



*A Self-Assistance Option Would Reduce
Burden and Costs Associated With Resolving
Rejected Electronic Tax Returns*

June 17, 2008

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 17, 2008

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael R. Phillips
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – A Self-Assistance Option Would Reduce Burden and Costs Associated With Resolving Rejected Electronic Tax Returns (Audit # 200840029)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) can improve its service to customers¹ when notifying them that it has rejected an electronically filed (*e-filed*) tax return. This audit was initiated due to concerns raised by representatives from the American Institute of Certified Public Accountants about the assistance provided by the IRS when an *e-filed* tax return is rejected.

Impact on the Taxpayer

The IRS rejected more than 6.8 million (8.5 percent) of the nearly 80 million *e-filed* tax returns it received for Tax Year 2006. More than 5.4 million of the approximately 6.8 million returns were corrected and successfully *e-filed*. The current methods through which a customer with electronic filing (*e-file*) reject errors receives assistance from the IRS 1) create burden for the customer and unnecessary expenses for the IRS and 2) result in the IRS maintaining redundant information in multiple systems. Providing a self-assistance option would help the IRS ensure that it continues to deliver a high level of service and support to customers who participate in *e-file*.

¹ See Appendix V for a glossary of terms.



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Synopsis

For Tax Year 2006, the IRS received nearly 80 million *e-filed* tax returns. *E-filed* returns benefit both the IRS and taxpayers because their processing costs and error rates are lower than those for paper returns. To help achieve a high level of accuracy, the IRS' *e-file* system has automated, upfront tax return validity checks. The IRS rejects *e-filed* tax returns that do not pass its validity checks and sends the electronic files back to the customers, who are responsible for correcting the reject conditions and resubmitting the tax returns.

The information provided to a customer in the *e-file* acknowledgement file does not by itself enable the customer to address the reject condition(s). Customers are required to review publications and/or contact the IRS to obtain a detailed description of what caused the reject conditions and, more importantly, how to correct the conditions.

The IRS' current methods for assisting customers with *e-file* reject conditions create burden for the customers and unnecessary expenses for the IRS, including costs for providing toll-free telephone assistance and maintaining redundant systems. The IRS noted that each system was developed for a different purpose and for a different type of user. In Calendar Year 2007, the IRS spent more than \$3 million² providing customers with telephone assistance to address *e-file* reject conditions.

Requiring customers to call the IRS to obtain assistance in correcting reject conditions increased the burden for the 154,986 customers who had to call the IRS for assistance with rejected *e-filed* tax returns in Calendar Year 2007.

A self-assistance option could be created. The IRS provided us with documentation outlining a system that would give customers self-assistance options. The original request date for implementation was August 2005. However, resource constraints have prevented the system's implementation. The IRS currently has a system that could be modified to include information on how to resolve the reject conditions, and this system could be placed on IRS.gov (the public IRS web site) as a self-assistance option. Updates to this system could provide the IRS with a short-term solution for providing self-assistance.

A self-assistance option would help to reduce the number of telephone calls, eliminate the costs of maintaining redundant information in multiple systems, and improve customer service.

² Amount spent was calculated by multiplying 154,986 customers assisted in Calendar Year 2007 by the \$19.46 cost per call.



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The IRS has already taken action in response to our concerns by adding to IRS.gov a new option that lists common reject codes along with suggested solutions. This is a first step toward providing a complete electronic self-assistance option for resolving rejected *e-filed* tax returns.

For the long term, the IRS should focus on providing customers with both a description of the reject condition and information on how to resolve it by including a description of the reject condition with steps to correct the error in the *e-file* acknowledgement file. This would provide customers with one-stop self-assistance. The IRS has been moving to a new electronic platform to process *e-filed* tax returns, referred to as the Modernized *E-file* Program. IRS officials noted that expansion of the Modernized *E-file* Program to include individual tax returns will begin in Fiscal Year 2009 and will be completed by

An existing system and implementation of the Modernized E-file Program provide the IRS with opportunities to give customers a self-assistance option.

Fiscal Year 2011. The *e-file* acknowledgement file that will be generated from the Modernized *E-file* Program has the possibility of including a description of the reject conditions and information as to how to address them.

Recommendations

The Commissioner, Wage and Investment Division, should 1) develop a self-assistance option on IRS.gov that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them, and 2) develop a business case on the feasibility of providing in the *e-file* acknowledgement file the information that would allow customers to resolve their reject conditions once individual tax returns are transitioned to the Modernized *E-file* Program.

