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2017 FILING SEASON

New Wage Verification Process Holds Promise but IRS Faced Implementation Challenges

Statement of Jessica Lucas-Judy, Acting Director, Strategic Issues

Accessible Version

GAO-17-525T

GAO Highlights

Highlights of GAO-17-525T, a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

April 26, 2017

2017 FILING SEASON

New Wage Verification Process Holds Promise but IRS Faced Implementation Challenges

Why GAO Did This Study

IRS processes over 100 million tax returns during the filing season. In the past several years, IRS has been confronted with the ongoing problem of identity theft refund fraud and improper payments. Wage information that employers report on Form W-2 had not been available to IRS until after it issued most refunds. As GAO previously reported, earlier access to W-2 wage data—as now provided in recent legislation—could allow IRS to more timely match this information to taxpayers' returns and identify discrepancies before issuing billions of dollars of fraudulent refunds.

GAO was asked to review the 2017 filing season to-date (January through late March to mid-April). This testimony describes IRS's (1) implementation of W-2 systemic verification, and (2) performance in providing telephone and other customer service and processing individual income tax returns during the 2017 filing season.

GAO reviewed IRS systemic verification data and documents and interviewed IRS officials. To evaluate IRS's performance during the 2017 filing season, GAO compared data and documents to IRS's prior years' performance and interviewed IRS officials.

What GAO Recommends

GAO is not making new recommendations but provides a status update on previously recommended actions that IRS could take to further improve service and operations.

View GAO-17-525T. For more information, contact Jessica Lucas-Judy at (202) 512-9110 or LucasJudyJ@gao.gov.

What GAO Found

To help combat identify theft refund fraud and improper payments, in 2017 the Internal Revenue Service (IRS) implemented provisions of the Protecting Americans from Tax Hikes Act of 2015 (the Act). Consistent with GAO's prior reporting, the Act advanced the deadline for employers filing Form W-2, *Wage and Tax Statement* (W-2) with the Social Security Administration to January 31, allowing IRS to verify information reported on tax returns (such as wages and withholding) before issuing refunds, a process IRS calls W-2 systemic verification. As of February 17, 2017, IRS received over 214 million W-2 forms (a 125 percent increase over the same time last year). The Act also required IRS to hold refunds until February 15 for taxpayers claiming the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) to provide time to use W-2 data to verify returns. Although IRS applied the verification process to all returns, preliminary data suggest the following:

- For returns where the taxpayer claimed the EITC or ACTC, IRS verified the wage information for over 35 percent of these returns before February 15. Moreover, the refund hold allowed IRS time to verify returns when it received more W-2 data, resulting in approximately $863 million in additional refunds being identified as potentially fraudulent. However, since not all W-2 data were available before February 15, IRS was unable to verify wage information for over 58 percent (7.7 million) of tax returns with refunds claiming the EITC or ACTC for a total of $38.1 billion.
- IRS did not hold returns that did not claim the EITC or ACTC because it was not required to do so, although those returns were subject to systemic verification and other checks. Preliminary data show that IRS verified wages reported on 8.6 million (41 percent) returns that did not claim the EITC or ACTC before February 15. However, IRS was unable to verify wage information reported on over 58 percent (12.3 million) of tax returns claiming $28.1 billion in refunds, because not all W-2 data were available.

Several issues contributed to delays in availability of W-2 information. IRS processes W-2 electronic data weekly rather than when received due to the age of its computer system, resulting in a lag between when IRS has the data and can use it. In addition, some employers can request and be granted 30-day filing extensions and some file paper W-2s, which take longer to process. IRS continues to analyze the W-2 systemic verification process and its outcomes.

IRS's telephone wait times and level of service—those seeking live assistance and receiving it—improved in the 2017 filing season compared to prior years. Average wait time decreased from 9.7 to 6.8 minutes compared to last year, and telephone level of service was more than 77 percent compared to 74 percent. Further, IRS reduced the number of written correspondence that is late, or "overage," compared to prior years. IRS also experienced minor disruptions during return processing with two brief electronic filing system interruptions. Finally, IRS launched a new online service, but others were unavailable or discontinued due to security concerns.

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee:

Thank you for the opportunity to discuss how the Internal Revenue Service (IRS) is using wage information earlier in the filing season to help prevent improper payments and identity theft (IDT) refund fraud and how it is providing customer service.

This filing season is notable for legislative changes that affected certain taxpayers. As we have reported, IRS has been confronted with the ongoing problems of improper payments and IDT refund fraud over the past several years.[1] IDT refund fraud occurs when a fraudster obtains an individual's Social Security number, date of birth, or other personally identifiable information, and uses it to file a fraudulent tax return seeking a refund. IRS estimates that at least $14.59 billion in IDT tax refund fraud was attempted in calendar year 2015—of which it prevented at least $12.35 billion (85 percent)—but at least $2.24 billion (15 percent) was paid.

We previously reported that the wage information that employers report on Form W-2, *Wage and Tax Statement* (W-2), had not been available to IRS until after it issued most refunds.[2] With earlier access to W-2 data, IRS could use this information to verify taxpayers' returns and identify discrepancies before issuing billions of dollars in fraudulent refunds. Such verification could also provide benefits for other IRS enforcement programs such as preventing some Earned Income Tax Credit (EITC)

[1]Improper payments are a long-standing, significant problem in the federal government, estimated at $144 billion in fiscal year 2016. We previously reported that one strategy to help prevent improper payments is up-front verification of eligibility through data sharing and matching. See GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended,* GAO-17-15 (Washington, D.C.: Oct. 14, 2016). In addition, for fiscal year 2016, the Department of the Treasury estimated $16.8 billion in improper payments for only one program—the Earned Income Tax Credit—which accounted for over 24 percent of that program's outlays. U.S. Department of the Treasury, Agency Financial Report Fiscal Year 2016, at 225 (Nov. 15, 2016). Furthermore, in 2015, we expanded our high risk area on the enforcement of tax laws to include IRS's efforts to address IDT refund fraud. See GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

[2]See GAO-17-317 and GAO, *Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud,* GAO-14-633 (Washington, D.C.: Aug. 20, 2014).

improper payments. Consistent with our prior reporting, in an effort to address these issues, in 2015, Congress enacted the Protecting Americans from Tax Hikes Act (the Act), which included provisions that took effect this year.[3] The Act required employers to submit W-2s to the Social Security Administration (SSA) by January 31, which is about 1 to 2 months earlier than in prior years.[4] SSA then provides W-2 data to IRS for verifying employee wage and withholding data on tax returns. The Act also required IRS to hold refunds for all taxpayers claiming the EITC or Additional Child Tax Credit (ACTC) until February 15.[5] Now that IRS has earlier access to W-2 information, IRS is using it in a process it calls W-2 systemic verification.

