



December 2015

2015 TAX FILING SEASON

Deteriorating
Taxpayer Service
Underscores Need for
a Comprehensive
Strategy and Process
Efficiencies

GAO Highlights

Highlights of [GAO-16-151](#), a report to congressional requesters

Why GAO Did This Study

During tax filing season, IRS processes tax returns, issues refunds, and provides telephone, correspondence, online, and face-to-face services. GAO has reported that in recent years IRS has absorbed significant budget cuts and struggled to provide quality service. GAO was asked to report on the results of IRS's performance during the 2015 filing season. For this report, GAO assessed IRS's taxpayer service and individual income tax return processing. GAO also identified opportunities to streamline services and processes, among other issues.

GAO analyzed IRS documents and data, and observed operations at IRS processing and telephone sites. GAO compared IRS performance to prior years and its actions to federal standards for evaluating performance. GAO also interviewed IRS officials and external stakeholders, and conducted discussion groups with IRS frontline staff and managers.

What GAO Recommends

Congress should consider requiring Treasury to develop a comprehensive customer service strategy in consultation with IRS. Treasury should update its performance plan to include goals for correspondence. IRS should assess the feasibility of a control to require assistors to send out required correspondence and evaluate return processing operations to identify inefficiencies.

Treasury neither agreed nor disagreed with GAO's recommendation to update its performance plan but said it would coordinate with IRS. IRS agreed with GAO's two other recommendations.

View [GAO-16-151](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

December 2015

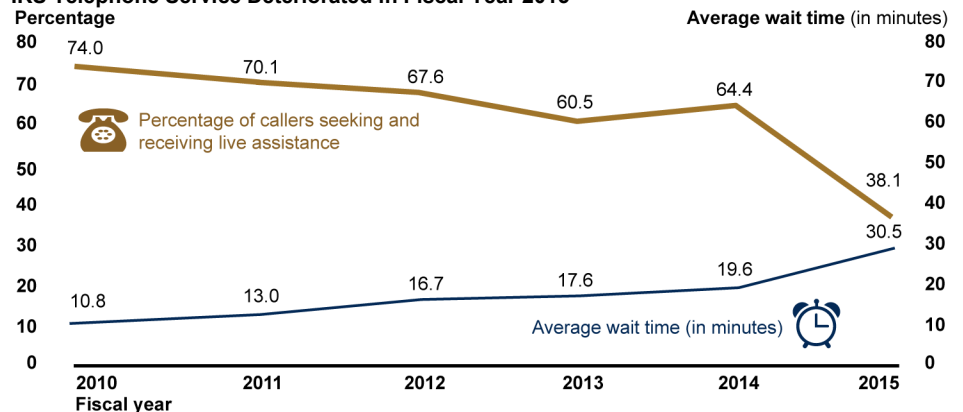
2015 TAX FILING SEASON

Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies

What GAO Found

The Internal Revenue Service (IRS) provided the lowest level of telephone service during fiscal year 2015 compared to prior years, with only 38 percent of callers who wanted to speak with an IRS assistor able to reach one. This lower level of service occurred despite lower demand from callers seeking live assistance, which has fallen by 6 percent since 2010 to about 51 million callers in 2015. Over the same period, average wait times have almost tripled to over 30 minutes. IRS also struggled to answer correspondence in a timely manner and assistors increasingly either failed to send required correspondence to taxpayers or included inaccurate information in correspondence sent. IRS has taken steps to remind assistors to send correspondence, but does not have adequate controls to ensure that they send accurate correspondence before closing cases. GAO also found that the Department of the Treasury (Treasury) does not include correspondence performance goals in its performance plan, and therefore, does not have a complete set of measures to assess performance. The decline in service has coincided with a 10 percent reduction in IRS's annual appropriations, as well as resource allocation decisions by IRS to meet statutory responsibilities, such as implementing tax law changes and supporting information technology infrastructure.

IRS Telephone Service Deteriorated in Fiscal Year 2015



Source: GAO analysis of IRS data. | GAO-16-151

More importantly, GAO found that Treasury and IRS have neither developed nor have any plans to develop a comprehensive customer service strategy to define appropriate service levels and benchmark to the best in business or customer expectations as GAO has previously recommended. Without such a strategy, Treasury and IRS can neither measure nor effectively communicate to Congress the types and levels of customer service taxpayers should expect, and the resources needed to reach those levels. Similarly, while IRS officials and stakeholders reported few problems with processing individual tax returns, GAO identified some inefficiencies related to tax processing, such as premature correspondence with taxpayers and inadequate training for frontline staff. These inefficiencies warrant further evaluation to determine if additional improvements are needed.

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Abbreviations

ACA	Affordable Care Act
CER	Centralized Evaluative Review
CONOPS	Concept of Operations
e-filed	electronically filed
FATCA	Foreign Account Tax Compliance Act
FTE	full-time equivalent
FY	fiscal year
GPRA	Government Performance and Results Act
GPRAMA	GPRA Modernization Act of 2010
IMF	Individual Master File
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	information technology
LOS	level of service
MEA	Math Error Authority
OMB	Office of Management and Budget
PPACA	Patient Protection and Affordable Care Act
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury

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December 16, 2015

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Honorable Charles Boustany
Chairman
Subcommittee on Tax Policy
Committee on Ways and Means
House of Representatives

Each tax filing season, the Internal Revenue Service (IRS) provides assistance to tens of millions of taxpayers over the phone, through written correspondence, online, and face-to-face while processing over 100 million individual taxpayer returns. The scale of these operations alone presents challenges. But, in recent years, IRS has experienced substantial budget cuts while implementing major new tax laws—such as the Patient Protection and Affordable Care Act (PPACA)¹—and combating the ongoing threat of identity theft refund fraud. Meanwhile,

¹Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). In this report, references to PPACA include all amendments made by the Health Care and Education Reconciliation Act.

IRS has struggled to provide taxpayers with access to service. Maintaining quality customer service is important because it helps taxpayers comply with the tax code. In our prior work, we reported that despite realizing efficiency gains, IRS struggled to provide taxpayers access to services, and IRS's performance would likely continue to suffer unless it made tough choices about what services to provide.² Beginning in 2012, we reported that IRS needed to dramatically revise its service strategy to reverse declining performance trends. Consistent with our findings, IRS launched service initiatives in fiscal years 2014 and 2015 that reduced or eliminated service in certain areas, with IRS redirecting resources last year toward responding to inquiries into taxpayers' accounts and addressing issues that only IRS could resolve.

You asked us to report on the results of IRS's performance during the 2015 filing season. Our objectives were to (1) assess how well IRS provided customer service compared to its performance in prior years and identify opportunities for IRS to streamline services, (2) assess how well IRS processed individual income tax returns compared to its performance in prior years and identify opportunities for IRS to streamline processing, and (3) determine what resources IRS realized from implementing service initiatives and describe IRS's progress toward implementing our prior filing season-related recommendations.

To conduct this work, we (1) obtained and analyzed IRS documents and data for fiscal years 2010 through 2015; (2) visited IRS facilities in Atlanta and Austin; (3) interviewed Department of the Treasury (Treasury) and IRS officials and external stakeholders, such as representatives from the tax preparation industry; (4) conducted discussion groups with IRS frontline staff and managers; and (5) obtained information from IRS officials and reviewed relevant documentation that describes IRS's actions to implement our prior recommendations.³ We identified federal

²GAO, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, [GAO-14-133](#) (Washington, D.C.: Dec. 18, 2013), and *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).

³While our objectives focus on the 2015 filing season, which generally takes place from January through mid-April, we report IRS data for the entire fiscal year, unless otherwise indicated. IRS continues customer service and processing operations year round on a smaller scale than during the filing season.

standards for evaluating performance, such as the Government Performance and Results Act (GPRA) Modernization Act and executive orders, presidential memorandums, and Office of Management and Budget (OMB) guidance to strengthen customer service, and compared Treasury and IRS actions to those standards. We assessed the reliability of the data we report by reviewing related documentation and conducting interviews with knowledgeable agency officials. We consider the data presented in this report to be sufficiently reliable for our purposes. More information on our scope and methodology can be found in appendix I.

We conducted this performance audit from January 2015 to December 2015 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.

Background

Taxpayer Services and Tax Return Process

IRS uses multiple channels to provide customer service to taxpayers and process tax returns:

Telephone service for tax law and account questions: Taxpayers can speak with IRS staff to obtain information about their accounts throughout the year or to ask basic tax law questions during the filing season. Taxpayers can also listen to recorded tax information or use automated services to obtain information on the status of refund processing as well as account information such as balances due. Taxpayer access to telephone assistance has declined for the past several years, and we have made recommendations for IRS to improve its performance. For example, in 2010, we recommended that IRS determine a customer service telephone standard based on the quality of service provided by comparable organizations and what matters most to the customer, and resources required to achieve this standard.⁴ In 2014, we again reported

⁴GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

that IRS was missing an opportunity to improve its customer service by not systematically comparing its telephone service to the best in business in order to inform Congress about gaps in actual and desired service and resources needed to improve the level of service provided to taxpayers.⁵

Correspondence: Taxpayers may also use paper correspondence to communicate with IRS, which includes responding to IRS requests for information or data, providing additional information, or disputing a notice. Assistors in IRS's Accounts Management office respond to taxpayer inquiries on a variety of tax law and procedural questions, and handle complex account adjustments such as amended returns and duplicate filings.⁶ IRS tries to respond to paper correspondence within 45 days of receipt; otherwise, such correspondence is considered "overage." Minimizing overage correspondence is important because delayed responses may prompt taxpayers to write again, call, or visit walk-in sites, and IRS would be required to pay interest on refunds owed to taxpayers if it did not process amended returns within 45 days.

Online services: IRS's website is a low-cost method for providing taxpayers with basic interactive tools to, for example, check refund status, make payments, and apply for plans to pay taxes due in scheduled payments (installment agreements). Taxpayers can use the website to print forms, publications, and instructions, and can use IRS's Interactive Tax Assistant application to get answers to tax law questions without calling or writing to IRS.

Face-to-face assistance: Face-to-face assistance remains an important part of IRS's service efforts, particularly for low-income taxpayers. Taxpayers can receive face-to-face assistance at IRS's walk-in sites or at thousands of sites staffed by volunteer partners. At walk-in sites, IRS staff provide services including answering basic tax law questions, reviewing and adjusting taxpayer accounts, taking payments, authenticating Individual Taxpayer Identification Number applicants, and assisting

⁵GAO, *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).

⁶For the purposes of this report, we define correspondence as any adjustments worked by Accounts Management, including written communications or amended returns received from taxpayers or generated internally within IRS.

identity theft victims. At sites staffed by volunteers, taxpayers can receive free return preparation assistance as well as financial literacy information.

Tax return processing: IRS processes millions of paper and electronically filed (e-filed) returns and issues billions of dollars in refunds each year.⁷ A key step in the process is identifying and correcting millions of errors that taxpayers make on their returns or that occur during processing. IRS expends significant resources correcting errors and the process can affect how long it takes IRS to issue refunds.

Budget and Service Changes

IRS's annual appropriations declined from a high of \$12.1 billion in fiscal year 2010 to \$10.9 billion in fiscal year 2015, a reduction of about 10 percent. In our prior work, we reported that despite regularly realizing efficiency gains, IRS was struggling to provide taxpayers access to services, and IRS's performance would likely continue to suffer unless it made tough choices about what services to provide.⁸ For fiscal years 2014 and 2015, IRS implemented service initiatives that included reducing or eliminating certain telephone and walk-in services, and redirecting taxpayers toward other service channels such as IRS's website. See appendix II for more details on these service initiatives.

Tax Law Changes

A major challenge for IRS is responding quickly, accurately, and effectively to tax law changes, some of which can be extensive. For example, IRS has been preparing to implement provisions of PPACA for several years and carrying out these provisions has been a significant undertaking. The 2015 filing season was the first that taxpayers were required to report health care coverage information on their tax returns. IRS began processing these returns in January 2015. Individuals could purchase health insurance through state or federally-facilitated

⁷Most taxpayers file their tax returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing until as late as October 15.

⁸[GAO-14-133](#) and [GAO-13-156](#).

marketplaces,⁹ and some of those who did so were eligible for the premium tax credit (PTC), an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance.¹⁰ Taxpayers can have the PTC paid in advance to their insurance company, and those who do so must reconcile the amount of advance PTC received with the PTC they are eligible for based on their actual income reported on their tax return.

IRS's Customer Service Continued to Decline in 2015 and IRS Has Not Developed a Comprehensive Service Strategy

IRS Reduced Resources for Answering Telephones and Correspondence in 2015 in Order to Meet Other Responsibilities

Overall, as mentioned above, annual fiscal year 2015 appropriations were reduced by 10 percent compared to fiscal year 2010 (from \$12.1 billion to \$10.9 billion), with appropriations for taxpayer services remaining level with the previous year. However, resources allocated by IRS to taxpayer services decreased in fiscal year 2015 from about \$2.4 billion to \$2.3 billion (or about 4.7 percent). IRS has statutory authority to supplement its annual appropriations with user fee receipts from various services it

⁹PPACA required the establishment in all states of health insurance exchanges—marketplaces where eligible individuals may compare and select among insurance plans offered by participating private issuers of health coverage. Pub. L. No. 111-148, § 1311(b), 124 Stat. at 173. For states that elected not to establish a marketplace, PPACA required the federal government to establish and operate a federal marketplace, referred to as the Federally-facilitated Marketplace. The Department of Health and Human Services' Centers for Medicare & Medicaid Services is responsible for overseeing the establishment of State-based Marketplaces and maintains the Federally-facilitated Marketplace. Pub. L. No. 111-148, § 1321(c), 124 Stat. at 186.

¹⁰See, 26 U.S.C. § 36B.

provides.¹¹ IRS allocated approximately \$45 million of user fee receipts to taxpayer services—about 76 percent less than the \$183 million it allocated to taxpayer services in fiscal year 2014. See appendix III for details on IRS resource allocation for taxpayer services.

IRS allocated most user fee receipts in fiscal year 2015 to fund information technology (IT) investments to implement PPACA requirements and other services, and support for mainframes and servers, which can help IRS better respond to taxpayers in the future. IRS officials also said they shifted user fee funds to combat identity theft-related refund fraud, strengthen cybersecurity, and implement tax provisions from other recently enacted legislation such as the Foreign Account Tax Compliance Act (FATCA).¹²

As a result of these trends, IRS reduced staff answering both telephones and correspondence by about 9 percent (from about 12,500 to 11,400 full-time equivalents (FTE)) between fiscal years 2014 and 2015 (see figure 1).¹³ Moreover, IRS eliminated most overtime for IRS assistors until after the end of the filing season, resulting in fewer total hours worked by assistors to answer telephones and correspondence. Early in the 2015 filing season, IRS officials said they devoted a higher percentage of assistor FTEs to answering correspondence than telephones to prevent a

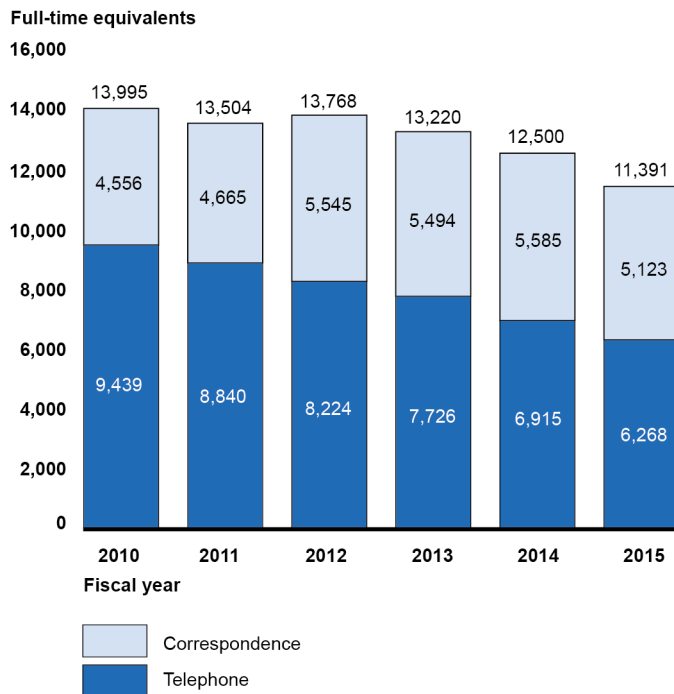
¹¹For fiscal year 1995 and thereafter, IRS was granted authority to retain new or increased fee receipts to supplement its annual appropriation. Pub. L. No. 103-329, title I, § 3, 108 Stat. 2382 (Sept. 30, 1994), as amended by Pub. L. No. 109-115, div. A, title II, § 209, 119 Stat. 2396 (Nov. 30, 2005). IRS retains only those user fees that were implemented after September 30, 1994, or the portion of the fee that has been increased since September 30, 1994, for those fees that were in effect prior to that date. For example, fees for installment agreements were established after September 30, 1994, and therefore IRS retains the full amount of the fee collected. However, the fee for enrolling as an actuary is divided between IRS and the General Fund of the Treasury because this user fee existed when the grant of authority to retain certain user fees under Pub. L. No. 103-329 was enacted. For more information on user fees, see GAO, *IRS 2016 Budget: IRS is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts*, [GAO-15-624](#) (Washington, D.C.: June 24, 2015); and *User Fees: Additional Guidance and Documentation Could Further Strengthen IRS's Biennial Review of Fees*, [GAO-12-193](#) (Washington, D.C.: Nov. 22, 2011).