Response

IRS management agreed in part with one of our recommendations and disagreed with the other one. For 13 *e-file* error reject codes, a self-assistance option was added to IRS.gov, which provides descriptions and suggested solutions. These commonly issued error reject codes accounted for 78 percent of the 10.2 million error reject codes issued thus far in 2008 and 81 percent of the 9.9 million error reject codes issued during 2007. IRS management will also study the feasibility of adding a more comprehensive self-assistance option to IRS.gov. This study will involve consideration of altering an existing system and/or coordinating with tax software development companies that currently offer a self-assistance option to their customers as described in the recommendation.

While IRS management agreed that the *e-file* acknowledgement file should provide information that would allow customers to resolve their reject conditions, it does not agree that a business case to determine the feasibility of providing this functionality is necessary. As the Form 1040



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Legacy *E-file* System transitions to the Modernized *E-file* Program, the reject codes will be developed in the same fashion as the current Modernized *E-file* Program form types. This transition is scheduled for implementation by September 2009. The Modernized *E-file* Program provides customers with reject codes written in plain English and contains a clear and concise explanation of the reject conditions. Management's complete response to the draft report is included as Appendix VII.

Office of Audit Comment

Although we agree that the Modernized *E-file* Program will provide customers with explanations of error reject codes, we disagree with the IRS' decision to not perform a study as recommended. The study would assess the feasibility of also providing in the Modernized *E-file* Program acknowledgement file steps for customers to follow when resolving their reject conditions. It is our position that error explanations alone, no matter how clear and concise, do not consistently communicate the steps required to correct the error(s).

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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Abbreviations

<i>e-filed; e-file</i>	Electronically filed; electronic filing
ERO	Electronic Return Originators
IRS	Internal Revenue Service



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Background

For Tax Year 2006, the Internal Revenue Service (IRS) received nearly 80 million electronically filed (*e-filed*) tax returns. This represents more than 57 percent of the 139 million individually filed tax returns and a 9 percent increase over the Tax Year 2005 volume of *e-filed* returns. More than 57 million of the *e-filed* tax returns were filed by a preparer,¹ with the remaining 23 million filed by online filers (individuals who prepared and *e-filed* their own tax returns). The IRS projects that more than 66 percent of all individual Tax Year 2010 tax returns will be *e-filed*.



E-filed tax returns benefit the IRS and taxpayers because both processing costs and error rates are lower than those for paper returns.

- Processing costs: \$0.62 for an *e-filed* tax return versus \$2.59 for a paper tax return.²
- Error rates: 0.1 percent for *e-filed* tax returns versus 11.4 percent for manually prepared paper returns and 2.2 percent for computer-prepared paper returns.

To help achieve this level of accuracy, the IRS' electronic filing (*e-file*) system has automated, upfront tax return validity checks that look for more than 600 possible errors. For example, validity checks are performed on the taxpayer name, address, Social Security Number, and year of birth. Errors include using incorrect Social Security Numbers of dependents, incorrect birthdates, numbers in an alphanumeric field, and invalid zip codes. Unlike a paper tax return, an *e-filed* return is not accepted as filed until the validity check confirms the tax return is free of errors.

The IRS e-file validation process checks for more than 600 possible errors. Those e-filed tax returns not passing the checks are rejected and sent back to the customers for correction.

The IRS rejects an *e-filed* tax return that does not pass the validity checks and sends the customer an electronic notification, referred to as an "*e-file* acknowledgement file," that lists the error(s) by the code(s) that caused the tax return to reject. A reject code is a unique numeric reference assigned to each of the more than 600 possible errors that will cause the IRS to reject (i.e., not accept for processing) an *e-filed* tax return. The customer is responsible for correcting the error(s). Once notified of an error, the customer has to correct the tax return and resubmit it via *e-file*, submit it by paper tax return, or not file it at all. More than 6.8 million (8.5 percent) of the

¹ See Appendix V for a glossary of terms.

² *National Taxpayer Advocate 2004 Annual Report to Congress* referenced Internal Revenue Manual Exhibit 3.30, Cost Estimate Reference, Exhibit 3.30.10-39 (Rev. 11-01-2003).



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nearly 80 million *e-filed* tax returns for Tax Year 2006 were rejected. More than 5.4 million of the approximately 6.8 million tax returns were corrected and successfully *e-filed*. Figure 1 presents a breakdown of Tax Year 2006 rejected *e-filed* tax returns.

