

December 2010

2010 TAX FILING SEASON

IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others



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Why GAO Did This Study

The Internal Revenue Service's (IRS) filing season is an enormous undertaking that includes processing individual income tax returns, issuing refunds, and responding to taxpayers. GAO was asked to assess IRS's 2010 filing season performance in relation to its goals and prior years' performance processing individual tax returns, answering telephones, and delivering Web and face-to-face services. To conduct the analysis, GAO analyzed data and documents from IRS, interviewed IRS officials, observed IRS operations, and interviewed tax industry experts.

What GAO Recommends

GAO's five recommendations to IRS are to establish a customer service telephone standard, assess the costs and benefits of storing recorded calls beyond 45 days, solicit information on call trends from employees, develop a performance measure for the timeliness of taxpayer correspondence, and involve key stakeholders in its evaluation of its debit card program.

IRS disagreed with developing a customer service standard, not wanting to revise its measurement of phone service. However, a standard would allow IRS to communicate to Congress what it believes constitutes good service. IRS also disagreed with assessing the costs and benefits of storing calls beyond 45 days. GAO's report suggests that further analysis could show whether the benefits of doing so currently exceed the costs. IRS generally agreed with the other three recommendations.

View [GAO-11-111](#) or key components. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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What GAO Found

IRS dealt with a number of challenges this filing season, including significant tax law changes, such as the Making Work Pay credit, and corresponding changes in taxpayer behavior. IRS balanced its resources across its filing season activities with improvements in some areas but fluctuations in others.

Return processing: Electronic filing, which reduces costs to IRS, increased about 3 percent, to 71 percent of all individual returns. However, IRS experienced delays in issuing millions of refunds, which IRS officials attributed primarily to correcting taxpayer errors associated with the Making Work Pay credit and conducting additional automated checks.

Telephone service: Compared to 2009, the percentage of callers seeking live assistance who received it improved in 2010 and the accuracy of answers remained high, at over 90 percent. However, the average wait time increased. Further, IRS's annual goal for providing caller assistance was lower than any of the preceding 5 years. However, IRS lacks a standard for what constitutes good customer telephone service that could be compared to its annual goals. Such a standard would make the gap between the annual goals and the standard more transparent. IRS is using a tool called Contact Analytics to better understand the reasons why taxpayers call. However, IRS has not assessed the costs and benefits of storing recorded calls for longer than the current 45 day period for use in Contact Analytics, and GAO identified gaps in the process IRS uses to solicit input on call topics from frontline IRS staff. Such input could be used to identify issues for further research using Contact Analytics. IRS's customer service staff also responds to taxpayer correspondence. IRS received about 20 million pieces of correspondence in 2010, but it does not have a performance measure that addresses the timeliness of taxpayer correspondence, a key agency objective. By not having such a performance measure, IRS managers may have a less informed basis for balancing resources across telephone and correspondence services.

IRS Telephone Service Goals and Performance, 2005 through 2010 Filing Seasons

		2005	2006	2007	2008	2009	2010
Percentage of callers seeking live assistance who received it	Actual	82	81	81	57	68	76
	Goal	82	82	82	82	77	71
Average wait time (minutes)	Actual	4.3	3.9	4.6	8.6	8.4	9.5
	Goal	2.8	5.0	4.3	4.5	10.4	11.6

Source: GAO analysis of IRS data.

Web site: Visits to IRS's Web site increased and IRS is taking steps to improve content management before introducing a new Web site in 2012.

Face-to-face: In 2010, taxpayer visits to IRS's walk-in sites and sites operated by volunteers remained about the same as in 2009. IRS's program to provide refunds on debit cards at certain volunteer sites, targeting taxpayers without bank accounts, received little use in 2010. IRS's evaluation of the program did not include taxpayers or volunteers. By not including these stakeholders, IRS risks not learning the real reasons for low participation.

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Abbreviations

ARRA	American Recovery and Reinvestment Act
CADE	Customer Account Data Engine
E-file	electronic filing
ERS	Error Resolution System
FAQ	frequently asked questions
FTE	full-time equivalent
FTHBC	First-Time Homebuyer Credit
IMF	Individual Master File
IRS	Internal Revenue Service
LOS	Customer Service Representative Level of Service
MEA	math error authority
MeF	Modernized e-File
MWP	Making Work Pay
PDF	portable document format
PIN	personal identification number
TAB	Taxpayer Assistant Blueprint
TIGTA	Treasury Inspector General for Tax Administration

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

December 16, 2010

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable John Lewis
Chairman
The Honorable Charles W. Boustany, Jr.
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Every tax filing season is a large-scale and critical undertaking during which the Internal Revenue Service (IRS) interacts with tens of millions of taxpayers by processing tax returns, correcting errors on returns, issuing refunds, answering telephone calls, and providing other services to taxpayers, both face-to-face and online. IRS has also administered complex tax law changes over the last few filing seasons—including the First-Time Homebuyer Credit (FTHBC) in 2009 and 2010 and the Making Work Pay (MWP) tax credit in 2010.¹ Earlier this year we reported on the challenges IRS faces in ensuring compliance with recent changes to the tax treatment of forgiven mortgage debt—an issue of particular importance in 2010 given recent trends in the housing market and the rise in foreclosures.² We also reported on the use of the FTHBC by state and credit version—Congress passed three separate versions of the FTHBC.³

¹Pub. L. No. 110-289, § 3011, 122 Stat. 2654 (2008), Pub. L. No. 111-5, div. B, tit. I, § 1006, 123 Stat. 115, 316 (2009), and Pub. L. No. 111-92, § 11, 123 Stat. 2984, 2989 (2009) enacted three versions of the First-Time Homebuyer Credit and Pub. L. No. 111-5, div. B, tit. I § 1001, 123 Stat. 115, 309 (2009) enacted the Making Work Pay Credit.

²GAO, *Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt*, [GAO-10-997](#) (Washington, D.C.: Aug. 31, 2010).

³GAO, *Tax Administration: Usage and Selected Analyses of the First-Time Homebuyer Credit*, [GAO-10-1025R](#) (Washington, D.C.: Sept. 2, 2010).

In light of its importance, at your request, we assessed IRS's 2010 filing season performance in comparison to 2010 goals and previous years in processing individual income tax returns, providing telephone service, delivering service through IRS's Web site, and responding to face-to-face contacts with taxpayers. Our analyses included identifying what efficiency gains, if any, IRS could implement that would enhance taxpayer service or compliance during the filing season.

Scope and Methodology

To meet our objective we took the following steps:

- Reviewed and analyzed IRS documents and data, including performance and workload data, reports, testimonies, budget submissions, and compared these to IRS's goals and past performance to identify trends and anomalies.
- Reviewed various criteria, including industry standards, federal requirements, and best practices, to assess IRS's performance in key areas.
- Reviewed information from other organizations that compile data pertinent to our objectives, such as the ForeSee Results IRS Satisfaction Insight Review, which evaluates customer satisfaction with Web site performance.
- Interviewed IRS officials responsible for tax return processing, taxpayer services, and examination and compliance activities.
- Interviewed external stakeholders who frequently interact with IRS on key aspects of the filing season, including representatives of a customer service trade organization, to identify customer service benchmarks and best practices, and representatives from major tax preparation firms and organizations.
- Observed operations at IRS's Joint Operations Center (which manages telephone services) and listened to calls from taxpayers with telephone assistants. We also viewed operations at one of IRS's walk-in sites and Submission Processing Center in Atlanta, Ga. We selected these particular offices for a variety of reasons, including the location of key equipment and IRS managers.
- Reviewed Treasury Inspector General for Tax Administration (TIGTA) reports and interviewed TIGTA officials about IRS's performance and initiatives.

When data were available, we compared IRS's 2010 performance to its performance from fiscal years 2005 through 2009. IRS officials noted that tax law changes affected performance during fiscal years 2008 and 2009 as compared to 2005 through 2007, when tax law changes were not as significant.

This report discusses numerous filing season and performance measures and data covering the quality, accessibility, and timeliness of IRS's services. To the extent possible, we corroborated information from interviews with documentation and data and where not possible, we attribute the information to IRS officials. We reviewed IRS documentation, interviewed IRS officials about computer systems and data limitations, and compared those results to our standards of data reliability.⁴ Data limitations are discussed where appropriate. We consider the data presented in this report to be sufficiently reliable for our purposes. We conducted our work primarily at IRS headquarters in Washington, D.C. and at the Wage and Investment Division headquarters in Atlanta, Ga. as well as other sites mentioned earlier.

We conducted this performance audit from February 2010 through December 2010 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 objective.

Background

Each year during the filing season IRS accepts individual income tax returns electronically and on paper, processes the returns, and validates key pieces of information. A growing majority of taxpayers file their individual tax returns electronically.

IRS uses the legacy Individual Master File (IMF) and current Customer Account Data Engine (CADE) to process individual income tax returns. IRS plans to eventually shift all return processing to a new system called CADE 2, which is intended to facilitate faster refund processing and other benefits, such as providing IRS with more up-to-date account information and more timely responses to taxpayer inquiries.⁵

⁴GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-09-680G](#) (Washington, D.C.: July 2009).

⁵We are preparing a report on CADE 2, including a review of its anticipated benefits, for the House Committee on Appropriations' Subcommittee on Financial Services and General Government. We anticipate releasing this to the committee in the early part of 2011.

IRS is also replacing its legacy electronic filing (e-file) system with the Modernized e-File (MeF) system. IRS cannot accept electronically filed returns directly from taxpayers. Rather, IRS-authorized e-file providers transmit returns to IRS electronically. Return transmitters send electronic return data directly to IRS using either the MeF or the legacy e-file system.⁶ The MeF system is intended to accept or reject individual tax returns faster than the legacy system. In addition, if the return is rejected, the MeF system should provide better information regarding why the return was rejected.⁷ The MeF system is also intended to allow taxpayers to attach portable document format (PDF) files to their tax returns, which will be useful in instances where taxpayers are required to submit additional documentation, such as for the FTHBC. Finally, MeF serves as a single point of submission for federal and state tax return information. IRS is planning to fully implement the MeF system in time for the 2012 filing season, and retire the legacy e-file system in October 2012.

As in the last few filing seasons, in 2010, IRS administered complex tax law changes, including the MWP and Residential Energy Property Credits⁸—part of the American Recovery and Reinvestment Act of 2009 (ARRA)—and the FTHBC.

- The refundable MWP tax credit provides up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns.⁹ Individuals who received Social Security, Railroad Retirement, or Veteran’s benefits received a \$250 Economic Recovery Payment in 2009, which reduced the amount of the MWP credit they were eligible to receive.
- The Residential Energy Property Credit increases the existing credit rate to 30 percent of cost up to a maximum credit of \$1,500 for homeowners who make certain energy efficient improvements to existing homes.

⁶Transmitters are one type of IRS Authorized e-file Provider. IRS Publication 3112, *IRS e-file Application and Participation*, describes rules for businesses and organizations to participate in IRS e-filing.

