400, you cannot use TeleFile or Form 1040EZ.			[][][]

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

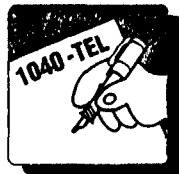
X _____
 Your signature Date

When you call, PLEASE LISTEN CAREFULLY — TeleFile will tell you these amounts:

Attach Copy B of Your W-2 Form(s) Here

Enter your Adjusted Gross Income (AGI - the total of lines C and E). You will need this figure for your State of Ohio income tax return		
	Adjusted Gross Income	
Enter the amount of your refund		
	Amount of Your Refund	
OR		
Enter the amount you owe. Use the payment-voucher that follows the forms. Payments must be postmarked by April 15, 1992		
	Amount You Owe	

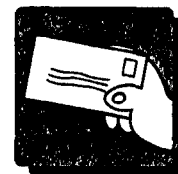
YOU MUST MAIL FORM 1040-TEL



Fill in Lines A - E on Form 1040-TEL



Call the TeleFile system toll-free at
1-800-829-5166
 24 hours a day



Mail Form 1040-TEL in the envelope included in this booklet.
Keep a copy for your records.

For Paperwork Reduction Act Notice, see the instructions on the back.

Form 1040-TEL (1991)

Example of a 1040PC Return

1991 U.S. INDIVIDUAL INCOME TAX RETURN 1040PC FORMAT PAGE 1 OF 1

CHARLIE TAXPAYER 000-00-1001 PAINTER
 LUCY M TAXPAYER 000-00-1002 SECRETARY
 21 MAIN ST
 KANSAS CITY, MO 64111

PPECF N SPECF N FS 2 6A-SELF X 6B-SPOUSE X
 DEP RES 2 6E-TOTAL 4

6C MOLLY TAXPAYER 000-00-1003 CHILD 12
 6C SALLY TAXPAYER X 000-00-1004 DAUGHTER 03

1040 PAGE 1
 7-----33345
 8A-----529
 9-----337
 10-----450
 22---JURY PAY-----50
 23-----34711
 31-----34711

1040 PAGE 2
 32-----34711
 34---ITEMIZED-----9499
 35-----25212
 36-----8600
 37-----16612
 38---A-----2494
 40-----2494
 41-----960
 45-----960
 46-----1534
 53-----1534
 54-----3930
 60-----3930
 61-----2396
 62-----2396
 PREP-JOHN RESEARCH---
 -TAX SERVICE-----
 -310 WHITSTONE ST-

PREP-ANYTOWN TN 37010-
 -SSN---000-00-5001
 -EIN---32-0000034

SCHEDULE A - 07
 5-----1370
 6-----1890
 7-----500
 8-----3760
 9A-----4900
 12-----4900
 13-----790
 16-----790
 20---TAX PREP-----100
 20---UNIFORMS-----130
 20-----230
 21-----230
 22-----34711
 23-----2603
 24-----0
 25---ESTATE TAX-----49
 26-----9499

SCHEDULE B - 08
 1----J MCBORROWINGLY--
 ---529
 4-----529
 5----UTILITIES-----337

6-----337
 9-----337
 10-----337
 11A-----NO
 11B-----NO

FORM 2441 - 21
 1A1--PLAYTIME NURSERY-
 -SCHOOL
 1B1--19 GOODTIME CT---
 -ANYTIME TN 37010
 1C1-----000-00-6001
 1D1-----5200
 2-----5200
 3-----2
 4-----5200
 5-----4800
 7-----4800
 8-----4800
 9-----33345
 11-----4800
 12-----20
 13-----960
 15-----960

TOTAL INCOME LINE 23 34711 TOTAL TAX LINE 53 1534
 TOTAL PAYMENTS LINE 60 3930 REFUND LINE 62 2396

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

 Your Signature Date Spouse's Signature Date

 Preparer's Signature Date Self-Employed _ Software Code _

Comments From the Internal Revenue Service



COMMISSIONER

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

DEC 22 1992

Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Thank you for the opportunity to review the draft report entitled "Tax Administration: Opportunities to Increase the Use of Electronic Filing" (GGD-B-250163).

