

August 1998

Tax Policy and
Administration Issue Area

Active Assignments

Foreword

This report was prepared primarily to inform Congressional members and key staff of ongoing assignments in the General Accounting Office's Tax Policy and Administration issue area. This report contains assignments that were ongoing as of August 17, 1998, and presents a brief background statement and a list of key questions to be answered on each assignment. The report will be issued quarterly.

This report was compiled from information available in GAO's internal management information systems. Because the information was downloaded from computerized data bases intended for internal use, some information may appear in abbreviated form.

If you have questions or would like additional information about assignments listed, please contact James White, Director, on (202) 512-9110; or Cornelia Blanchette, Associate Director, on (202) 512-8403.

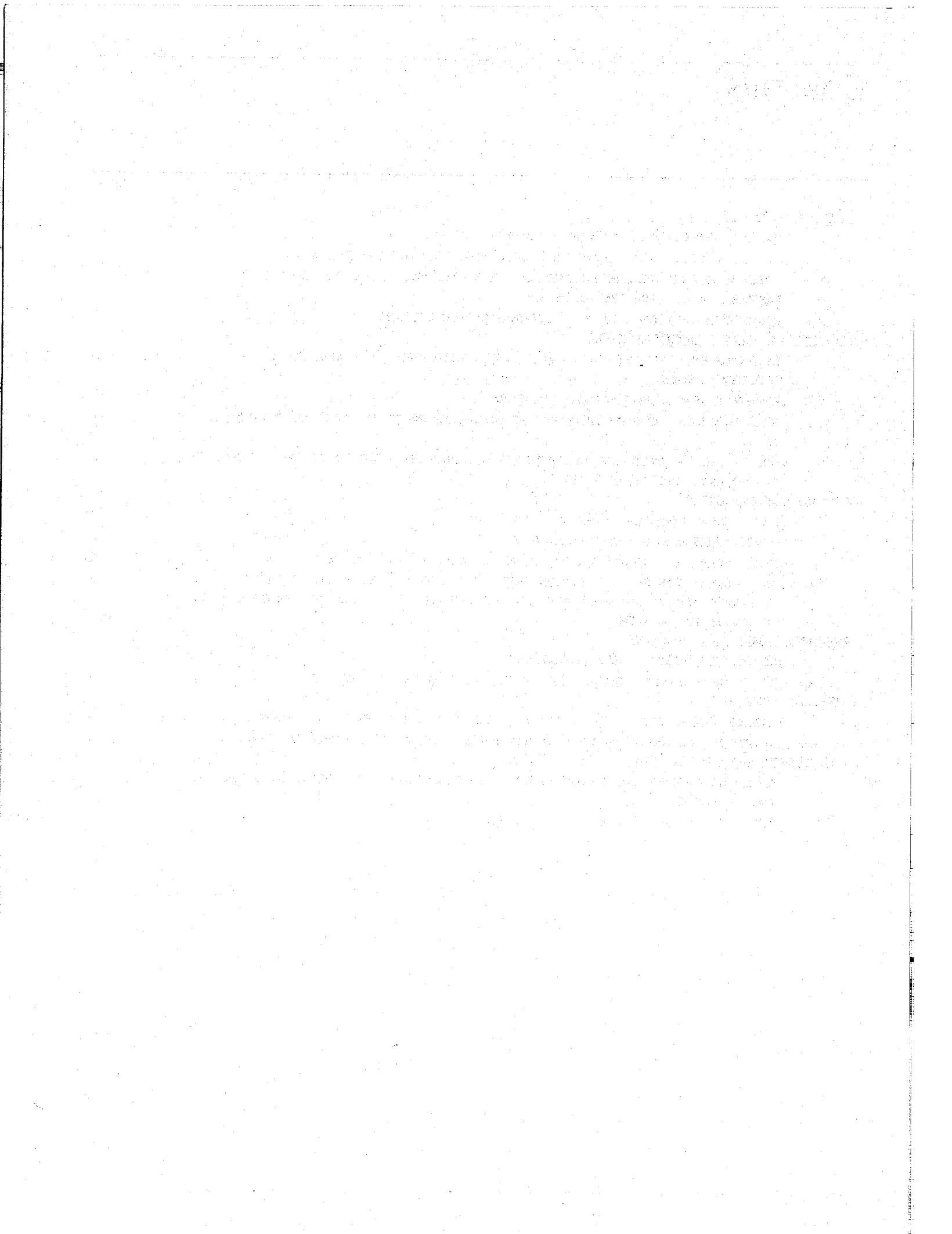
The first part of the report deals with the general situation of the country and the progress of the work during the year. It is followed by a detailed account of the various projects and the results achieved.