⁷We previously recommended that IRS provide paid preparers and software providers with clearer descriptions of why returns are rejected. See GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season*, [GAO-09-1026](#) (Washington, D.C.: Sept. 23, 2009).

⁸Pub. L. No. 111-5, div. B § 1121, 123 Stat. 115, 322 (2009).

⁹For refundable tax credits, taxpayers receive payments even in cases when there is no tax liability.

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- As we have previously reported, since 2008, Congress has enacted three versions of the FTHBC to help stimulate the housing market by providing first-time homebuyers and some long-term homeowners with a refundable tax credit to assist with the purchase of a home.¹⁰

Appendix II summarizes key tax law changes that affected recent filing seasons.

Part of IRS's filing season work involves correcting errors on tax returns, which can benefit both IRS and taxpayers. Correcting errors before issuing refunds allows IRS to avoid costly and burdensome audits and taxpayers may receive larger refunds or be made aware of additional taxes owed before being required to pay interest and penalties.

For example, IRS used math error authority (MEA) to identify and correct errors with the FTHBC. MEA allows IRS to identify calculation errors and check for obvious noncompliance, such as claims above income and credit limits. These automated and relatively low-cost (compared to audits) math error checks increase the likelihood of IRS collecting the correct amount of tax owed. Congress must grant IRS specific authority to use MEA for purposes beyond computational errors. We previously recommended that Congress broaden IRS's MEA with appropriate safeguards to prevent its misuse.¹¹

In addition to processing tax returns, IRS also provides tax law and account assistance, limited return preparation, tax forms and publications, and outreach and education, primarily through its telephone services, Web site, and, to a much lesser extent, through face-to-face assistance. For example, IRS staff provides assistance at 401 walk-in sites where taxpayers can receive basic tax law assistance, receive assistance with their accounts, and have returns prepared by IRS if their annual income is \$49,000 or less. IRS also has volunteer partners that staff over 12,000 volunteer sites, which help serve traditionally underserved taxpayer segments, including elderly, low-income, and taxpayers with limited English proficiency. Continued improvements to telephone service and IRS's Web site could help reduce the demand for taxpayer service at walk-in and volunteer sites.

¹⁰[GAO-10-1025R](#).

¹¹GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010).

Electronic Processing Continued to Increase, but Some Refunds Were Delayed as a Result of IRS Correcting Millions of Taxpayer Errors

The number of tax returns IRS processed in 2010 declined by about 2 percent from the prior year, as shown in table 1. However, electronically filed returns continued to increase, reaching 71 percent of all returns. As we have previously reported, electronic filing is important because it allows taxpayers to receive refunds faster, is less prone to transcription and other errors, and provides IRS significant cost savings. For example, for fiscal year 2009, IRS reported that it costs 19 cents to process an e-filed return compared to \$3.29 for a paper return.

Table 1 also shows that IRS issued about 2 percent fewer refunds in 2010 compared to 2009, with the average refund amount being about \$2,915. In all, IRS issued about \$312 billion in refunds during the 2010 filing season.

Table 1: Individual Income Tax Returns Processed and Refunds Issued, 2005 through 2010

Numbers in millions							
	2005	2006	2007	2008 ^a	2009	2010	Percentage change from 2009 to 2010 ^b
Returns processed	130	131	135	151	139	137	-2
Paper	62	59	56	62	45	40	-11
Electronic	68	72	79	89	94	97	3
Percent electronically filed	52	55	58	59	67	71	NA
Refunds issued	99	99	103	105	109	107	-2
Dollar amount of refunds issued (in billions)	\$210	\$219	\$234	\$248	\$298	\$312	5
Average refund amount ^c	\$2,126	\$2,206	\$2,259	\$2,350	\$2,725	\$2,915	7

Source: GAO analysis of IRS data.

Notes: Data are from January 1 through September 30, 2005; September 29, 2006; September 28, 2007; October 3, 2008; October 2, 2009; and October 1, 2010. NA stands for not applicable.

^aIRS experienced a significant processing increase in 2008 as a result of the economic stimulus payments.

^bNumbers in the table are rounded, but percentage change was calculated using exact values.

^cActual dollar amount, not in millions.

IRS processed about the same number of returns on current CADE as it did in 2009 (just over 41 million). In 2012, IRS plans to establish and use the new CADE 2 database in conjunction with their legacy system for daily processing of individual taxpayer accounts. Current CADE processes returns about 1 to 8 days faster than the legacy system, and at present, only taxpayers whose accounts have been moved to that system get this benefit (i.e., about 30 percent of all individual returns). Although IRS once intended for current CADE to replace the legacy system, this is no longer the case. Rather, beginning in the 2012 filing season, IRS plans to

introduce daily processing for most returns using the legacy system and the new CADE 2 database. At that time, IRS officials expect that the majority of individual taxpayers will receive the benefit of faster refunds in addition to other benefits.

Although IRS began using MeF to accept individual returns for the first time in 2010, the system was underutilized.¹² Return transmitters submitted about 7 percent of the total number of returns that IRS officials projected the MeF system could accept.¹³ IRS officials cited several reasons for lack of use of the MeF system, including that it is unproven compared to the current legacy e-file system. They also noted that the legacy e-file system had a lower rejection rate than MeF and return transmitters may have stopped using MeF after encountering performance problems. In interviews with GAO and in a survey conducted by the Electronic Tax Administration Advisory Committee, a group of stakeholders that offers suggestions about current or proposed electronic tax administration policies, industry stakeholders who are major users of electronic filing cited MeF system “instability” (system down-time, time-outs, slow servers, and delayed acknowledgments) as a major reason for low use of the MeF system.

For the 2011 filing season, IRS officials expect that the MeF system will be capable of accepting up to about 85 million individual returns. However, IRS officials acknowledged that until IRS overcomes the performance and stability issues experienced in 2010, transmitters are likely to continue to send Form 1040 returns to the legacy electronic filing system. Transmitters may still be reluctant to switch to MeF until the system is proven to be stable, and their participation is still voluntary until the legacy system is turned off in 2012. To ensure that issues with the stability of the system do not persist in 2011, IRS officials are testing the MeF system in preparation for next year. IRS officials expect that by 2012, when the legacy system is scheduled to be turned off, MeF should be able to accept all individual returns filed electronically.

¹²This year MeF could accept Form 1040 and 22 related forms and schedules.

¹³IRS officials estimated that the MeF system could accept nearly 11 million returns through April 15; however, the MeF system had accepted only 764,000 returns through September 26, representing less than 1 percent of all individual returns received.

IRS Corrected Millions of Taxpayer Errors, Resulting in More Taxpayers Experiencing Delays Receiving Refunds

IRS corrected a large number of taxpayer MWP errors and identified returns with residential energy credits using its Error Resolution System (ERS) this filing season.¹⁴ In addition, IRS applied filters for pre-refund examinations on certain FTHBC returns.¹⁵ IRS officials said that the combined effect of these actions resulted in longer processing times in general—not just for returns with MWP errors or FTHBC claims.

In total, about 26 million returns, or about 20 percent of all returns processed, went to ERS this year. IRS officials said it generally takes approximately one week to correct returns in ERS; however, between March and May of 2010, it took up to two weeks to process these returns. Appendix III describes in more detail the large number of returns sent to ERS this filing season.

Correcting returns benefited either taxpayers or IRS. For example, IRS corrected millions of MWP errors in favor of taxpayers, meaning taxpayers received larger refunds (or had a lower balance due) than they anticipated when they filed their return. In addition, applying filters for pre-refund examinations allowed IRS to prevent millions of dollars from being issued for ineligible FTHBC claims. Although applying these filters often results in IRS identifying incorrect refunds, we have previously reported that in some cases the filters applied were not sufficient to stop incorrect refunds from being sent to taxpayers.¹⁶

In part due to these complications, IRS's timeliness in issuing refunds declined by 3 percentage points, marking its lowest level since at least 2005. According to our calculations, this translates to about 3.3 million more refunds being delayed through August 2010 compared to last year. Delays in providing refunds adversely affect taxpayers because it takes longer for them to receive their refunds and contributes to taxpayer calls

¹⁴Returns on which taxpayers claimed residential energy credits that went to ERS did not necessarily contain errors. Rather, IRS used ERS to identify how frequently taxpayers claimed these credits. Using ERS to count these credits contributed to delays in distributing refunds.

¹⁵To ensure taxpayers were eligible for the FTHBC, IRS initially withheld the amount until it could determine eligibility using MEA and other automated audit filters. Once IRS determined the credit should be paid, it was released, but, in some cases IRS had to pay interest as the pre-audit compliance check resulted in the return being processed beyond 45 days of receipt.

¹⁶GAO, *Financial Audit: IRS's Fiscal Years 2009 and 2010 Financial Statements*, [GAO-11-142](#) (Washington, D.C.: Nov. 10, 2010).

about the status of their refunds. In addition, IRS paid significantly more interest on those refunds than in previous years, which imposed additional costs to the federal government. For example, IRS paid about \$12.6 million in refund interest through August 2010, about \$8 million more than in 2009.¹⁷ On the other hand, rapid processing of refunds without proper checks can lead to erroneous refund payments which can be costly to the federal government. Recovering erroneous refunds also imposes additional burdens on taxpayers.

Finally, although IRS missed its fiscal year goals for refund timeliness and refund interest paid, IRS met four key processing goals—correspondence error rate, deposit error rate, productivity, and refund error rate. Appendix IV defines and summarizes IRS's processing performance compared to goals from 2005 to 2010.

¹⁷This goal is not inclusive of all types of refund interest paid by IRS. It represents the amount of refund interest IRS paid for current year returns that were processed and the refund issued during the same time period. IRS's refund interest paid goal is based on the dollar amount of interest paid per \$1 million of refunds. Overall, IRS paid about \$2.2 billion in interest during fiscal year 2010.

IRS Exceeded Some 2010 Telephone Service Goals, but Timeliness Is Not Included in Paper Correspondence Goals and IRS Could Do More to Improve Service

The percentage of callers seeking live assistance who actually received it—referred to as IRS’s Customer Service Representative Level of Service (LOS)—improved to 76 percent in 2010 as compared to the previous 2 years, as shown in table 2.¹⁸ However, taxpayers waited almost 10 minutes on average to speak with a phone assistor in 2010. This is the longest average wait time since at least 2005, and IRS officials attribute it in part to an increase in the number of calls from taxpayers inquiring about their individual tax account.¹⁹ Taxpayers’ access to phone assistors in 2010 was below the levels from 2005 through 2007 and, although IRS met its goals in 2010, the goals were lower than any previous year since before 2005. IRS’s LOS goal for 2010 was 11 percentage points lower than from 2005 through 2008.