Figure 1: Tax Year 2006 Rejected E-Filed Tax Returns and Filing Method Subsequently Used to Resubmit the Tax Return

Tax Returns Rejected and Successfully E-filed	5,460,763	80%
Preparer	3,156,124 (58%)	
Online Filer	2,304,639 (42%)	
Tax Returns Rejected and Ultimately Filed via Paper	806,839	12%
Preparer	392,651 (49%)	
Online Filer	414,188 (51%)	
Tax Returns Rejected and Never Filed	593,842	9%
Total E-filed Tax Returns Rejected	6,861,444	100%³

Source: Our analysis of Tax Year 2006 *e-filed* tax returns on the IRS Individual Return Transaction File.

Correcting a reject condition(s) can require multiple resubmissions of the *e-filed* tax return. Figure 2 provides a breakdown of the number of times rejected tax returns were rejected.

³ Due to rounding, percentages do not add up to 100 percent.



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**Figure 2: Number of Times Each Rejected E-filed Tax Year 2006
Return Was Rejected**

Number of Times a Tax Return Was Rejected	Total	Percentage
Once	5,399,487	79%
Twice	969,569	14%
Three Times	291,308	4%
Four Times	108,580	2%
Five or More Times	92,500	1%
Total Tax Year 2006 Returns Rejected From E-file	6,861,444	100%

Source: Our analysis of Tax Year 2006 e-filed tax returns on the Individual Return Transaction File.

Members of the American Institute of Certified Public Accountants raised concerns about the assistance provided by the IRS when an *e-filed* tax return is rejected. Although use of *e-file* allows tax practitioners to prepare and submit a tax return in an electronic environment, if the tax return is rejected, they are required to manually research publications and/or contact the IRS by telephone to obtain information on how to correct the reject condition(s). They noted that the manual steps required to resolve the problem are often burdensome. As a result, they sometimes simply abandon *e-file* and file a paper tax return.

This review was performed in the Electronic Products and Services Support function, which is under the Customer Account Services organization located in the Wage and Investment Division Headquarters in Atlanta, Georgia, and at the Chief Information Officer *E-file* Systems office and Portal Program Management office in New Carrollton, Maryland, during the period October 2007 through March 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

A Self-Assistance Option to Resolve Rejected Electronic Tax Returns Would Reduce Taxpayer Burden and Save Resources

When a paper tax return contains an error, the IRS sends a notice to the customer explaining the error and how to correct it. However, when an *e-filed* tax return contains an error, the *e-file* acknowledgement file sent to the customer does not provide a solution for correcting the error. If the customer owns tax preparation software that does not provide information needed to address the error,⁴ the customer has to review an IRS publication, research IRS.gov (the public IRS web site), and/or call an IRS toll-free telephone assistance line to obtain a detailed description of what caused the reject condition and how to correct it.

Figure 3 shows the self-assistance options the IRS currently offers customers. None of the options provide the customer with a description of how to correct an error. For that, the customer must call an IRS toll-free telephone assistance line.

Figure 3: Self-Assistance Options That the IRS Currently Offers to Customers

Available Resources	Description	Describes Reject Condition?		Describes How to Correct Reject Condition?	
		Yes	No	Yes	No
E-file Acknowledgement File (Legacy System)	Through electronic notification sent to the preparer, provides the specific reject code(s) relating to the error(s) on the tax return.		X ⁵		X
Publication 1346⁶	Provides a list of numeric reject codes and descriptions of errors.	X			X
IRS.gov	Provides a list of reject codes and descriptions that can be scrolled through.	X			X

Source: Our research and interviews with IRS officials.

⁴ Companies that develop tax preparation software might include a detailed description of the reject conditions and/or an explanation as to how customers can address the conditions. The information provided varies. There are 67 software packages approved by the IRS for use in its *e-file* Program.

⁵ Although no explanation of the error that caused the tax return to reject is provided, the numeric reject error code(s) is listed on the *e-file* acknowledgement file.

⁶ *Electronic Return File Specifications for Individual Income Tax Returns* (Publication 1346).



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Although the IRS aggressively promotes participation in its *E-file* Program, it does not give customers the ability to work in an electronic environment to resolve *e-file* reject conditions. Putting an application on IRS.gov and ultimately including a description of the reject condition with steps to correct the error in the *e-file* acknowledgement file would provide customers with one-stop self-assistance. The current methods through which a customer receives assistance create burden for the customer and unnecessary expenses for the IRS, including costs for providing toll-free telephone assistance and maintaining redundant information in multiple systems.

A self-assistance option to resolve errors would reduce customer burden

The IRS continues to make significant strides in offering self-assistance service via electronic channels. One example is the popular self-assistance application “Where’s My Refund,” which is available on IRS.gov and allows taxpayers to research the status of their tax refunds. The taxpayer enters some information specific to himself or herself and the tax return, and IRS.gov provides the status of the tax refund.