¹²FATCA is found in the Hiring Incentives to Restore Employment Act, Pub. L. No. 111-147, Title V, 124 Stat. 71, 97-117 (Mar. 18, 2010).

¹³FTEs 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 2015, there were 2,088 compensable hours.

growing inventory of correspondence that they estimated could have taken over a year to work through if they did not take this action. IRS's action in fiscal year 2015 continues a trend of shifting more assistors to answering correspondence; the percentage of FTEs used for working correspondence cases increased from 32.6 to 45 percent between fiscal years 2010 and 2015.

Figure 1: IRS Devoted Fewer Total Full-Time Equivalents to Answering Telephones and Correspondence between Fiscal Years 2010 and 2015



Source: GAO analysis of IRS data. | GAO-16-151

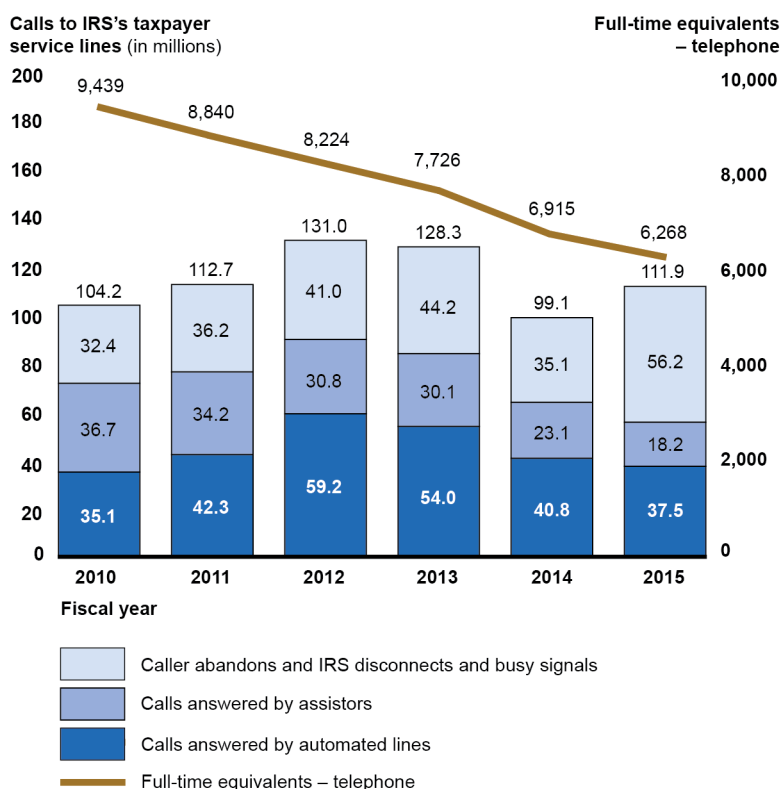
Note: Numbers may not sum to totals due to rounding.

IRS Provided Taxpayers with Poor Telephone Service and Encountered Difficulties in Answering Correspondence and Providing Other Assistance

Telephone: A reduction of about 34 percent in the number of assistors answering telephone calls between fiscal years 2010 and 2015 contributed to the lowest level of telephone service in fiscal year 2015 compared to recent years. The number of calls from customers seeking to speak to an assistor decreased about 6 percent (from about 54.3 million to 51.1 million) between fiscal years 2010 and 2015. However, as figure 2 illustrates, IRS answered about 50 percent fewer calls from taxpayers seeking an assistor (from about 36.7 million to about 18.2 million) during

the same period, while about 73 percent more calls were abandoned, disconnected by IRS, or met with a busy signal (from about 32.4 million to 56.2 million).¹⁴

Figure 2: Since Fiscal Year 2010, Calls Answered by Assistors Have Fallen Each Year, While Calls Abandoned, IRS Disconnects, and Busy Signals Substantially Increased



Source: GAO analysis of IRS data. | GAO-16-151

Notes: Data include full-time equivalents answering telephone calls concerning the Taxpayer Protection Program. Data on telephone calls do not include calls concerning the Taxpayer Protection Program. Numbers may not sum to totals due to rounding.

Calls answered by assistors also took longer to complete with average times of about 13.4 minutes, which is about 2 minutes more (a 13 percent

¹⁴Abandoned calls are those calls where the taxpayer hangs up before receiving assistance, and busies are those calls where the taxpayer receives a busy signal.

increase) compared to fiscal year 2010.¹⁵ While the increase in the length of a call was small, in total IRS spent more than 476,000 additional hours on telephone calls than it would have with average times from fiscal year 2010. According to IRS officials, IRS assistors are handling calls that are more complex to resolve—including calls pertaining to PPACA and identity theft—while IRS is diverting calls with less complex inquiries to self-service options. IRS officials also noted that assistors are taking additional time on the calls to explain self-service options to taxpayers, while taxpayers can spend up to 15 seconds discussing issues with wait times or disconnected calls, thus driving up time needed to complete calls. To reduce call lengths, IRS officials said they are taking steps to expand the authority of assistors to abate penalties rather than taking time to request documentation from callers. These officials also said they are studying the reduction or elimination of assistor-answered calls on tax law questions. They are considering deploying subject-matter experts to help assistors become more efficient and resolve issues from callers more quickly.

IRS answered about 7 percent more calls using automated assistance (from 35.1 million to 37.5 million) between fiscal years 2010 and 2015. Answering as many calls as possible through automation is a significant efficiency gain because IRS estimates that in 2015 it cost an average of 51 cents per call to provide an automated answer compared to an average of about \$55 per call with a live assistor, which was about an 85 percent increase from 2010.¹⁶ IRS implemented service changes in fiscal year 2015 to drive demand for customer service from the telephone to IRS's website, such as directing taxpayers who met Online Payment Agreement qualifications to apply for and set up installment payments online instead of calling or visiting IRS. See appendix II for more details on service changes launched in fiscal year 2015.

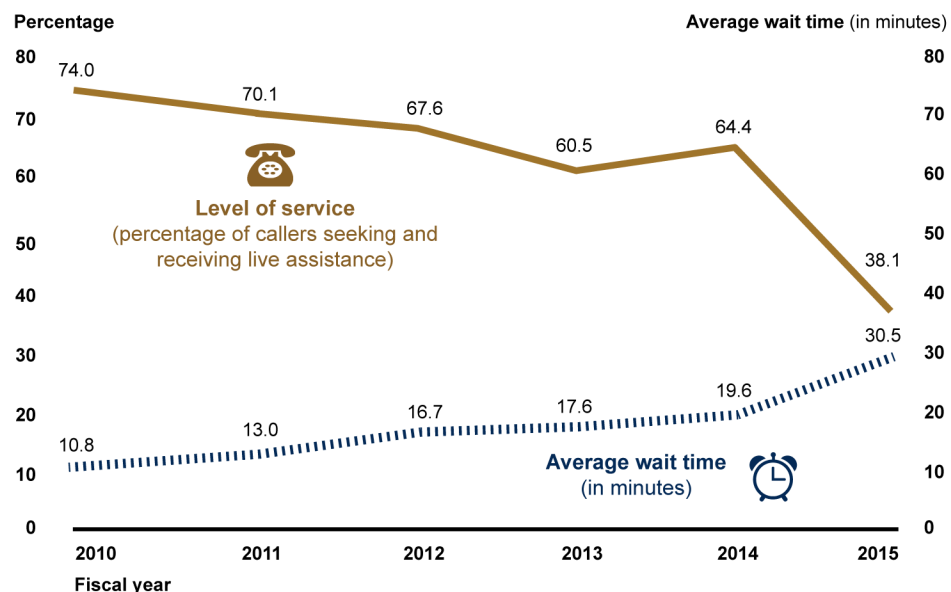
Figure 3 shows that a key indicator of taxpayer service, the level of service (LOS)—defined as the percentage of people who want to speak

¹⁵IRS measures the length of telephone calls using the average time an assistor spends talking with a taxpayer, keeping the taxpayer on hold, and finishing the call and indicating readiness to receive another call. Numbers are rounded to the nearest 1/10 of 1 minute.

¹⁶IRS used the period of January 1 through June 30 to calculate costs of calls answered using automated lines. IRS also used the period of October 1 through June 30 for calculating costs of calls answered by assistors, which has been reported in the past and represents the cost per call for the filing season.

with an IRS assistor who were able to reach one—declined to about 38 percent in fiscal year 2015. While the IRS Commissioner characterized this as “abysmal” service, it was in line with IRS’s projected LOS for fiscal year 2015 and a decrease from last year when LOS was about 64 percent. IRS also experienced declines in LOS on many telephone lines used to answer questions on taxpayer accounts, including those for responding to identity theft inquiries and calls from tax practitioners (see appendix IV for more details). Additionally, average wait times have almost tripled from about 11 minutes to more than 30 minutes since fiscal year 2010.

Figure 3: IRS’s Telephone Level of Service Has Substantially Declined While Average Wait Times Have Almost Tripled since Fiscal Year 2010



Source: GAO analysis of IRS data. | GAO-16-151

In spite of these challenges, the quality of telephone service provided by IRS has remained consistently high since fiscal year 2010 with assistors providing an accuracy rate of higher than 90 percent in answering both account and tax law questions.

Correspondence: Figure 4 shows that the amount of correspondence Accounts Management received and closed (or completed) slightly decreased between fiscal years 2010 and 2015. During the same period, the average time needed to close cases once they were assigned to an assistor increased from about 35 to 47 days. However, this time has

decreased from its peak of 67.4 days in fiscal year 2013. According to IRS officials, IRS implemented a new approach to managing inventory in 2014. This approach reduced the overall time needed to close cases by balancing work between new correspondence receipts that are quick to complete and overaged cases.

Figure 4: IRS Correspondence Volumes Remained Steady since Fiscal Year 2010, While Average Time Needed to Complete Correspondence Cases Sharply Declined since Fiscal Year 2013



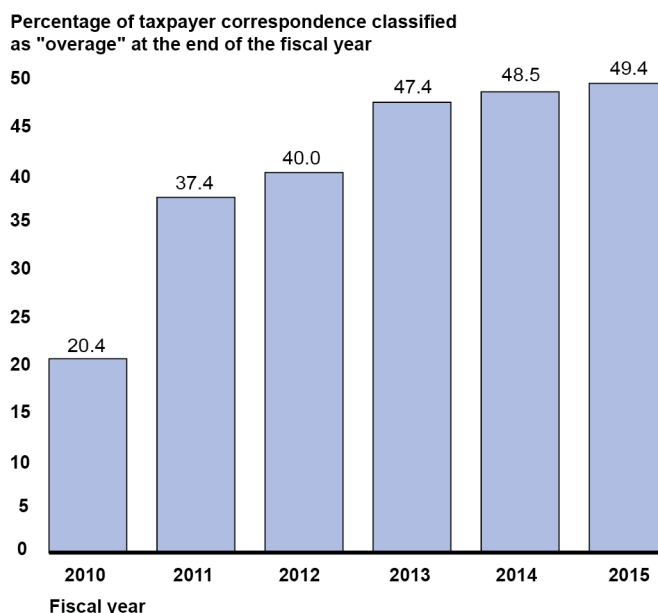
Source: GAO analysis of IRS data. | GAO-16-151

Notes: Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source, and reflect all correspondence cases received from taxpayers and scanned into IRS's Correspondence Imaging System.

As shown in figure 5, the percentage of correspondence cases in IRS's inventory classified as "overage"—cases generally not processed within 45 days of receipt by IRS—has stayed close to 50 percent since fiscal

year 2013.¹⁷ However, this is more than double fiscal year 2010's overage rate. IRS officials stated that ongoing efforts to consolidate correspondence scanning from 10 to 5 sites contributed to higher overage rates in fiscal year 2015 compared to prior years. An increasing overage rate could lead to increased interest paid to taxpayers who are owed refunds.

Figure 5: Correspondence Overage Rates More Than Doubled Between Fiscal Years 2010 and 2015



Source: GAO analysis of IRS data. | GAO-16-151

Notes: Correspondence that IRS identifies as "overage" ranges from 30 to 180 days in IRS's adjustments inventory depending on the type of work performed by assistors. Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source, and reflect all correspondence cases received from taxpayers and scanned into IRS's Correspondence Imaging System.

¹⁷IRS can classify correspondence in its inventory as "overage" from 30 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.

The composition of correspondence cases received by IRS since fiscal year 2010 has been changing, with a higher number of cases involving identity theft and fewer cases involving amended returns and duplicate filings (see appendix V for additional details). Despite these changes, IRS reported that it maintained a high degree of accuracy when closing them. In fiscal year 2015, IRS found that assistors correctly answered and provided appropriate resolutions to correspondence cases about 89 percent of the time, which is comparable to customer accuracy scores in prior years. During the same period, IRS assistors also maintained scores of well above 90 percent for adhering to statutory, regulatory, and other process requirements when making determinations on taxpayer accounts.¹⁸

Online: IRS has taken steps in recent years to increase online services to help reduce calls and written correspondence from taxpayers, but encountered security issues in 2015. For example, IRS's Get Transcript application allowed taxpayers to obtain a viewable and printable transcript on IRS's website. Use of this application increased about 49 percent (from about 19 million to 28 million) between fiscal years 2014 and 2015. However, IRS took the Get Transcript self-service web application offline on May 21, 2015, because of significant security problems. In June 2015, the IRS Commissioner testified that unauthorized third parties had gained access to taxpayer information from the application. According to officials, criminals used taxpayer-specific data such as Social Security information, dates of birth, and street addresses acquired from non-IRS sources to gain unauthorized access to information on approximately 100,000 tax accounts. In August 2015, IRS updated this number to about 114,000, and reported that an additional 220,000 accounts had been inappropriately accessed, bringing the total to about 330,000 accounts. IRS sent letters to affected taxpayers and offered them free credit protection and Identity Protection Personal Identification Numbers. As of November 2015, IRS officials said they were working with subject matter experts to identify and review various authentication options for the Get Transcript application and may have a new authentication process in

¹⁸These include data from managerial reviews entered in IRS's Embedded Quality Review System.

place for relaunching the application in spring 2016. Taxpayers still have several options to request a transcript.¹⁹

In spite of these challenges, IRS officials said they are developing an online account access feature so taxpayers can view balance due, make a payment, view payment status and history, and view account transcripts. In 2015, IRS began development of an online account application that will enable taxpayers to view their balance due. IRS is aiming to make the online account access feature available to the public in 2016.²⁰

In January 2015, we reported that IRS created a group aimed at centralizing several prior ad-hoc efforts to authenticate taxpayers across its systems, but did not have a plan to assess costs, benefits, and risks to inform decisions about whether and how much to invest in various options to enhance authentication.²¹ We recommended that IRS estimate and document such costs, benefits, and risks. IRS agreed with this recommendation, but as of October 2015, had yet to implement it. We also found that IRS's taxpayer authentication tools have limitations.²² For example, identity thieves can easily find the information needed to falsely obtain an e-file personal identification number, allowing them to bypass some, if not all, of IRS's current automatic checks. Moreover, a small number of taxpayers receive Identity Protection Personal Identification Numbers or undergo knowledge-based authentication, which uses

¹⁹These options include (1) calling IRS's toll-free line and speaking to an assistor, or using the interactive voice response unit to request a mailed copy of the transcript; (2) visiting a walk-in site and speak with an assistor to request the transcript to be printed on the spot; (3) completing and mailing or faxing paper Form 4506-T to request a transcript be mailed; or (4) using the "Order a Transcript" web tool on IRS.gov to request a transcript be mailed.

²⁰The Treasury Inspector General for Tax Administration reported in May 2015 that IRS needs to prioritize the completion of key information technology projects to help provide taxpayers with online access capabilities and reprioritize Service on Demand projects to align with the IRS Commissioner's long-term vision for modernizing taxpayer service. For more details, see Treasury Inspector General for Tax Administration, *Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects*, 2015-40-053 (Washington, D.C.: May 29, 2015).