Table 2: IRS Telephone Service Goals and Performance, 2005 through 2010 Filing Seasons

		2005	2006	2007	2008	2009	2010	Percentage change from 2009 to 2010 ^a
Percentage of callers seeking live assistance who received it	Actual	82	81	81	57	68	76	13
	Goal	82	82	82	82 ^b	77 ^c	71	-8
Average wait time (minutes)	Actual	4.3	3.9	4.6	8.6	8.4	9.5	13
	Goal	2.8	5.0	4.3	4.5	10.4 ^d	11.6	12

Source: GAO analysis of IRS data.

Note: Actual data are from January 1 through June 30, while goals are for the entire fiscal year. We believe comparing performance during the filing season to fiscal year goals is appropriate as IRS’s filing season performance is an indicator of its performance for the entire year.

^aNumbers in the table are rounded, but percentage change was calculated using exact values.

^bIRS revised its original fiscal year goal of 82 percent down to 74 percent because of high call volume due to stimulus-related calls.

^cIRS revised its original fiscal year goal of 77 percent down to 70 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

¹⁸IRS’s LOS takes into account a number of factors, which are described in greater detail in appendix V.

¹⁹IRS’s telephone assistor services are critical as taxpayers can only obtain information on their individual tax accounts by calling IRS’s toll-free telephone line, visiting an IRS walk-in site, or writing IRS. From January 1 through June 30, 2010, IRS provided approximately 19 million individual tax account services through its toll-free telephone line. For this period, these services were 66 percent of IRS’s total phone services provided while tax law services were 17 percent, business account services were 9 percent, and other services were 7 percent.

⁴IRS determines its wait time goal based on anticipated call volume and resource availability. IRS significantly raised its wait time goal for 2009 as compared to 2008 in light of anticipated increased call volume related to tax law changes.

As in 2008 and 2009, IRS continued to receive millions of calls related to tax law changes, including for the FTHBC and MWP. From February 8 through June 30, 2010, calls about these two credits accounted for 9 percent of IRS's telephone services.²⁰ In response to MWP calls, in March 2010, IRS introduced an automated application to reduce the number of taxpayers needing to talk to a live assistor.

IRS received 77 million telephone calls during the 2010 filing season, about the same as in 2009, as table 3 shows. IRS's automated phone system answered about 25 percent more calls compared to 2009, which is due in part to a new automated phone service which enables taxpayers to request their electronic filing personal identification number (PIN), as well as a 16 percent increase in the use of the refund automated application. IRS phone assistors answered about 24 million calls at a cost, according to IRS officials, of about \$25 per call, or about \$600 million from January 1 through June 30, 2010. IRS responded to these calls using 24 call centers with about 5,300 full-time equivalents (FTE).²¹

Table 3: Calls to IRS by Call Type, 2005 through 2010

Amounts in millions

	2005	2006	2007	2008 ^a	2009	2010	Percentage change from 2009 to 2010 ^b
Automated calls answered	23	22	21	43	25	32	25
Assistor calls answered	22	21	22	27	26	24	-6
Abandoned calls	11	12	13	34	21	21	-4
Busies and IRS disconnects	1	2	1	14	5	1	-78
Total calls received	58	57	57	118	78	77	0

Source: GAO analysis of IRS data.

Note: Data from January 1 through June 30.

²⁰IRS tracks the number of services provided on each call received, meaning that a taxpayer can receive multiple services on a single call.

²¹Full-time equivalent (FTE) is a measure of staff hours equal to those of an employee who works 40 hours per week in 1 year. For the full fiscal year, IRS used about 9,400 FTEs to answer toll-free telephone calls.

^aIRS received an unprecedented number of calls in 2008 primarily related to economic stimulus package payments. The Economic Stimulus Act of 2008 (Pub. L. No. 110-185) mandated that IRS send stimulus payments to over 100 million households.

^bNumbers in the table are rounded, but percentage change was calculated using exact values.

The accuracy of IRS’s telephone assistors’ responses to tax law and account-related questions was about the same as last year and exceeded IRS’s fiscal year 2010 goals, as shown in table 4. IRS officials attribute continued levels of accuracy to a number of factors, such as the use of automated assistance tools and targeted training of assistors.

Table 4: IRS Telephone Assistor Accuracy Performance, 2005 through 2010

	2005 actual	2006 actual	2007 actual	2008 actual	2009 actual	2010 actual	Fiscal year 2010 goals
Accuracy measures ^a							
Tax law accuracy rate (in percent) ^b	89.5 +/-0.6	90.6 +/-0.6	90.7 +/-0.9	90.3 +/-0.9	92.5 +/-0.8	92.4 +/-0.8	91.2
Accounts accuracy rate (in percent) ^b	91.3 +/-0.4	93.3 +/-0.3	93.2 +/-0.5	93.5 +/-0.4	95.1 +/-0.4	95.6 +/-0.4	93.7

Source: IRS data.

^aBased on representative samples selected by IRS from January 1 through June 30.

^bThe percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate actions, with a 90 percent confidence interval.

IRS Does Not Have a Customer Service Telephone Standard

The decline in IRS’s live telephone assistance goal from 82 percent in 2005 through 2008 to 71 percent in 2010 raises questions about what constitutes good customer service. Executive Order 12862 instructs federal agencies to establish and measure performance against customer service standards, which are to be equal to the quality of service offered by private organizations providing a comparable service.²² A related Presidential Memorandum introduced in 1995 and still in effect also notes that customer service standards should reflect customer views.²³ 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

²²Executive Order 12862, “Setting Customer Service Standards,” 58 FR 48257 (Sept. 11, 1993).

²³White House Office of the Press Secretary. Presidential Memorandum, Improving Customer Service, March 23, 1995.

organization with private organizations that are thought to be the best in their field.²⁴

IRS sets an annual goal for LOS performance based on resource availability, the expected number and complexity of calls, and anticipated volume of taxpayer correspondence, and subsequently determines weekly and other performance targets to achieve its annual goal.²⁵ IRS's LOS goal would differ from a customer service standard in that it measures what IRS management determines is attainable given current resources and expected call volume, compared to defining standards based on the quality of service provided by comparable organizations and on what matters most to the customer—in this case, taxpayers.

According to IRS officials, they would be able to determine a customer service telephone standard and could provide cost estimates to achieve the standard. Once set, however, IRS officials identified several challenges to meeting such a standard, including:

- the potential need for additional resources;
- the need to balance resources between telephone services, other taxpayer services, and enforcement activities;
- unexpected changes in agency priorities which require the flexibility to shift resources to respond; and
- potentially significant fluctuations in call volume, including those resulting from tax law changes.

IRS officials expressed concern that developing a customer service telephone standard could create the expectation that the agency would achieve that standard each year, even when resources, call volume, and other priorities may make the standard unattainable. This could be the case even if the annual goal is set at a level that is attainable. However, as noted above, a customer service standard is something to strive for and is different than an annual performance goal. Adding a customer service telephone standard would make the gap between the standard and annual performance goals transparent. Further, it could help IRS communicate its

²⁴GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

²⁵IRS divides the fiscal year into three planning periods, which it uses for setting performance targets and monitoring progress.

resource needs and help Congress make more informed decisions about IRS's budget.

IRS's Frontline Telephone Staff Are Not Consistently Consulted to Help Identify Solutions for Taxpayer Services

According to senior IRS officials, IRS has a process that includes holding regular team meetings to solicit ideas from frontline phone assistors about how to improve service. For example, the meetings are intended to help managers identify trends in call topics that might benefit from further research about the source of taxpayer confusion that could lead to finding less costly ways to provide assistance. However, we identified several gaps in this process. Specifically:

- Staff responsible for analyzing IRS's telephone calls using a research tool called Contact Analytics said determining appropriate search terms to effectively identify calls from taxpayers is one key challenge to using the system. This is something that could be improved by using frontline employees to identify search terms or trends in call topics.
- Managers and frontline phone assistors with whom we met considered the process to be informal where phone managers would note some issues to more senior management.²⁶
- According to IRS officials responsible for phone services, IRS did not consult with frontline phone assistors to obtain input on taxpayer call topics when reviewing call trends and adding an additional telephone service line for 2010.

The telephone service industry considers holding regular meetings with experienced phone assistors to identify trends in call topics to be a key element in improving service. By not consistently using existing processes to solicit input from IRS's frontline employees to identify issues for further research, including contributing ideas for Contact Analytics, IRS may miss areas of importance to taxpayers which could improve taxpayer service.

IRS Stores Calls for 45 Days, Which May Not Be Long Enough to Complete Data Analysis

Contact Analytics allows IRS to search recorded interactions between taxpayers and IRS assistors to enhance the taxpayer's experience by gaining a better understanding of the reasons taxpayers call IRS and identifying opportunities for cost savings or efficiency gains. However, Contact Analytics is not used to access phone calls older than 45 days. According to an IRS official, the current 45-day limit causes IRS's business

²⁶During our review, we met with one group of experienced phone assistors and managers at one of IRS's 24 telephone call centers.

units to use more time-consuming processes to analyze calls for proposed improvements to IRS's telephone operations. For example, as part of their planned review of refund inquiry calls received during the 2010 filing season, IRS officials explained they used an alternative system to listen to calls because they needed to review data for several months of the filing season, a period that extended beyond the 45 days available through Contact Analytics.

According to officials with IRS's Contact Analytics office, IRS is only able to store recorded calls for 45 days because of the expense of storing the calls and limited storage space.²⁷ Separately, IRS officials responsible for recording and storing calls explained that IRS developed its policy on the length of time to store data, including calls available for analysis through Contact Analytics several years ago. IRS officials acknowledged they have not surveyed the business units as to whether they need to store the recorded calls for a longer period or analyzed whether the benefits of storing the calls longer would exceed the costs.

IRS Does Not Have Performance Measures to Assess the Timeliness of Its Taxpayer Correspondence Services

IRS's frontline assistor staff is trained to respond to both telephone inquiries and taxpayer correspondence. IRS shifts staff between these two areas based on the volume of work and resource availability. For fiscal year 2010, IRS dedicated about 5,800 FTEs to taxpayer correspondence and, as we noted earlier, about 9,400 FTEs to telephone service.²⁸ IRS received about 20 million letters, forms, and other types of taxpayer correspondence in 2010, a slight increase as compared to 2009 and a 25 percent increase compared to 2007.²⁹ Compared to earlier years, such as 2005, the average percentage of taxpayer correspondence coverage has

²⁷IRS records 100 percent of calls to its toll-free telephone service using its Contact Recording system. IRS's Contact Analytics system then takes a representative sample of these calls which is equivalent to approximately 15 percent of calls received daily for analysis.

²⁸In addition, IRS's Submission Processing staff responds to some amended returns and three types of notices.