My statement today describes IRS's (1) implementation of early W-2 verification in accordance with the Protecting Americans from Tax Hikes Act and SSA's role in providing W-2 information to IRS, and (2) performance in providing telephone and other service and processing individual income tax returns during the 2017 filing season compared to its performance in prior years.

My statement is based on our review of data and documents describing the implementation of IRS's systemic verification of W-2 data and summarizing IRS's performance on the 2017 filing season to date.[6] To understand IRS's process for performing systemic verification of W-2 data against individual income tax returns affected by the Act (those claiming the EITC or ACTC), as well as other returns not affected by the Act (those not claiming the EITC or ACTC), we reviewed the Act and related tax laws, regulations and IRS data and documentation and interviewed IRS officials. Additionally, to understand SSA's role in providing W-2 information to IRS, we reviewed SSA data and information.

[3]Consolidated Appropriations Act, 2016, (the Protecting Americans from Tax Hikes Act of 2015 was included as a provision of the Consolidated Appropriations Act, 2016), Pub. L. No. 114-113, div. Q, 129 Stat. 2242, 3040 (Dec. 18, 2015).

[4]Pub. L. No. 114-113, div. Q, Title II, § 201, 129 Stat. 2242, 3076 (*codified at* 26 U.S.C. §§ 6071 and 6402). Prior to enactment of the amending provisions of the Protecting Americans from Tax Hikes Act, paper W-2s were due on or before the last day of February and electronically-filed W-2s were due March 31.

[5]Pub. L. No. 114-113, § 201(b), *codified at* 26 U.S.C. § 6402(m).

[6]The filing season generally takes place between January and mid-April. The information presented in this statement is through late March to mid-April.

To describe trends in IRS's performance providing customer service and processing tax returns, we reviewed IRS filing season performance data covering January through late March to mid-April for 2012 through 2017. We also interviewed IRS officials on the benefits and challenges in implementing W-2 systemic verification as well as planned improvements, selected filing season operations, and data reliability. To further assess the reliability of the data we used for this statement, we reviewed IRS data and documentation, assessed documentation for data limitations, and compared those results to our data reliability standards. We determined that the data presented in this statement are sufficiently reliable for our purposes. We provided a draft of this statement to IRS and SSA for technical review and addressed their views and technical comments as appropriate.

We conducted this performance audit from January to April 2017 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

IRS Performed Early W-2 Verification, but Faced Implementation Challenges

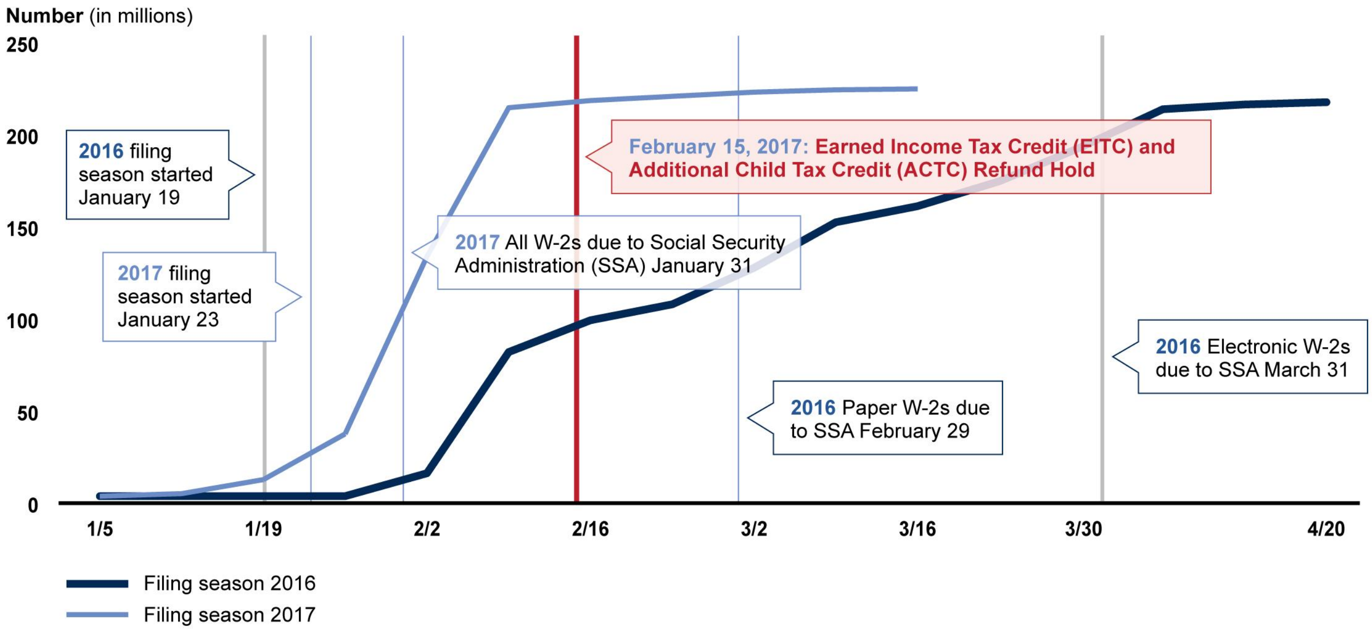
IRS Verified Wages and Withholding for Some Returns but Did Not Receive All W-2 Data before Releasing Refunds

Before the Protecting Americans from Tax Hikes Act was enacted, IRS did not receive the majority of W-2 data until after most refunds had been issued. As we reported in 2014, IDT refund fraud took advantage of IRS's "look-back" compliance model.[7] Under this model, rather than holding refunds until completing all compliance checks, IRS issued refunds after conducting selected reviews. Since IRS did not receive most employer-reported W-2 data until late in the filing season, IRS did not begin matching that data to tax returns until July, following the tax season.

[7] GAO-14-633.