We agree with the overall report recommendations. Given the benefits of electronic filing to both IRS and taxpayers, IRS has a number of efforts underway to make electronic filing more appealing and more available to all segments of the population. We appreciate the work done by GAO to analyze current impediments that discourage taxpayers from filing electronically. We also agree to address the various operations and technology problems in order to enhance the appeal of electronic filing to taxpayers and practitioners.

The Internal Revenue Service has embarked on a very aggressive effort to develop a more expansive electronic filing strategy. Electronic filing is a lynch pin of our vision for the future. To this end, a number of steps have been taken and others are underway to improve the program and to promote the use of electronic filing. For example, there are a number of proposed statutory changes that were endorsed by the Administration and included in H.R. 11, The Revenue Act of 1992, that was passed by both Houses of the 102nd Congress. This legislation included a provision that would have permitted the use of signature alternatives thereby eliminating the need for mailing the separate hard copy of the taxpayer's signature. It also included authorization for the use of credit cards which would facilitate electronic filing of balance due returns. Although the legislation was subsequently vetoed by the President for reasons unrelated to these particular proposals, we are hopeful that these statutory changes will be enacted early in the next session of Congress.

Appendix VI
Comments From the Internal Revenue
Service

-2-

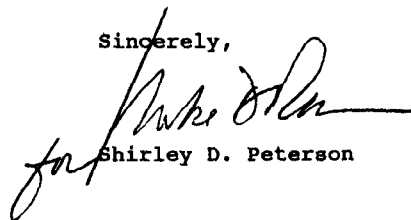
Mr. Richard L. Fogel

I would like to take this opportunity to provide you with an update to page 20 of chapter 2 of your report. The Assistant Chief Counsel (General Legal Services) reconsidered its earlier opinion on the joint federal/state electronic filing pilot program due to a subsequent Comptroller General decision and has concluded that no enabling legislation would be needed to extend this program nationwide. We view the joint electronic filing of federal and state tax returns as an important step toward eventually extending electronic filing to all taxpayers.

We have enclosed our responses to GAO's seven specific recommendations. We believe these responses accurately indicate the significant steps we have taken, to date, and our intent to pursue all appropriate avenues to improve and expand the electronic filing program.

Best regards.

Sincerely,



for Shirley D. Peterson

Enclosure

IRS COMMENTS ON GAO DRAFT REPORT ENTITLED
"TAX ADMINISTRATION: OPPORTUNITIES TO INCREASE
THE USE OF ELECTRONIC FILING"

Recommendation #1: The Commissioner should take steps to broaden the electronic filing of individual income tax returns. Those steps should include identifying market segments and specifying national strategies for attracting those segments to electronic filing, including strategies to encourage employers and financial institutions to provide electronic filing services to their employees and customers.

The Service has underway an Executive-led effort to develop a comprehensive electronic filing strategy. Specifically:

- 1) We have formed an Executive-led task group to develop a detailed action plan to design and implement strategies to expand and improve the electronic filing program during the years from 1994 to 1996.
- 2) This task group has also been working on long-range initiatives that would significantly expand electronic filing beginning in 1996 and be fully implemented in the year 2000. This task group is scheduled to have their action plan and proposed strategies completed early next year.
- 3) We have already developed a more aggressive marketing plan that includes methods designed to reach segments of the taxpaying population that do not currently participate in electronic filing.

During 1992 we took a number of steps to attract additional market segments to file electronically. We sent 1,000 letters to large business employers and financial institutions, encouraging their use of electronic filing and stating that electronic filing offers the "Direct Deposit" option for receiving refund checks. We also sent 380 letters to Trade and Labor Unions offering the same service. For both the large businesses and the trade unions, we advised them that the costs for providing such a program are deductible under Internal Revenue Code 162 as an ordinary and necessary business expense. In addition, we sent 50 letters to other Federal agencies encouraging them to provide electronic filing to their employees as an employee benefit.

We also realize that the cost of hardware has discouraged preparer/transmitter participation in electronic filing. During the next filing season we will test the use of a less costly means of transmission (asynchronous vs bisynchronous), potentially saving preparers from \$650 to \$700 on the cost of a modem needed to transmit returns electronically.

-2-

Recommendation #2: IRS should assess the feasibility of enabling taxpayers to file electronically through their personal computers and providing broader access to electronic filing at IRS field offices and other convenient locations.