²⁹We define taxpayer correspondence as written communication from taxpayers as well as work internally generated by IRS employees. This includes amended returns, carry back claims, employer identification numbers, identity theft, and refund check problems. We do not include correspondence between taxpayers and IRS's compliance and Automated Underreporter offices as this relates to ongoing work. Notably, taxpayers can only receive some services by contacting IRS by mail. TIGTA is carrying out an audit of IRS's processing of taxpayer correspondence with the objective to determine if IRS is meeting its policy requirement to respond within 30 days or provide an update on the status of the response.

increased significantly, as shown in table 5, which IRS officials attribute to legislative tax law changes and a corresponding increase in the volume of amended returns.³⁰

Amended returns make up a significant portion of IRS’s taxpayer correspondence work and IRS has processed an increasing number of amended returns since 2005, due in part to taxpayers’ taking advantage of tax law changes. Taxpayers are not able to file amended returns electronically, which leads to increased processing time for taxpayers and added expense for IRS.³¹

Table 5: IRS Taxpayer Correspondence Performance, 2005 through 2010

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Percentage change from 2009 to 2010 ^a
Taxpayer correspondence received (in millions) ^b	15	15	16	18	19	20	4
Average percentage of taxpayer correspondence overage ^c	12	17	17	23	25	27	7

Source: GAO analysis of IRS data.

Note: Aggregate data from Accounts Management and Submission Processing, which jointly respond to IRS’s taxpayer correspondence.

^aNumbers in the table are rounded, but percentage change was calculated using exact values.

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

^c2005 through 2008 data do not include overage data for correspondence processed by submission processing as submission processing began tracking overage data in 2009.

For many of its processes, IRS has established performance measures to make managers and frontline staff more accountable for improving performance. As we previously reported, performance measures should provide a clear link to organizational priorities to provide useful

³⁰ A majority of correspondence is overage 45 days after it is received by IRS. However, some correspondence, such as correspondence related to natural disasters and individual taxpayer identification numbers, are overage after longer periods, reflecting the complexity of the work involved, while other less-complex correspondence is overage after a shorter period.

³¹ We are preparing a report on IRS’s implementation of its electronic filing mandate, including a review of returns that are currently not accepted (e.g., amended returns) into the electronic filing system. We anticipate reporting to the Senate Appropriations, Financial Services and General Government Subcommittee.

information for decision making.³² Since one measure may not encompass the entire performance of a program area, IRS's balanced measures include measures to assess employee satisfaction, customer satisfaction, and business results. The business results measures generally take into account both the quality and quantity, or productivity, of IRS's work.

As we previously mentioned, IRS has a number of balanced performance measures to monitor the productivity of its business results for telephone service, including average wait time and the percentage of callers seeking live assistance who actually receive it. In all, IRS has five balanced performance measures that address the productivity of its telephone service. IRS has one taxpayer correspondence performance measure that addresses productivity—customer accounts resolved.³³ However, this measure does not account for the timeliness of its correspondence services to taxpayers, which is one of IRS's organizational priorities.³⁴ IRS currently measures the timeliness of the employee's work. However, this measure does not evaluate the time a taxpayer waits for a response.

According to IRS officials, IRS uses a number of indicators to monitor its taxpayer correspondence workload, including size of inventory and weekly closures, and make workforce management decisions. In addition, a number of these indicators assess the timeliness of IRS's response to taxpayers. For example, IRS indicators show that for 2008 and 2009, on average, 23 to 25 percent of IRS's taxpayer correspondence portfolio has been overage, while in 2010 the percentage overage increased to 27 percent.³⁵ IRS management uses the percentage overage indicator, among others, to make weekly workforce management decisions, including the allocation of staff between telephone service and paper correspondence. For example, IRS has a computer program that helps IRS officials balance

³²GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) (Washington, D.C.: Nov. 22, 2002).

³³IRS has six taxpayer correspondence performance measures, four of which address business results—employee timeliness, employee accuracy, employee professionalism, and customer accounts resolved. IRS also measures customer satisfaction and dissatisfaction. In addition, taxpayer correspondence is one element in its customer contact resolved per staff year performance measure and employees working on taxpayer correspondence are included in IRS's employee satisfaction measure.

³⁴IRS's strategic plan includes the objective to "expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS."

³⁵IRS calculates the percentage of its taxpayer correspondence overage each week and the weekly percentage overage varies.

telephone and paper inventories and allocate staff between those two areas.

IRS recognizes that providing timely taxpayer correspondence service is its highest improvement opportunity for paper inventory. However, without elevating timeliness to taxpayers as part of its suite of balanced performance measures for taxpayer correspondence, IRS management risks prioritizing telephone or other services, for which such measures already exist, over providing timely taxpayer correspondence. Balanced performance measures are recognized agency priorities and are communicated as such to frontline staff. The lack of balanced performance measures addressing the timeliness of IRS's response to taxpayers may explain, in part, why such a large percentage of IRS's taxpayer correspondence is overage. This is particularly important as IRS makes trade-offs between providing telephone service and responding to taxpayer correspondence.

Ensuring the timeliness of IRS's response to taxpayer correspondence directly reduces the volume of calls made to IRS's telephone services, which can represent significant annual cost savings as phones represent one of the most expensive forms of taxpayer services.

Visits to IRS's Web Site Increased and IRS Is Taking Steps to Improve Taxpayer Satisfaction

Visits to IRS's Web site continue to increase, and in particular, the use of automated services like "Where's My Refund?" is substantially higher than in 2007, as table 6 shows. Specifically, IRS piloted four new automated Web services in 2010. According to IRS officials, these automated services are designed to reduce calls to phone assistants by providing alternative channels for taxpayers to access information:

- the Did I Receive a 2009 Economic Recovery Payment? application, which determines whether the taxpayer received the \$250 stimulus payment in 2009;
- the Electronic Filing Personal Identification Number (PIN) application, which enables taxpayers to request their PIN to sign and file their return electronically;³⁶

³⁶As we previously reported, IRS experienced heavy call volume in 2009 from taxpayers calling telephone assistants to request their prior year's adjusted gross income or personal identification number (PIN) to authenticate their identity and file electronically, see [GAO-10-225](#).

- Seven Interactive Tax Assistant topics, which use interactive question-and-response processes, similar to what is used by phone assistants, to answer taxpayer questions about common tax law issues such as filing status, standard deduction, and eligibility for the Child Tax Credit; and
- a state-by-state partial list of volunteer tax preparation sites with contact and availability information.³⁷

Table 6: IRS Web Site Use, 2005 through 2010

	2005	2006	2007	2008	2009	2010	Percentage change from 2009 to 2010 ^a
Total visits (in millions)	140	152	168	292	235	239	2
Downloads (in millions)	117	160	121	136	137	157	14
Searches ^b (in millions)	69	93	106	125	263	277	5
Where's My Refund? (completions, in millions)	21	24	31	38	53	64	22
"Did I Receive a 2009 Economic Recovery Payment" ^c (completions, in millions)	NA	NA	NA	NA	NA	6	NA
Electronic Filing Pin Request (completions, in millions) ^d	NA	NA	NA	NA	NA	5	NA
Online Payment Agreement (completions, in thousands)	NA	NA	13	19	34	43	26
Interactive Tax Assistant Tools (in thousands) ^e	NA	NA	NA	NA	NA	42	NA
Volunteer site list (in thousands) ^f	NA	NA	NA	NA	NA	48	NA

Source: IRS data.

Notes: Data are from January 1 through July 31; NA means not applicable.

^aNumbers in the table are rounded, but percentage change was calculated using exact values.

^bPage views; includes both successful search results and search results not found.

^cData are from March 8 through July 31, 2010.

^dIn March 2010, we recommended that IRS move the location of the automated application on its Web site to make it more accessible. IRS subsequently moved the application.

^eData are from March 7 through July 31, 2010.

^fPage views; data are for February 12 through July 31, 2010.

In the Taxpayer Assistant Blueprint (TAB), IRS's 5-year strategic plan for improving service to taxpayers, IRS identified five Web site management control gaps and corresponding improvements that would allow IRS to maximize the opportunities to provide taxpayer service through its Web

³⁷We previously recommended that IRS develop a low-cost automated method for providing volunteer site locations and hours of operations to taxpayers, see [GAO-09-1026](#).

site.³⁸ IRS has taken action to address some of these gaps. However, other gaps including those related to content management and usability reviews have not been fully addressed. We previously identified management controls as necessary to ensuring the effectiveness and efficiency of operations and the use of resources.³⁹ IRS officials said that IRS is taking actions to address elements of these management control gaps such as development of new Web content management guidance and usability review guidance, which are expected to be in place by January 2011.

Ensuring effective management control for its Web site is especially important in light of IRS's planned improvements. From January 1 through April 15, 2010, IRS's 2010 taxpayer satisfaction survey results found that 73 percent of surveyed visitors to www.irs.gov reported that they obtained the information or services they were seeking, the same level as in 2009, but a 5 percent decrease compared to 2007.⁴⁰ In response, IRS is taking steps to improve its Web site, including investing \$320 million over 10 years to introduce a new site by the 2013 filing season. This \$320 million is being used for Web operations, including a Web site help desk, development of interactive Web applications, and program management of IRS's Web site and registered user and employee sites. According to IRS officials, the new Web site should provide IRS with a strengthened technical infrastructure that would allow for easier updates on the site and new automated features.

³⁸IRS's 2007 TAB set an objective to enhance electronic services by maximizing the value of irs.gov and making it the first choice of taxpayers and partners to receive information and service they need to comply with their tax obligation. Web site management control gaps in the TAB are: (1) Web site management, (2) content management, (3) end-to-end portal and application monitoring, (4) Web site design and usability, and (5) frequently asked questions (FAQ).

³⁹GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).

⁴⁰Data reflects the percentage of taxpayers who responded yes to the survey question "Were you able to satisfy your primary reason for using irs.gov on this current visit to the Web site?" Overall customer satisfaction with the Web site was 73 points in 2010, one point higher than in 2009 and one point lower than in 2008 and 2007.

Accuracy at IRS's Walk-In Sites Improved, but IRS's Evaluation of the Debit Card Program at Volunteer Sites Is Missing Stakeholder Input

Through April 30, 2010, IRS received 2.8 million taxpayer contacts at its 401 IRS walk-in sites, about the same as last year.⁴¹ To increase taxpayer access to assistance, IRS piloted extended Saturday and evening hours in 16 IRS walk-in sites, held five Saturday open house events during the fiscal year, and expanded a pilot project to place IRS walk-in site employees in volunteer tax preparation sites to provide assistance with accounts and tax law questions. From January 1 through April 15, 2010, IRS employees worked with approximately 5,300 taxpayers at 27 volunteer sites.⁴² According to IRS officials, they plan to continue the programs in 2011.

As of April 30, 2010, the accuracy of accounts and tax law assistance provided at IRS walk-in sites continued to improve, as table 7 shows. IRS officials attribute this increased accuracy to the continued use of the Interactive Tax Law Assistant which guides assistors through a series of questions to provide accurate and consistent responses to taxpayers' questions. Further, IRS introduced a new return preparation assistance accuracy measure, which assesses the extent to which IRS staff prepares accurate returns.