However, with the Act's new reporting deadline, as of February 17, 2017, IRS received over 214 million W-2 forms from SSA, an increase of 125 percent from the same time last year (see fig. 1).[8]

Figure 1: Number of W-2s IRS Received for the 2016 and 2017 Filing Seasons



Source: GAO analysis of Internal Revenue Service and Social Security Administration information. | GAO-17-525T

Data Table for Figure 1: Number of W-2s IRS Received for the 2016 and 2017 Filing Seasons

	Filing Season 2016	Filing seasong 2017
1/5	0	0
1/12	1.387	0
1/19	9.003	0
1/27	33.819	.027564
2/2	130.086	12.453
2/9	210.856	78.235

[8]Beginning in 2016, IRS requested W-2 information from employers to validate information on returns selected by fraud filters. This provided IRS with a limited amount of W-2 data earlier in the filing season to use for pre-refund validation checks. See GAO, *Identity Theft and Tax Fraud: IRS Needs to Update Its Risk Assessment for the Taxpayer Protection Program,* GAO-16-508 (Washington, D.C.: May 24, 2016).

	Filing Season 2016	Filing seasong 2017
2/16	214.724	95.492
2/23	217.021	104.149
3/2	219.295	123.959
3/9	220.559	148.678
3/16	221.064	157.415
3/23	221.064	170.946
3/30	221.064	189.458
4/6	221.064	210.034
4/13	221.064	212.599
4/20	221.064	213.838

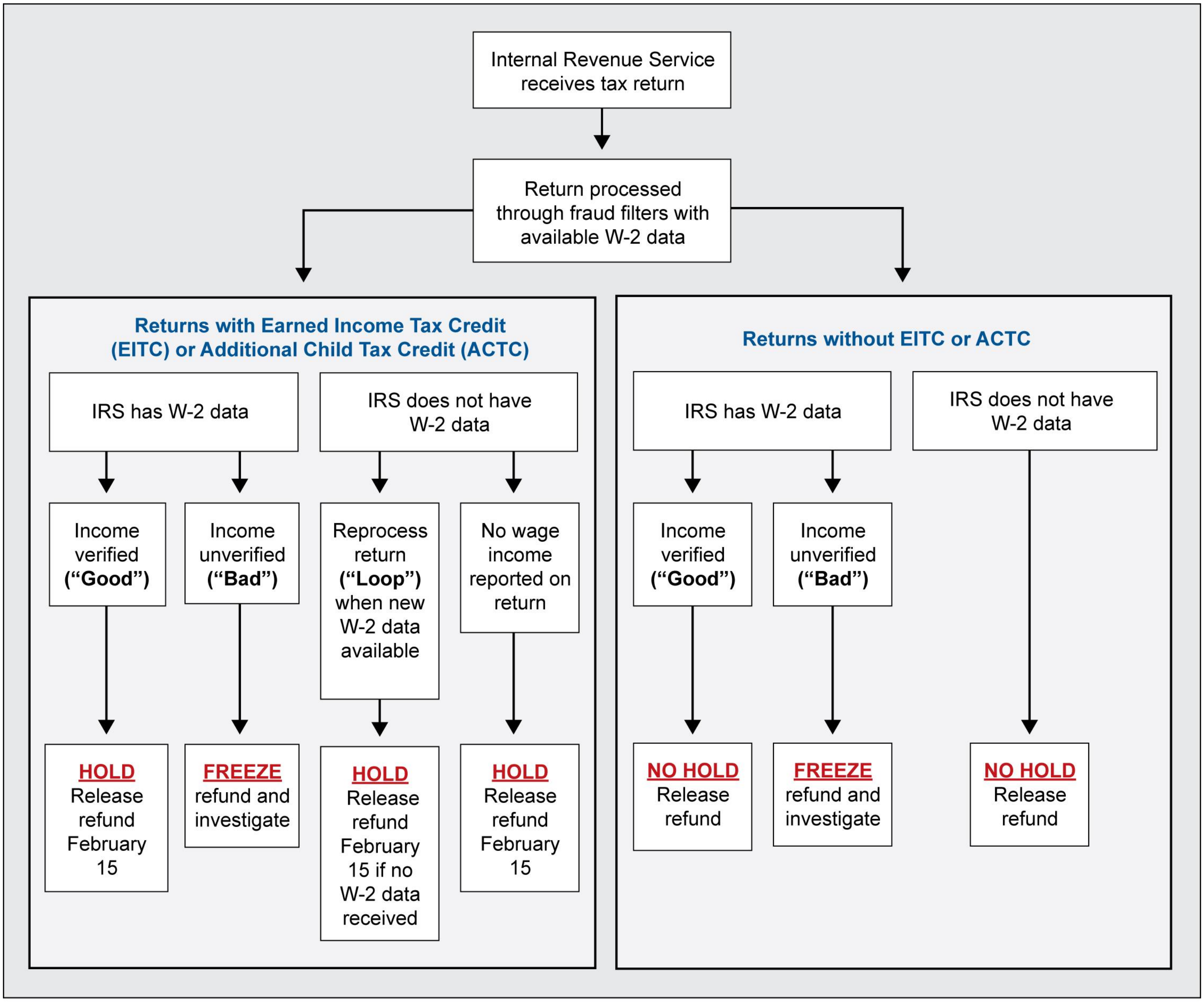
Notes: Dates on the x-axis represent the day in 2017 that IRS loaded the W-2 data into its systems and correspond to similar dates in 2016. Data for 2017 are as of March 16. IRS received only electronically-filed W-2 data through mid-April in 2016 and mid-March in 2017. Data after those timeframes include both electronically- and paper-filed W-2s.

For the 2017 filing season, IRS used the W-2 data it had available to verify wages and withholding reported on all tax returns during initial processing. Under the new legal requirements of section 6402(m) of the tax code, IRS held refunds for returns claiming the EITC or ACTC (EITC/ACTC returns) until February 15 regardless of whether IRS had the W-2 data available to verify wage information and had determined the corresponding refund was valid (see fig. 2).[9] IRS, in consultation with the Department of the Treasury (Treasury), elected not to hold any refunds for returns without EITC or ACTC (non-EITC/ACTC) because it was not required to do so, as discussed later in this testimony. However, all returns—with EITC or ACTC and without EITC or ACTC—are subject to IRS's verification process as well as other fraud filters.[10]

[9]26 U.S.C. § 6402(m).