²¹GAO, *Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks and Estimate of Costs, Benefits and Risks*. [GAO-15-119](#) (Washington, D.C.: Jan. 20, 2015).

²²[GAO-15-119](#).

questions about personal information that only the taxpayer should know to confirm taxpayers' identities.

Authenticating a taxpayer online is one of several key steps needed for IRS to enhance online services. In December 2011, we recommended that IRS complete a strategy for providing online services, and further expanded on that recommendation in April 2013.²³ IRS agreed with those recommendations and, in response, is developing a long-term strategy, known as Service on Demand, in part to improve online services. In September 2015, we reviewed IRS's Service on Demand strategy and found that it implemented part of our April 2013 recommendation to link investments in security to its long-term strategy for improving web services.²⁴ Specifically, we found that IRS incorporated investments in security for enhanced web services, including for authentication capabilities and taxpayer communication channels. This plan should help to ensure that activities, core processes, and resources are aligned to support the mission of providing better service to taxpayers and delivering service more efficiently.

While IRS experienced security problems with Get Transcript, it continued to build on progress in directing more taxpayers to other online resources. IRS's website received approximately 493 million visits in fiscal year 2015, which is about a 13 percent increase from the prior year. Use of self-service tools, such as the Online Payment Agreement and Interactive Tax Assistant applications, experienced substantial increases during the same period. See appendix VI for additional information on uses of IRS's website.

Walk-in and volunteer sites: As a result of budget cuts, IRS officials said IRS reduced staff devoted to face-to-face assistance at walk-in sites and directed customers to self-service options. IRS reduced staff at walk-in sites by about 4 percent in fiscal year 2015 compared to the previous year (from 1,938 to 1,867 FTEs). However, the percentage of customers at walk-in sites waiting for longer than 30 minutes for service increased by

²³GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013) and *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).

²⁴[GAO-13-435](#).

7 percentage points in fiscal year 2015 (from about 25 to 32 percent) during the same period. IRS officials said that the FTE reductions were the largest factor in the increase in wait time, but IRS staff must handle tasks that require more time to complete as taxpayers move to self-service channels for simple tasks. IRS officials said they are taking steps to better serve taxpayers with limited resources by testing appointment scheduling at 44 walk-in sites. They determined that availability of appointments significantly improved service availability, with fewer customers at participating sites waiting more than 30 minutes for service. Additionally, IRS made other service changes in fiscal year 2015 by providing fewer forms, instructions, and publications at walk-in sites and encouraging taxpayers to get them online instead. IRS also increased promotion of electronic payment options, such as IRS's Direct Pay application and Facilitated Self Assistance kiosks. To promote these options, IRS updated forms, publications, and outreach materials on its website; IRS officials also said they used automated messages on the telephone, signs at walk-in sites, social media posts, and added information in notices sent to taxpayers. Consequently, total contacts at walk-in sites for forms and payments in fiscal year 2015 decreased by 32.3 and 10.3 percent, respectively, compared to the previous year. See appendix II for a full list of fiscal year 2015 service initiatives.

At the 12,057 partner sites staffed by volunteers in fiscal year 2015, taxpayers could receive return preparation assistance as well as financial literacy information. These sites prepared about 3.8 million tax returns in fiscal year 2015—a 3 percent increase from the previous year. See appendix VII for additional information on taxpayer use of walk-in and volunteer site services.

IRS Streamlined Its Processes for Handling Taxpayer Correspondence and Is Working to Implement a New Quality Review Process

IRS routes each piece of correspondence through several steps before it reaches an assistor. To make the process more efficient, IRS officials said that teams within the Wage and Investment division—which oversees both Accounts Management and Submission Processing—have been working to identify opportunities to improve IRS's performance in working and closing correspondence cases. According to IRS officials we interviewed at Wage and Investment headquarters and Accounts Management campuses, they formed individual teams to make correspondence handling more accurate and timely, and have

- coordinated reviews with IRS campuses to ensure that IRS staff scanning correspondence into IRS's systems code them correctly so

they are routed to the appropriate assistor;

- reviewed IRS's efforts to consolidate scanning of correspondence from 10 sites to 5, and identified opportunities to standardize work processes and use resources more flexibly to address correspondence backlogs;
- identified significant differences in the procedures used at various campuses when screening correspondence before scanning it into IRS's systems and are working to standardize such processes; and
- helped IRS fully implement its new inventory process across all Accounts Management campuses by June 2014 and measure results of the transition. As a result, average times for closing correspondence cases once they reached an assistor have declined since fiscal year 2013. IRS believes the new process will help it reduce unnecessary follow-up contacts with taxpayers and manage correspondence inventory in a strategic and logical manner.

IRS's launching of its Get Transcript tool—one of the service initiatives IRS implemented in fiscal year 2014—helped to drive down correspondence.²⁵ Specifically, the number of transcripts sent to taxpayers via postal mail decreased about 50 percent (from about 3.3 million to 1.7 million) between fiscal years 2013 and 2014.

In February 2015, Accounts Management began a pilot to improve the consistency and quality of reviews of correspondence and telephone work at selected campuses. Under the pilot, called the Centralized Evaluative Review (CER), a centralized team of technical reviewers perform monthly reviews of assistors' work, instead of the assistors' immediate supervisors. IRS believes CER will standardize reviews for assistors, improve the rebuttal process for both assistors and supervisors, and provide more opportunities for staff to receive one-on-one mentoring from their supervisors.

We conducted discussion groups with 17 Accounts Management managers overseeing assistors at four sites, including two sites participating in the CER pilot (see appendix I for a detailed methodology

²⁵See appendix II for more information on service initiatives IRS implemented in fiscal year 2014.

of how we conducted discussion groups with assistors and managers). Front-line managers at the pilot sites told us the CER pilot shows promise. Most (seven of nine) of the managers we spoke with at the two campuses piloting CER said it was beneficial for a centralized group to perform reviews rather than frontline supervisors. IRS is taking steps toward implementing CER across all Accounts Management sites, such as drafting an implementation document for CER that IRS officials intend to update and use for nationwide implementation of CER once IRS reaches an agreement with the union representing assistors nationwide. As of November 2015, IRS is negotiating with the union. However, even if IRS and the union ratify an agreement before the end of this year, IRS officials expect to wait until after the 2016 filing season to expand CER to other Accounts Management sites because of the difficulties in implementing new projects during the filing season.

IRS Does Not Have Adequate Controls to Ensure Assistors Consistently Send Accurate Correspondence to Taxpayers

Since fiscal year 2010, IRS assistors achieved customer accuracy scores of 85 percent or higher when working correspondence cases. However, they have made increasing numbers of errors in either not sending required correspondence to taxpayers after closing a case, or sending inaccurate information in that correspondence.²⁶ The number of these errors increased almost 200 percent from 1,165 to 3,377 errors found in correspondence cases sampled by IRS between fiscal years 2010 and 2015.²⁷ According to IRS officials, an analysis of these errors showed that in fiscal year 2015, more than a third of these errors originated from incorrect dates, amounts due, and other information, while another 20 percent originated from assistors failing to issue correspondence to taxpayers.

Managers in our discussion groups concurred that IRS faced problems in sending out accurate correspondence to taxpayers. About half (eight of 17) of the managers in our discussion groups said that a common issue was that assistors did not send required correspondence at all. In addition, seven of the 17 managers said assistors incorporated incorrect

²⁶IRS considers it an error if an assistor does not send correspondence when required to do so per the Internal Revenue Manual (IRM), IRS's primary, official source of instructions to staff.

²⁷These include errors identified through managerial quality reviews of assistors' work in IRS's Embedded Quality Review System.

information into correspondence to taxpayers. Failure to send correspondence, or providing inaccurate information to taxpayers, may spur taxpayers to write again to IRS about the same problem or call or visit IRS, requiring additional time and resources to resolve cases by both taxpayers and IRS.

IRS officials confirmed that assistors' failure to send required correspondence to taxpayers was one of the most common errors made by assistors in recent years, likely stemming from a lack of attention because assistors work too quickly to get through cases and do not remember to send correspondence. In response, Accounts Management took steps to enhance training and remind assistors of requirements for sending outgoing correspondence with accurate and complete information. For instance, in May 2014, Accounts Management developed and distributed a job aid for providing quality and timely responses to taxpayers and provided refresher training on outgoing correspondence at some sites during fiscal year 2014 training. In 2015, Accounts Management launched a communication campaign with flyers and other visual and verbal reminders for assistors to send required correspondence. Officials said they experienced reductions in errors after the campaign, though as time passed such errors gradually increased. In addition, IRS provided recommendations to Accounts Management sites for targeting defects in outgoing correspondence. IRS officials said they provided biweekly workshops where subject matter experts answered questions and assistors shared lessons learned. Officials also said they required assistors to use a checklist to confirm completion of every step of the correspondence adjustments process including sending out required correspondence if necessary. They said that at least one IRS automated tool prompts assistors to send correspondence based on actions taken on a correspondence case. Additionally, managers have discretion to conduct 100 percent reviews of correspondence cases after they are completed to ensure that assistors send required correspondence.

IRS's Internal Revenue Manual (IRM) states that correspondence soliciting additional information or responding to inquiries must be timely, accurate, and professional, and address all issues based on information provided by taxpayers. A quality response must also request additional information as needed from the taxpayer and is written in language that the taxpayer can understand. According to the IRM, responses to taxpayers are "timely" if initiated within 30 days of the date IRS received the inquiry. Such responses may include interim letters explaining when a taxpayer can expect a final resolution on a case or a final response

describing action taken by IRS to resolve the case. As previously noted, IRS generally classifies correspondence cases not processed within 45 days as “overage.” In addition, internal control standards state that agency management should design appropriate types of control activities—such as policies, procedures, techniques, and mechanisms—to achieve its stated objectives.²⁸

Accounts Management officials acknowledged they do not have adequate controls in IRS’s systems to ensure assistors send out accurate and complete correspondence to taxpayers when required before closing cases. In fact, while IRS has implemented policies, procedures, and mechanisms to help assistors send required correspondence with accurate and complete information, such steps have not been sufficient in helping IRS achieve its objective; between fiscal years 2014 and 2015, the number of errors linked to outgoing correspondence rose about 29 percent (from 2,614 to 3,377), adding to the increasing number of errors taking place since fiscal year 2010. IRS has not formally assessed the feasibility of setting up such controls, but Accounts Management officials noted it would be costly and difficult to build into IRS’s systems and not all correspondence inventories require letters sent to taxpayers. Without reviewing the feasibility of setting up adequate controls for consistently sending accurate correspondence to taxpayers, IRS is missing an opportunity to reduce errors in providing accurate and timely responses to taxpayers and sufficiently address their issues.

²⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Treasury and IRS Have Not Developed a Comprehensive Customer Service Strategy with Measurable Performance Targets

Both Congress and the executive branch have taken steps to improve customer service. The GPRAMA Modernization Act of 2010 (GPRAMA) requires agencies to, among other things, establish a balanced set of performance indicators to measure progress toward each performance goal, including, as appropriate, customer service.²⁹ Similarly, several executive orders, presidential memorandums, and OMB guidance require agencies to take steps to strengthen customer service and describe a number of actions agencies can take to improve their customer service. In our previous reports on the IRS filing season, we have described these requirements at length and emphasized how important it is for IRS to take those actions to ensure taxpayers are receiving quality customer service. Additional background on executive orders and other guidance is provided in appendix VIII.

In response to GPRAMA, executive orders, and other policies, Treasury and IRS have taken steps to define customer service targets and align them to Treasury's and IRS's strategic and performance plans. For example, Treasury

- incorporated strategic goals and objectives into its fiscal year 2014-2017 strategic plan for fairly and effectively reforming and modernizing federal tax systems, and improving efficiency, effectiveness, and customer interaction, and outlined strategies to achieve them;³⁰
- established performance measures linked to the strategic goals outlined above, such as telephone level of service, taxpayer self-assistance rate, and percentage of individual returns processed

²⁹The Government Performance and Results Act (GPRA), intended, among other things, to "improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction." The GPRA Modernization Act of 2010 (GPRAMA), which significantly enhanced GPRA, requires agencies to, among other things, develop annual performance plans that include performance goals for an agency's program activities and accompanying performance measures. GPRAMA, Pub. L. No. 111-352, § 3, 124 Stat. 3866 (Jan. 4, 2011), 31 U.S.C. § 1115(b)(6). GPRA, Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

³⁰Examples of strategies for achieving these goals and related objectives include providing taxpayers with targeted, timely guidance and outreach; incorporating taxpayer perspectives to improve all service interactions; coordinating customer service efforts to better respond to requests and improve communication with customers; and increasing digital options to improve service timeliness and accessibility.

electronically; and

- established an agency priority goal to increase self-service options for taxpayers, which complements OMB's cross-agency priority goal to improve customer service in part through utilizing technology.³¹

Also, IRS

- incorporated a goal of delivering high-quality and timely service in its fiscal year 2014-2017 strategic plan, along with strategic objectives, such as tailoring service approaches to taxpayers to facilitate voluntary compliance and providing timely service to taxpayers through multiple channels, and strategies to achieve them;³²
- listed performance measures in its congressional justification that are linked to Treasury's performance plan, including telephone level of service, taxpayer self-assistance rate, accuracy rates for responses provided to callers and percentage of individual returns processed electronically; and
- used its strategic plan, Taxpayer Assistance Blueprint, and other key documents to develop its joint Small Business/Self-Employed Division and Wage and Investment Concept of Operations (CONOPS) to outline its vision for the future of taxpayer services. CONOPS also includes high-level direction, specific initiatives, and work areas that are intended to drive the achievement of its vision.

However, Treasury and IRS's efforts fall short in several important areas:

³¹According to Treasury, IRS would achieve the goal by introducing self-service and electronic-service taxpayer options to enable taxpayers to securely authenticate, view account status, view and print tax records online, pay outstanding debts, enter into installment agreements, get tax law information, and easily access all parts of IRS.gov. In March 2014, OMB established a Cross-Agency Priority goal to improve customer service to keep pace with the public's expectations. This would involve efforts by the federal government to transform customer services by streamlining transactions, developing standards for high-impact services, and utilizing technology to improve the customer experience.

³²Examples of strategies for achieving high-quality and timely service, and related objectives, include accurately forecasting demand and plan for services that will address taxpayer needs in the most timely and efficient manner, and expanding the availability of digital interaction and accessibility of digital channels to improve taxpayer interactions.

Treasury does not list correspondence coverage rates in its performance plan. Handling correspondence is expensive; IRS estimated that it cost about \$818.7 million from October 1, 2014 through June 30, 2015. In response to our December 2010 recommendation, IRS started using a correspondence coverage rate beginning in fiscal year 2011 to measure its timeliness in handling correspondence.³³ However, Treasury does not include correspondence coverage rates as a performance measure in its performance plan or annual financial report, inhibiting its efforts to create a complete set of customer service performance metrics for IRS. Further, Congress and other stakeholders—such as the Treasury Inspector General for Tax Administration (TIGTA) and the National Taxpayer Advocate—do not have information readily available to monitor IRS's performance in handling correspondence from taxpayers.

IRS has not yet developed a comprehensive customer service strategy incorporating appropriate levels of taxpayer services. In December 2012, we recommended that IRS outline a strategy that lists specific steps needed to attain appropriate levels of telephone and correspondence service based on an assessment of time frames, demand, capabilities, and resources.³⁴ IRS intended the joint CONOPS, which was released in July 2014, to illustrate how it wants to deliver taxpayer services moving forward. The joint CONOPS articulates compliance activities and services IRS believes are achievable within a 5-year period. It identifies 30 critical capabilities for IRS to strengthen or develop, such as inventory planning, case management, and digital account management. It also defined initiatives and work areas to help IRS achieve its vision, such as using the Internet to submit documentation to IRS and update and amend returns, improving correspondence case management, and more accurately and quickly routing telephone calls to resolve taxpayers' issues. While the joint CONOPS outlined a target of achieving about 90 percent closure of compliance cases within a filing year, it did not define what IRS believes are the appropriate service levels of telephone and correspondence. As a result, IRS is not able to fully articulate the levels of telephone and correspondence service which it

³³See [GAO-11-111](#). We recommended that to gain efficiencies and improve taxpayer service, IRS should establish a performance measure for taxpayer correspondence that includes providing timely service to taxpayers.

³⁴[GAO-13-156](#).

believes are appropriate as it seeks to transition demand to self-service channels.