Table 7: IRS Walk-in Site Accuracy, 2008 through 2010

	2008 actual	2009 actual	2010 actual	Fiscal year 2010 goals
Accounts assistance (in percent)	85 +/- 2.30	86 +/- 1.93	91 +/- 1.66	88
Tax law assistance (in percent)	66 +/- 2.73	76 +/- 1.97	81 +/- 1.83	77
Return preparation assistance (in percent)	NA	NA	82 +/- 3.82	NA

Source: GAO analysis of IRS data.

Note: Actual data are from January 1 through April 30 and NA stands for not applicable. IRS does not have comparable accuracy data available for the years prior to 2008.

According to IRS officials, IRS partnered with community-based organizations that ran 12,326 volunteer sites, staffed with 87,602 volunteers in 2010. Through April 25, 2010, volunteers prepared 2.9 million

⁴¹For fiscal year 2010, taxpayer contacts at IRS's walk-in sites increased by 3 percent as compared to 2009.

⁴²Thirty-six percent of the taxpayer contacts provided by IRS employees at volunteer sites were for accounts work and notices, 35 percent were for non-technical services, 26 percent were for tax-law-related questions, and 3 percent for other questions.

tax returns, about the same as last year. Return preparation accuracy by volunteers increased compared to 2009. For 2010, volunteers achieved an 85 percent accuracy rate for return preparation compared to 78 percent last year. According to IRS officials, this increase resulted from IRS's new requirement that volunteers use an IRS-approved intake sheet, expanded training of volunteers, and increased IRS monitoring visits. For more detail on the number of contacts at walk-in and volunteer sites, see appendix VI.

IRS is expanding its program to support its volunteer partners as they work with taxpayers to promote financial education and asset building.⁴³ One initiative of this program is to assist taxpayers who may not have an account at a bank, savings and loan, credit union, or other financial institution, to receive their refund through direct deposit on a debit card issued by one of IRS's national bank partners.⁴⁴ IRS anticipates that these efforts may result in reduced taxpayer use of refund anticipation loans by providing taxpayers with a low-cost or no-cost refund option for receiving refunds quickly.⁴⁵ In 2010, the program, which already had a low participation rate, drew far fewer taxpayers than in 2009, despite increasing the number of sites offering the cards from 15 in 2009 to 20 in 2010. Less than 3 percent of taxpayers eligible for the program elected to receive their refund on a debit card compared to 2009 when 8 percent of eligible taxpayers participated in the program.

According to IRS officials, poor program participation is in part due to the challenge of appropriately marketing the program to taxpayers. However, other factors may have contributed, including having a limited number of volunteers available to administer the program at volunteer sites and additional training requirements for volunteers distributing the cards. IRS included its partner bank institutions in its evaluation of the program's

⁴³According to IRS, the goal of this program is for IRS to collaborate with partners to provide taxpayers with the information, knowledge, and skills to evaluate financial options and identify those that best suit the taxpayers' needs and circumstances.

⁴⁴IRS's role with the debit card program is to facilitate a relationship between national bank partners, with whom IRS has established a memorandum of understanding for the initiative, and volunteer site partners interested in offering the debit cards at their sites. According to IRS officials, once the relationship between the national bank partners and volunteer sites is established, IRS does not have a direct role in promoting or facilitating the distribution of debit cards at sites.

⁴⁵We previously reported that fees associated with refund anticipation loans and refund anticipation checks may amount to an annual percentage interest rate of over 500 percent. GAO, *Refund Anticipation Loans*, [GAO-08-800R](#) (Washington, D.C.: June 5, 2008).

2010 performance, but the evaluation did not include other key stakeholders, such as taxpayers or partners from volunteer sites where the program was implemented. By not including these other key stakeholders, IRS may not have fully identified the causes of the program's poor participation rate. As we have previously reported, according to the American Evaluation Association's Guiding Principles for Evaluators, evaluations should include relevant perspectives and interests of the full range of stakeholders.⁴⁶ IRS plans to continue to facilitate the program and is carrying out a study and pilot test to improve marketing of the debit card at volunteer sites.⁴⁷ However, without an understanding informed by multiple stakeholder perspectives on reasons why taxpayer participation in the program was low, including reasons outside of the manner in which the program was marketed, IRS risks missing opportunities to increase participation.

Conclusions

The filing season is a large-scale, complex effort that requires IRS to balance resources across processing returns (including some pre-refund compliance verification) and providing assistance to taxpayers via telephones, mail, walk-in sites and IRS's Web site. Although IRS dealt with a number of challenges this filing season, its performance improved in some areas and IRS met some goals. Efficiency gains realized from continued growth in electronic filing contributed to IRS's performance.

However, the combined effects of recent tax law changes and changes in taxpayer behavior can be seen in the fluctuations in IRS's performance—not just this year, but in previous years as well. During 2010, IRS's performance in issuing timely refunds decreased—a result, in part, of correcting millions of taxpayer errors to the benefit of taxpayers and the federal government. In addition, telephone service, although better than last year, remained below 2005 through 2007 levels and IRS continues to have a significant amount of overage taxpayer correspondence. IRS management faces trade-offs in determining how to best allocate resources among these priorities. For example, when IRS dedicates more resources to providing quality telephone service, fewer resources are available to respond to paper correspondence and vice versa.

⁴⁶GAO, *Disaster Assistance: Greater Coordination and an Evaluation of Programs' Outcomes Could Improve Disaster Case Management*, [GAO-09-561](#) (Washington, D.C.: July 8, 2009).

⁴⁷According to IRS officials, IRS plans to conduct its pilot test at 60 volunteer sites.

Opportunities exist for IRS to improve the information available to make decisions between competing priorities and to gain efficiencies. Establishing a customer service standard for telephone service would provide Congress with better information on the resources needed for IRS to deliver better telephone service. Further leveraging the use of powerful tools already in IRS's arsenal—namely its own staff and data contained in Contact Analytics—should help IRS gain efficiencies. For example, assessing the costs and benefits of storing recorded calls for longer than the current 45-day period could help IRS use Contact Analytics to better determine why taxpayers call. Further, establishing a performance measure for the timeliness of its taxpayer correspondence should help IRS better manage its full range of interactions with taxpayers. Involving all key stakeholders in reviews of important initiatives, such as expanding the effort to provide refunds on debit cards, will lead to a more complete understanding of why such initiatives are or are not working.

Recommendations for Executive Action

To gain efficiencies and improve taxpayer service, the Commissioner of Internal Revenue should direct the appropriate officials to:

1. Based on the quality of service provided by comparable organizations and on what matters most to the customer, determine a customer service telephone standard, and the resources required to achieve this standard based on input from Congress and other stakeholders;
2. Use the existing process of regular team meetings with frontline telephone assistants to solicit information on call trends and other potential improvements to phone service and to supplement issues identified using Contact Analytics;
3. Assess business units' needs for holding Contact Analytics calls beyond 45 days and store calls for this period or document that the costs of doing so exceed the benefits;
4. Establish a performance measure for taxpayer correspondence that includes providing timely service to taxpayers; and
5. Establish an evaluation plan for the 2011 filing season debit card program that includes taxpayers, volunteer site partners, and other stakeholders and assesses the full range of reasons for program participation rates.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue. We received written comments from the Deputy Commissioner for Services and Enforcement, which are reprinted in appendix I. IRS also suggested technical changes to the report, which we incorporated where appropriate.

In response to our draft report, the Deputy Commissioner expressed appreciation to GAO for recognizing IRS's significant achievements in delivering the 2010 filing season despite the challenges presented by several complex tax law changes.

Of the five recommendations, the Deputy Commissioner agreed with two and, although he did not explicitly agree, he described steps IRS is taking to address a third recommendation. He disagreed with two recommendations.

The Deputy Commissioner agreed with the recommendation to use the existing process of regular team meetings with frontline telephone assistants to solicit information on call trends and other potential improvements to phone service and Contact Analytics. He also agreed with the recommendation to develop a performance measure for taxpayer correspondence that includes providing timely service to taxpayers. Further, in response to the recommendation that IRS establish an evaluation plan for the debit card program that includes taxpayers, volunteer site partners, and other stakeholders and assesses the reasons for program participation rates, he described steps IRS plans to take to assess the debit card program participation rates.

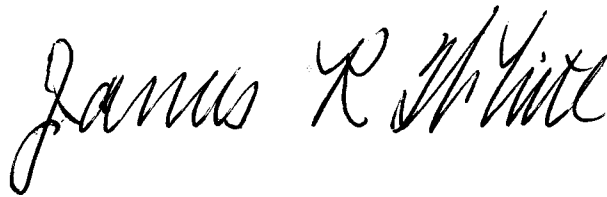
The Deputy Commissioner disagreed with the recommendation that IRS develop a customer service telephone standard, stating that he does not believe that IRS needs to revise its current process to measure telephone service at this time as it currently develops its telephone plans after consideration of many factors. Such factors include historical call demand and the types and anticipated lengths of calls. However, a customer service telephone standard would serve as a means of communicating to Congress and others what IRS believes would constitute good customer service. Having such a standard would make the gap between the standard and annual performance goals more transparent. We recognize that IRS may not be able to achieve the standard because of factors such as unexpected call volume and competing resources. The intent is to highlight for Congress and others the gap between good service and what IRS is able to attain. In addition, developing such a standard would put IRS in compliance with Office of Management and Budget guidance that

requires agencies to develop customer service standards. Accordingly, we believe this recommendation remains valid.

Finally, the Deputy Commissioner disagreed with the recommendation that IRS assess its business units' needs for holding Contact Analytics calls beyond 45 days and store calls for this period or document that the costs of doing so exceed the benefits. He stressed that IRS's Contact Recording System is used to store calls and the Contact Analytics system is used to analyze some calls, noting that IRS is confident that storing calls beyond 45 days would not be a low-cost effort. However, IRS officials responsible for recording and storing calls told us that IRS developed its policy on how long to store data, including calls available through Contact Analytics, several years ago. As we note in our report, IRS officials acknowledged that they have not surveyed business units as to whether they need to store the calls for a longer period or analyzed whether the benefits of doing so would exceed the costs. Further, we identified an example during our review in which IRS needed to use more time-consuming processes to analyze calls because the calls were not available beyond 45 days for use by Contact Analytics. Contact Analytics should allow IRS to better understand the reasons taxpayers call. Because further analysis could demonstrate whether the benefits of storing calls for a longer period currently exceed the costs, we believe this recommendation remains valid.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget. The report also will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions or wish to discuss the material in this report further, please contact me at (202) 512-9110 or at whitej@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 VII.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, prominent initial "J".

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

December 10, 2010

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

Dear Mr. White:

I have reviewed your draft report entitled *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, But Efficiency Gains Are Possible in Others*. I appreciate your recognition of our significant achievements in successfully delivering the 2010 filing season despite the challenges of several complex tax law changes.