The second part of the report deals with the financial statement of the year. It shows the income and expenditure of the organization and the balance sheet at the end of the year.

The third part of the report deals with the administrative matters of the organization. It includes a list of the members of the organization and a list of the committees and sub-committees.

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Tax Policy and Administration

INDIVIDUAL TAX ISSUES

TITLE: HRA 2: REVIEW OF IRS' CORRESPONDENCE AUDITS PROGRAM (268777)

KEY QUESTIONS : Tax examiners (TE) do correspondence audits with individuals to see if their returns correctly reported a selected tax issue. Comparing FY92 to FY96, these audits recommended and collected less tax per audited return. Moreover, IRS is closing more audits without any taxpayer contact or a change in recommended taxes. IRS does not know why. Our work will seek to answer: (1) How did the types of audits affect these ratios on tax recommended and collected change from FY92 and FY96? (2) What issues, returns, and taxpayers were audited in FY96, and what were the results? (3) What factors affected the tax recommended and collected for audits closed in FY96? (4) How is IRS preparing to manage future projects and workload in FY98 and beyond?

TITLE: RESULTS ASSOCIATED WITH IRS' METHODS OF SELECTING TAX RETURNS FOR AUDIT (268829)

KEY QUESTIONS : The requester is interested in how effectively IRS selects returns for audit, as measured by results. IRS has over 40 reasons for selecting returns for audit, including the Discriminate Function (DIF) formulas that assign scores to filed returns. DIF helps IRS to objectively select individual returns whose reported tax is most likely to be changed through an audit. (1) How does IRS select returns for audit? (2) What proportion of audits have historically closed with no change to tax liability? (3) What are the results of audits done in IRS' District Offices in recent years?

TITLE: HRA:28 REVIEW OF THE EFFECTIVE DATES OF VARIOUS PROVISIONS IN THE PROPOSED IRS RESTRUCTURING AND REFORM ACT OF 1998 (268853)

KEY QUESTIONS : The proposed IRS Restructuring and Reform Act has several provisions that have effective dates of 2000 or earlier. IRS has expressed concern that effective dates earlier than 2000 may impair IRS' ability to achieve Year 2000 compliance whereas effective dates of 2000 would not. IRS based this conclusion on the assumption that all Year 2000 application software work would be completed by January 31, 1999. (1) Were IRS' assumptions about the need for Year 2000 application software work in 1999 valid? If not, why? (2) Will IRS' Year 2000 effort affect the timeframes for developing business requirements for provisions in the proposed act and testing requisite application software changes? If so, how?

TITLE: REVIEW OF IRS' AUDIT PRACTICES AND CRIMINAL TAX PROSECUTIONS (268855)

KEY QUESTIONS : IRS' Exam Div. audits returns to determine whether taxpayers have complied w/tax laws & paid the proper amount of taxes. IRS' Crim. Investigation Div. investigates alleged criminal tax violations (tax evasion/filing false tax return) & makes referrals to US Attorneys for prosecution. The requesters are concerned that taxpayers in the South (Tennessee) may be unfairly subjected to audits and prosecutions. (1) Was the number of IRS audits disproportionate compared to other IRS locations during 1992-97, & if so why? (2) Was the number of IRS criminal tax investigations & referrals for prosecution disproportionate compared to other IRS locations during 1992-97, & if so, why? (3) What controls exist over audits, criminal tax investigations, & referrals for prosecution, & does IRS use them?