[10]The EITC and ACTC provide tax benefits to millions of taxpayers—many of whom are low income—who are working or raising children. These credits are refundable in that, in addition to offsetting tax liability, any excess credit over the tax liability is refunded to the taxpayer. The refundable portions of the EITC and ACTC in 2016 are estimated by Treasury to be valued at $62 billion and $30 billion, respectively. As we previously reported, the administration and design of these two credits contribute to errors and improper payments. For more information on refundable tax credits, see GAO, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Address Noncompliance,* GAO-16-475 (Washington, D.C.: May 27, 2016).

Figure 2: IRS's W-2 Systemic Verification Process for Returns With and Without Earned Income and Additional Child Tax Credits



Source: GAO analysis of IRS information. | GAO-17-525T

Note: IRS holds any refunds (including those for which W-2 data are not available) for which the return is flagged for further review by its identity theft fraud filters or other pre-refund filters.

While IRS conducts quality and enforcement checks throughout return processing, preliminary data suggest that by using its W-2 systemic verification, including allowing time to input the data for matching, are important steps in IRS's ability to determine whether the refund amount claimed and taxpayer are legitimate for returns with EITC/ACTC as well as for returns without those credits. Specifically, we found that:

- For returns where the taxpayer claimed the EITC or ACTC, preliminary data show that IRS verified the wage information for over 35 percent of these returns before February 15. Moreover, the refund hold allowed IRS time to check returns using its systemic verification when it received more W-2 data. For example, IRS reported it reprocessed about 1 million returns during the hold period as more data became available. As a result, IRS said it identified approximately 162,000 returns claiming about $863 million in refunds as potentially fraudulent. According to IRS, those refunds were not allowed to be released on February 15, and the returns were directed for follow up. However, IRS was unable to verify wage information for over 58 percent (7.7 million) of tax returns with refunds claiming the EITC or ACTC—for a total of $38.1 billion—before February 15. This was in part due to the timing of when W-2 information was available, as discussed later in this statement.
- IRS did not hold returns that did not claim the EITC or ACTC unless the return was selected by its other filters (such as for potential IDT refund fraud). On such returns, while IRS also used available W-2 information, it did not hold refunds solely because W-2 information was not available. Preliminary data show that using systemic verification, IRS verified wages of 8.6 million (41 percent) of returns that did not claim the EITC or ACTC before February 15. However, IRS was unable to verify wage information reported on over 58 percent (12.3 million) of these tax returns for a total of $28.1 billion, as not all W-2 data were available and IRS was not required to hold these returns.

IRS Faced Challenges with the W-2 Systemic Verification Process

IRS faced challenges related to the availability and timing of the W-2s while implementing its W-2 systemic verification process.

As noted previously, IRS was unable to verify wage income for the majority of both EITC/ACTC and non-EITC/ACTC returns received by February 14, because it did not have W-2 information available for those taxpayers. There were three reasons for this delay:

1. IRS received electronic W-2 data from SSA daily, but because IRS is using older technology in this instance (a legacy system), it could only load the data weekly.[11] For EITC/ACTC returns, the law provided an approximate 2-week delay between the W-2 due date (January 31) and the refund release date (February 15), to allow time for IRS to load the data and verify wage information on the returns before releasing the refunds.
2. Some W-2 data were delayed past February 15 because employers requested extensions or missed the new deadline. This year, IRS allowed employers a one-time 30-day, non-automatic extension to file W-2 data if the deadline would cause undue hardship that would also prevent the employer from furnishing the W-2s to employees by January 31 (such as if a flood damaged the documentation and equipment needed to file). This is a change from prior years in which employers could request one 30-day extension from either the due date on the last day of February (if filing on paper) or last day of March (if filing electronically).
3. While SSA begins receiving W-2 forms on paper in December, it did not begin to transmit these data to IRS until March 2017. SSA officials reported that they cannot report the number of employers who filed paper W-2s until they complete transcribing those forms for tax year 2016.[12] As of February 15, SSA estimated that it had approximately 17.4 million paper W-2s. As of March 31, 2017, SSA had processed and transmitted to IRS about 3.8 million of these. Consequently, IRS processed refunds without W-2 information for those taxpayers whose employers had submitted paper W-2s.

IRS Continues to Analyze Results of Systemic Verification

As of March 29, IRS officials were still assessing the W-2 systemic verification process and its outcomes. IRS does not yet know the full effect of its W-2 systemic verification process on the number of IDT fraudulent refunds it was able to prevent paying. However, as noted earlier, IRS officials reported that the initial review of the W-2 verification

[11]For more information on legacy systems, see GAO, *Information Technology: Federal Agencies Need to Address Aging Legacy Systems,* GAO-16-696T (Washington, D.C.: May 25, 2016).

[12]SSA reported it estimates the volume of W-2s received by weighing the envelopes that come in and, based on that, generates an estimate of the number of W-2s. Since this is just an estimate based on weight, SSA cannot accurately estimate the number of employers associated with the W-2s until SSA actually processes the reports.

process for EITC/ACTC returns showed that IRS identified approximately 162,000 returns worth about $863 million as potentially fraudulent that it would not have identified without the early W-2 data coupled with the refund hold. IRS's fraud filters did not select these returns for further review; however, the W-2 systemic verification process did because IRS received the W-2 data before it would have released the refunds on February 15.

IRS officials also reported a decrease in the number of IDT cases this filing season compared to last year. Through February 28, 2017, the number of new cases decreased by 51 percent compared to the same time last year (from 63,102 to 30,850). However, it is difficult to determine whether this decline is due to IRS's efforts, fewer attempts by fraudsters, or other factors. IRS is continuing to review its verification process before determining what steps it needs to take, if any, to improve its fraud selection filters.

IRS officials stated that they are confident that IRS did not systematically release EITC/ACTC refunds covered by the new hold requirement prematurely.[13] IRS said its pre-filing season testing confirmed that the holds would work as intended, and that it conducted individual reviews of EITC/ACTC cases in which data indicated that a refund may have been released early. IRS identified nine such cases, but the payouts occurred after February 15. IRS is considering a number of scenarios that may require legislative action, including adjusting the timing of holding refunds it has not yet verified, and releasing refunds for wages it has verified.[14]

One concern that officials noted about the refund hold was the potential effect on the economy. According to IRS officials, in consultation with Treasury, IRS opted not to hold all refunds until February 15. Although IRS has authority to hold these refunds, officials explained that doing so would have too great of an effect on the economy on top of the refunds

[13]According to IRS officials, they identified one refund that was prematurely released due to employee error.