Processing – We again had an outstanding filing season in 2010, successfully implementing significant and sometimes extremely late tax law changes, including the American Reinvestment and Recovery Act of 2009 (known as the Recovery Act) and the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA). We did experience higher than usual error inventories as noted in your report. This additional error inventory resulted primarily from our proactive efforts to identify, verify eligibility, and provide the Making Work Pay Credit to over 4.6 million eligible taxpayers, through October 2, 2010, who failed to claim this credit on their original tax return. In addition, during this same period, IRS timely processed over 137 million individual income tax returns and issued over 107 million refunds, totaling approximately \$312 billion. For the first time, 14,246 of these refunds were issued as U.S. Savings Bonds, totaling almost \$8 million.

As you reported, electronic filing increased by 3 percent over last year, with over 96.8 million individual taxpayers (70.4 percent) filing electronically, including over 767,000 submitted through the Modernized e-File system. The remaining 40.6 million returns were filed on paper.

The most significant increase in e-File occurred in the number of taxpayers who filed from their home computer. Nearly 35 million returns were filed from home computers, an 8 percent increase from the prior year. Over 2.9 million of these taxpayers took advantage of the free online filing services offered by the Free File Alliance, available through IRS.gov.

Successful implementation of the Customer Account Data Engine (CADE) continued during 2010, with Release 5.2 being successfully deployed within cost estimates on January 19, 2010. The functionality added in Release 5.2 included Criminal Investigation Refund Hold capability, Credit Elect processing, Entity related processing, and filing season changes. As of October 2, 2010, CADE posted a total of 41.2 million returns and disbursed over 35.8 million refunds, totaling more than \$66.5 billion. In addition, CADE processed 7.1 million payments, totaling over \$8.9 billion dollars; and issued 8,121 refunds, in the form of U.S. Saving Bonds totaling almost \$3.1 million. Release 6.2 is on schedule for January 18, 2011. The CADE 2 Transition State 1, which includes a relational database and daily processing, is scheduled for implementation in January 2012.

Telephone Performance – We delivered an extremely successful filing season in addition to meeting the many challenges resulting from providing approximately 3.6 million services¹ to taxpayers that called to obtain information on new credits available through the WHBAA and the Recovery Act. We accurately projected the impact of this legislation on telephone demand using historical information and data-driven assumptions. Actions taken to address this additional telephone demand included:

- Utilizing workforce management software to incorporate current demand trends into our planning assumptions.
- Employing a Paper/Phone Optimization tool to maximum productivity and assist in making informed decisions concerning weekly tactical staffing decisions for management of telephone demand and correspondence inventory.

The IRS also created both telephone and web self-service applications to provide automated responses to 14 million taxpayers seeking prior year Adjusted Gross Income information needed to electronically sign their e-filed tax return, eliminating the need for IRS assistants to answer these calls as they had in the past.

As a result, more than 41.4 million taxpayers were assisted in the three and one half months (January 1 to April 15) of the core filing season, including 26.1 million taxpayers assisted through automated telephone applications, and 15.3 million taxpayers assisted by Customer Service Representatives (CSRs). Customer Accuracy and Customer Satisfaction also remained high during the filing season. Customer Accuracy for Toll-Free services, including Tax Law and Accounts, was 95.3 percent, while Customer Satisfaction for the filing season was 93 percent for customers using the Toll-Free service.

¹ The IRS tracks the number of services provided on each call received. A service is a telephone interaction between an assistant and a customer. A customer can receive multiple services on a single call.

3

The CSR Level of Service for the Fiscal Year (FY) was 74 percent compared to 72 percent for the same period in the prior year. This FY, Assistor Calls Answered, 36.6 million, exceeded the goal of 32.7 million, and Assistor Services Provided, 42.5 million, exceeded the goal of 38.5 million. Caller Wait Time was less than planned by 48 seconds (650 seconds vs. 698 seconds). Considering all channels (telephones, paper correspondence, and web), Customer Contacts Resolved per Staff Year (10,744) was 114 percent of plan, and the Self Service Participation (64 percent) was 105 percent of plan.

Walk-In Assistance - During the FY 2010 filing season, the IRS continued to provide services at all 401 Taxpayer Assistance Centers (TACs), assisting nearly 2.8 million taxpayers. Once again, we also exceeded our Accounts and Tax Law Accuracy goals, providing superior customer service. For 2010, we also established a baseline for Return Preparation and Correspondence Adjustments quality. Quality data obtained from the Field Assistance Contact Recording system was used to identify areas for improvement and training. This filing season, the TACs achieved a 91 percent Accounts Accuracy rate, exceeding the goal of 88 percent, and a Tax Law Accuracy Rate of 81 percent, exceeding the goal of 77 percent. We expect continued improvement in the accuracy of responses provided by TAC employees. In FY 2011, we will be targeting improvement efforts on high volume topics, enhancing managerial review skills, and aligning training materials with topics that generated the most errors.

Also, during FY 2010, the IRS increased State return preparation in our TACs from 20 to 27 states. We increased our presence in the communities by locating TAC employees at 27 Volunteer Income Tax Assistance (VITA) sites, up from nine sites in 2009. These employees provide IRS account assistance on-site as a supplement to the free tax return preparation services provided by VITA volunteers. Overall feedback from taxpayers, volunteers, and partners continues to be extremely positive.

The IRS conducted many special events to assist customers during the 2010 filing season. These included supporting Earned Income Tax Credit awareness by offering special Earned Income Tax Credit Saturdays and special Open House events to help taxpayers affected by the economic downturn with account and other unresolved tax issues. We also expanded hours of service at 16 of our largest and busiest TACs, in which we successfully tested a variety of extended hours of operation during the week and on Saturdays.

Volunteer Assistance - During the FY 2010 filing season, 87,602 volunteers prepared nearly 3.1 million Federal tax returns and more than 2.2 million State tax returns at over 12,000 VITA and Tax Counseling for the Elderly (TCE) sites. These returns were primarily prepared for low income, elderly, disabled, and limited English-proficient taxpayers. This represents a 1.2 percent increase over last year's accomplishments.

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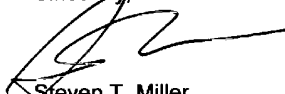
The IRS awarded \$13.54 million in grant funds in support of the VITA (\$7.44M) and TCE (\$6.1M) programs in FY 2010. For the filing season, 171 grants were awarded to organizations to provide service in all 50 states and the District of Columbia. These organizations collectively prepared more than 880,000 returns at 3,271 sites, supported through these grant funds.

We also continued to build on our Quality Review process during the FY 2010 filing season. Since 2004, the Treasury Inspector General for Tax Administration determined the accuracy of returns prepared by our volunteers based on a judgmental sample of a small number of VITA/TCE sites, involving less than 50 tax returns. For the 2010 filing season, we established an IRS Quality Assurance Office to perform return reviews of a statistically valid sample of VITA/TCE sites. A centralized review cadre, known as the Quality Statistical Sample reviewers, visited the selected sites and reviewed a sample of tax returns. The data collected from these reviews was used to calculate a statistically valid accuracy rate for all tax returns produced by the Volunteer Assistance Program with a 90 percent level of confidence. During the 2010 filing season, the 745 returns reviewed resulted in an 84.7 percent accuracy rate, up 7.9 percent from the prior year.

Website – The IRS website, IRS.gov, is consistently one of the most heavily used government websites. As of November 13, 2010, the website was visited more than 284 million times, resulting in more than 1.5 billion page views. This was up from 278 million visits and remained steady with 1.5 billion page views during the same period last year. An increase in visits but not in page views indicates site visitors may have had success finding the information they needed with fewer clicks on the site. Visits are the measurement of actions beginning when a visitor views their first web page on IRS.gov and ends when the visitor leaves the website. Taxpayers and Practitioners also downloaded more than 190 million forms, publications, instructions, and other documents.

Responses to your specific recommendations are enclosed. I appreciate your observations on the successful filing season for 2010. If you have any questions, please contact me, or a member of your staff can contact Robin L. Canady, Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8801.

Sincerely,



Steven T. Miller
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

To gain efficiencies and improve taxpayer service, the Commissioner of Internal Revenue should direct the appropriate officials to:

Recommendation 1

Based on the quality of service provided by comparable organizations and on what matters most to the customer, determine a customer service telephone standard, and the resources required to achieve this standard based on input from Congress and other stakeholders.

Comment

We believe that our current process to measure telephone service does not need to be revised at this time. IRS telephone plans are developed after consideration of many factors, including: historical demand adjusted for known anomalies; the types and anticipated lengths of calls we expect to receive; assumptions concerning upcoming events, such as known or pending legislation or trends in customer behavior; and the availability of existing or new automated and other alternative services. These plans are then matched with available or anticipated resources to determine the level of service that can be provided to generate the telephone program goals. These goals are only finalized after sharing our projections with oversight functions, including the IRS Oversight Board, the Office of Management and Budget, and Treasury, and after consideration of the President's budget request by the House and Senate Appropriations Committees and congressional enactment of the Treasury budget. Additionally, during this process we routinely receive questions about what it would take to deliver alternate levels of service. The results of these scenarios are worked closely with the oversight functions. Further complicating this process is that the factors used to develop telephone plans do not remain static or readily predictable from year to year. An example of this was the economic stimulus legislation passed in February 2008, well after all telephone plans had been established for the year. Prior to passage of the legislation, IRS was on target to meet or exceed all fiscal year goals for telephone service. The unprecedented high call volumes and ensuing drop in performance that resulted from the legislation's passage could not have been anticipated.

Recommendation 2

Use the existing process of regular team meetings with front-line telephone assistants to solicit information on call trends and other potential improvements to phone service and to supplement issues identified using Contact Analytics.

Comment

We agree with this recommendation. As stated in your report, the IRS has existing processes to solicit ideas and identify call trends from frontline employees, including sharing and receiving information on emerging filing season trends. This is a valued communication process serving both employee and customer satisfaction. In addition,

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here are other formal avenues to gather employee feedback, such as from the Servicewide Electronic Research Program (SERP). The SERP is a database in which employees can input direct comments and/or recommendations on emerging issues to be elevated for consideration. The IRS also uses local employee and headquarters personnel focus group interviews to identify gaps in services and procedures. We agree that with the introduction of Contact Analytics (CA) there are new opportunities to expand the use of feedback from frontline employees, and we will include the CA Center of Excellence in the various feedback processes to improve the CA queries and research capabilities.

Recommendation 3

Assess business units' needs for holding Contact Analytics calls beyond 45 days and store calls for this period or document that the costs of doing so exceed the benefits.