IRS has not yet developed a telephone measure benchmarked to the best in business or customer expectations. IRS requested about \$186 million for fiscal year 2016 to help the agency reach its goal of increasing telephone level of service to 80 percent in part by hiring more assistors and investing in information technology (IT) improvements. IRS last reached this level of service in fiscal year 2007. According to IRS officials, they use a planning process and strategy designed to achieve the highest level of service based on available resources and competing priorities, including funding statutorily required responsibilities such as implementing the Patient Protection and Affordable Care Act (PPACA) and Foreign Account Tax Compliance Act (FATCA). This is in contrast to our December 2014 recommendation, in which we recommended that IRS set its level of service based on a comparison to private-sector organizations providing a comparable or analogous service—or the “best in the business”—to identify gaps between actual and desired performance. In addition, IRS has not implemented our December 2010 recommendation to determine a customer service telephone standard based on the quality of service provided by comparable organizations or on what matters most to the customer.³⁵ Treasury and IRS officials noted that IRS faces budgetary and legislative challenges not experienced by private sector organizations. IRS officials also believe that establishing a standard measure for telephone service would give the impression that IRS would plan to fail to deliver service to the standard in years where funding for taxpayer services is reduced. However, by not comparing customer service performance against the best in business or customer expectations, IRS is missing opportunities to illustrate gaps between actual and desired service, and provide additional information to Congress about resources IRS believes are needed for taxpayer service.

IRS has not thoroughly examined all of the services provided via telephone assistors to determine which services can be provided via automated phone calls and online services. IRS has taken steps to determine the service channels taxpayers prefer to use for tasks, such as

³⁵For more information, see [GAO-15-163](#) and [GAO-11-111](#). In May 2015, IRS officials reported that its measure of telephone level of service does not need to be revised and the current process for establishing IRS telephone plans is sufficient in its current environment.

submitting documentation, obtaining updates on the status of a taxpayer case, or setting up a payment plan. For example, in part due to our prior work, IRS developed an automated telephone line and online tool that enabled taxpayers to receive information on amended returns submitted to IRS and locations of Volunteer Income Tax Assistance sites.³⁶

However, IRS has not fully assessed the services it provides on other telephone lines to determine whether it can divert demand for services to automated phone calls and online applications. For example, IRS has not explored the costs and benefits of automating the process for ordering IRS forms. IRS officials told us that these calls are answered by a contractor who hires disabled individuals. Thus, they are reluctant to change this option. However, automating such calls would free up resources for services only IRS can provide, such as answering questions about account information. Without a careful review of services provided by telephone assistants and determining which services can be provided through other channels, IRS is missing opportunities to reduce telephone call volumes and effectively meet taxpayers' needs for services at a lower cost.

In October 2015, Treasury officials said they are not inclined to develop a comprehensive strategy since IRS already has a sufficient number of customer service performance goals. Further, in September 2015, officials from IRS's Planning, Programming and Audit Coordination office said they were drafting an enterprise-wide CONOPS covering all IRS operations with a goal of providing more efficient and effective taxpayer services. They said they will define a more balanced view of customer service that illustrates future use of telephone and correspondence service as IRS expands its online services. They plan to release a draft of the enterprise-wide CONOPS to Congress and other external stakeholders in early 2016 and incorporate it into IRS's strategic plan beginning in spring 2016. However, IRS's Planning, Programming and Audit Coordination officials told us they did not envision the enterprise-wide CONOPS to incorporate specific goals for telephone and correspondence performance in line with what customers would expect, or resources needed to reach them. Without defining a comprehensive strategy with specific goals for customer service tied to the best in business and customer expectations, Treasury and IRS are not effectively conveying to Congress the types and levels of customer service expected

³⁶[GAO-12-176](#).

by taxpayers and the capabilities and resources IRS requires to achieve those levels.

Opportunities Exist to Improve and Streamline Return Processing

IRS Had Mixed Results Implementing New and Extended Tax Law Provisions

IRS opened the 2015 filing season on the earliest starting date since 2012, despite having to implement challenging initiatives. IRS was able to both ensure compliance with FATCA³⁷ and implement multiple tax law changes that passed late in 2014.³⁸ In spite of these challenges, IRS officials and tax preparation industry stakeholders reported relatively few problems processing returns, which IRS attributed primarily to significant advance planning. To its credit, IRS was able to implement these changes while processing about the same number of returns and refunds as last year. Table 1 shows that IRS continues to see a decrease in processing paper returns and an increase in electronic processing, which has many benefits for taxpayers such as improved convenience, higher accuracy rates, and faster refunds.

³⁷Pub. L. No. 111-147, Title V, subtitle A, 124 Stat. 97 (2010).

³⁸In its review of the 2015 filing season, the Treasury Inspector General for Tax Administration (TIGTA) reported that, while IRS took steps prior to the enactment of the extender legislation to prepare for its extension, it found errors in IRS processes that resulted in disallowing certain educator expense deductions and residential energy credits, see Treasury Inspector General for Tax Administration, *Results of the 2015 Filing Season*, 2015-40-080 (Washington, D.C.: Aug. 31, 2015). In a separate review, TIGTA also found that IRS has taken steps to provide information to affected stakeholders that explains FATCA requirements, and also identified improvements that are required to ensure compliance and to measure performance for foreign institutions. See Treasury Inspector General for Tax Administration, *The Internal Revenue Service Has Made Progress in Implementing the Foreign Account Tax Compliance Act*, 2015-30-085 (Washington, D.C.: Sept. 23, 2015).

Table 1: Individual Income Tax Returns and Refunds Processed from 2010 through 2015

	1/1/10- 10/1/10	1/1/11- 9/30/11	1/1/12- 9/28/12	1/1/13- 9/27/13	1/1/14- 9/26/14	1/1/15- 9/25/15	Percent change from 2014-2015 ^a
Number of individual tax returns processed (in millions) ^b	137	140	142	142	144	145	1
Electronic	97	109	116	119	122	125	2
Paper	40	30	26	23	22	20	-7
Percentage e-filed	71	78	82	84	85	86	Not applicable
Number of refunds processed (in millions)	107	107	108	107	107	107	0
Amount of refunds processed (dollars in billions)	\$312	\$303	\$295	\$287	\$290	\$290	0

Source: GAO analysis of IRS data. | GAO-16-151

^aThe numbers in the table are rounded, but the percent change was calculated using exact values. Therefore, in some cases, the percent change is slightly different than it would be if it were calculated using the rounded values in the table.

^bThe number of individual tax returns processed includes forms 1040, 1040A, and 1040EZ.

One area, however, where IRS did experience some problems was verifying taxpayers' Premium Tax Credit claims due to health insurance marketplaces either not meeting the deadlines for providing IRS with complete health care coverage information or submitting information that was inaccurate. As we reported in July 2015, IRS had incomplete or delayed marketplace data to verify claims at the time of return filing and did not know whether these challenges were a single-year or an ongoing problem.³⁹ We concluded that, without complete and accurate information from the marketplaces, IRS cannot effectively verify the amount of the premium tax credit that taxpayers are eligible to receive, or the amount that may have been paid on their behalf to an insurer in the form of an advance premium tax credit. We found that IRS needed to strengthen oversight of PPACA tax provisions for individuals and made several recommendations designed to strengthen oversight of PTC provisions, which IRS generally agreed to implement.

³⁹GAO, *Patient Protection and Affordable Care Act: IRS Needs to Strengthen Oversight of Tax Provisions for Individuals*, [GAO-15-540](#) (Washington, D.C.: July 29, 2015).

IRS's Refund Timeliness Performance Measure Does Not Include All Returns with Errors

IRS's Primary Processing Units for Correcting Errors

Errors can occur on tax returns because of mistakes made by both taxpayers and IRS. When processing returns, one of IRS's responsibilities is to correct these errors. IRS generally does this in three processing units:

Error Resolution System—Corrects a wide range of simple errors, such as missing schedules or forms using Math Error Authority.

Rejects—Corrects incomplete returns by corresponding with taxpayers to request information, such as missing forms.

Unpostables—Corrects returns that failed to pass validity checks and cannot be recorded (or posted) to the taxpayer's account, such as incidents associated with identity theft.

Source: GAO analysis of IRS documents. | GAO-16-151

IRS has three units that correct errors—the Error Resolution System, Rejects, and Unpostables (see sidebar). Errors can cause ripple effects as returns move through processing and can significantly delay how long it takes to process a return. For example, if a taxpayer did not include a required tax form, examiners responsible for preparing the return for data entry will send a letter to the taxpayer requesting the missing form. Once the taxpayer submits the form, the return can be sent to the next unit for data entry. For more details on how IRS processes returns and corrects errors, see appendix IX.

When IRS has to correct errors, it takes longer to process a return and can result in paying interest to the taxpayer, which is required if IRS takes longer than 45 days after the filing deadline to issue a refund.⁴⁰

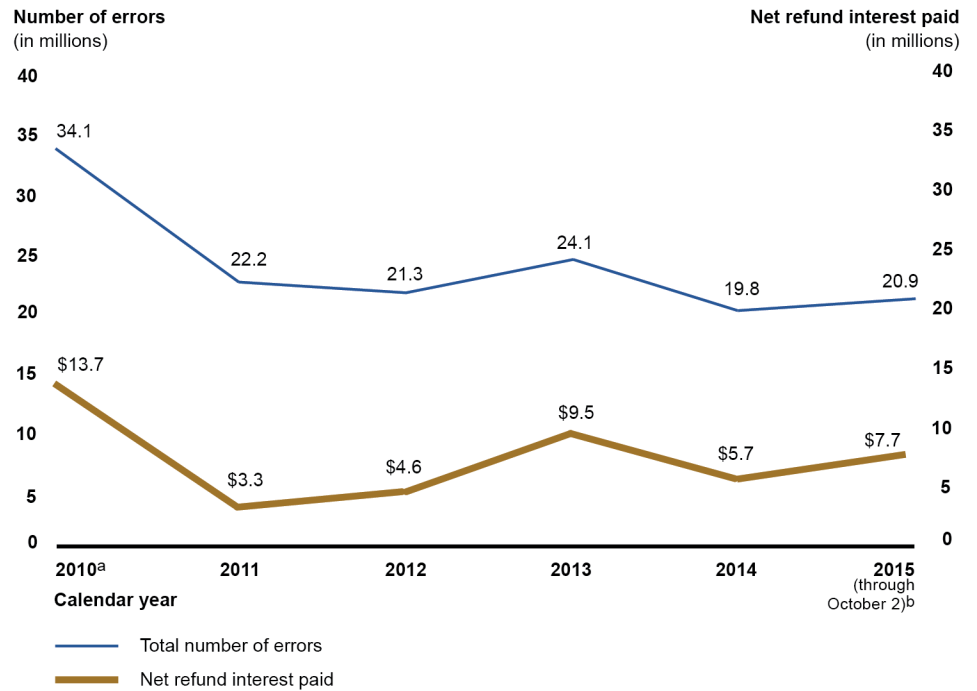
Consequently, as the number of errors increase, it may result in IRS paying more interest. IRS officials said they do not collect complete information on the reasons why IRS pays refund interest; however, they do conduct quality reviews of those cases where IRS paid the largest amounts of interest. These reviews show that multiple types of processing delays resulted in large interest payments.⁴¹ IRS officials attribute a rise in interest paid since 2011 in part to its filters catching more identity theft-related fraudulent returns. This causes delays as IRS takes additional steps to authenticate the legitimate return and can take longer than 45 days. Figure 6 shows that the amount of interest IRS paid has generally trended in the same direction as the total number of errors IRS identified.⁴²

⁴⁰26 U.S.C. § 6611(e).

⁴¹IRS officials said the data are based on a non-random selection of returns with the highest amounts of interest paid for purposes of internal quality reviews. As a result, the data cannot be generalized to a larger population of returns.

⁴²IRS reports net interest paid, which is the total amount of interest paid after excluding refund changes due to reversals, adjustments, refunds that were stopped, and processing corrections.

Figure 6: The Amount of Refund Interest IRS Paid on Tax Returns Filed by Individuals between 2010 and 2015 Corresponds to the Number of Errors It Identifies



Source: GAO analysis of IRS data. | GAO-16-151

^aIn 2010, errors and refund interest paid were both relatively high due a large number of taxpayer errors related to the Making Work Pay, First-time Homebuyer, and Residential Energy Property tax credits that IRS had to correct. The Making Work Pay tax credit was repealed by Pub. L. No. 113-295, Div. A, Title II, § 221(a)(5)(A), 128 Stat. 4037 (Dec. 19, 2014). The First-time Homebuyer tax credit can be found at 26 U.S.C. § 36. The Residential Energy Property tax credit can be found at 26 U.S.C. § 25D.

^bFor 2015, the number of corrections is through October 2, 2015, and net refund interest paid is through October 1, 2015.

Even though millions of returns are corrected in the Error Resolution System, Rejects, and Unpostables units, IRS excludes many of these returns in its refund timeliness performance measure, which tracks the percentage of refunds issued within 40 days or less.⁴³ Instead, the

⁴³IRS includes in its refund-timeliness measure paper returns that are processed in the Error Resolution System, and rejects that are corrected without needing to correspond with the taxpayer. IRS does not include returns that require correspondence with taxpayers or unpostable returns associated with identity theft.

measure only includes paper-filed individual income tax returns and some returns that contain errors. In 2011, we reported that this measure and goal are outdated and have not significantly changed since 2003.⁴⁴ We recommended IRS develop a new refund timeliness measure and goal to more appropriately reflect current capabilities. IRS officials said they would reassess both. In July 2014, IRS reported that it had determined not to develop a new refund timeliness measure, stating that implementation of the Customer Account Data Engine 2 daily processing, promotion of electronic filing, and newly implemented filters for identity theft eliminated the need to change the measure.⁴⁵ Since then, the percent of returns processed electronically has increased from 78 percent to 86 percent. Furthermore, in August 2015, IRS officials told us that about 90 percent of refunds are issued within 21 days. These officials expressed concern that focusing only on timeliness could jeopardize the balance between quickly issuing refunds and ensuring that refunds are accurate and issued to the correct individuals. It is important that IRS issue refunds on time because when they are late, IRS is required to pay interest and taxpayers' refunds are delayed.⁴⁶ We continue to reiterate our prior recommendation that IRS develop a new refund timeliness measure and goal. Without including electronically filed returns in either the current measure or a separate one, IRS is not fully or accurately reporting on its performance in issuing timely refunds and omitting returns with errors further compounds these issues. As a result, IRS is not fully monitoring opportunities to potentially improve how efficiently IRS processes returns and issues refunds.

⁴⁴[GAO-12-176](#).

⁴⁵The Customer Account Data Engine 2 is IRS's program for processing individual taxpayer returns that is intended to eventually replace the Individual Master File (IMF). The initial phase, which IRS began using in January 2012, modified the IMF processing cycle to allow for daily (rather than weekly) processing and posting of taxpayer returns.

⁴⁶IRS has a separate performance measure—Refund Interest Paid—to track the amount it pays in interest against a target that IRS sets each year.

IRS Has Not Undertaken a Comprehensive Evaluation of Its Return Processing Operations, Resulting in Missed Opportunities to Identify Savings and Efficiencies

We have previously reported that GPRAMA requires agencies to establish a balanced set of performance indicators to be used in measuring progress toward performance goals, including customer service.⁴⁷ In its fiscal year 2014-2017 strategic plan, IRS acknowledges the importance of measuring customer satisfaction related to processing tax returns. An IRS unit reviewed submission processing operations and found opportunities to improve service delivery and improve the way returns are processed. In a narrowly focused review in 2011, a team from IRS's Lean Six Sigma office identified 16 opportunities to improve submission processing operations.⁴⁸ In addition, IRS officials told us they review processing operations and make incremental changes when preparing for each filing season.

However, these reviews do not include comprehensive assessments of long-term or potentially systemic inefficiencies in IRS's return processing operations. IRS officials said they do not have procedures to periodically or regularly evaluate how they process returns. Such assessments are important because the longer it takes IRS to process a return, the more likely refunds could be delayed and increase interest paid by IRS.

During our current review, we found multiple opportunities for IRS to generate savings and efficiencies in its return processing operations. From our discussion groups with Submission Processing frontline staff and managers at the three sites that process individual tax returns, observations at a processing center, and interviews with senior officials, we identified opportunities that could potentially improve processing returns and reduce errors. For example, we found that:

- **IRS's procedures result in premature correspondence with taxpayers in certain instances.** For returns filed on paper, examiners who prepare returns for processing may prematurely correspond with the taxpayer which contributes to delays in processing. In our discussion groups, 8 of 16 tax examiners in the error resolution and rejects units said there are restrictions on when they can contact a taxpayer to correct an error. The IRM states that

⁴⁷GAO, *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, [GAO-15-84](#) (Washington, D.C.: Oct. 24, 2014).