[14]In addition, in August 2014, we suggested that Congress consider providing the Secretary of the Treasury with the regulatory authority to lower the threshold for electronic filing of W-2s from 250 returns annually to between 5 to 10 returns as appropriate. See GAO-14-633.

they were required to hold by law.[15] For example, there could be impacts to business models of large retailers that rely on the cycle of federal income tax refund distribution, especially in communities with lower-income taxpayers, according to IRS officials. Even a short delay in a one-time cash infusion, especially if it represents a significant portion of some taxpayers' income, can cause them to delay paying bills or making important spending decisions. In addition, IRS officials said that the surge in refunds released February 15 could have had a significant impact on check-cashing businesses and retailers and the amount of cash required on hand to pay refunds to taxpayers. For EITC/ACTC returns, IRS estimated the effect on the economy to be about $60 to $64 billion in total refunds that IRS would not release to taxpayers until February 15. If IRS also held non-EITC/ACTC returns, it estimated those refund amounts would affect the economy by an additional $40 billion.

IRS Improved Telephone Customer Service, Experienced Few Disruptions Processing Returns, and Added an Online Application While Suspending or Discontinuing Others

Telephone Service Improved in the 2017 Filing Season

While implementing tax law changes, it is important that IRS ensures timely and quality service. During the filing season, IRS enforces tax laws, provides service to tens of millions of taxpayers, and processes over 100 million tax returns. In recent years, IRS has experienced declining resources and an increased workload. We have reported that IRS's budget declined by about $900 million between fiscal years 2011 and

[15]Under section 6201 of the Internal Revenue Code, IRS is authorized and required to make the inquiries, determinations, and assessments of all taxes as necessary. 26 U.S.C. § 6201. IRS has the authority to hold refunds in conjunction with those determinations. However, Section 6611(e) of the Code generally requires the payment of interest on refunds if any overpayment of tax is not refunded within 45 days after the last day prescribed for filing the return tax (determined without regard to any extension of time for filing the return). 26 U.S.C. § 6611(e).

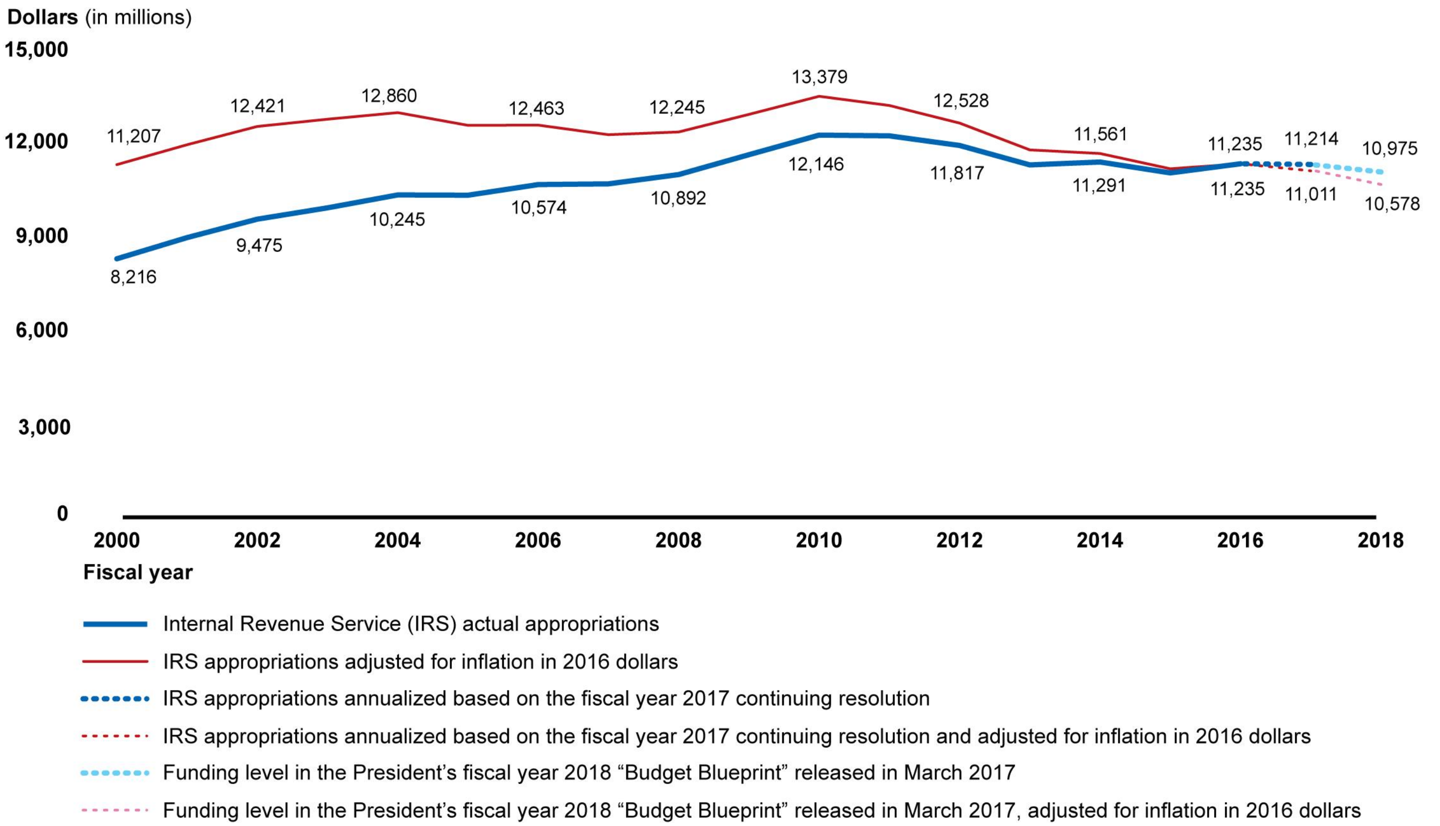
2016.[16] Furthermore, full-time equivalents (FTE) funded with annual appropriations declined by 12,000 (13 percent) between fiscal years 2011 and 2016.[17] The President's fiscal year 2018 "Budget Blueprint" released in March 2017 proposes funding IRS below the fiscal year 2000 level, after adjusting for inflation (see fig. 3).[18]

[16]For additional information about IRS's budget, see GAO, *IRS 2017 Budget: IRS Could Improve Presentation of Budget Data in Its Congressional Justification*, GAO-16-695 (Washington, D.C.: July 21, 2016) and GAO, *Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance*, GAO-16-459R (Washington, D.C.: Mar. 8, 2016).