Comment

We do not agree with this recommendation. The IRS would like to reinforce the distinction between Contact Recording (CR) and CA. Calls are stored via CR, and CA is a tool used for analyzing recorded call data. The 45 day retention period for recorded calls resides with CR and was determined after careful analysis of the costs and benefits during the development and deployment of the CR system. Based on that analysis and recent feedback from the Modernization and Information Technology Services organization, we are confident that increasing recorded call storage beyond 45 days would not be a low cost effort. Extensive analysis and resource expenditure would be required to determine a firm costing estimate and potential return on investment. This enhancement would then compete for funding with other high visibility and high priority projects that have already been identified but remain unfunded. In light of these considerations, we do not agree to pursue this recommendation at this time.

Recommendation 4

Establish a performance measure for taxpayer correspondence that includes providing timely service to taxpayers.

Comment

We agree with this recommendation. Although there is currently an extensive suite of correspondence metrics in place which effectively track volume, timeliness, and case priority, the IRS is constantly striving to improve the customer experience. For several years, the IRS has used the Correspondence Imaging System inventory report to monitor weekly overage work and priority inventory, and track closed cases compared to the overall inventory. We also utilize the Embedded Quality Review System timeliness measure to evaluate whether caseworkers took timely case action. For Fiscal Year (FY) 2011, the IRS has implemented a new Site Level Indicators and Measures Report, which includes the tracking of cycle time and average days to close

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correspondence at the site, as well as the aggregate levels, enabling the IRS to monitor timely service to the taxpayer. The IRS places high importance on customer service and will continue to review, update, and augment the current suite of metrics for the correspondence program, as needed.

Recommendation 5

Establish an evaluation plan for the 2011 filing season debit card program which includes taxpayers, volunteer site partners, and other stakeholders and assesses the full range of reasons for program participation rates.

Comment

We plan to conduct a social marketing research study during the FY 2011 filing season to increase the uptake of the prepaid debit card refund option. Our study will evaluate the best approach to market the card to taxpayers, volunteer site partners, and stakeholders. We will use the results of this study to develop an evaluation plan for the FY 2012 filing season debit card program. This plan will include assessing the full range of reasons for program participation rates.

Appendix II: Selected Key Legislative Changes Affecting IRS's 2007 through 2010 Filing Seasons

Provision	Description of legislation's effect on filing season
2007 filing season	
Tax Relief and Health Care Act of 2006 (Pub. L. 109-432)	Extended many existing tax deduction provisions by 2 years. Late passage of the bill caused IRS delays in processing some returns.
Telephone Excise Tax Refund	One-time refund on the federal income tax return that can be requested by all individuals and entities that paid the telephone excise tax, regardless of whether they have an obligation to file a tax return.
2008 filing season	
Economic Stimulus Act of 2008 (Pub. L. 110-185)	Mandated that IRS send stimulus payments to over 100 million households based on taxpayers who filed a 2007 return. Taxpayers filing as single generally received \$600 and married couples received \$1,200. Many parents received an additional \$300 for each qualifying child born after December 31, 1990.
Mortgage Forgiveness Debt Relief Act of 2007 (Pub. L. 110-142) (Expanded by the Emergency Economic Stabilization Act of 2008 Pub. L. 110-343)	Allowed taxpayers to generally exclude from taxable income forgiven mortgage debt used to buy, build, or substantially improve a principal residence. In 2008 it was extended to qualifying indebtedness discharged by January 1, 2013.
2009 filing season	
Build America Bonds (Provision of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5)	Taxable government bonds that are issued with federal subsidies for a portion of the borrowing costs delivered through (1) nonrefundable tax credits provided to the holders, or (2) refundable tax credits paid to state and local government issuers of the bonds.
First-Time Homebuyer Credit (FTHBC) 1. (Provision of the Housing and Economic Recovery Act of 2008, Pub. L. 110-289) 2. (Provision of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5)	1. Provided taxpayers a tax credit equal to 10 percent of the purchase of a home up to a maximum of \$7,500. Taxpayers must repay the credit over 15 years beginning in the 2011 filing season. ^a 2. Provided taxpayers a refundable tax credit equal to 10 percent of a home's purchase price up to \$8,000. Taxpayers are still required to repay the credit if the home is resold or ceases to be the primary residence of the taxpayer within 3 years. ^b
Net Operating Loss Carryback (Provision of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5)	Allows eligible small businesses to apply certain losses experienced in 2008 against tax liability incurred in up to 5 previous years.
Recovery Rebate Credit (Provision of the Economic Stimulus Act of 2008, Pub. L. 110-185)	Allowed for taxpayers that did not receive their full stimulus payment in 2007 to receive the unpaid portion of the credit on their 2008 return.
2010 filing season	
FTHBC (Provision of the Worker, Homeownership, and Business Assistance Act of 2009 Pub. L. 111-92)	Extended the FTHBC from November 30, 2009, to April 30, 2010. Also allowed certain long time homeowners purchasing new homes to claim a tax credit up to \$6,500.
Making Work Pay Tax Credit (Provision of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5)	Refundable tax credit providing up to \$400 and \$800, respectively, to working individuals and married couples filing joint returns.

**Appendix II: Selected Key Legislative
Changes Affecting IRS's 2007 through 2010
Filing Seasons**

Provision	Description of legislation's effect on filing season
Non-business Energy Property Credit (Provision of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5)	Increases the existing percentage of costs that can be claimed and maximum allowable credit available to homeowners who make certain energy efficient improvements to existing homes through December 2010.

Source: GAO.

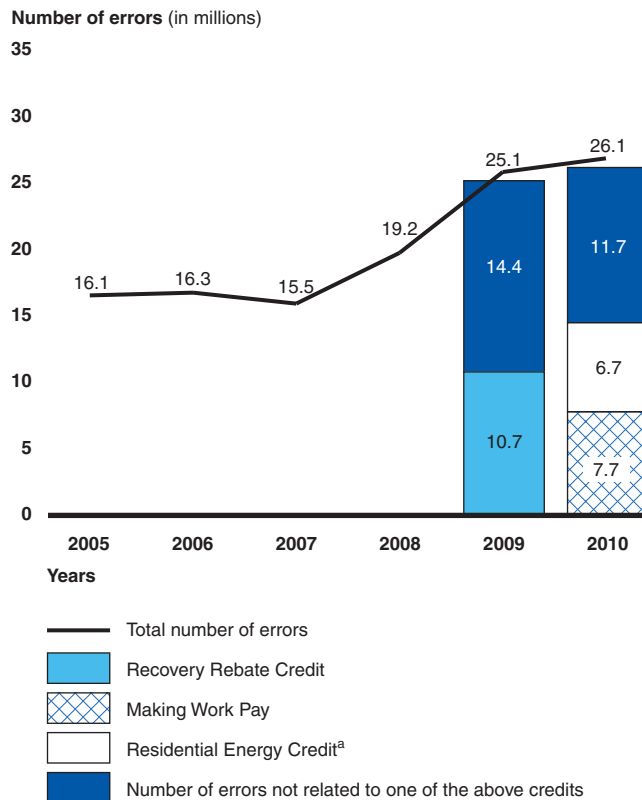
^aFrom the taxpayer's perspective, the Housing Act subsidy is an interest-free loan, and the value of the subsidy is the reduced interest cost relative to what would have been paid with alternative financing. From the federal government's perspective, the cost of the subsidy is the interest cost on the loans at the Treasury bond interest rate along with some losses from taxpayers failing to comply with the repayment provision.

^bThe recapture provision is limited to the amount of gain on the sale, so a taxpayer could sell within 3 years and still not owe repayment.

Appendix III: IRS Continues to Process More Returns through the Error Resolution System

Figure 1 below shows that for the third consecutive year, the number of returns in the Internal Revenue Service’s (IRS) Error Resolution System (ERS) steadily increased. In 2008, IRS corrected many returns due to the economic stimulus package and telephone excise tax refund.¹ Last year IRS corrected many returns due to the Recovery Rebate Credit and IRS said this year’s high inventory was due to Making Work Pay (MWP) errors and using ERS to identify returns on which taxpayers claimed certain credits, including the residential energy credit.

Figure 1: Total Number of Returns in ERS, 2005 through 2010, and Inventory Due to Specific Credit(s) for 2009 through 2010



Source: GAO analysis of IRS data.

¹IRS officials could not break down the total number of errors it corrected in 2008 for either of these reasons because it did not designate specific error codes for either of these reasons.

Notes: Total error inventory represents the total number of documents sent to ERS each year. For each year, total inventory from January 1 through September 30, 2005, September 29, 2006, September 28, 2007, October 3, 2008, October 2, 2009, October 1, 2010. Recovery Rebate credit data through October 1, 2009, Making Work Pay and Residential Energy Credit data through September 30, 2010.

^aResidential Energy Credit data includes about 124,000 returns claiming a credit on either Form 8396, Mortgage Interest Credit, and Form 8839, Qualified Adoption Expenses, which were all combined on Form 1040, line 52.

Through September 30, IRS had corrected about 7.7 million errors associated with MWP, which represents about one-third of all returns that went to ERS.² Approximately 4.6 million of these taxpayers, or 60 percent, did not claim MWP and IRS computed the credit for them, according to IRS data through October 1. The remainder of these taxpayers made an error calculating the credit.

IRS officials took several actions this filing season which they believe helped reduce the ERS inventory, but a key automated tool was not ready when IRS processed most of the returns. Beginning in June 2009, IRS started developing an Integrated Automation Technology tool specifically to correct frequently recurring MWP errors. However, IRS had difficulties developing the tool and it was not available at all processing sites until June 18, 2010. By that time, IRS had already corrected approximately 5.6 million, or about 75 percent, of all MWP errors. In addition to creating the tool, IRS staff worked overtime, shifted resources among various submission processing functions, and hired and trained additional employees.

IRS also placed a large volume of returns in ERS from taxpayers claiming residential energy credits. However, these returns did not necessarily contain errors. Rather, IRS used ERS to transcribe information to identify the number of taxpayers claiming residential energy credits and the dollar amount.³ For the 2011 filing season, IRS officials told us the Residential Energy Credit will appear by itself on Form 1040, line 52 and the combined credits from Form 8396, Mortgage Interest Credit, Form 8839, Qualified Adoption Expenses, Form 3800, General Business Credit, and Form 8801,

²In addition to correcting MWP errors, IRS also rejected about 2.5 million taxpayer returns submitted electronically due to a MWP error through October 1, 2010. Most of these rejections were because taxpayers did not report an ERP they had received, which affected the amount of MWP they could receive.

³IRS processes returns in ERS using a 'first in-first out' approach, so IRS cannot quantify how much time returns with a particular issue were in ERS, given that the complexity of preceding returns affects how long a return remains in inventory.

Credit for Prior-Year Minimum Tax, will be reported on line 53. IRS officials said the credits from Form 3800 and Form 8801 will be transcribed separately in the Integrated Submission and Remittance Processing system, eliminating the need for ERS to transcribe them. IRS officials said this system is faster and less expensive than ERS, but there was not enough time during the 2010 filing season to program the system for this purpose. To prevent sending as many returns to ERS next filing season, IRS officials told us they are updating forms and other materials using lessons learned from this filing season.