⁴⁸Lean Six Sigma is a data-driven approach based on the idea of eliminating defects and errors that contribute to losses of time, money, opportunities, or business.

tax examiners are generally allowed to correspond one time with taxpayers when processing a return, though in certain limited circumstances a second correspondence is permitted.⁴⁹ These same examiners said that for returns filed on paper, when examiners who prepare returns for processing correspond with the taxpayer, others in the error resolution system are prohibited from making additional contact. For example, if a taxpayer did not include necessary information for claiming a tax deduction or credit and an examiner already corresponded with the taxpayer to request it, other examiners would be unable to correspond with the taxpayer any further related to that deduction or credit. In such a case, the return is suspended from processing until the taxpayer responds. If the taxpayer does not reply or provides incomplete information, then IRS processes the return excluding the information in question and the taxpayer is notified of the change. If the taxpayer disagreed with IRS's resolution, then the taxpayer would have to file an amended return, which takes additional time and resources for the taxpayer as well as IRS. Ensuring that all errors are identified to the fullest extent possible before corresponding with the taxpayer would help IRS streamline processes and reduce burden on taxpayers when attempting to correct their returns for processing.

- **IRS is not collecting performance data about some of the errors corrected during tax return processing.** IRS does not estimate how long it takes to process a return with or without an error and how long it takes to resolve specific types of errors compared to others or how many errors result from its employees incorrectly transcribing data. In addition, IRS does not collect information on the percentage of documents that will not post to a taxpayer's account by type, such as tax returns or payments. As we have previously reported, key practices for managing for results include the use of performance information to make the decisions necessary to improve performance.⁵⁰ By not collecting such data, IRS is limited in its ability to monitor and improve processing tax returns. According to IRS officials, this could be difficult to accomplish because IRS's computing systems are not set up to do so.

⁴⁹The IRM is IRS's primary, official source of instructions to staff.

⁵⁰GAO, *Managing for Results: Agencies' Trends in the Use of Performance Information to Make Decisions*, [GAO-14-747](#) (Washington, D.C.: Sept. 26, 2014).

-
- **IRS frontline managers and staff who correct errors on individual taxpayer returns identified weaknesses in their training.** In discussion groups with us, 20 of 32 frontline managers and staff raised concerns about the quality of training. Some of the weaknesses they identified included that training did not coincide with the work they received, the trainers were not adequately prepared to teach, and that training designed to improve interpreting certain sections of the IRM was inadequate. The IRS Oversight Board reported similar training concerns last year.⁵¹ Although IRS has provided more training to tax examiners who correct errors, since 2010, performance problems have persisted. For example, for the units that process errors on individual taxpayer returns, accuracy ratings were below the baseline performance standard half the time between fiscal year 2013 to June 30, 2015. IRS officials acknowledged the challenges in providing timely training particularly given uncertainties in the level and timing of appropriations which affects IRS's ability to hire and train before the filing season begins. In addition, officials explained that individual business units assess their training needs every year and conduct training accordingly. However, it is unclear the extent to which the performance issues are the result of training gaps.

⁵¹IRS Oversight Board, *Annual Report to Congress 2013* (Washington, D.C.: March 2014).

IRS Redirected
Resources to Core
Services, but Could
Improve Services and
Compliance by
Implementing Our
Prior
Recommendations

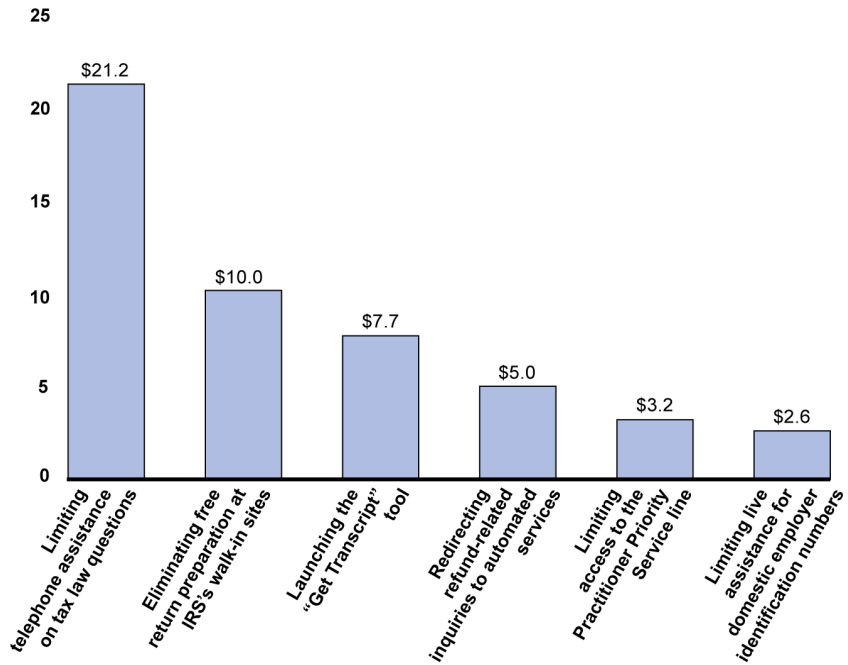
IRS Redirected about \$50
Million in Resources to
Focus on Services Only
IRS Can Provide

IRS eliminated or reduced some services in fiscal year 2014 and redirected taxpayers to lower-cost channels to focus on core taxpayer services that only IRS can provide (see appendix II for a full list of the fiscal year 2014 service initiatives). As a result, some taxpayers would have lost access to services previously provided and had to seek assistance from other sources such as paid tax preparers. We estimated IRS realized about \$50 million that it shifted to core services after it spent about \$356,000 on implementing these initiatives. Figure 7 shows the estimated resources realized by each initiative.⁵²

⁵²We calculated the amount of resources IRS realized from implementing the fiscal year 2014 service initiatives. Specifically, we subtracted the total costs of implementing each of the six service initiatives from the total gross dollars IRS reported it saved from implementing each initiative (full-time equivalents (FTE) multiplied by costs per FTE) and redirected toward other purposes. See appendix I for a full description of the methodology used to determine the amount of resources realized from implementing the service initiatives.

Figure 7: Our Estimates of IRS Resources Realized from Implementing Fiscal Year 2014 Service Initiatives

Estimated IRS resources realized in fiscal year 2014
(Dollars in millions)



Fiscal year 2014 IRS service initiatives

Source: GAO analysis of IRS data. | GAO-16-151

IRS said it redirected 515 assistor FTEs to answer telephone calls on issues that only IRS could help resolve. It also redirected 160 walk-in site FTEs to respond to questions about balances due to IRS, math errors, refunds, identity theft, and other inquiries into taxpayers' accounts. In turn, according to IRS, this enabled it to provide a higher level of service and lower wait times than expected for callers seeking live assistance in fiscal year 2014. These actions are examples of the difficult tradeoffs that we recommended IRS take to provide more timely telephone and correspondence services. IRS's actions also helped the agency move toward its vision of transitioning taxpayer demand for assistance to lower cost, self-service options.

Implementing Our Prior Filing Season-Related Recommendations and Expanding Use of Math Error Authority Would Provide IRS with Multiple Benefits

IRS has made mixed progress addressing our prior filing season-related recommendations. For example, IRS implemented one recommendation from our 2014 filing season report by establishing performance measures and plans for assessing the effectiveness of service initiatives.⁵³ IRS also implemented recommendations to improve web services, such as identifying potential risks for interactive products in development and summarizing mitigation plans needed to address such risks.⁵⁴

However, IRS has not fully implemented 21 other recommendations that are intended to help increase transparency of its performance, reduce taxpayer burden, and improve service and compliance.⁵⁵ This includes a recommendation on helping IRS have the information needed to weight the potential risks, costs, and benefits of options for implementing a “Real Time Tax” system to help improve verification of income tax returns by matching third-party information to such returns before refunds are issued.⁵⁶ IRS can also take steps to implement our prior recommendations on combating identity theft refund fraud to strengthen present defenses against refund fraud while also developing new strategies for both electronic and paper returns that stop such fraud at all stages of return processing.⁵⁷

Our prior work also identified actions Congress could take to enhance IRS’s Math Error Authority (MEA), which allows IRS in limited circumstances to correct calculation errors and check for other obvious

⁵³[GAO-15-163](#).

⁵⁴[GAO-13-435](#).

⁵⁵We evaluated the status of the 21 recommendations as of October 20, 2015. Since then, IRS may have taken additional steps that we have not yet reviewed but could affect the status of the recommendation. We provide updates to the status of each recommendation on the GAO website (<http://www.gao.gov>). See appendix X for a complete list of these recommendations.

⁵⁶GAO, *Tax Refunds: IRS Is Exploring Verification Improvements, but Needs to Better Manage Risks*, [GAO-13-515](#) (Washington, D.C.: June 4, 2013).

⁵⁷See [GAO-15-119](#) 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).

noncompliance.⁵⁸ Since 2008, we have raised five matters for Congress to consider providing IRS with additional MEA. In November 2009, in response to our suggestion, Congress acted to provide limited MEA for correcting errors on First Time Homebuyer Tax Credit claims, but four other matters on MEA remain open (see appendix X for details).⁵⁹

In fiscal years 2015 and 2016, the administration included legislative proposals that would grant Treasury regulatory authority to expand the IRS's use of MEA, which is consistent with what we suggested in February 2010.⁶⁰ These proposals would allow IRS to correct computational-based errors and incorrect use of tables provided by IRS and would add a new category of correctable error where the (1) information provided by the taxpayer does not match the information contained in government databases, (2) taxpayer has exceeded the lifetime limit for claiming a deduction or credit, or (3) taxpayer has failed to include documentation that is required by statute with his or her return. This broader MEA, with appropriate safeguards, would give IRS the flexibility to respond quickly as new uses for the authority emerge in the future.

Expanding opportunities to use MEA is also important because it could help IRS correct additional errors during return processing, which would save resources by reducing delays in processing and the need for burdensome audits. For example, Congress could address two matters we previously suggested if it granted Treasury regulatory authority to expand IRS's use of MEA to correct errors in certain cases, such as where the taxpayer has exceeded the lifetime limits for claiming a

⁵⁸GAO, *Tax Refunds: Enhanced Prefund Compliance Checks Could Yield Significant Benefits*, [GAO-11-691T](#) (Washington, D.C.: May 25, 2011) and *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011).

⁵⁹In 2009, IRS was given MEA by Congress to use prior years' tax return information to automatically verify compliance with the 2008 First Time Homebuyer Credit payback provision and ensure that homebuyers do not improperly claim the credit in multiple years (Pub. L. No. 111-92, § 12(d), 123 Stat. 2984, 2992 (Nov. 6, 2009), 26 U.S.C. § 6213(g)(2)(P)).

⁶⁰Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals*, 245-46 (February 2015) and *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals*, 229-30 (February 2014); and GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010).

deduction or credit. According to the Joint Committee on Taxation, by doing so, the federal government could cumulatively save about \$166 million between fiscal years 2015 and 2025.⁶¹

We also identified actions Congress could take to reduce identity theft refund fraud. 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.⁶² By providing such authority, Congress can help support IRS's efforts to conduct more pre-refund matching of W-2 information.

Conclusions

The severe decline in IRS's customer service in fiscal year 2015 underscores how important it is for IRS to urgently make tough decisions to improve services. In light of IRS's reduced budget and expanding responsibilities, we have reported for several years that IRS needs to dramatically revise its approach to customer service. While IRS's fiscal year 2014 service initiatives resulted in efficiency gains, they do not go far enough, as evidenced by the extremely low level of service the agency delivered in 2015. IRS needs a longer-term strategy to manage its budgetary and workload environment. To that end, we are concerned that Treasury and IRS do not believe that they need to develop a comprehensive customer service plan to set targets for appropriate levels of telephone and correspondence service based on service provided by the best in business and customer expectations. We continue to believe that implementing our previous recommendation would enable IRS to make more informed requests to Congress about the resource requirements to deliver desired levels of service.

IRS has taken noteworthy actions to improve customer service, such as the Centralized Evaluative Review pilot, which shows promise to improve correspondence and telephone work. There are also other opportunities for Treasury and IRS to improve correspondence services and measure performance, such as including performance targets for correspondence

⁶¹Total savings include increased revenues of \$133 million and reduced outlays of \$33 million during the same period.

⁶²[GAO-14-633](#).

in Treasury's performance plan. This would enhance Congress's understanding of IRS's customer service performance and challenges.

IRS continues to realize efficiencies in processing taxpayer returns through e-file, however, without conducting performance evaluations of its return processing, IRS is missing opportunities to reduce processing delays that can contribute to refund interest paid to taxpayers. Identifying efficiencies that both reduce common taxpayer errors and allow IRS to more timely process new types of errors could save the government money in interest paid. Examples of efficiencies we identified during our observations at IRS sites include tracking information on errors it corrects and identifying training needs that could improve performance for units that process errors on individual taxpayer returns. Conducting performance evaluations would likely enable IRS to find these and similar opportunities to improve processes.

Matter for Congressional Consideration

To improve taxpayer service amid declining budgets and increased responsibilities, Congress should consider requiring the Secretary of the Treasury to develop a comprehensive customer service strategy in consultation with the Commissioner of Internal Revenue that (1) determines appropriate telephone and correspondence levels of service, based on service provided by the best in business and customer expectations; and (2) thoroughly assesses which services IRS can shift to self-service options.

Recommendations for Executive Action

To improve performance management of taxpayer services, we recommend that the Secretary of the Treasury update the Department's performance plan to include overage rates for handling taxpayer correspondence as a part of Treasury's performance goals.

To improve taxpayer service and gain efficiencies, we recommend that the Commissioner of Internal Revenue take the following two actions:

1. Assess the feasibility of setting up a control in IRS systems requiring assistors to send out required correspondence to taxpayers prior to closing a correspondence case.
2. Periodically conduct performance evaluations of IRS return processing operations to identify inefficiencies. The initial evaluation could include, for example, assessing when to correspond with taxpayers whose returns contain errors, collecting additional data on

errors that IRS corrects, and closing training gaps that are hindering performance for units that process errors on individual taxpayer returns.

Agency Comments and Our Response

We provided a draft of this report to the Secretary of the Treasury and the Commissioner of Internal Revenue. Treasury and IRS provided written comments, which are reprinted in appendixes XI and XII, respectively. IRS also provided technical comments which we incorporated where appropriate.

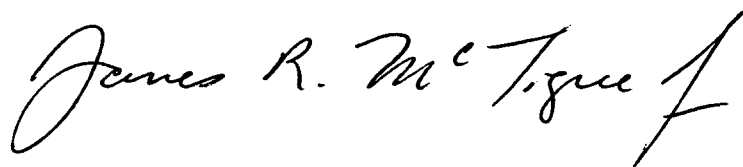
Treasury neither agreed nor disagreed with our recommendation to update the Department's performance plan to include correspondence overage rates as a part of Treasury's goals. Treasury stated that it meets regularly with IRS leadership to review progress toward goals and strategy decisions and that it will continue to work with IRS to improve managing and reporting its performance.

IRS agreed with both recommendations directed to it. Regarding our recommendation to set up a control in IRS systems to require assistors to send required correspondence before closing a case, IRS stated that it would analyze its options for bolstering controls to address correspondence concerns. For our recommendation to conduct periodic performance evaluations of IRS return processing operations to identify inefficiencies, IRS stated that it would consider opportunities for improving existing processes that identify common errors requiring correction and/or correspondence with taxpayers. IRS noted that its long-term vision for tax administration is to modernize taxpayer service focusing on options to meet taxpayers' needs and preferences. This would include online tax account access that would enable taxpayers to make adjustments such as correcting errors. Finally, to further identify inefficiencies and improve performance, IRS stated that it would review and improve employee training where appropriate.

As agreed with your offices, unless you publically release its contents earlier, we plan no further distribution of this report until 30 days from its issuance date. At that time, we plan to send copies of this report to the appropriate congressional committees. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties.

In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or mctiguej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix XIII.

A handwritten signature in black ink that reads "James R. McTigue, Jr." The signature is written in a cursive style with a large, stylized initial "J" and "M".

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives in this report were to

1. assess how well the Internal Revenue Service (IRS) provided customer service compared to its performance in prior years and identify opportunities for IRS to streamline services,
2. assess how well IRS processed individual income tax returns compared to its performance in prior years and identify opportunities for IRS to streamline processing, and
3. determine what resources IRS realized from implementing service initiatives and describe IRS's progress toward implementing our prior filing season-related recommendations.