[17]Full-time equivalents represent the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2016 there were 2,096 compensable hours.

[18]Office of Management and Budget, *America First - A Budget Blueprint to Make America Great Again* (Washington, D.C.: March 2017).

Figure 3: IRS Appropriations for Fiscal Years 2000 to 2017 and Proposed Fiscal Year 2018 Appropriation



Sources: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service Congressional Justifications for fiscal years 2005 through 2014, fiscal year 2015 Omnibus, Pub. L. No. 113-235 (Dec. 16, 2014), fiscal year 2016 Omnibus, Pub. L. No. 114-113 (Dec. 18, 2015), and IRS 2017 and 2018 budget data. | GAO-17-525T

Data Table for Figure 3: IRS Appropriations for Fiscal Years 2000 to 2017 and Proposed Fiscal Year 2018 Appropriation

Year	FY2018	FY2018 (adjusted for inflation)
2000	8216	11207
2001	8889	11840
2002	9475	12421
2003	9835	12651
2004	10245	12860
2005	10236	12456
2006	10574	12463
2007	10597	12159
2008	10892	12245

Year	FY2018	FY2018 (adjusted for inflation)
2009	11523	12804
2010	12146	13379
2011	12122	13087
2012	11817	12528
2013	11199	11676
2014	11291	11561
2015	10945	11076
2016	11235	11235
2017	11214	11011
2018	10975	10578

Note: Inflation adjustments were made using Bureau of Economic Analysis data and Congressional Budget Office projections of the fiscal year chain weighted gross domestic product price index. Values for 2017 are annualized amounts based on the fiscal year 2017 continuing resolution.

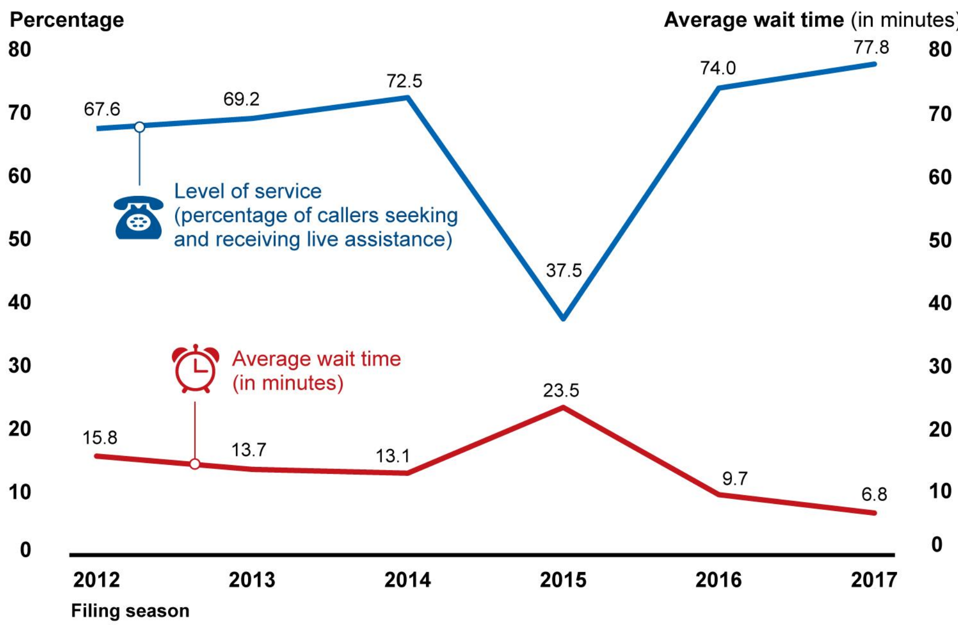
The decline in IRS's budget has contributed to fluctuations in service and longer telephone wait times. For example, in December 2015, we reported that IRS provided the lowest level of telephone service—the percentage of people who wanted to speak with an IRS assistor and were able to reach one—during fiscal year 2015 compared to prior years.[19] Callers experienced long wait times and difficulty in reaching an IRS assistor. IRS received additional funding for the 2016 filing season and service improved considerably. For instance, the 2016 level of service was the highest since 2011. Maintaining quality customer service is important because it helps taxpayers comply with the tax code.

We found that IRS's telephone service continued to improve in the 2017 filing season. As shown in figure 4, from January 1 through March 25, 2017, IRS's telephone level of service increased by almost 4 percentage points from the same time last year. In addition, the average wait time to speak to an assistor decreased from 9.7 to 6.8 minutes. IRS officials attributed the improvements to decreased telephone volume and its ability

[19]GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies,* GAO-16-151 (Washington, D.C.: Dec. 16, 2015). For additional information see our Key Issues web page on tax administration, http://www.gao.gov/key_issues/tax_administration/issue_summary.

to hire more assistors before the filing season started and prior to the executive branch hiring freeze.[20]

Figure 4: IRS Improved Telephone Level of Service and Wait Times during the 2017 Filing Season



Source: GAO analysis of Internal Revenue Service data. | GAO-17-525T

Note: Telephone level of service and average wait time data for the filing season are cumulative from January 1 of each year to March 24, 2012; March 23, 2013; March 22, 2014; March 28, 2015; March 26, 2016; and March 25, 2017. Level of service and wait time can be affected by multiple factors including the number of assistors available to answer telephone calls and total calls received, both of which vary each year.

Data Table for Figure 4: IRS Improved Telephone Level of Service and Wait Times during the 2017 Filing Season