However, a similar self-assistance option is not available for customers who need help with *e-file* reject conditions. The example below outlines the process a customer must currently follow to correct an error(s) on an *e-filed* tax return:

- (1) The customer *e-files* the tax return.
- (2) The IRS sends the *e-filed* tax return through its validation process. If the IRS detects an error in one or more items, it rejects the tax return.
- (3) The IRS sends the customer an *e-file* acknowledgement file with a reject code for each error.
- (4) The customer researches Publication 1346 or IRS.gov to obtain a description of the reject code(s).
- (5) The customer calls the IRS to obtain the information necessary to correct the reject condition(s).
- (6) The IRS telephone assistor researches the reject code(s) and attempts to help the customer correct the error(s) so the tax return can be resubmitted via *e-file* and successfully processed.

Currently, the IRS has three telephone lines customers can call to get an explanation of the *e-file* reject codes:

- **E-Help Desk (1-866-255-0654):** Available to authorized *E-file* Providers. The E-Help Desk Program provides assistance to users of IRS electronic products and services.



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- **Practitioner Priority Service (1-866-860-4259):** Available to tax practitioners (i.e., lawyers, accountants, enrolled agents, and enrolled actuaries). Practitioners provide fee-based assisted return preparation support, forms and publications distribution, tax law guidance, and account assistance. Practitioners can legally represent taxpayers. Therefore, they can serve as a conduit to the IRS on account-related matters.
- **Toll-Free Customer Service (1-800-829-1040):** Available to online and other filers. For Tax Year 2006, as of May 2007, there were 22,172,000 online filers.

As Figure 4 shows, at least 154,986 customers contacted the IRS for assistance with rejected *e-filed* tax returns in Calendar Year 2007. Over 5 years, the number of affected customers could reach 774,930.⁷

**Figure 4: Calendar Years 2005-2007 Volumes
Associated With Telephone Options**

Telephone Option	Volume by Calendar Year		
	2005	2006	2007
E-Help Desk⁸	38,568	36,681	43,574
Practitioner Priority Service	Not Available	Not Available	111,412
Toll-Free Customer Service	Not Available	Not Available	Not Available
Totals	38,568	36,681	154,986

Source: The E-Help Desk Line data were obtained from the E-Help Support System Database. The Practitioner Priority Service Program data were obtained from the Tennessee Computing Center – Web Server Statistics Report.

A self-assistance option would save IRS resources and improve customer service

Providing a self-assistance option that provides solutions to correct the errors causing the *e-file* rejects would help ensure that the IRS continues to deliver a high level of service and support to customers who participate in *e-file*. Such an option would help reduce the number of telephone calls made to the various IRS toll-free telephone lines to correct errors on rejected *e-filed* tax returns, eliminate the costs of maintaining redundant information in multiple systems currently used by telephone assistors, and improve customer service.

⁷ See Appendix IV for details.

⁸ The volume of calls reported as E-Help Desk assisted has been reduced to eliminate calls associated with a reject condition that according to IRS officials requires the customer to contact the IRS regardless of whether or not a self-assistance option existed.



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Fewer calls to the various toll-free telephone lines would be necessary

The IRS estimated that the cost for a toll-free telephone-assisted contact was \$19.46 for Fiscal Year 2005.⁹ It states that this is a conservative estimate and does not include all costs, such as upgrades to routing equipment, costs to maintain equipment, and headquarters support. In Calendar Year 2007, the IRS spent more than \$3 million¹⁰ to provide customers with telephone assistance to resolve *e-file* reject conditions. This includes only those calls to the *E-file* Help Desk and the Practitioner Priority Service Lines. The IRS does not track the number of calls about *e-file* reject codes made to its Toll-Free Customer Service Line.

Information included in multiple systems could be eliminated, reducing costs and inconsistencies

IRS assistors can use four different systems, containing similar information, when resolving *e-file* reject errors. Figure 5 contains a list and descriptions of those systems. The IRS noted that each system was developed for a different purpose and for a different type of user.

Figure 5: Automated Systems Available for Use by IRS Assistors

Available Resources	Description	Describes Reject Condition?		Describes How to Correct Reject Condition?	
		Yes	No	Yes	No
Automated Publication 1346 System	Generates a detailed description of the error when assistors enter a reject code.	X			X
E-Help Solutions System	Generates a solution when assistors choose from the top 11 reject conditions.	X		X	
Electronic Automated Retrieval System	Generates a detailed description of the error when assistors select the reject code for each specific tax return.	X			X
JEEDA System	Generates a detailed description of the error when assistors enter a reject code.	X			X

Source: Our research and interviews with IRS officials.