Appendix IV: IRS's Processing Performance Relative to 2005 and 2010 Goals

As shown below in table 8, the Internal Revenue Service (IRS) met half of its performance goals, the fewest number of goals met since at least 2005.¹ IRS met the fiscal year 2010 goals for correspondence error rate, deposit error rate, productivity, and refund error rate. The fiscal year goal for four measures were not met—refund interest paid, refund timeliness, deposit timeliness, and efficiency.

Table 8: IRS Processing Performance, Fiscal Years 2005 through 2010

Measure name	Definition	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual	Fiscal year 2008 actual	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2010 goal
Deposit error rate	Percentage of payments applied in error by, for example, reimbursing a taxpayer who overpaid when the taxpayer wanted the overpayment credited to next year's tax bill.	2.2% (+/- 0.26%)	1.6% (+/- 0.24%)	1.3% (+/- 0.22%)	1.1% (+/- 0.27%)	0.7% (+/- 0.20%)	0.4% (+/- .18%)	1.0%
Deposit timeliness—paper—individual master file (IMF)	Interest foregone by not depositing monies the business day after receipt, per \$1 million in deposits. Measure assumes an 8 percent interest rate.	\$390	\$354	\$331	\$290	\$204	\$213	\$204
Correspondence error rate ^a (includes system errors) ^b IMF	The percentage of incorrect Submission Processing Masterfile notices and letters issued to taxpayers by the processing sites.	NA	NA	4.3% (+/- 0.38%)	3.8% (+/- 0.36%)	5.4% (+/- 0.53%)	5.4% (+/- 0.45%)	5.4%

¹As previously noted, we limited our review of IRS's performance to the period beginning with fiscal year 2005.

**Appendix IV: IRS's Processing Performance
Relative to 2005 and 2010 Goals**

Measure name	Definition	Fiscal year 2005 actual	Fiscal year 2006 actual	Fiscal year 2007 actual	Fiscal year 2008 actual	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2010 goal
Refund error rate—individual (paper) (includes systemic errors)	Percentage of refunds with IRS-caused errors in the entity information (e.g., incorrect name, Social Security number, or refund amount); includes systemic errors. ^b	5.0% (+/- 0.48%)	4.5% (+/- 0.46%)	2.8% (+/- 0.36%)	3.4% (+/- 0.52%)	2.0% (+/- 0.33%)	1.4% (+/- 0.28%)	3.2%
Refund interest paid	Amount of refund interest IRS paid per \$1 million of refunds issued.	\$29.21	\$30.12	\$39.60	\$24.16	\$15.36	\$44.12	\$16.00
Refund timeliness—individual (paper)	Percentage of refunds issued within 40 days or less.	99.2% (+/- 0.18)	99.3% (+/- 0.13)	98.9% (+/- 0.19%)	99.1% (+/- 0.19%)	99.2% (+/- 0.18%)	96.1% (+/- 0.44%)	98.4%
Productivity	Weighted volume of documents processed per staff year expended at the processing centers.	31,444	33,237	34,313	37,624	47,259	47,208	46,348
IMF efficiency	Measure of Individual Master File returns processed per staff year expended.	14,965	16,124	22,031	23,834	22,758	24,800	25,114

Source: GAO analysis of IRS data.

Note: Percentages are rounded to the nearest tenth.

^aThe reported Correspondence Error Rate result is a weighted combination of the results of the Letter and Notice Error Rate measures. The weights are based on the actual volumes of letters and notices (as reported in letter and notice weighted reports).

^bSystemic errors are computer-generated errors over which a particular processing center would have no control.

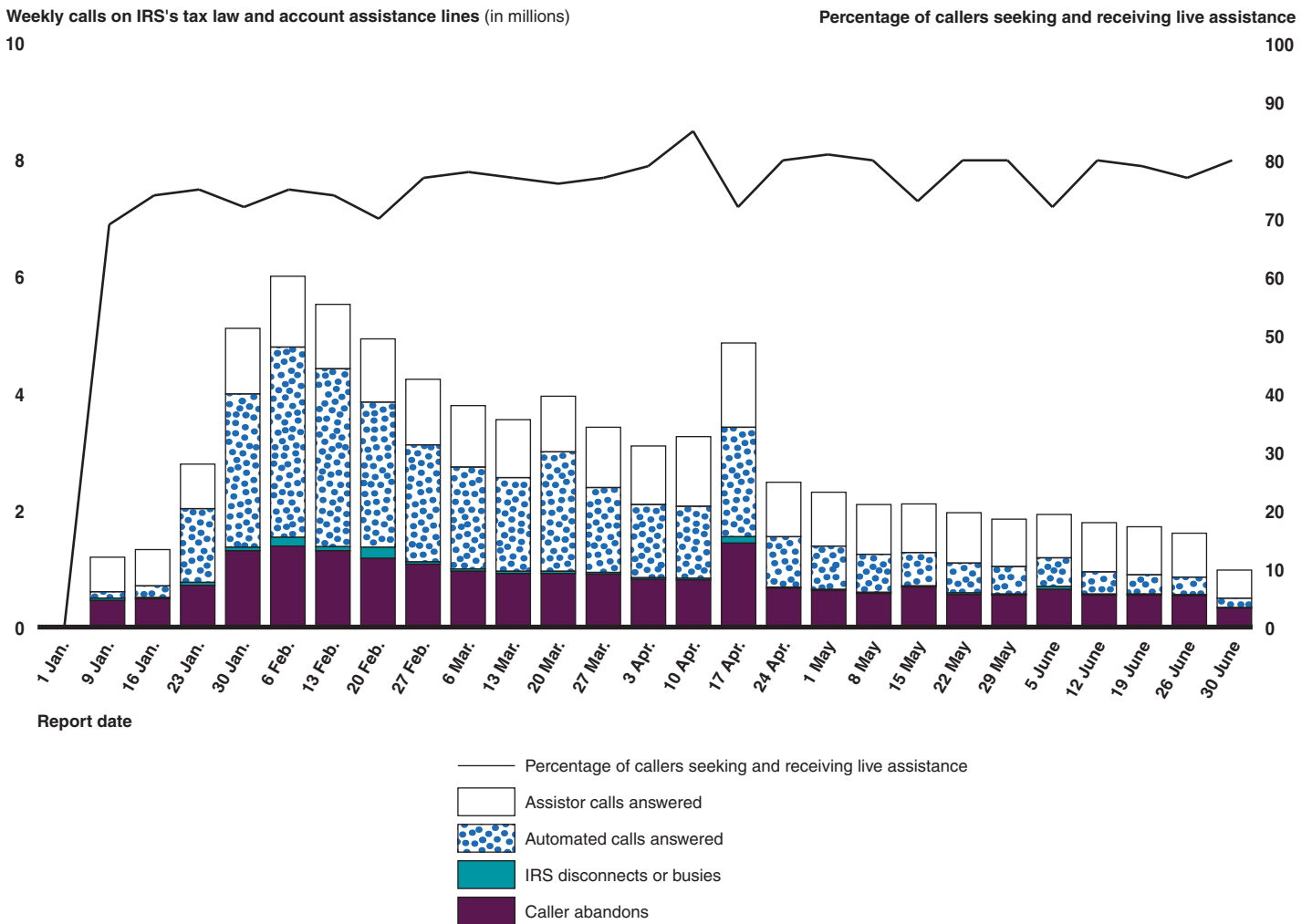
As noted earlier in the report, IRS officials attribute the combined effect of correcting millions of taxpayer errors and conducting targeted pre-refund compliance checks to missing goals for refund timeliness and refund interest paid. However, IRS also narrowly missed its goals for deposit timeliness and efficiency. IRS officials attributed missing deposit timeliness to an increased number of payments which generally had smaller dollar amounts. IRS officials attributed missing the efficiency measure goal to processing fewer information return Schedule K-1

documents than projected, and using more staff resources to process returns in ERS.

Appendix V: Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance

During the 2010 filing season, the Internal Revenue Service (IRS) received most of its calls in the period leading up to and including the April 15th filing deadline, with the heaviest volume of calls at the end of January and beginning of February and during the week of the filing deadline (see fig. 2 below). IRS saw relatively fewer busy signals or IRS initiated disconnect of taxpayers as compared with 2008 and 2009.

Figure 2: Weekly Toll-Free Calls and Percentage of Callers Seeking and Receiving Live Assistance from January 1 through June 30, 2010



Source: GAO analysis of IRS data.

Note: Weekly calls are those seeking tax law and account information assistance and do not include calls to IRS's compliance division.

**Appendix V: Weekly Toll-Free Calls and
Percentage of Callers Seeking and Receiving
Live Assistance**

IRS's Level of Service (LOS), or the percentage of callers seeking and receiving live assistance, takes into account a number of factors, such as the number of assistor calls answered, informational message calls answered, calculated busy signals, courtesy disconnects, and taxpayer hang-ups after being routed to a response line. According to IRS officials, other telephone call centers wait a certain period of time before counting callers who hang-up against their performance measures, whereas IRS counts these hang-ups, referred to as "secondary abandons" immediately.

Appendix VI: Services Offered at Walk-In and Volunteer Sites

The total number of contacts at walk-in sites, taxpayer assistance centers staffed by Internal Revenue Service (IRS) employees, and volunteer sites, where volunteers prepare tax returns, are about the same in 2010 as in 2009, but lower compared to 2008. As IRS expands automated taxpayer services online and over the telephone, the demand for face-to-face service is likely to decline. However, face-to-face services remain an important component of IRS's efforts to serve many taxpayers as some taxpayers, particularly those with low incomes or limited proficiency in English, still require face-to-face assistance.

Table 9: Services Performed at IRS Walk-In and Volunteer Sites, 2008 through 2010

	2008	2009	2010
Walk-in sites			
Total contacts	3,204,851	2,810,292	2,777,478
Return preparation	361,635	227,196	222,624
Tax law questions	337,880	202,813	177,002
Account notices	1,049,852	1,130,454	1,217,383
Forms	723,856	535,507	440,417
Other ^a	731,628	714,322	720,052
Volunteer sites			
Return preparation	3,213,068	2,895,853	2,927,003
Percent of returns e-filed	89	96	94

Source: IRS.

Notes: Data for Taxpayer Assistance Centers are from January 1 through April 30 and data on return preparation at volunteer sites is from January 1 through the end of April. 2008 data on percent of returns e-filed at volunteer sites is from January 1 through the end of April; 2009 and 2010 data is for the fiscal year from October 1 through the end of April.

^aOther contacts include responding to correspondence, scheduling appointments, and providing facilitated self-assistance services, which do not fall into the defined categories.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

James R. White, (202) 512-9110, whitej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director; Amy Bowser; James Cook; Tom Gilbert; Mark Kehoe; Kirsten Lauber; Blake Luna; Patricia MacWilliams; Sabrina Streagle; Jeff Wojcik; Jennifer Wong; and Benjamin Worries made key contributions to this report.

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