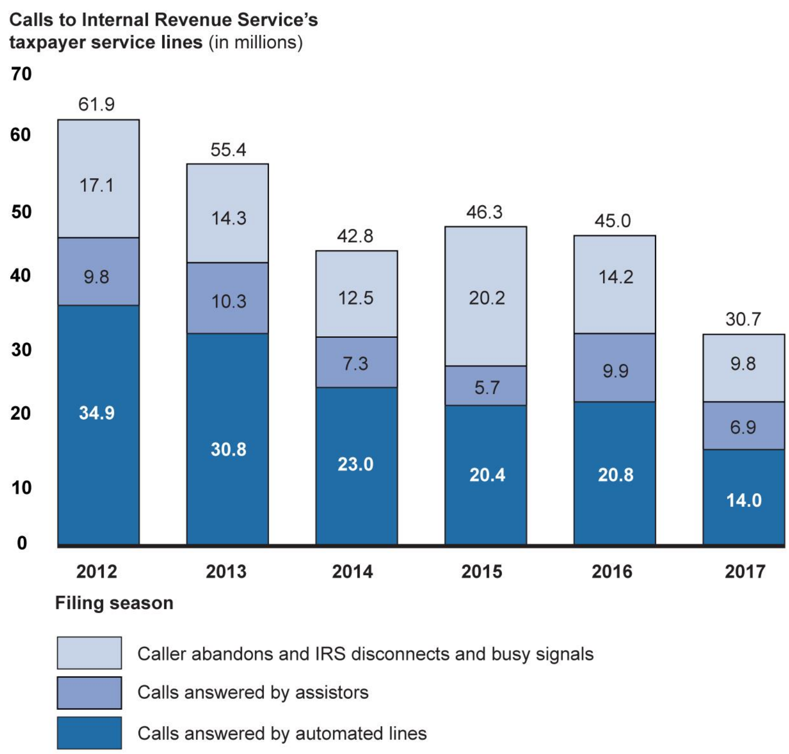
Year	Percentage of callers	Average wait time in minutes
2012	67.6	15.8
2013	69.2	13.7
2014	72.5	13.1
2015	37.5	23.5
2016	74.0	9.7

[20]The White House, *Presidential Memorandum, Regarding the Hiring Freeze,* 82 Fed. Reg. 8493, (Jan. 25, 2017), and Office of Management and Budget, *Immediate Actions and Initial Guidance for Federal Civilian Hiring Freeze,* M-17-17 (Jan. 25, 2017).

Year	Percentage of callers	Average wait time in minutes
2017	77.8	6.8

As of March 25, 2017, IRS had received about 30.7 million calls to its automated and live assistor-answered telephone lines, an almost 32 percent decrease from the same time in 2016 (see fig. 5). Accordingly, IRS assistors answered 6.9 million calls, approximately a 30 percent decrease from the 9.9 million calls answered during the same time last year. IRS officials told us they are still evaluating the reasons for the decrease in call demand.

Figure 5: IRS's Total Call Volume for the Period January through late-March for 2012 through 2017



Source: GAO analysis of IRS data. | GAO-17-525T

Data Table for Figure 5: IRS's Total Call Volume for the Period January through late-March for 2012 through 2017

	Total calls	automated lines	Calls answered by assistors	Caller abandons and IRS disconnects and busy signals
FY2012	61.8	34.9	9.8	17.1
FY2013	55.4	30.8	10.3	14.3
FY2014	42.8	23.0	7.3	12.5
FY2015	46.3	20.4	5.7	20.2
FY2016	45.0	20.8	9.9	14.2
FY2017	30.7	14.0	6.9	9.8

Notes: Telephone call data for the filing season are cumulative from January 1 of each year to March 24, 2012; March 23, 2013; March 22, 2014; March 28, 2015; March 26, 2016; and March 25, 2017. Numbers may not sum to totals due to rounding.

During the 2017 tax filing season, IRS experienced a disruption in telephone service on one of its busiest days due to equipment issues. During an 11-hour period on February 21, the day after the President's Day holiday, which is the single busiest day of the year to call IRS, IRS's telephone equipment malfunctioned, resulting in about 775,000 calls that could not be completed or were disconnected. IRS officials explained that a workaround solution to manage a known bug in the telephone equipment failed to work. IRS officials told us that they are working with the telephone vendor to resolve the issue. In the meantime, IRS officials stated that they are monitoring telephone call volume manually to avoid a repeated failure. Officials explained that this bug will be fixed when IRS can upgrade its telephone equipment, which they expect to do by the end of calendar year 2017.

IRS officials noted that the lower call volume IRS has experienced this filing season has allowed assistors to work through more written correspondence inventory than in prior years rather than letting it build up while answering calls. As a result, through March 25, 2017, the overage rate of correspondence—the percentage of cases generally not processed within 45 days of receipt by IRS—had decreased to 31 percent compared to 46.3 percent at the same time last year.[21]

IRS Experienced Few Processing Disruptions during the 2017 Filing Season

According to IRS officials, return processing during the 2017 filing season has proceeded as expected with a few minor challenges. As of April14, 2017, IRS had processed 115 million individual tax returns and issued 87.5 million refunds totaling $246 billion.

IRS's electronic filing system experienced two periods of interruptions, but they were short in duration with one lasting about a day and the other including intermittent outages over the course of about a week. In addition, some return processing was delayed as a result of the hiring freeze. IRS officials stated that the hiring restriction did not significantly disrupt processing tax returns and refunds, in part because the number of returns filed in the beginning of the filing season was lower compared to last year. IRS officials stated that they authorized use of overtime to help facilitate processing and meet performance deadlines. Between October 1, 2016 through April 1, 2017, IRS used 23 FTEs of overtime and estimates that it will use about 106 FTEs through the fiscal year.

In addition to the W-2 systemic verification process, the Protecting Americans from Tax Hikes Act also required taxpayers that filed a U.S. federal tax return containing an Individual Taxpayer Identification Number (ITIN) to renew the number if the ITIN was not used on at least one tax return in the past 3 years or it was issued prior to 2013 and contained certain middle digits.[22] IRS deactivated approximately 11.5 million ITINs and notified affected taxpayers via mail and public notices. If affected taxpayers did not renew their ITIN either before filing or in conjunction

[21]IRS classifies correspondence in its inventory as "overage" from 2 to 180 days after IRS receives them depending on the type of work performed by assistors. For example, correspondence cases generated internally age 75 days from the date IRS receives such cases, while international adjustment cases generated by taxpayers age 90 days from the date IRS receives them.

[22]Pub. L. No. 114-113, § 203(a), codified at 26 U.S.C. § 6109(i). An Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the IRS. IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number but do not have, and are not eligible to obtain, a Social Security number. IRS is reviewing ITINs in batches, based on, for example, the numbers in the ITIN, until all are reviewed.

with filing, their refund may have been delayed. As of April 15, 2017, IRS had renewed over 130,000 ITINs and rejected approximately 16,300 ITIN renewal applications.

IRS Launched a New Online Application, but Others Were Unavailable or Discontinued

IRS established its new online application in November 2016, but other key applications were unavailable or discontinued. IRS's new online application is designed to assist taxpayers with straightforward balance inquiries. It allows taxpayers to view their IRS account balance—including the amount they owe for tax, penalties, and interest—and take advantage of various online payment options.[23] For example, through the online account application, taxpayers can access IRS's Direct Pay application, which allows taxpayers to pay their individual tax bill or estimated tax payment directly from their checking or savings account at no cost. As of April 1, 2017, IRS's new online account application had been accessed more than 550,000 times since its launch. In addition, IRS has processed over 35,000 Direct Pay transactions totaling $109.4 million since November 2016.