E-Help Desk assistors access the Electronic Automated Retrieval System, which provides a detailed explanation for each reject code. These assistors also have access to the E-Help Solutions System that provides information to assist customers in correcting the top 11 reject conditions. Assistors answering calls on the Practitioner Priority Service and the Toll-Free

⁹ This cost estimate was included in the *2007 Taxpayer Assistance Blueprint Phase 2 Report*.

¹⁰ Amount spent was calculated by multiplying 154,986 preparers assisted in Calendar Year 2007 by the \$19.46 cost per call. See Appendix IV for details.



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Customer Service Lines have access to both the Automated Publication 1346 System and the JEEDA System.

We conducted a limited test to determine the process that assistors follow when helping customers resolve *e-file* reject conditions.¹¹ We made nine calls using a scenario involving a rejected *e-filed* tax return with two actual reject conditions. For 6 calls, the assistors provided inconsistent solutions, and for 4 (67 percent) of these 6 calls the assistors suggested filing the tax returns via paper.

Only 1 of the 4 systems used by assistors contains some information as to how customers can address the top 11 reject conditions. Development of one system that 1) an assistor, or customer, could access and 2) contains a detailed explanation for each reject code and the information needed to correct errors would enable the IRS to eliminate the redundant information included in its multiple systems. Access to the same information for all assistors would reduce their burden, reduce costs, and ensure consistency in the information they provide to customers.

A self-assistance option could be provided

The IRS provided us with documentation outlining a system that would provide customers with self-assistance options to resolve errors in rejected *e-filed* tax returns. The original request date for implementation was August 2005. However, because of competing priorities and limited resources, the system has not been implemented. Although a lack of resources was cited, the IRS was unable to identify the resources that would be needed to implement such a process, including the savings that could be achieved.

The existing Automated Publication 1346 System lets IRS assistors enter an *e-file* reject code and obtain a detailed explanation of the reject condition. Based on discussions with an IRS programmer, we believe that this system could be 1) modified to include information about how to resolve the *e-file* reject condition and 2) added to IRS.gov as a near-term self-assistance option for customers.

In the long term, the IRS should focus on providing customers with both a description of the *e-file* reject condition and information on how to resolve it. The IRS has been moving to a new electronic platform to process *e-filed* tax returns, referred to as the Modernized *E-file* Program. IRS officials stated that expansion of the Modernized *E-file* Program to include individual tax returns will begin in Fiscal Year 2009 and will be completed by Fiscal Year 2011. The *e-file* acknowledgment file that will be generated from the Modernized *E-file* Program has the possibility of including a description of the reject conditions and information on how to resolve them.

¹¹ Because we were only attempting to gain a perspective of the type of service that customers might receive when calling the IRS for assistance with a rejected tax return, testing was limited to nine calls--three to each of the IRS telephone assistance lines.



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Recognizing the increased customer service demands associated with the growth in *e-file* and other electronic services, the IRS recently established the Electronic Products and Services Support function within the Wage and Investment Division. A primary objective of this function is to meet the increasing demands associated with *e-file* and e-service products and to deliver a higher level of service and support to preparers who use *e-file* and electronic services. Providing a self-assistance option will help the IRS ensure that it continues to deliver a high level of service and support to customers who participate in *e-file*.

Management action already taken

The IRS has already taken action in response to our concerns by adding to IRS.gov a self-assistance option that lists common reject codes along with suggested solutions. This is a first step toward providing a complete electronic self-assistance option for resolving rejected *e-filed* tax returns.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Develop a self-assistance option on IRS.gov that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them. To minimize costs, the Commissioner should consider altering an existing system and/or coordinating with companies that develop tax software packages that currently offer these services.

Management's Response: IRS management partially agreed with this recommendation. For *e-file* error reject codes 0504, 0679, 0507, 0502, 0500, 0501, 0522, 0510, 0503, 0506, 0680, 0535, and 0029, a self-assistance option was added to IRS.gov, which provides descriptions and suggested solutions. These error reject codes addressed through this self-assistance option accounted for 78 percent of the 10.2 million error reject codes issued thus far in 2008 and the 81 percent of the 9.9 million error reject codes issued during 2007. Management will study the feasibility of adding a more comprehensive self-assistance option to IRS.gov that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them. As part of this study, they will consider altering an existing system and/or coordinating with tax software development companies that currently offer a self-assistance option to their customers as described in the recommendation.