ACCOUNTS RECEIVABLE/COLLECTION

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TITLE: REVIEW OF NON-PAYMENT OF EMPLOYMENT TAXES AND ITS EFFECT ON TAXPAYERS' SOCIAL SECURITY BENEFITS (268782)

KEY QUESTIONS : All workers, including those who are self-employed (SE), receive social security credits based on their earnings. SEs may receive earnings credits even when the SE taxes on those earnings have not been paid. In addition, SEs typically have a high rate of tax delinquency and may be receiving SSA benefits. (1) Can self-employed taxpayers or others receive SSA credit for their earnings without paying the required self-employment taxes? (2) What is the extent to which this is occurring? (3) Is it occurring because of legislative or administrative limitations? (4) What actions can be taken to address this situation?

TITLE: REVIEW OF IRS' PROBLEM SOLVING DAYS PROGRAM (268824)

KEY QUESTIONS : During September 1997 hearings, the Acting IRS Commissioner announced the implementation of monthly 'problem solving days' (PSD) in each of IRS' 33 districts to surface and resolve problem tax cases. The requester has asked GAO to review several issues related to the IRS' process for conducting PSD and to attend some of them as observers. Specifically the requester asked for a review of (1) the organization of the event; (2) IRS' methods to advertise the event; (3) the authority and ability of IRS personnel at PSD to resolve systemic and taxpayer specific problems; (4) IRS' steps to identify, track, and resolve systemic and taxpayer specific problems; (5) lessons learned; and (6) taxpayer satisfaction.

TITLE: HRA:2 PROTECTING TAXPAYER INTERESTS WHEN IRS SEIZES PROPERTY TO COLLECT DELINQUENT TAXES (268826)

KEY QUESTIONS : If taxes remain unpaid after IRS gives a taxpayer appropriate notice and demand for payment, IRS is authorized by law to seize the delinquent taxpayer's property. During fiscal 1996, IRS completed 10,000 seizures while trying to collect on \$2.3 billion in delinquent taxes. Given the errors that IRS makes in assessing taxes, the stress IRS has placed on using enforcement sanctions to collect delinquent taxes, the potentially disastrous consequences that a seizure collection action may have on taxpayers (e.g., loss of home or business), and variation in the use of seizure authority among IRS district offices, the requester has asked GAO to review several issues related to protecting taxpayer interests during IRS seizure actions.

TITLE: HRA:2 ISSUES FOR IRS TO ADDRESS IN REDESIGNING A PILOT TESTING THE USE OF PRIVATE SECTOR COMPANIES TO COLLECT TAX DEBTS (268832)

KEY QUESTIONS : In fiscal year 1996, IRS began a pilot program testing the use of private collection companies to help it collect delinquent taxes. Because of issues that IRS and GAO identified concerning how the pilot was progressing, the pilot was discontinued. However, the requester still believed a pilot was worthwhile, and, at her request, GAO will be addressing the following two questions: (1) What are the key statutory issues that need to be addressed in a redesigned pilot? (2) What are the key administrative issues that need to be addressed in a redesigned pilot? We will need to consider these issues for different types of potential pilots.

SUBMISSION PROCESSING

TITLE: REVIEW OF IRS' 1998 FILING SEASON (268831)

KEY QUESTIONS : During the filing season, IRS processes returns, payments, refunds, and refundable credits, like the Earned Income Credit (EIC); and assists taxpayers over the telephone, at walk-in sites, and via the Internet. To assess performance we will review (1) the level of customer service provided, including the ability of persons to reach IRS by telephone and get desired information and the level of service provided at walk-in sites and via Internet; (2) the processing of returns and remittances, including steps taken to increase the use of alternative filing methods (like electronic filing) and the status of efforts to address lockbox issues discussed in our past two filing season reports; (3) IRS' efforts to reduce EIC noncompliance; and (4) the performance of critical computer systems.