As we previously reported, in June 2016, IRS discontinued its e-file Personal Identification Number (PIN) tool, with which taxpayers could retrieve their e-file PINs online or via telephone.[24] The e-File PIN served as an alternative signature verification method on the Form 1040 series and helped assist taxpayers with electronically filing their tax returns. Discontinuing this tool followed IRS's announcement in February 2016 that cybercriminals had stolen more than 100,000 e-file PINs through the tool. In addition, in March 2017, IRS and the Department of Education responded to security concerns and removed access on fafsa.gov and

[23]Users must authenticate their identities through a two-step authentication process, which means returning users must have their credentials (username and password) plus a security code sent as a text to their mobile phones.

[24]GAO, *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds,* GAO-17-186 (Washington, D.C.: Jan. 31, 2017). Before IRS discontinued the e-file PIN application, if taxpayers did not have a self-select PIN, or their prior year's adjusted gross income, they could obtain an e-file PIN. The e-file PIN required taxpayers to authenticate their name, Social Security number, date of birth, address, and filing status. Since IRS discontinued the application, it instructs taxpayers to use their prior-year adjusted gross income, which can be found on their prior year return. For taxpayers without a copy of their prior year tax return, they may obtain one using the Get Transcript service.

StudentLoans.gov to IRS's Data Retrieval Tool—the online process through which student financial aid applicants obtain their family's tax information. IRS suspects that fraudsters used personal information obtained elsewhere to access the Data Retrieval Tool in an attempt to access tax information, particularly the adjusted gross income. As of April 6, IRS reported that fewer than 8,000 fraudulent returns from this incident had been filed, processed, and refunds issued but estimated that about 100,000 taxpayers may have been affected. IRS said that it expects the Data Retrieval Tool to be unavailable until October 2017 while IRS and the Department of Education make updates.

Implementing GAO's Prior Open Recommendations Could Help IRS Improve Service

IRS is making progress implementing our prior recommendations to improve its service, particularly in the following areas:

- **Customer service strategy.** We have made several recommendations for IRS to improve taxpayer service. For example, in 2012, we recommended that IRS outline a strategy that defines appropriate levels of telephone and correspondence service and wait time and lists specific steps to manage service based on an assessment of time frames, demand, capabilities, and resources.[25] In 2014, we recommended that IRS systematically and periodically compare its telephone service to the best in business to identify gaps between actual and desired performance.[26] Moreover, in December 2015, we suggested that Congress should consider requiring the Secretary of the Treasury to develop a comprehensive customer service strategy in consultation with IRS to enable the agency to make a more informed request to Congress about resource requirements needed to deliver specific levels of service, similar to what we recommended in December 2012.[27] In February 2016, IRS announced a "Future State" initiative for agency-wide operations, which aims to improve services across different taxpayer interactions such as individual online account assistance, exams, and collections.

[25]GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively,* GAO-13-156 (Washington, D.C.: Dec. 18, 2012).

[26]GAO, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks,* GAO-15-163 (Washington, D.C.: Dec. 16, 2014).

[27]GAO-16-151.

As part of this initiative, IRS completed a study benchmarking its telephone performance against the best in the business, and we are reviewing the report to determine whether it addresses our December 2014 recommendation.[28]

IRS officials have told us that many of our other service-related recommendations will ultimately be incorporated into IRS's Future State initiative. However, it is unclear the extent to which and when our recommendations will be fulfilled by IRS's initiative. For example, in November 2016, IRS provided us with documentation on the goals of the initiative, which included goals on improving taxpayer service. However, the documentation does not detail levels of telephone and correspondence service and wait times, as we recommended in December 2012.[29] We will continue to assess the Future State initiative as IRS works to develop it. Finalizing a long-term, comprehensive strategy for customer service will help ensure IRS is maximizing the benefit to taxpayers and possibly reduce costs in other areas, such as for IRS's telephone operations.

- **Online services.** IRS has made progress in addressing our December 2011 and April 2013 recommendations to improve its online services strategy; however, as of March 2017, IRS had not yet completed its efforts.[30] For example, IRS's Future State initiative aims to improve services across different taxpayer interactions such as individual account assistance, exams, and collections. IRS also revised its business case template in 2014 for new online services to include, among other things, a discussion of costs, benefits, and risks of future projects, consistent with our April 2013 recommendation. However, we reviewed IRS documentation and found that the business case contained some of the information we recommended, such as high-level time frames, but was missing other information, such as the benefits and costs of the project. Further, it is unclear how IRS plans to use the business case to prioritize future projects. IRS told us it implemented a new process for online investments that requires details on expected benefits and costs to be reviewed by the

[28]GAO-15-163.

[29]GAO-13-156.

[30]See GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services,* GAO-13-435 (Washington, D.C.: Apr. 16, 2013) and GAO, *2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools,* GAO-12-176 (Washington, D.C.: Dec. 15, 2011).

senior executives for prioritization and follow-up. As of March 2017, IRS has not provided additional documentation concerning this process. Analyses of benefits and costs can help agencies decide which new projects to start in a manner that maximizes the benefits derived from agency resources. IRS also requested funding in the fiscal year 2017 budget justification to enhance web applications, including the online account previously discussed.

In conclusion, W-2 systemic verification shows promise of being a powerful tool for addressing IDT refund fraud and possibly other types of fraud. IRS has also continued to improve its telephone service, which is important in helping taxpayers comply with the tax code. Addressing our open recommendations—including developing long-term strategies for customer and online services to ensure that IRS is maximizing the benefit to taxpayers and reducing costs in other areas, such as for IRS's telephone operations—could further help IRS in those endeavors.

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, this concludes my prepared remarks. I look forward to answering any questions that you may have.

Contacts and Staff Acknowledgments

For questions regarding this statement, please contact me at (202) 512-9110 or LucasJudyJ@gao.gov. Key contributors to this statement include Joanna M. Stamatiades (Assistant Director), Dawn Bidne, Jehan Chase, Heather A. Collins, James Cook, Felisa Garmon, Robert Gebhart, John Hussey, Melissa King, Kirsten Lauber, Robert MacKay, Donna Miller, and Erin Saunders Rath.

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