Recommendation 2: Develop a business case on the feasibility of providing information in the *e-file* acknowledgement file that would allow customers to resolve their reject conditions once individual tax returns are transitioned to the Modernized *E-file* Program. The information provided should include the description of the reject condition and the steps to resolve it.



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Management's Response: IRS management disagreed with this recommendation. While management agrees that the *e-file* acknowledgement file should provide information that would allow customers to resolve their reject conditions, it does not agree that a business case to determine the feasibility of providing this functionality is necessary. As the Form 1040 Legacy *E-file* System transitions to Modernized *E-file* Program, the reject codes will be developed in the same fashion as the current Modernized *E-file* Program form types. This transition is scheduled for implementation by September 2009. The Modernized *E-file* Program provides customers with reject codes written in plain English and contains a clear and concise explanation of the reject conditions.

Office of Audit Comment: Although we agree that the Modernized *E-file* Program will provide customers with explanations of error reject codes, we disagree with the IRS' decision to not perform a study as recommended that would assess the feasibility of also providing in the Modernized *E-file* Program acknowledgement file steps for customers to follow when resolving their reject conditions. It is our position that error explanations alone, no matter how clear and concise, do not consistently communicate the steps required to correct the error(s).



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS can improve its service to customers¹ when notifying them that it has rejected an *e-filed* tax return. To accomplish this objective, we:

- I. Determined the process the IRS follows to notify customers of a rejected *e-filed* tax return.
- II. Determined what resources the IRS and software companies provide to customers to assist them in addressing problems that caused an *e-filed* tax return to reject.
 - A. Reviewed information contained in the *e-file* acknowledgement file to assess whether it explains how customers can address reject conditions.
 - B. Identified and reviewed written and downloadable IRS products that relate to rejected *e-filed* tax returns to determine whether the products contain detailed information that explains how customers can address reject conditions.
 - C. Reviewed IRS.gov (the public IRS web site) to determine whether it provides information that explains how customers can address reject conditions.
 - D. Interviewed various IRS officials to identify the toll-free telephone-assisted options that the IRS has made available to assist customers in addressing reject conditions.
 - E. Contacted three leading *e-file* software development companies to identify whether they provide information to assist customers in addressing reject conditions. From the 67 IRS approved tax software development companies, we judgmentally selected 3 companies based on their prominence in the industry.
- III. Identified notification improvements that can be made and assessed the potential impact of these improvements on reducing customer burden and IRS costs.
 - A. Contacted representatives of the American Institute of Certified Public Accountants to obtain their input on the *e-file* reject notification process and feedback on ways to improve it.
 - B. Determined whether the IRS has plans to improve the notification process.
 - C. Determined whether the service provided to customers when they are notified of a rejected *e-filed* tax return can be improved and attempted to determine:

¹See Appendix V for a glossary of terms.



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1. The viability of improvement options with respect to cost/benefit, including perspective on resulting foregone and added costs.
2. Any cost savings to the IRS resulting from the related reduction in costs currently needed to:
 - a) Assist transmitters by telephone, including the costs of maintaining the various systems relied upon by assistors.
 - b) Produce IRS written products to assist transmitters in correcting rejected *e-filed* tax returns.
3. Any burden reduction for customers and the potential increases in the successful use of *e-file*.
 - a) Identified the total number of customers who could be affected by improved services and an estimate of the time savings they might realize as a result of the improved services. For Steps III.C.3.a) – c), the Treasury Inspector General for Tax Administration computer specialists extracted data from the IRS *e-file* database. To validate the accuracy of this information, we randomly selected 10 of the 7,016 records extracted for validation and compared the sampled information to information on the Integrated Data Retrieval System.
 - b) Identified the potential number of rejected *e-filed* tax returns ultimately filed on paper that might have been successfully *e-filed* later if IRS service was improved. This was done by identifying from our data extract the number of rejected *e-filed* Tax Year 2006 returns for which the Individual Return Transaction File showed that the tax return was ultimately filed via paper.
 - c) Identified the number of times each *e-filed* tax return was rejected by determining the number of times the same tax return appeared in our extract.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Chief Information Officer OS:CIO
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, E-File Systems OS:CIO:AD:SP:E
Director, Electronic Products and Services Support, Wage and Investment Division
SE:W:CAS:EPSS
Director, Electronic Tax Administration, Wage and Investment Division SE:W:ETA
Director, Portal Program Management OS:CIO:ES:SI:PP
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Director, Tax Forms and Publications, Wage and Investment Division SE:W:CAR:MP:T
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Deputy Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP:D
Senior Operations Advisor, Wage and Investment Division SE:W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$15,080,138 spent on toll-free telephone assistance to help customers correct errors on *e-filed* tax returns over 5 years (see page 4).

