

Why GAO Did This Study

The U.S. tax system depends on taxpayers calculating their tax liability, filing their tax return, and paying what they owe on time—what is often referred to as voluntary compliance. Voluntary compliance depends on a number of factors, including the quality of IRS's assistance to taxpayers, knowledge that its enforcement programs are effective, and a belief that the tax system is fair and other people are paying their share of taxes. Voluntary compliance is also influenced by other parties, including paid tax return preparers, tax software companies, and information return filers (employers, financial institutions, and others who report income or expense information about taxpayers to IRS). For this testimony, GAO was asked to (1) evaluate the current state of IRS's performance and its effect on the taxpayer experience, and (2) identify opportunities to improve the taxpayer experience and voluntary compliance. This testimony is based on prior GAO reports and recommendations. Additionally, GAO analyzed IRS data in delivering selected taxpayer services in recent years.

What GAO Recommends

GAO has made numerous prior recommendations that could help improve the taxpayer experience. Congress and IRS have acted on some recommendations, while others are reflected in the strategies presented in this testimony.

INTERNAL REVENUE SERVICE

Opportunities to Improve the Taxpayer Experience and Voluntary Compliance

What GAO Found

The Internal Revenue Service (IRS) has made improvements in processing tax returns, and electronic filing (e-filing), which provides benefits to taxpayers including faster refunds, continues to increase. However, as the following table shows, IRS's performance in providing service over the phone and responding to paper correspondence has declined in recent years. For 2012, as with previous years, IRS officials attribute the lower performance to other funding priorities.

IRS's Performance for Telephone Service and Paper Correspondence, Fiscal Years 2007 through 2013

	2007	2008	2009	2010	2011	2012 planned	2013 planned
Percentage of callers seeking and receiving live assistance	82.1	52.8	70	74	70.1	61.0	63.0
Average wait time for callers (in minutes)	4.4	10.4	8.8	10.8	13.0	18.8	18.8
Percentage of paper correspondence not resolved within 45 days	17	23	25	27	35	n/a	n/a

Legend: n/a = not applicable.

Sources: IRS Oversight Board, IRS's Congressional Budget Justification, and GAO Reports.

Following are among the opportunities to improve the taxpayer experience and increase voluntary compliance that GAO identifies in this testimony:

- **IRS can provide more self-service tools to give taxpayers better access to information.** IRS can create an automated telephone line for amended returns (a source of high call volume) and complete an online services strategy that provides justification for adding new self-service tools online.
- **Better leveraging of third parties could provide taxpayers with other avenues to receive service.** Paid preparers and tax software providers combine to prepare about 90 percent of tax returns. IRS is making progress implementing new regulation of paid preparers. As it develops better data, IRS should be able to test strategies for improving the quality of tax return preparation by paid preparers. Similarly, IRS may also be able to leverage tax software companies.
- **Expanded information reporting could reduce taxpayer burden and improve accuracy.** Expanded information reporting, such as the recent requirements for banks and others to report businesses' credit card receipts to IRS, can reduce taxpayers' record keeping and give IRS another tool.
- **Implementing modernized systems should provide faster refunds and account updates.** Modernized systems should allow IRS to conduct more accurate and faster compliance checks, which benefits taxpayers by detecting errors before interest and penalties accrue.
- **Expanding pre-refund compliance checks could result in more efficient error correction.** Expanding such checks could reduce the burden of audits on taxpayers and their costs to IRS.
- **Reducing tax complexity could ease taxpayer burden and make it easier to comply.** Simplifying the tax code could reduce unintentional errors and make intentional tax evasion easier to detect.