TITLE: REVIEW OF IRS' NON-MASTER FILE ACCOUNTS (268836)

KEY QUESTIONS : As IRS proceeds with various efforts to modernize its information systems and computerized files of taxpayer accounts, one area of uncertainty involves the Non-Master File (NMF). As described by IRS, the NMF is a system of manually prepared documents that were maintained on ledger or index cards and that employees could only access by requesting photo copies. Now, per IRS, many of these records are accessible via the automated NMF. (1) What is the NMF and why does it exist? (2) What types of IRS and/or taxpayer problems are caused or exacerbated by the NMF? (3) How, if at all, does IRS' plan to convert or replace the NMF as part of its systems modernization and consolidation efforts, including its Year 2000 conversion effort?

TITLE: HRA:28 YEAR 2000 IMPLICATIONS OF IRS' MAINFRAME CONSOLIDATION PROJECT (268839)

KEY QUESTIONS : Concurrent with converting existing application software for its Year 2000 effort, IRS plans to consolidate its data processing operations at 2 computing locations from the current 12 locations. This consolidation is to be completed by Jan. 1999. While certain aspects of this project are critical to achieving Year 2000 compliance, others are not. (1) What aspects of IRS' mainframe consolidation project are critical to achieving Year 2000 compliance? (2) Is IRS on schedule for implementing mainframe consolidation activities that are Year 2000 critical and if not, why? (3) Will new business requirements for consolidation impact IRS' ability to be Year 2000 compliant? (4) What are the most viable contingency options if IRS cannot implement the Year 2000 aspects of consolidation?

TITLE: HRA:28 MONITORING IRS' YEAR 2000 CONVERSION EFFORT TO ENSURE THAT CORE BUSINESS OPERATIONS ARE NOT ADVERSELY IMPACTED BY EITHER THE YEAR 2000 PROBLEM OR THE EFFORTS TO ADDRESS THE PROBLEM (268840)

KEY QUESTIONS : IRS is in the midst of addressing the Year 2000 problem. IRS' plans call for all information systems to be compliant by January 1999 so IRS can have almost a full year for an end-to-end test of the multitude of changes that are necessary & make additional corrections if necessary. We will continue our monitoring efforts of IRS' Year 2000 efforts by answering the following questions: (1) For areas that are still in the assessment stage of conversion, what impediments is IRS facing & how is IRS trying to address them? (2) What is the status of IRS' actions to expand its contingency planning process as we recommended in our June 1998 report? (3) Are IRS' testing plans sufficient to verify that data conversions have been made correctly & systems will work as expected in the Year 2000?

Tax Policy and Administration

TITLE: REVIEW OF IRS' EMPLOYEE EVALUATION PLAN (268823)

KEY QUESTIONS : Concerned that IRS managers were encouraging overzealous collection activity by using tax enforcement results to evaluate individual employees, Congress prohibited this practice in the Taxpayer Bill of Rights I and also required district directors to certify quarterly that managers were not misusing this data. However, several IRS agents testified during congressional hearings that they were evaluated on the basis of enforcement results, which led to an atmosphere conducive to taxpayer abuse. As a result, the requester asked us to determine (1) whether IRS managers are complying with the certification requirement, (2) the adequacy of the certification process in identifying, preventing, & reporting violations, & (3) the advantages & disadvantages of IRS' revised certification policies.

TITLE: REVIEW OF ALLEGATIONS OF TAXPAYER ABUSE AND EMPLOYEE MISCONDUCT AT IRS (268857)

KEY QUESTIONS : At the April 1998, IRS oversight hearings, allegations were made of taxpayer abuse and employee misconduct. The requester asked us to review the allegations and IRS' processes for addressing criminal and administrative abuse and misconduct issues. We will focus on: (1) Did senior IRS managers receive the same level of disciplinary action as line staff? (2) Did the IRS Deputy Commissioner delay action on substantiated cases of employee misconduct until senior managers were eligible to retire? (3) What preliminary information exists on other systemic or programmatic problems that might need to be resolved to protect the rights of taxpayers and employees?