To answer the first and second objectives, we

- obtained and analyzed IRS documents and data, including performance, budget, and workload data for return processing and taxpayer services, and used this information to compare IRS's performance in 2015 to prior years (2010 through 2014) to identify trends and anomalies;
- identified federal standards for evaluating customer service, such as the Government Performance and Results Act Modernization Act and executive orders, presidential memorandums and Office of Management and Budget guidance to strengthen customer service, and compared Department of the Treasury and IRS actions to those standards;¹
- visited IRS facilities in Austin to observe return processing and assistors handling correspondence, and the Joint Operations Center (which manages IRS's telephone operations) in Atlanta to observe assistors answering taxpayer calls and correspondence;

¹The Government Performance and Results Act (GPRA), intended, among other things, to "improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction." The GPRA Modernization Act of 2010 (GPRAMA), which significantly enhanced GPRA, requires agencies to, among other things, develop annual performance plans that include performance goals for an agency's program activities and accompanying performance measures. GPRAMA, Pub. L. No. 111-352, § 3, 124 Stat. 3866 (Jan. 4, 2011), 31 U.S.C. § 1115(b)(6). GPRA, Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

- interviewed officials from IRS's Wage and Investment division (which is responsible for managing filing season operations) and external stakeholders, including tax administration experts from major tax preparation and software firms who interact with IRS on key aspects of the filing season, to obtain contextual information about IRS's performance;
- interviewed officials from the Department of the Treasury and IRS to discuss goals and strategies to improve taxpayer services and steps they have taken to measure performance in delivering such services;
- conducted 10 discussion groups with IRS frontline staff and managers located at five IRS campuses. Four of the discussion groups were with assistors who answer telephone calls or respond to correspondence or frontline managers who oversee the assistors' work. The assistors and managers worked in Atlanta; Austin; Kansas City, Missouri; and Philadelphia. Six of the groups were with tax examiners in Austin; Fresno, California; and Kansas City, Missouri, who are responsible for correcting errors and processing individual taxpayer returns. To identify group participants, we asked IRS officials for the contact information of staff located at each campus with the responsibilities described above. We then contacted a select number of assistors and tax examiners directly to schedule the meetings.² We conducted six discussion groups in person and four via conference call. Each group contained four to seven participants. To encourage participants to speak openly, we ensured that no senior IRS management officials were present during the discussions, and we separated staff and managers into different groups. At the beginning of each group we explained that any comments and opinions provided would be reported in summary form. We developed and administered a standardized discussion guide to improve the quality of information gathered. Our questions for assistors focused on their experiences and suggestions, if any, for how IRS can more efficiently conduct its correspondence and telephone processes. We discussed the benefits and drawbacks of Centralized Evaluative Review at the campuses that piloted it. We asked examiners about their experiences processing returns with errors and what suggestions, if any, they had for IRS to process such returns more efficiently.

²For discussion groups in Atlanta and Austin, IRS officials identified and scheduled the meeting as part of our site visit.

To determine what resources IRS realized from implementing service initiatives, we first calculated the total gross dollars IRS saved by implementing each of the six service initiatives and redirected toward other purposes. We determined this amount by multiplying full-time equivalents (FTE) redirected by salaries and benefits per FTE using data provided by IRS. Next, we calculated total costs of implementing each of the service initiatives, then subtracted the amount from total gross dollars saved to calculate IRS resources realized from implementing each of the six initiatives in fiscal year 2014 dollars. IRS officials concurred with our approach and calculations. To describe IRS's actions to implement our prior recommendations, we reviewed relevant documentation, including IRS Joint Audit Management Enterprise System reports tracking IRS's actions to implement our recommendations, and obtained information from IRS officials.

To identify data limitations and assess data reliability, we reviewed IRS data and documentation, assessed documentation for data limitations, and compared those results to our data reliability standards. We consider the data presented in this report to be sufficiently reliable for our purposes.

Appendix II: The Internal Revenue Service Implemented Service Initiatives in Fiscal Years 2014 and 2015

We reported in our prior work that the Internal Revenue Service (IRS) was struggling to provide taxpayers access to services despite regularly realizing efficiency gains, and that IRS's performance would likely continue to suffer unless it made tough choices about what services to provide.¹ Consistent with these findings, IRS implemented service changes in fiscal years 2014 and 2015 by reducing or eliminating certain telephone and walk-in services, and redirecting taxpayers toward other service channels such as IRS's website.

Fiscal year 2014 service changes:

1. Limited telephone assistance to only basic tax law questions during the filing season and reassigned assistors to work account-related inquiries.
2. Eliminated free return preparation and reduced other services at IRS's walk-in sites.
3. Launched the "Get Transcript" tool, which allows taxpayers to obtain a viewable and printable transcript on irs.gov, and redirected taxpayers to automated tools for additional guidance.
4. Redirected refund-related inquiries to automated services and did not answer refund inquiries until 21 days after a tax return was filed electronically or 6 weeks after a return was filed by paper (unless the automated service directed the taxpayer to contact IRS).
5. Limited access to the Practitioner Priority Service line to only those practitioners working tax account issues.
6. Limited live assistance and redirected requests for domestic employer identification numbers to IRS's online tool.

Fiscal year 2015 service changes:

1. Redesigned notices to clearly state why the notice was issued; if a response is required; what action, if any, is required; and inform taxpayers about online resources and self-service tools as an alternative to calling or writing the IRS.

¹GAO, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, [GAO-14-133](#) (Washington, D.C.: Dec. 18, 2013); and *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).

2. Expanded use of the Oral Statement Authority tool to reduce the amount of written correspondence to resolve penalty relief requests.²
3. Directed taxpayers who meet the Online Payment Agreement qualifications to use a tool online (and at kiosks where available) to apply for and set up installment payment agreements instead of calling or visiting IRS.
4. Reduced the volume of IRS products at walk-in sites and community outlets, including forms, instructions, and publications that are available online at IRS.gov, and encouraged taxpayers to use available online sources.
5. Reduced the number of walk-in sites accepting payments by cash and more heavily promoted electronic payment options, such as IRS Direct Pay, as an alternative to such payments made at a walk-in site or by mail.

²Oral statement authority is acceptance of a verbal request for account adjustment without written documentation or account information without written request.

Appendix III: Appropriated Resources, User Fees, and Other Resources for IRS Taxpayer Services, Fiscal Years (FY) 2010 through 2015

(Dollars in thousands)

Resources Available for Obligation	FY 2010 actual	FY 2011 actual	FY 2012 actual	FY 2013 actual	FY 2014 actual	FY 2015 actual	Percent change, FY 2014 to 2015
New Appropriated Resources							
Pre-Filing Taxpayer Assistance and Education	\$667,840	\$661,256	\$611,653	\$586,896	\$595,168	\$608,316	2.2
Filing and Account Services	1,591,042	1,607,442	1,610,904	1,532,963	1,550,027	1,565,368	1.0
Subtotal - New Appropriated Resources	\$2,258,882	\$2,268,698	\$2,222,557	\$2,119,859	\$2,145,195	\$2,173,684	1.3
User Fees	121,512	128,966	174,596	190,999	182,742	44,694	-75.5
Other Resources ^a	50,848	46,885	38,653	56,838	45,892	44,502	-3.0
Total Resources Available for Obligation	\$2,431,242	\$2,444,549	\$2,435,806	\$2,367,696	\$2,373,829	\$2,262,880	-4.7

Legend: FY = fiscal year

Source: GAO analysis of IRS data. | GAO-16-151

^aOther resources include recoveries, offsetting collections and reimbursable collections, available multi-year/no-year funds, 50 percent carryovers and transfers.

Appendix IV: IRS Experienced Substantial Decreases in Levels of Service and Increased Average Wait Times among Many IRS Telephone Lines since Fiscal Year 2010

Table 2: Levels of Service for Selected IRS Telephone Product Lines Answered by Assistors, Fiscal Years (FY) 2010 through 2015

(Percent)

Product line	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2014 to 2015
Affordable Care Act hotline	82.9	79.4	75.4	75.4	74.6	60.9	-13.7
Amended return hotline	n/a	n/a	n/a	61.7	65.2	55.5	-9.7
Electronic filing PIN help	71.7	76.8	61.0	66.1	63.0	34.0	-29.0
Forms order line	85.4	82.4	85.6	80.4	82.3	62.5	-19.9
Identity Protection Specialized Unit ^a	83.2	77.7	79.7	83.1	79.7	52.5	-27.2
Individual income tax services	74.0	70.6	67.6	62.6	65.1	29.1	-36.0
Individual Taxpayer Identification Number	77.4	76.0	75.6	57.6	75.1	52.1	-23.0
Installment agreement/balance due	n/a	n/a	n/a	n/a	63.7	37.0	-26.7
International ^b	n/a	n/a	72.2	72.8	69.8	55.1	-14.6
National Taxpayer Advocate	83.8	76.4	70.3	71.6	68.9	43.7	-25.1
Practitioner Priority Service	79.8	78.3	73.4	75.0	70.4	47.6	-22.8
Refund hotline	75.3	73.4	66.6	54.5	55.8	28.0	-27.8
Tax law	n/a	n/a	n/a	n/a	73.7	72.7	-1.0
Transcript	n/a	69.3	74.2	52.5	66.7	50.9	-15.8
Wage and Investment Individual Master File Customer Response	70.0	65.1	63.4	53.4	55.1	25.1	-29.9

Legend: n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

^aIRS changed the name of the product line from "Identity theft" in May 2013.

^bIRS merged the previous International and International-Employer Identification Number lines to this combined product line on October 1, 2012.

Appendix IV: IRS Experienced Substantial Decreases in Levels of Service and Increased Average Wait Times among Many IRS Telephone Lines since Fiscal Year 2010

Table 3: Average Wait Times for Selected IRS Telephone Product Lines Answered by Assistors, Fiscal Years (FY) 2010 through 2015

Average wait times (in minutes)							
Product line	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2014 to 2015
Affordable Care Act hotline	5.6	6.9	14.5	16.5	12.4	20.3	64.4
Amended return hotline	n/a	n/a	n/a	27.5	23.3	32.6	40.1
Electronic filing PIN help	6.3	4.5	9.4	9.9	10.6	25.1	137.2
Forms order line	3.2	3.5	3.3	4.7	4.1	7.4	80.9
Identity Protection Specialized Unit ^a	4.4	8.0	8.2	6.6	13.2	30.5	131.4
Individual income tax services	10.5	12.1	16.9	17.5	19.5	30.3	55.5
Individual Taxpayer Identification Number	6.3	7.2	8.2	14.2	8.2	16.9	104.7
Installment agreement/balance due	n/a	n/a	n/a	n/a	21.0	34.8	65.5
International ^b	n/a	n/a	10.2	10.5	11.7	19.9	70.5
National Taxpayer Advocate	3.2	6.1	7.4	7.4	7.0	16.2	130.1
Practitioner Priority Service	10.5	13.3	22.1	19.7	27.4	46.6	70.1
Refund hotline	11.1	12.3	15.4	19.5	19.3	30.6	58.6
Tax law	n/a	n/a	n/a	n/a	11.4	11.0	-3.2
Transcript	n/a	12.2	13.6	16.7	23.0	33.5	45.5
Wage and Investment Individual Master File Customer Response	12.6	15.2	18.0	19.0	21.2	33.7	59.0

Legend: n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

^aIRS changed the name of the product line from "Identity theft" in May 2013.

^bIRS merged the previous International and International-Employer Identification Number lines to this combined product line on October 1, 2012.

Appendix V: Receipts and Closures Changed for Selected Categories of Taxpayer Correspondence since Fiscal Year 2010, While Overage Rates for Most Categories Increased

Table 4: Receipts of Cases for Selected Categories of Taxpayer Correspondence, Fiscal Years (FY) 2010 through 2015

Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2010 to 2015	Percent change, FY 2014 to 2015
Affordable Care Act (ACA) correspondence	n/a	n/a	n/a	n/a	n/a	63,546	n/a	n/a
Individual Master File (IMF) ACA amended returns	n/a	n/a	n/a	n/a	n/a	106,738	n/a	n/a
IMF amended returns/duplicate filings	2,828,296	2,315,055	1,845,011	1,627,345	1,634,135	1,581,918	-44.1	-3.2
IMF carryback claims	433,925	308,642	186,976	132,549	116,493	98,867	-77.2	-15.1
IMF correspondence	2,705,000	2,596,844	2,643,871	2,261,648	2,620,641	1,835,034	-32.2	-30.0
IMF identity theft	226,090	438,295	641,415	583,897	612,105	598,995	164.9	-2.1
Injured Spouse - Debtor Master File refund offset	300,960	332,414	349,288	357,814	330,894	336,879	11.9	1.8
IMF international amended returns/carrybacks	113,128	108,345	125,501	125,202	172,248	186,485	64.8	8.3
IMF international correspondence	137,089	115,863	132,676	122,234	118,616	92,445	-32.6	-22.1

Legend: n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

Note: The data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

**Appendix V: Receipts and
Closures Changed for Selected
Categories of Taxpayer
Correspondence since Fiscal
Year 2010, While Overage Rates
for Most Categories Increased**

Table 5: Closures of Cases for Selected Categories of Taxpayer Correspondence, Fiscal Years (FY) 2010 through 2015

Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2010 to 2015	Percent change, FY 2014 to 2015
Affordable Care Act (ACA) correspondence	n/a	n/a	n/a	n/a	n/a	29,518	n/a	n/a
Individual Master File (IMF) ACA amended returns	n/a	n/a	n/a	n/a	n/a	71,799	n/a	n/a
IMF amended returns/duplicate filings	2,889,530	2,210,322	2,011,452	1,518,335	1,632,800	1,663,949	-42.4	1.9
IMF carryback claims	439,861	313,517	188,392	130,522	115,190	101,647	-76.9	-11.8
IMF correspondence	2,709,295	2,545,698	2,592,108	2,102,002	2,758,970	1,856,609	-31.5	-32.7
IMF identity theft	203,155	306,904	437,728	830,931	700,531	557,971	174.7	-20.4
Injured Spouse - Debtor Master File refund offset	299,256	333,167	347,647	354,947	315,664	355,567	18.8	12.6
IMF international amended returns/carrybacks	116,785	94,642	110,408	133,586	180,980	156,466	34.0	-13.5
IMF international correspondence	141,248	114,189	112,824	113,015	142,641	88,507	-37.3	-38.0

Legend: n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

Note: The data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

**Appendix V: Receipts and
Closures Changed for Selected
Categories of Taxpayer
Correspondence since Fiscal
Year 2010, While Overage Rates
for Most Categories Increased**

Table 6: Overage Rates for Cases for Selected Categories of Taxpayer Correspondence, Fiscal Years (FY) 2010 through 2015

(Percent)

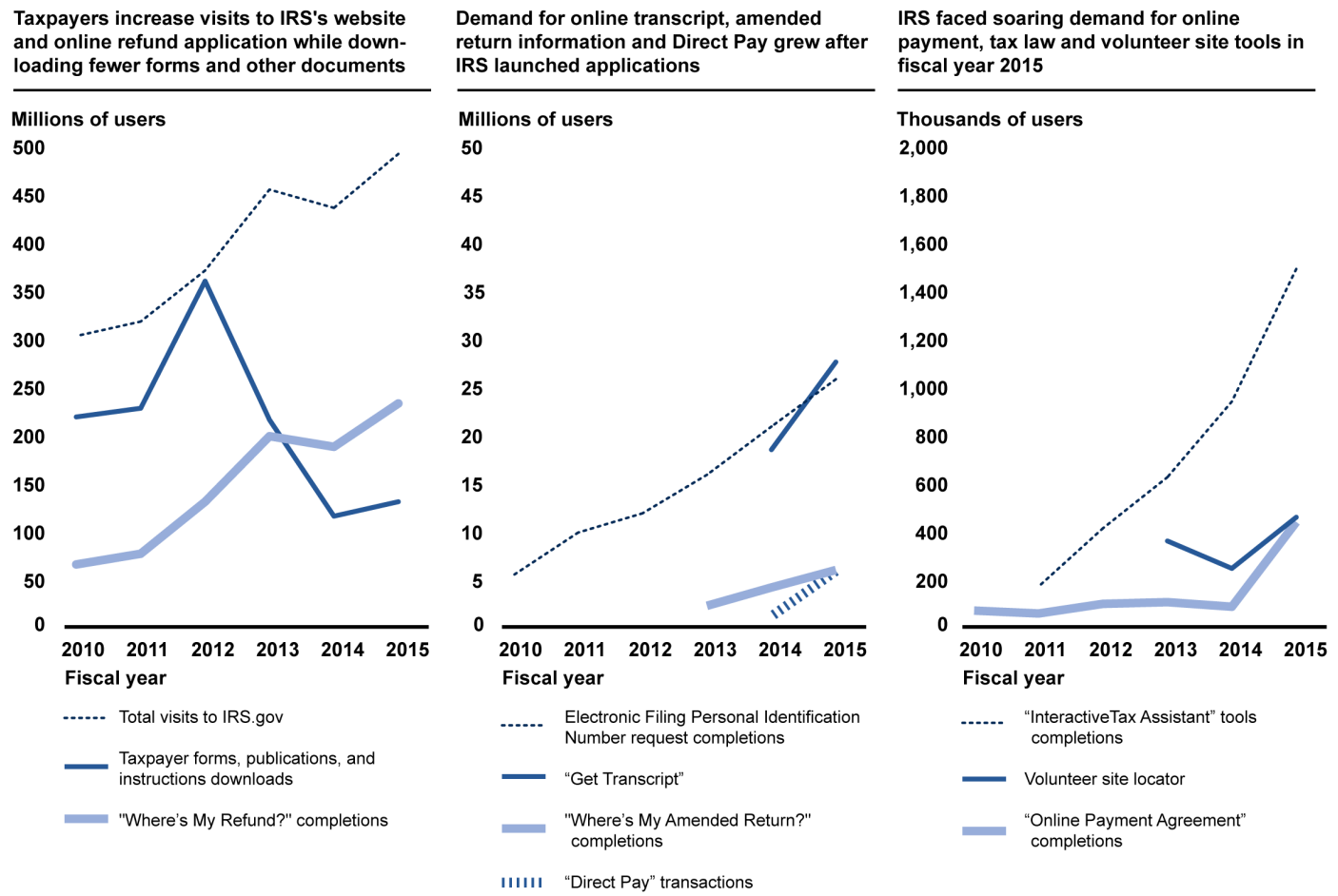
Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2010 to 2015	Percent change, FY 2014 to 2015
Affordable Care Act (ACA) correspondence	n/a	n/a	n/a	n/a	n/a	84.1	n/a	n/a
Individual Master File (IMF) ACA amended returns	n/a	n/a	n/a	n/a	n/a	74.0	n/a	n/a
IMF amended returns/duplicate filings	47.5	62.6	53.6	65.1	67.0	59.3	11.8	-7.7
IMF carryback claims	4.9	10.7	6.8	8.0	19.5	10.6	5.7	-8.9
IMF correspondence	28.2	50.9	51.0	71.7	65.0	54.1	25.9	-10.9
IMF identity theft	11.4	40.4	56.9	10.0	4.0	0.7	-10.7	-3.3
Injured Spouse - Debtor Master File refund offset	34.3	43.4	31.4	59.7	75.1	40.5	6.2	-34.6
IMF international amended returns/carrybacks	37.0	41.1	56.8	70.0	78.4	71.6	34.6	-6.8
IMF international correspondence	13.8	28.5	59.9	75.1	80.3	65.7	51.9	-14.6