Methodology Used to Measure the Reported Benefit:

The IRS offers toll-free telephone assistance to customers who require help resolving *e-filed* tax return reject conditions. It provides three telephone numbers that customers can call to obtain an explanation of the reject codes: the E-Help Desk, the Practitioner Priority Service, and the Toll-Free Customer Service Lines.

For the Toll-Free Customer Service and the Practitioner Priority Service Lines, the IRS does not track telephone calls related to *e-file* rejects. However, for the Practitioner Priority Service Program, the IRS tracks the number of times that assistors access the database used by the assistors when they handle calls related to *e-file* rejects. For Calendar Year 2007, the IRS reported that there were 111,412 such accesses. For the same period, the IRS reported that there were 43,574 *e-file* reject telephone calls to its E-Help Desk Line. We conservatively concluded that IRS toll-free telephone assistors handled 154,986 calls related to *e-file* rejects in Calendar Year 2007.

The IRS estimated that the cost for a toll-free telephone-assisted contact was \$19.46 in Fiscal Year 2005.¹ The IRS noted that this is conservative because the estimate does not include all facets of the cost, such as upgrades to routing equipment, costs to maintain equipment, and headquarters support. Therefore, in Calendar Year 2007, the IRS spent \$3,016,028 (\$19.46/call X 154,986 calls) on toll-free telephone assistance related to *e-file* rejects. Over 5 years, this cost could reach \$15,080,138. The amount represents the potential value of efficiencies that could be gained from our recommendation to implement a self-assistance option related to *e-file* rejects.

¹ This cost estimate was included in the *2007 Taxpayer Assistance Blueprint Phase 2 Report*.



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Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 774,930 customers contacting the IRS by telephone for assistance with resolving *e-file* errors over 5 years (see page 4).

Methodology Used to Measure the Reported Benefit:

The IRS offers toll-free telephone assistance to customers who require help resolving *e-filed* tax return reject conditions. It provides three telephone numbers that customers can call to obtain an explanation of the reject codes: the E-Help Desk, the Practitioner Priority Service, and the Toll-Free Customer Service Lines.

For the Toll-Free Customer Service and the Practitioner Priority Service Lines, the IRS does not track telephone calls related to *e-file* rejects. However, for the Practitioner Priority Service Program, the IRS tracks the number of times that assistors access the database used by the assistors when they handle calls related to *e-file* rejects. For Calendar Year 2007, the IRS reported that there were 111,412 such accesses. For the same period, the IRS reported that there were 43,574 *e-file* reject telephone calls to its E-Help Desk Line. We conservatively concluded that IRS toll-free telephone assistors handled 154,986 calls related to *e-file* rejects in Calendar Year 2007.

Therefore, in Calendar year 2007, 154,986 customers could have avoided having to call the IRS and instead could have more conveniently and quickly accessed the recommended self-assistance option when resolving *e-file* reject conditions. Over 5 years, the affected number of customers could reach 774,930 (154,986 customers/year x 5 years).



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Appendix V

Glossary of Terms

American Institute of Certified Public Accountants	The American Institute of Certified Public Accountants is the national, professional association of certified public accountants. It has approximately 350,000 members, including certified public accountants in business and industry, public practice, government, and education; student affiliates; and international associates.
Authorized <i>E-file</i> Providers	Authorized <i>E-file</i> Providers include Electronic Return Originators, Intermediate Service Providers, Transmitters, and Software Developers. Appendix VI provides a detailed description of each.
Computer-Prepared Paper Tax Return	A computer-prepared paper tax return is one prepared using a computer software tax package but submitted to the IRS on paper rather than via electronic filing.
Customers	Customers are Electronic Return Originators, Intermediate Service Providers, and Transmitters. Appendix VI provides a detailed description of each of these customers.
<i>E-File</i> Acknowledgement File	An <i>e-file</i> acknowledgement file is an electronic notification sent to the customer alerting him or her that an error(s) was identified on the <i>e-filed</i> tax return, causing it to be rejected.
Individual Return Transaction File	The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.
Integrated Data Retrieval System	The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
IRS Computing Centers	IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.



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Preparer

A preparer is any person who prepares for compensation--or who employs one or more persons to prepare for compensation --any income tax return or claim for refund of income taxes. For purposes of this report, preparers include those involved in tax return preparation offered through volunteer organizations, such as the Volunteer Income Tax Assistance Program.