CUSTOMER SERVICE

TITLE: ASSESSMENT OF IRS' TAXPAYER ADVOCATE'S OFFICE AND PROBLEM RESOLUTION PROGRAM (268825)

KEY QUESTIONS : IRS' Taxpayer Advocate's Office, partly through its Problem Resolution Program (PRP), is to (1) help taxpayers resolve problems and (2) identify systemic issues that might lead to repeated problems for taxpayers. In response to concerns about the effectiveness of the Taxpayer Advocate's Office and the PRP, the IRS restructuring bill recently passed by the House places specific demands on the Taxpayer Advocate's Office. Our objectives on this job are to determine (1) how the office and program operate within IRS, including how staffing decisions are made and how cases are identified and resolved, and (2) what measures, if any, IRS uses to determine the office and program's effectiveness, including the use of customer satisfaction measures.

TITLE: REVIEW OF IRS' INTEGRATION OF CUSTOMER SERVICE INITIATIVES INTO ITS MODERNIZATION VISION (268848)

KEY QUESTIONS : The issue of improving IRS' service to taxpayers has been the focus of attention by Congress, the Administration's National Performance Review (NPR) Task Force, and the IRS. In March 1998, the Task Force recommended over 200 IRS actions to enhance customer service. The Commissioner had already begun some of these actions and proposed a new organization for IRS with a customer service focus. The requester asked us to do an overview of the customer service program, including an assessment of how IRS will handle the NPR recommendations. In design, we will assess the criteria used to make decisions on improvements and look at selected costly improvements (i.e. telephone service and employee training) and long-range plans for improvements beyond 2000.

OTHER ISSUE AREA WORK-TAX POLICY & ADMIN

TITLE: REVIEW OF THE SPECIAL OCCUPATIONAL TAXES ON BUSINESS ENGAGED IN THE MANUFACTURE AND SALE OF ALCOHOL (268845)

KEY QUESTIONS : The Bureau of Alcohol Tobacco and Firearms (BATF) administers special occupational taxes imposed on all businesses that manufacture or sell alcohol, tobacco, or firearms. In 1990, GAO reported options to simplify these taxes and reduce the cost of collecting them. A Treasury Inspector General report in December 1996 identified noncompliance with the special tax on alcohol retailers and suggested ways to improve enforcement. In the last session, a requester submitted a bill (HR 1620) to repeal the special taxes on alcohol retailers and wholesalers. The requesters want to know (1) what are the compliance rates for manufacturers, retailers and wholesalers, (2) how does BATF enforce these taxes, and (3) what are the arguments for and against these taxes.

TITLE: IRS' ABATEMENT OF TAXES, PENALTIES AND INTEREST (268850)

KEY QUESTIONS : Each year, IRS abates billions of dollars in assessed taxes, penalties, and interest - about \$30 billion in fiscal year 1997. Congress has been concerned in recent debates that erroneous abatements can result in a loss of revenue; specific tax laws make tax compliance difficult; and erroneous assessments can result in increased taxpayer burden, i.e., corresponding with the IRS, providing additional support, and dealing with a number of different IRS functions. (1) What are the trends in the abatement of taxes, penalties, and interest from fiscal year 1995 through 1998? (2) What are the reasons for these abatements and assessments? (3) How many and what types of IRS functions are associated with these abatements and assessments?

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The following information is provided for your reference:

1. The total number of employees is 100.

2. The total number of full-time employees is 80.

3. The total number of part-time employees is 20.

4. The total number of employees who are members of the union is 60.

5. The total number of employees who are not members of the union is 40.