Legend: n/a = not applicable
Source: GAO analysis of IRS data. | GAO-16-151

Note: The data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

Appendix VI: Use of IRS Website and Online Services Generally Increased since Fiscal Year 2010

Figure 8: Many Online Services Experienced Significant Increased Usage since Fiscal Year 2010



Source: GAO analysis of IRS data. | GAO-16-151

**Appendix VI: Use of IRS Website
and Online Services Generally
Increased since Fiscal Year 2010**

Table 7: Use of IRS Website and Online Services, Fiscal Years (FY) 2010 through 2015

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percent change, FY 2014 to 2015 ^a
Use of IRS website and mobile application tools							
Total visits to IRS.gov (in millions) ^b	304.8	319.3	372.5	456.2	437.1	493.2	12.8
Searches (in millions) ^c	n/a	n/a	n/a	81.6	79.9	77.6	-2.8
IRS2GO downloads (in millions) ^d	n/a	n/a	0.3	1.7	2.0	2.3	15.6
Self-service tools—assistance with tax filing and payments							
Taxpayer forms, publications, and instructions downloads (in millions) ^e	220.3	229.2	361.9	217.5	117.8	132.6	12.6
Interactive Tax Assistant tools completions (in thousands) ^f	n/a	176.7	418.8	630.5	944.4	1,525.4	61.5
Direct Pay transactions (in millions) ^g	n/a	n/a	n/a	n/a	1.3	5.5	(^h)
Volunteer site locator (in thousands) ⁱ	n/a	n/a	n/a	365.9	251.4	433.6	72.5
Online Payment Agreement completions (in thousands) ^j	76.4	63.9	104.1	111.1	92.2	413.3	348.0
Self-service tools—other requests for information							
“Where’s My Refund?” completions (in millions)	66.9	78.0	132.3	200.6	189.1	234.4	24.0
Electronic Filing Personal Information Number request completions (in millions)	5.61	9.95	12.3	16.0	21.0	25.4	21.2
Get Transcript (in millions) ^k	n/a	n/a	n/a	n/a	18.6	27.7	48.9
“Where’s My Amended Return?” completions (in millions) ^l	n/a	n/a	n/a	2.4	4.3	5.6	30.8

Legend: n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

Notes: For data through August 29, 2012, web data was obtained from WebTrends. For data beginning August 30, 2012, web data was obtained from Google Analytics. Tool specific data from IRS’s Telephone Routing Interactive System and Integrated Customer Communication Environment applications.

^aNumbers in the table are rounded, and the percent change has been calculated using the rounded values presented in the table.

^bA visit is a series of actions that begins when a visitor views the first page from the server, and ends when the visitor leaves the site. Visitors are not unique.

^cPage views include both successful search results and search results not found. In 2013, IRS revised its methodology for tracking taxpayer searches on IRS.gov. Previously, IRS tracked the total number of page views for all searches during a single visit. For 2013, IRS began tracking total unique searches, which do not include multiple searches for the same information in a single visit. Data for searches prior to fiscal year 2013 are not available. WebTrends, which was used to collect and report IRS.gov usage data prior to September 2012, is no longer available and the data cannot be regenerated.

^dIRS2GO numbers reported here are for downloads only. Previous reporting has at times included reporting for downloads as well as updates to the newest version. That information is not available historically going back to the original release.

^eFor 2013, IRS revised its methodology for tracking downloads of forms, publications, and instructions.

^fIRS introduced the Interactive Tax Assistant tools in March 2010 and has since added more tools.

**Appendix VI: Use of IRS Website
and Online Services Generally
Increased since Fiscal Year 2010**

^gDirect Pay was launched as a pilot program in November 2013. The full release of the product was in May 2014.

^hNot applicable; Direct Pay was not fully deployed until May 2014.

ⁱData for the Volunteer Site List prior to fiscal year 2013 are not available because WebTrends data prior to September 2012 cannot be regenerated. The application itself is hosted on Treasury and was not set up for tracking for fiscal year 2013; as a result, fiscal year 2013 data reports total page views of the application which was located at <http://www.irs.gov/Individuals/Find-a-Location-for-Free-Tax-Prep>. Fiscal year 2014 and on reports clicks from IRS.gov to directly access the application (<http://irs.treasury.gov/freetaxprep>).

^jA programming error led to a decrease in the number of completed agreements in fiscal year 2011.

^kGet Transcript was launched on January 13, 2014 and was taken offline on May 21, 2015.

^l"Where's My Amended Return?" launched in March 2013.

Appendix VII: Services Offered at IRS Walk-in and Volunteer Sites, Fiscal Years (FY) 2010 through 2015

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 ^a	FY 2015	Percent change, FY 2014 to 2015
Walk-in sites							
Total contacts	6,378,423	6,387,036	6,848,652	6,520,810	5,477,291	5,643,772	3.0
Return preparation ^b	407,241	328,495	369,235	302,308	n/a	n/a	n/a
Tax law questions	304,578	267,951	233,174	198,844	114,647	79,609	-30.6
Account work notices ^c	3,461,238	3,678,072	2,814,757	3,068,225	2,525,538	2,795,258	10.7
Forms	655,906	633,554	556,735	469,032	392,512	265,920	-32.3
Payments ^d	n/a	n/a	1,495,169	1,291,493	1,070,488	960,560	-10.3
Other ^e	1,549,460	1,478,964	1,379,582	1,190,908	1,374,106	1,542,425	12.2
Sites staffed by volunteers							
Return preparation	3,085,512	3,188,524	3,264,997	3,406,182	3,646,562	3,756,707	3.0
Percent of returns e-filed	92	93	95	95	96	96	0.0

Legend: FY = fiscal year; n/a = not applicable

Source: GAO analysis of IRS data. | GAO-16-151

^aFiscal year 2014 data for walk-in sites reported in this table differ from data reported in our prior report on the 2014 IRS filing season (see [GAO-15-163](#)). Specifically, the data in this table reflect IRS data reported through September 30, 2014, while data in our prior report reflect IRS data reported through September 27, 2014.

^bWalk-in site return preparation counts include both individual and business contacts.

^cAccount work includes assistance to taxpayers who need to pay taxes owed and victims of identity theft.

^dBeginning in fiscal year 2012, IRS accounted for contacts where taxpayers made payments separately from other account work notices.

^eOther contacts include responding to correspondence, scheduling appointments, authenticating Individual Tax Identification Numbers, and providing self-assistance services, which do not fall into the defined categories.

Appendix VIII: Executive Orders, Presidential Memorandums, and Office of Management and Budget Guidance Outlining Required Agency Actions on Customer Service

Executive orders require agencies to take steps to strengthen customer service and presidential memorandums. Office of Management and Budget (OMB) guidance describe a number of actions agencies can take to improve their customer service. In our previous reports on the IRS filing season, we have described these requirements at length and emphasized how important it is for IRS to take those actions to ensure it is providing the best taxpayer service possible while informing Congress about resources needed to improve the level of service provided to taxpayers.

- Executive Order 12862, *Setting Customer Service Standards*, was issued in September 1993 and requires that all executive departments and agencies that “provide significant services directly to the public shall provide those services in a manner that seeks to meet the customer service standard established” which is “equal to the best in business.”¹ A related presidential memorandum, issued in March 1995, also notes that customer service standards should reflect customer views, and an OMB memorandum issued in March 2015 reemphasizes that agencies “must keep pace with the public's expectations and transform its customer services by regularly soliciting and acting on customer feedback, streamlining processes, and delivering consistent quality across customer service channels.”² In addition, we have reported that performance data should be used to identify and analyze the gap between an organization’s actual performance and desired outcomes, including by setting performance benchmarks to compare an organization with private organizations that are thought to be the best in their field.³
- Executive Order 13571, *Streamlining Service Delivery and Improving Customer Service*, was issued in April 2011 to strengthen customer service and required agencies to develop and publish a customer

¹Executive Order No. 12862, *Setting Customer Service Standards* (Sept. 11, 1993), 58 Fed. Reg. 48,257 (Sept. 14, 1993). The order defined the “best in business” as the highest quality of service delivered to customers by private organizations providing a comparable or analogous service. Exec. Order No. 12862, § 1 (Sept. 11, 1993).

²Memorandum on Customer Service, 31 Weekly Comp. Pres. Doc. 456 (Mar. 22, 1995) (released by Office of the Press Secretary on Mar. 23, 1995) and Office of Management and Budget, *Guidance on Implementing the Federal Customer Service Awards Program*, Memorandum M-15-09 (Mar. 19, 2015).

³GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

**Appendix VIII: Executive Orders,
Presidential Memorandums, and
Office of Management and
Budget Guidance Outlining
Required Agency Actions on
Customer Service**

service plan, in consultation with OMB.⁴

- We identified other memorandums and guidance to agencies OMB has issued since 1995 that describe a number of actions to improve customer service, including setting, communicating, and using customer service standards.⁵ For instance, in July 2014, to help agency leadership focus on this issue, OMB issued guidance that agencies include additional customer service information with their fiscal year 2016 budget submissions.⁶

⁴Executive Order No. 13571, § 2 and 3 (Apr. 27, 2011). *Streamlining Service Delivery and Improving Customer Service*, 76 Fed. Reg. 24, 339-40 (May 2, 2011).

⁵Memorandums issued include *Memorandum on Conducting "Conversations with America" to Further Improve Customer Service*, 34 Weekly Comp. Pres. Doc. 368 (Mar. 3, 1998). Following Exec. Order No. 13571, *Streamlining Service Delivery and Improving Customer Service*, 76 Fed. Reg. 24,339 (Apr. 27, 2011), OMB issued guidance to agencies to implement the requirements. See Office of Management and Budget, *Implementing Executive Order 13571 on Streamlining Service Delivery and Improving Customer Service*, Memorandum M-11-24 (June 13, 2011).

⁶Office of Management and Budget, *Management Agenda Priorities for the FY 2016 Budget*, Memorandum M-14-12 (July 18, 2014).

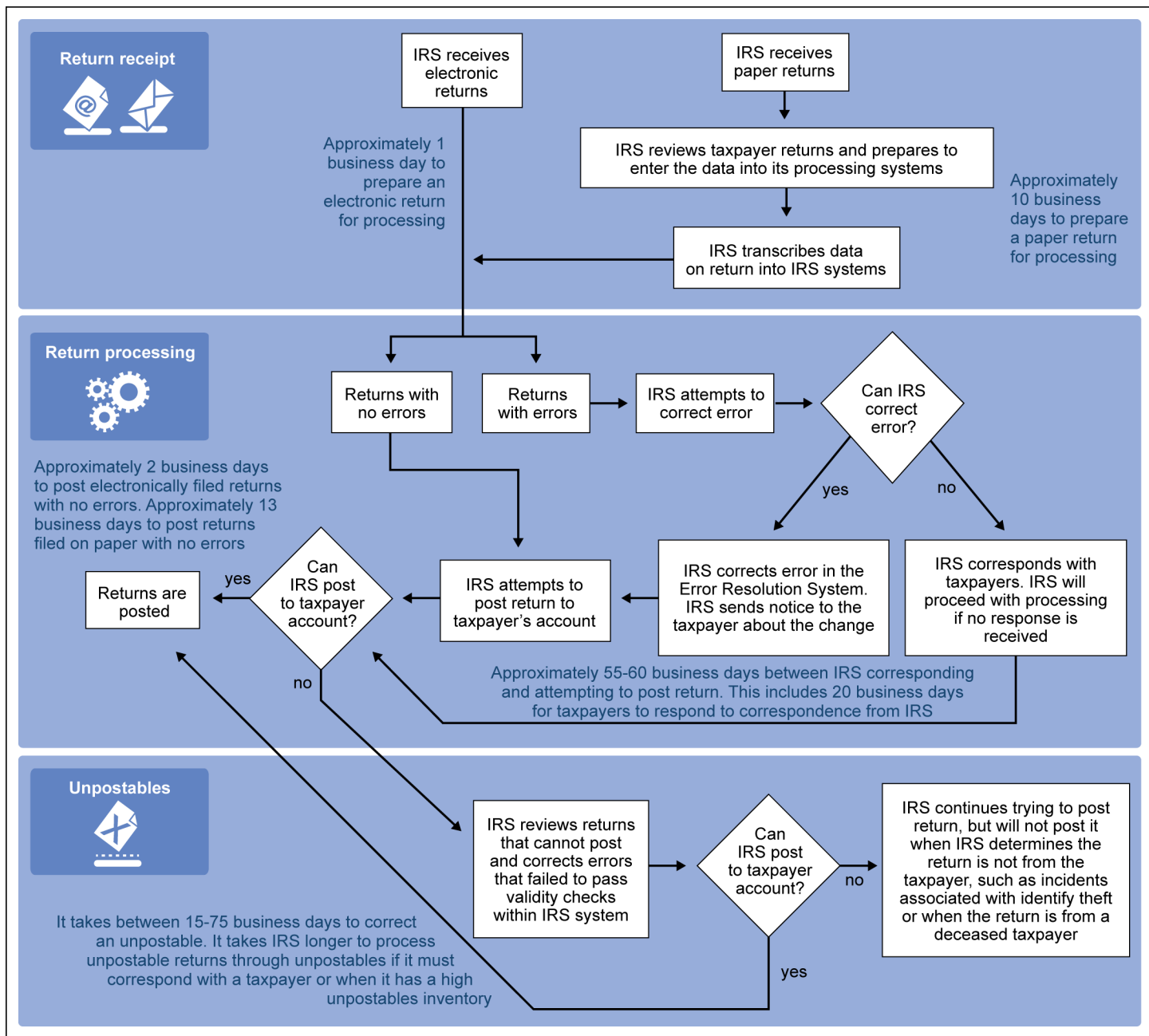
Appendix IX: Internal Revenue Service's Method for Processing Individual Tax Returns Is Complex

The Internal Revenue Service's (IRS) method for processing returns is a complex operation because multiple units are involved.¹ Figure 9 illustrates the numerous steps IRS goes through to process both returns and correct errors. Electronic returns move quickly to processing once IRS receives them while paper returns must first go through multiple additional steps. When returns are processed, IRS checks for errors and quickly corrects those that it can and notifies the taxpayer of missing documents when it cannot, such as a missing form or information return. In certain instances, after IRS has tried to post the return to the taxpayer's account, it identifies that certain returns cannot post, such as identity theft returns, and attempts to resolve these unpostable returns.

¹IRS has produced a video illustrating how it processes returns, see <http://www.irsvideos.gov/Professional/IRSWorkProcesses/SubmissionProcessingPipeline> (accessed October 28, 2015).