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Appendix VI

Customers Who Might Need to Resolve Rejected Electronic Tax Returns

Electronic Return Originator (ERO)	EROs originate the electronic submission of income tax returns to the IRS. An ERO electronically submits income tax returns that are either prepared by the ERO firm or collected from a taxpayer.
Intermediate Service Providers	An Intermediate Service Provider receives tax return information from EROs or from taxpayers who file electronically using a personal computer, modem, and commercial tax preparation software on an Internet site; processes the tax return information; and either forwards the information to a transmitter or sends the information back to the EROs or taxpayers.
Online Filers	Online Filers are taxpayers who use commercial tax return preparation software to prepare their tax returns on computers and file their tax returns electronically.
Software Developers	Software Developers write the <i>e-file</i> programs according to IRS file specifications and record layouts, making IRS <i>e-file</i> and Federal/State <i>e-file</i> possible. The IRS and participating States require that all software pass a series of tests each year. Once approved, this software may be sold and used by EROs.
Transmitters	Once a return is prepared, the income tax return data are sent to the IRS by a Transmitter. The Transmitter must have software and modems that allow it to connect with IRS computers. An ERO or Intermediate Service Provider may also apply to be a Transmitter and transmit return data, or it may contract with an accepted third-party Transmitter that will transmit the data for it.



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Appendix VII

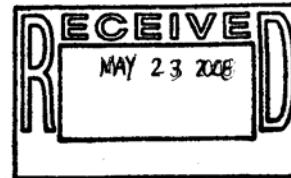
Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

MAY 21 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – A Self-Assistance Option Would Reduce
Burden and Costs Associated With Resolving Rejected
Electronic Tax Returns (Audit # 200840029)

I have reviewed the subject draft audit report and appreciate your observations. We recognize the need to provide customers additional information when we have rejected their electronically filed (*e-filed*) tax return and the need for customer self-assistance options. I also appreciate your acknowledgement of the actions we have already taken to address these needs.

In response to your recommendation that we provide customers with a self-assistance option for resolving rejected *e-filed* tax returns, we have added to IRS.gov descriptions and suggested solutions for commonly issued error reject codes. The error reject codes addressed through this self-assistance option comprise 78 percent of the 10.2M error reject codes issued thus far this year and the 81 percent of the 9.9M error reject codes issued during 2007.

I agree with the outcome measures in your report and believe that the self-assistance option we have added to IRS.gov, along with the information we will add to the *e-file* acknowledgement file, will reduce taxpayer burden and increase the efficient utilization of IRS resources.

Our response to your recommendations is detailed in the attachment. If you have any questions regarding this response, please call me at (404) 338-7060, or members of your staff may contact Peter J. Stipek, Director, Customer Account Services (CAS), at (404) 338-8910.

Attachment



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Attachment

RECOMMENDATION 1

Develop a self-assistance option on IRS.gov that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them. To minimize costs, the Commissioner should consider altering an existing system and/or coordinating with companies that develop tax software packages that currently offer these services.

CORRECTIVE ACTION

We agree in part with this recommendation. We added *e-file* error reject codes 0504, 0679, 0507, 0502, 0500, 0501, 0522, 0510, 0503, 0506, 0680, 0535, and 0029 to IRS.gov descriptions and suggested solutions for commonly issued error reject codes. The error reject codes addressed through this self-assistance option comprise 78 percent of the 10.2M error reject codes issued thus far this year and the 81 percent of the 9.9M error reject codes issued during 2007.

We will study the feasibility of adding a more comprehensive self-assistance option to IRS.gov that allows customers to obtain detailed explanations of *e-file* reject conditions, including the steps to resolve them. As part of this study, we will consider altering an existing system and/or coordinating with tax software development companies that currently offer a self assistance option to their customers as described in the recommendation.

IMPLEMENTATION DATE

October 15, 2008

RESPONSIBLE OFFICIAL

Director, Wage and Investment, CAS, Electronic Products and Services Support

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Develop a business case on the feasibility of providing in the *e-file* acknowledgement file information that would allow customers to resolve their reject conditions once individual tax returns are transitioned to the Modernized *E-file* (MeF) Program. The information provided should include the description of the reject condition and the steps to resolve it.

CORRECTIVE ACTION

We disagree with this recommendation. While we agree that the *e-file* acknowledgement file should provide information that would allow customers to resolve their reject conditions, we do not agree that a business case to determine the feasibility of providing this functionality is necessary. As the 1040 legacy *e-file* system transitions



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to MeF, the reject codes will be developed in the same fashion as the current MeF form types. This transition is scheduled for implementation by September 2009. The MeF system provides customers with reject codes written in plain English and contains a clear, concise explanation of the reject condition.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A