The IRS has begun looking into the feasibility of enabling taxpayers to file electronically through their personal computers. A study has already been completed by the Maxwell School of Citizenship and Public Affairs that projects the number of potential "home filers". The executive task group will utilize this information in their overall electronic filing strategy.

The electronic filing strategy also includes further study into permitting taxpayers who wish to file their own returns electronically through our field offices instead of requiring them to use a tax practitioner. Our limited test of making electronic filing accessible in IRS field offices indicates that the costs are currently prohibitive.

There are a variety of issues that need to be resolved before we could effect this option. These include: (1) our ability to protect the privacy of taxpayer information at the transmission site, (2) the cost to acquire and install telecommunications hardware, (3) the cost to obtain space and additional software, and (4) the cost of staffing needed to fully support the additional field transmission sites.

Our long range strategic goal is to provide general access for all taxpayers to electronic filing at IRS field offices and to provide several alternative methods of filing in addition to electronic filing, thus easing taxpayer burden and reducing paper filing.

Recommendation #3: IRS should determine what forms and schedules might be added to the list of documents that can be filed electronically to broaden the accessibility of electronic filing.

Balance Due returns can now be filed electronically at any time from January 1 - April 15 as long as payment is made by April 15. Based on feedback received from taxpayer surveys, focus groups, and other research sources, we plan to convert the remaining non-electronic forms and schedules as rapidly as possible over the next five years. Computer capacity will be our greatest constraint in this regard.

-3-

Recommendation #4: IRS should follow through on plans to install return retrieval capability in the non-electronic filing service centers and thus eliminate the need to copy and transship tax returns to other locations.

We currently have the capability to provide return information to all sites regardless of how returns are filed. In addition, we plan to evaluate the need to provide increased capabilities for the non-electronic filing service centers as we roll out TSM over the next five years.

Recommendation #5: IRS should take steps to avoid the need for redundant correction of errors on electronic returns.

The One-Step error correction process, which will be available in 1994 for all electronically filed returns, eliminates the need for double correction. This process was perfected after the 1992 filing season. The pilot test of this system proved to be very successful.

Recommendation #6: IRS should prepare a contingency plan to ensure that sufficient capacity is available to process electronic returns until its TSM replacement is operational.

We are aware of the need to increase the capacity for electronic filing in order to handle the anticipated future demand. The system is presently able to handle a volume of up to 25 million filers. Based on our projections this should provide adequate capacity through 1995.

The Executive-led task group, referenced above, will address the necessary contingencies for systems capacity during the interim period (1994 - 1996) before the implementation of the Electronic Management System, which is designed to take electronic filing into the year 2000.

GAO note: The issue of electronic filing fraud, including steps IRS is taking and plans to take to address it, is discussed in a separate report, Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

-4-

Footnote 7 (Chapter 3, page 21): IRS needs to improve controls over electronic filing fraud.

Although the subject of a separate report, I believe it is appropriate to point out here that the growth of fraudulent electronic returns is of great concern to the IRS. As a result, several significant changes will be part of the 1993 processing year:

- The Criminal Investigation Questionable Refund Program computer selection criteria will be refined and expanded through statistical analysis.
- The direct deposit returns selected for review through the Questionable Refund Program will have their refund delayed for about one week to allow for sufficient review or stopping the refund if appropriate.
- The additional staffing provided in 1992 for the Questionable Refund Program will be continued with possible expansion if the volume of returns increases.
- Validation, rejection criteria and procedures for reviewing refundable credits and first-time filers are being developed to limit the vulnerability of the system. The fraudulent use of social security numbers by first-time filers has historically proven to be a major contributor to questionable refund schemes.

We are working with the Social Security Administration to find ways to expedite wage withholding information that could be used to match against amounts claimed on returns. However, this is a long-term solution that cannot be achieved within the next few years.

The Internal Revenue Service announced that it would eliminate the direct deposit indicator for 1994. We have enlisted the assistance of the banking, practitioner and vendor communities to assist the IRS in detecting fraud schemes which involve refund anticipation loans (RAL). Details of these security initiatives have been previously provided to the General Accounting Office in our response to the Draft Report "Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud".