Appendix IX: Internal Revenue Service's Method for Processing Individual Tax Returns Is Complex

Figure 9: Flowchart Illustrating How IRS Processes Returns and Corrects Errors



Source: GAO analysis of IRS information. | GAO-16-151

Appendix X: Open Filing Season-Related Matters for Congress and Recommendations to the Internal Revenue Service

The following tables present our prior matters for Congress and recommendations to the Internal Revenue Service (IRS) related to IRS's filing season operations that had not been implemented as of October 20, 2015. The most recent information available on the status of matters and recommendations for each GAO report listed in the tables below may be found by clicking on the web link for each report.

Table 8: Eight Open Recommendations to IRS from Our Prior Annual Filing Season Reports Issued Since 2011

Report	Recommendation
<p>GAO-11-111 - To gain efficiencies and improve taxpayer service, we recommended that the Commissioner of Internal Revenue should direct the appropriate officials to</p>	<ul style="list-style-type: none"> determine a customer service telephone standard, and the resources required to achieve this standard based on input from Congress and other stakeholders based on the quality of service provided by comparable organizations, and on what matters most to the customer.
<p>GAO-12-176 - We recommended that the Commissioner of Internal Revenue</p>	<ul style="list-style-type: none"> develop a new refund timeliness measure and goal to more appropriately reflect current capabilities. complete an Internet strategy that provides a justification for the implementation of online self-service tools and includes an assessment of providing online self-service tools that allow taxpayers to access and update elements of their account online; acknowledges the costs and benefits to taxpayers of new online services; sets the time frame for when online service would be created and available for taxpayer use; and includes a plan to update the strategy periodically.
<p>GAO-13-156 - We recommended that the Acting Commissioner of Internal Revenue</p>	<ul style="list-style-type: none"> 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. tailor appropriate and timely interventions with taxpayers who file balance due returns by pilot testing risk-based approaches that could include implementing the Advanced Consolidated Data Analytics plan and using more data-driven methods to identify the most appropriate method for contacting a taxpayer.
<p>GAO-14-133 - We recommended that the Commissioner of Internal Revenue</p>	<ul style="list-style-type: none"> develop a set of standardized account entries and eliminate unnecessary redundancy when entering installment agreement data into accounts.
<p>GAO-15-163 - We recommended that the Commissioner of the Internal Revenue should direct the appropriate officials to</p>	<ul style="list-style-type: none"> systematically and periodically compare its telephone service to the best in business to identify gaps between actual and desired performance. include specific countermeasures or options in risk management plans that could guide a response when an adverse event occurs.

Source: GAO. | GAO-16-151

**Appendix X: Open Filing Season-Related
Matters for Congress and Recommendations
to the Internal Revenue Service**

Table 9: Three Open Recommendations to IRS Related to Improving Web Services

Report	Recommendation
<p>GAO-13-435 - The Acting Commissioner of the Internal Revenue Service should direct appropriate officials to develop a long-term strategy to improve web services provided to taxpayers, in accordance with Howto.gov and other federal guidance outlined in our report. To accomplish this, we further recommend that IRS</p>	<ul style="list-style-type: none"> • decide on a complete suite of performance metrics, as soon as practical. • establish a numerical or other measureable goal to improve taxpayer satisfaction and a time frame for achieving it. • develop business cases for all new online services, describing the potential benefits and costs of the project, and use them to prioritize future projects.

Source: GAO. | GAO-16-151

Table 10: Eight Open Recommendations to IRS on Combating Identity Theft Refund Fraud

Report	Recommendation
<p>GAO-14-633 - The Commissioner of Internal Revenue should fully assess the costs and benefits of accelerating W-2 deadlines and provide information to Congress on</p>	<ul style="list-style-type: none"> • the IRS systems and work processes that will need to be adjusted to accommodate earlier, prerefund matching of W-2s and then identify timeframes for when these changes could be made. • potential impacts on taxpayers, IRS, the Social Security Administration, and third parties. • what other changes will be needed (such as delaying the start of the filing season or delaying refunds) to ensure IRS can match tax returns to W-2 data before issuing refunds.
<p>GAO-14-633 - To provide timely, accurate, and actionable feedback to all relevant lead-generating third parties, the Commissioner of Internal Revenue should</p>	<ul style="list-style-type: none"> • provide aggregated information on (1) the success of external party leads in identifying suspicious returns, and (2) emerging trends (pursuant to section 6103 restrictions). • develop a set of metrics to track external leads by the submitting third party.
<p>GAO-15-119 - The Commissioner of Internal Revenue should,</p>	<ul style="list-style-type: none"> • to improve the reliability of Taxonomy estimates for future filing seasons, follow relevant best practices outlined in the GAO Cost Guide by documenting the underlying analysis justifying cost-influencing assumptions. • to improve the reliability of Taxonomy estimates for future filing seasons, follow relevant best practices outlined in the GAO Cost Guide by reporting the inherent imprecision and uncertainty of the estimates. For example, IRS could provide a range of values for its Taxonomy estimates. • to ensure relevant information is available to decision makers, estimate and document the costs, benefits and risks of possible options for taxpayer authentication, in accordance with Office of Management and Budget and National Institute of Standards and Technology guidance.

Source: GAO. | GAO-16-151

**Appendix X: Open Filing Season-Related
Matters for Congress and Recommendations
to the Internal Revenue Service**

Table 11: Two Open Recommendations to IRS Exploring Real-Time Verification

Report	Recommendation
<p>GAO-13-515 - To help ensure managers are able to assess the progress of exploratory efforts and have the information needed to weigh the potential risks, costs, and benefits of options, the Acting Commissioner of Internal Revenue should</p>	<ul style="list-style-type: none"> • identify time frames for the Real Time Tax exploratory effort's critical phases and essential activities. • develop a risk management framework for Real Time Tax that includes a record of risk analyses.

Source: GAO. | GAO-16-151

Table 12: Five Open Matters to Congress to Expand IRS's Math Error Authority (MEA) and Combat Identity Theft Refund Fraud

Report	Matter
<p>GAO-09-146 - Given the potential for improving compliance now and in the future, Congress should</p>	<ul style="list-style-type: none"> • provide IRS with the authority to use math error checks to identify and correct returns with ineligible (1) IRA "catch-up" contributions, and (2) contributions to traditional IRAs from taxpayers over age 70-1/2.
<p>GAO-10-225 - Congress should consider</p>	<ul style="list-style-type: none"> • providing IRS with MEA to use prior years' tax return information to automatically verify taxpayers' compliance with the limit on the number of years the Hope credit can be claimed.
<p>GAO-10-349 - Congress should consider</p>	<ul style="list-style-type: none"> • broadening IRS's ability to use MEA, with appropriate safeguards against misuse of that authority.
<p>GAO-11-481 - To ensure that IRS can adequately enforce certain tax provisions, Congress should</p>	<ul style="list-style-type: none"> • provide IRS with MEA to use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable.
<p>GAO-14-633 - Congress should consider</p>	<ul style="list-style-type: none"> • 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.

Source: GAO. | GAO-16-151

Appendix XI: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

DEC 7 2015

Mr. James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues Team
U.S. Government Accountability Office
441 G St., NW
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report, "2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies." IRS is responding separately on GAO's specific recommendations.

As the GAO report notes, Treasury and the IRS have taken steps to define customer service targets and align them to Treasury's and IRS's strategic and performance plans. Treasury has incorporated strategic goals and objectives into our fiscal year 2014-2017 strategic plan, established performance measures linked to the strategic goals (such as telephone level of service, taxpayer self-assistance rates, and percentage of returns processed electronically), and has established an agency priority goal to increase self-service options for taxpayers.

To review progress toward goals and strategy decisions, Treasury meets regularly with IRS leadership, which includes formal quarterly performance reviews with the Deputy Secretary. IRS has taken numerous steps to improve service and to measure progress, including the development of the Taxpayer Assistance Blueprint, and the initialization of the IRS Concept of Operations, which charts improvements planned over a 5-year period. IRS remains focused on better integrating and strengthening their existing measures, goals, and initiatives, and their overall customer service strategy.

We appreciate GAO's recognition of IRS and Treasury actions thus far to define customer service targets and align them to Treasury's and IRS's strategic and performance plans. While our performance management reporting and practices meet current requirements, we plan to continue working with the IRS to make improvements.

Again, I thank you for the opportunity to review this draft report. We look forward to continuing to work with you and your team on these important issues.

Sincerely,

Prodi Fontenot
Assistant Secretary for Management

Appendix XII: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

December 7, 2015

Mr. James R. McTigue, Jr.
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to respond to your draft report, titled *Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*. We appreciate the GAO's recognition of the work that the IRS has done and continues to do to meet taxpayer needs in an era in which formidable budgetary challenges have resulted in reduced resources and reduced staffing available to assist taxpayers. Although the IRS collects 90 percent of the federal government's revenue and interacts with virtually every U.S. taxpayer, Fiscal Year 2015 marks the fifth consecutive year that the IRS has been challenged with performing our tax administration responsibilities and meeting taxpayer demand for services in an environment of reduced funding. Also, it is important to note that our four appropriations accounts are intended for specific uses, with taxpayer service being one. We have limited flexibility to move resources from one appropriation account to another; further, we do not have the latitude to reallocate funds Congress mandates for specific purposes.

The reality of our budget had an undeniable impact on the level of service (LOS) and wait times for taxpayers who called for assistance. For example, the LOS for Fiscal Year 2015 was originally projected at 54 percent. However, after the budget had been finalized in January 2015, further funding reductions negatively affected the number of resources available for customer service, and reduced the LOS projection to 38 percent. As noted in the report, we are currently operating with a budget that is \$1.2 billion less than the amount appropriated in Fiscal Year 2010 and with about 15,000 fewer employees. If the IRS receives the funding levels requested in the President's budget, we would be much better positioned to meet our level of service standards for all channels of customer interaction. We nevertheless continue to look for ways to provide better service across all channels, especially in making decisions about how to apply our finite resources; such as increasing our online offerings, expanding voluntary and free service alternatives, making appointments for in-person service including virtual interactions in distant areas, and exploring digital communications to expedite correspondence services.

While your report focuses on telephone service, we note that the IRS views taxpayer service more broadly, as telephone service is only one of many channels through which we communicate with taxpayers to meet their needs. Providing quality customer service to our taxpayers on all our channels is a critical component of promoting voluntary compliance by taxpayers. In recognition of the criticality of this need to the IRS' mission, we have developed a robust strategy, and continually evolve it, to meet taxpayers' needs today and in the future – a strategy that enables us to not only provide better service to taxpayers, but to also deliver those services more efficiently. This multi-channel strategy has evolved from our initial Taxpayer Assistance Blueprint (TAB), which was informed by among other information, conjoint analysis whereby we learned from taxpayers their service channel preferences and behaviors under various scenarios. We continually update the insights gained through successive conjoint and other analyses; for example, taxpayers have long favored a web-chat type of service capability, which we continue to strive toward offering as we get more experience with online and digital interactions with taxpayers and those who serve them.

The IRS' long-term vision for tax administration is to modernize taxpayer service, as initially articulated in the TAB, by providing taxpayers with more robust online services and providing more efficient service options, similar to the many best-in-business private sector services that many of our taxpayers are already accustomed to having at their disposal. To that end, Service-on Demand (SOD) was initiated as a cross-functional team that conceptualized, developed and socialized a Digital First Vision for customer service to help IRS leaders reimagine the future taxpayer experience. Guided by the IRS's strategic goal of delivering high quality and timely service to reduce taxpayer burden and encourage voluntary compliance, the SOD team aggregated data across platforms, products, and channels to develop the Vision based on a new service channel mix that could transform taxpayer service, allow us to offer more taxpayers lower-cost self-service and online channels, and preserve our most costly service channels – such as telephone and face-to-face service - for taxpayers for whom digital access is not feasible. In developing this Vision, which is integral to the Services Approach used to guide our service delivery and a natural extension of the TAB, the IRS employed a number of industry best practices. This included analyzing service data to identify the major areas of taxpayer demand by service channel, using a taxpayer centric approach to better understand and identify their specific transaction needs and behaviors, and consulting with leading state agencies with respect to delivering online account access. As noted in the report, we agree that our SOD plan to link investments to our long-term strategy for improving web services will help to ensure that activities, core processes, and resources are aligned to support the mission of providing better service to taxpayers and delivering service more efficiently.

SOD is integral to the larger enterprise Future State (also known as Concept of Operations), which covers the complete end-to-end taxpayer experience and outlines our plans for delivery of taxpayer services and enforcement moving forward. The IRS

will continue to look for ways to improve the taxpayer experience through the Services Approach and Future State development to provide more efficient service options suited for the taxpayers' needs and preferences. This includes a Future State moving from high volume online transactions as SOD has allowed through applications such as Where's My Refund and Online Payment Agreements, to the opportunity for online tax account access whereby taxpayers and those they authorize can more easily discharge their tax responsibilities. The online account, along the lines of what banks, securities firms, and retailers offer, is being explored now through initiatives to ultimately enable taxpayers to make adjustments to their accounts where they have made an error on a submitted return rather than having to prepare and submit an amended return. This type of account access would facilitate better communications to resolve differences more easily, quickly and efficiently.

Any proposed strategy still has to navigate obstacles presented by technological challenges, taxpayer preferences, limited funding and finite resources for enabling information technology projects and other investments across the IRS. Our recent Get Transcript experience, as well as others with far more expansive intrusions, illustrates the importance of our strategy being sensitive to the safety and security of our interactions with taxpayers, whether online or through any of our service channels. Our ability to get to our Future State must overcome these many challenges to provide the desired multi-channel service levels envisioned, which we strive to continually improve as we progress to deliver the strategy.

Your report discusses the need to develop performance measures that are benchmarked to the best in business. Although the IRS has done benchmarking with industry and other governmental agencies to identify best practices, private sector organizations often do not face the same budgetary constraints, budget volatility and legislative challenges that federal agencies face. Nor do many private sector organizations face an intense filing season, with condensed accelerated demands for a portion of the year, and a customer base largely interacting with us once a year rather than transacting with us throughout the year. Therefore, defining appropriate service levels against private industry or customer expectations is challenging given the wide variation in private industry business models. Comparisons of such efforts vary significantly due to private industry being profit-driven and operating with budget flexibility to maximize profits, while the IRS is expected to deliver the best service possible with a strictly defined budget that has been greatly reduced since 2010. However, we continue to review and update our priorities each year to ensure we are meeting the needs and preferences of our customers in the most effective and efficient manner—not necessarily more service, but better, more efficient, and more satisfying interactions.


We also note that of the 21 prior recommendations to the IRS that GAO considers not to be fully implemented, actions to address seven of those recommendations are in

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process and on schedule for completion within the next year. The actions addressing 12 of the recommendations have been implemented, and we disagreed with the remaining two recommendations at the time they were proposed.

We appreciate GAO's insight and recommendations on this important topic. A response to your specific recommendations for this report is enclosed. If you have any questions, please contact Susan Powers, Acting Director, Strategy and Finance, Wage and Investment Division, at (404) 338-7750.

Sincerely,


John M. Dalrymple
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

Recommendations for Executive Action

To improve taxpayer service and gain efficiencies, we recommend that the Commissioner of Internal Revenue take the following two actions:

Recommendation 1

Assess the feasibility of setting up a control in IRS systems requiring assistors to send out required correspondence to taxpayers prior to closing a correspondence case.

Comment

We agree and will analyze our options for bolstering controls to further address the required correspondence concerns, considering the impact of any modifications to available resources relative to the volume of cases closed.

Recommendation 2

Periodically conduct performance evaluations of IRS return processing operations to identify inefficiencies. The initial evaluation could include, for example, assessing when to correspond with taxpayers whose returns contain errors, collecting additional data on errors that IRS corrects, and closing training gaps that are hindering performance for units that process errors on individual taxpayer returns.

Comment

We agree and will consider opportunities to improve our processes already in place that identify trends in common errors requiring correction and/or correspondence with taxpayers during return processing, to inform strategies for reducing or eliminating those errors. Assessing when and how to communicate errors with taxpayers is also inherent in the Future State visioning underway to enable error correction to be done more easily and efficiently through, among other things, outreach and self-correction through the taxpayer's account and preferred communications channels. We also will review and improve, where appropriate, the training of our employees.

Appendix XIII: GAO Contact and Staff Acknowledgments

Contact

James R. McTigue, Jr. (202) 512-9110, MctigueJ@gao.gov

Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director, Erin Saunders Rath, Analyst-in-Charge, Lyle Brittain, Jehan Chase, James Cook, Robert Gebhart, Shelby Kain, Kirsten B. Lauber, Donna Miller, Mark Ryan, and Ardith Spence made key contributions to this report.

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