

Why GAO Did This Study

The tax filing season is an enormous undertaking during which the IRS processes millions of tax returns, issues billions of dollars in refunds and provides service to millions of taxpayers over the phone, online, and face-to-face. It also identifies taxpayers who owe additional taxes and begins the process of collecting their balance due. GAO was asked to review IRS's performance during the 2012 filing season. Among other things, this report (1) assesses IRS's performance in processing returns, issuing refunds, and providing service to taxpayers over the phone, online, and in-person; and (2) describes what is known about taxpayers who filed returns with a balance due for tax year 2010 and assesses IRS's efforts to ensure timely payment. To conduct the analyses, GAO obtained and compared IRS data from 2007 through 2012, reviewed pertinent IRS documents, interviewed IRS officials and observed IRS operations, and interviewed other experts in tax administration, including from states and tax preparation firms.

What GAO Recommends

GAO recommends that IRS outline a strategy to improve taxpayer service, define appropriate levels of service, and describe how it intends to manage performance declines; clearly define the roles and responsibilities of those reviewing the notice phase; and pilot risk-based approaches for contacting taxpayers who have a balance due.

In response to GAO's first recommendation, IRS said it is pursuing some steps to improve service. IRS described plans to implement the other two recommendations.

View [GAO-13-156](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

2012 TAX FILING

IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively

What GAO Found

While there have been efficiency gains and efforts to improve service, the Internal Revenue Service (IRS) faced challenges providing telephone service and responding to correspondence, continuing trends experienced in recent years. In 2012, 82 percent of individual taxpayers filed their returns electronically (e-filed), reducing IRS's processing costs. IRS also increased calls answered using automated service and added a variety of self service tools, which helped gain efficiencies. However, IRS's level of telephone service (the percentage of callers seeking live assistance who receive it) declined to 68 percent. In addition, of the 21 million pieces of paper correspondence IRS received, about 40 percent were considered overage (meaning that IRS did not respond within 45 days of receipt), an increase compared to last year. While IRS plans to continue to pursue efficiency gains, its strategy for future years does not specifically address how it plans to reverse these negative trends. Reversing the declines in telephone and correspondence services may require IRS to consider difficult tradeoffs, such as reassessing which phone calls IRS should answer with a live assistant and which it should not because automated services are available.

IRS Return Processing, Telephone Service, and Correspondence, 2007 through 2012 Filing Seasons

	2007	2008	2009	2010	2011	2012
Return processing (fiscal year)						
Returns processed (in millions)	135	151	139	137	140	142
Percent e-filed	58	59	67	71	78	82
Telephone service (as of June 30, each year)						
Percentage of callers seeking live assistance who receive it	81	57	68	76	72	68
Average wait time (in minutes)	4.6	8.6	8.4	9.5	11.7	17
Paper correspondence (end of fiscal year)						
Percentage of overage correspondence	17	23	25	27	35	40

Source: GAO analysis of IRS data.

GAO identified about 3.8 million returns where taxpayers self-acknowledged a balance due of \$13.8 billion for tax year 2010, the most recent data available. During IRS's notice phase, when IRS sends letters to taxpayers telling them how to pay the balance, the majority of this amount is either fully paid or accounted for through installment agreements. However, at least \$4.4 billion remained uncollected after IRS sent as many as four notices to taxpayers. These amounts become subject to more costly collections actions, such as phone or face-to-face contact. Best practices, such as risk-based approaches where contacts are tailored to the taxpayer, have helped increase collections in states such as New York and California. IRS has developed an analytics plan and uses some risk-based processes to identify which notices taxpayers will receive, but has not yet implemented the plan and management responsibilities are unclear. As a result, IRS has not tested more advanced risk-based approaches. This may lead to delayed collection of taxpayer debt, higher costs for IRS, and additional penalties for taxpayers who pay late.