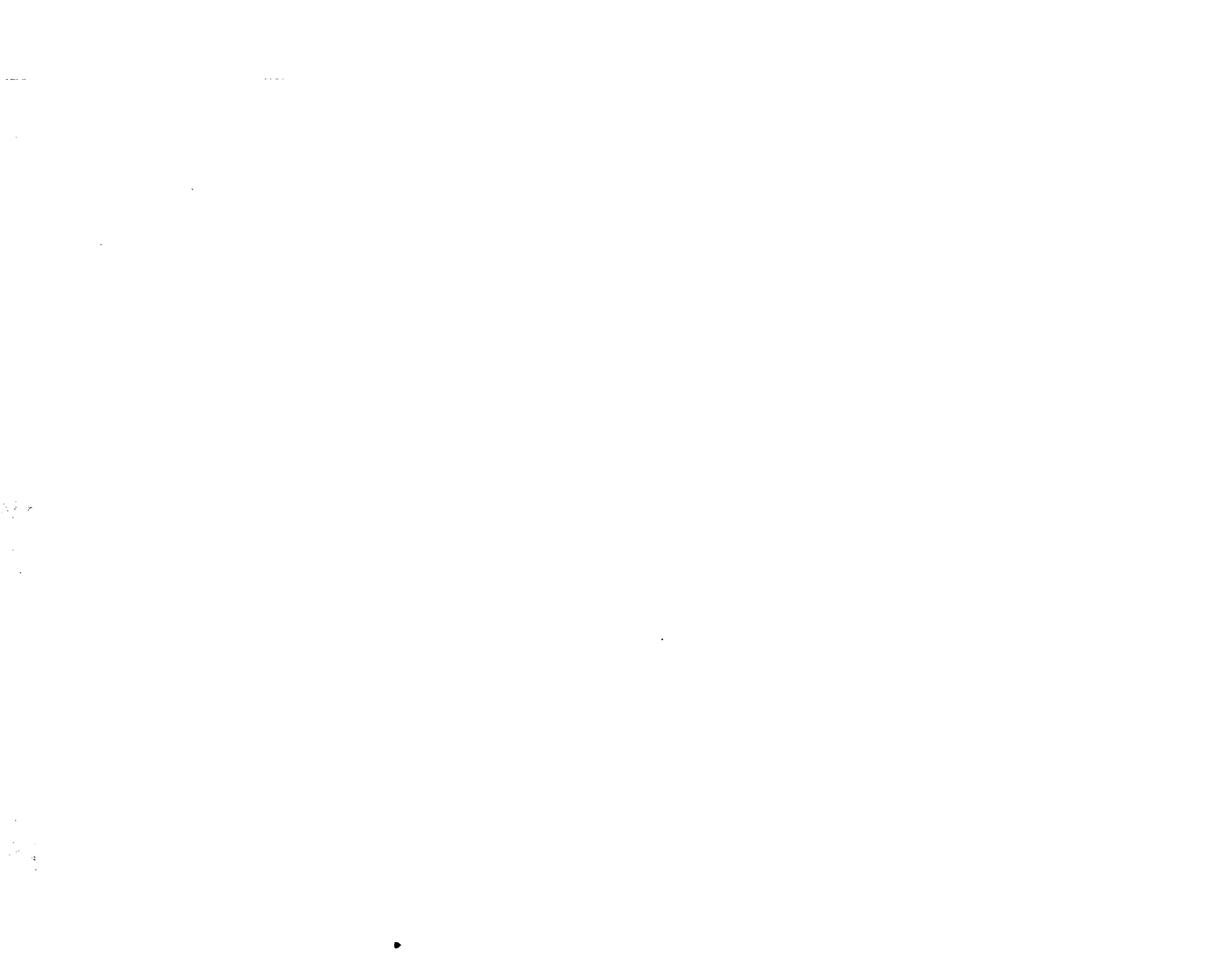
Major Contributors to This Report

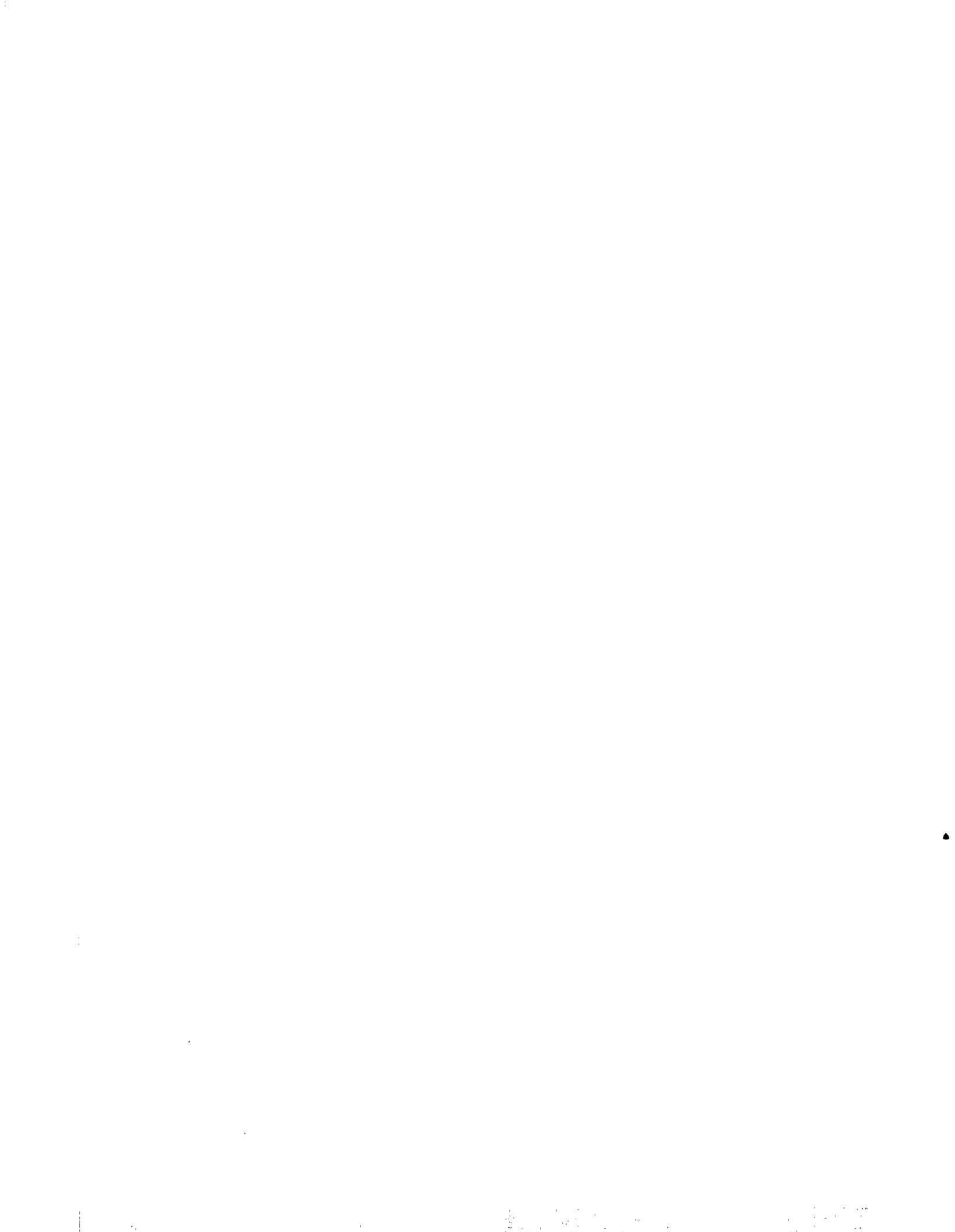
General Government Division, Washington D.C.

David J. Attianese, Assistant Director
John Lesser, Evaluator
Marge Schauer, Measurement Specialist
Martin DeAlteriis, Programmer Analyst

Cincinnati Regional Office

Kenneth B. Bibb, Evaluator-in-Charge
Robert I. Lidman, Assignment Manager
Homer Carrington, Senior Evaluator
Mary Jo Lewnard, Technical Advisor
Mary Morrison, Evaluator
Jennifer Wessling, Evaluator





Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

**United States
General Accounting Office
Washington, D.C. 20548**

**Official Business
Penalty for Private Use \$300**

**First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100**
