
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Interim Results of the 2007 Filing Season

April 17, 2007

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 17, 2007

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael R. Phillips

Michael R. Phillips

Deputy Inspector General for Audit

SUBJECT:

Audit Report – Interim Results of the 2007 Filing Season
(Audit # 200740040)

This report presents selected information related to the Internal Revenue Service (IRS) filing season¹ results as of March 10, 2007. The 2007 Filing Season presented a number of unique challenges for the IRS, including a one-time refund of the Telephone Excise Tax, implementation of the split refund option, and late passage of the law extending some tax deductions. We have a number of ongoing audits related to specific issues in this report and continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

Impact on the Taxpayer

The filing season is critical because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The IRS estimates almost 136 million individual returns will be received. In this interim report, we did not identify any significant problems with the IRS' processing of individual income tax returns during the 2007 Filing Season through March 10, 2007. In general, the IRS had accurately processed the returns received and timely issued refunds.

Synopsis

As of March 10, 2007, electronic filing had increased 4.9 percent compared to the same period in 2006. While the number of taxpayers who electronically filed their tax returns from their home computers was up 8.1 percent this filing season, the number of taxpayers taking advantage of free online filing was down 5.5 percent from 2006.

¹ The period from January through mid-April when most individual income tax returns are filed.



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Implementation of the new Release of the Customer Account Data Engine, which will eventually replace the IRS Master File System,² was significantly delayed this filing season. The Customer Account Data Engine is designed to post information to taxpayers' accounts daily rather than weekly, which will facilitate faster refunds to taxpayers and provide IRS employees more up-to-date and accurate account information. The latest Release was to be placed into production in mid-January 2007; however, it was delayed until the first week of March. Due to delays in deployment of planned functionality, the IRS projection of tax returns that will be posted on this system has been reduced from approximately 33 million to approximately 16 million to 19 million. The system had posted only about 1.2 million tax returns.

The number of claims for the one-time Telephone Excise Tax Refund has been lower than expected, especially the number expected from taxpayers who were not otherwise required to file tax returns. In addition, some of the claims that have been received are obviously incorrect or potentially abusive. The IRS had received over 46,000 claims for amounts over \$500. Some of these excessive claims were so high in relation to the taxpayers' incomes that the taxpayers would have to have paid more than their total yearly incomes for long-distance or bundled telephone services to justify the claims.

As of March 10, 2007, there had been limited taxpayer use of the option to split refunds into up to three different bank accounts. We identified 52,696 taxpayers who had attached a Direct Deposit of Refund to More Than One Account (Form 8888) to split refunds; this represents only one-tenth of 1 percent of the direct deposits. The IRS had estimated 3.8 million Forms 8888 would be filed this year; however, it now estimates the actual number will be significantly lower.

Because of the late passage of the law that extended tax deductions for the educator expense, tuition and fees, and State sales taxes, the IRS did not begin processing tax returns claiming these deductions until February 3, 2007, to ensure the computer programming updates were working as intended. The IRS stated this delay would not affect the vast majority of taxpayers because only about 930,000 of the tax returns filed by February 1, 2006, had a claim for any of these 3 deductions. Our results indicated the IRS' delay in processing returns with these deductions had not caused any significant problems.

The Taxpayer Assistance Centers are walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns. The IRS plans to assist more than 6 million taxpayers in Fiscal Year 2007. It also expects to serve more taxpayers this filing season because of the Telephone Excise Tax Refund. However, the Taxpayer Assistance Centers had served 1.8 million taxpayers during this filing season.

The accuracy of answers given to taxpayers by assistors at the Taxpayer Assistance Centers has improved since the 2002 Filing Season. The IRS is also implementing a new system to record taxpayer contacts and evaluate the quality of the answers and service provided. This system has been implemented in 126 Centers. The IRS will be unable to project the accuracy rates to all

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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401 Centers until installation is completed, but the sample will provide a good indication of the accuracy rates at 126 of the 401 Centers.

The Level of Service provided on the IRS toll-free telephone lines is slightly lower than it was during the same period in the 2006 Filing Season. Through March 10, 2007, it was 83 percent compared to 84.2 percent for the same period last year. The IRS is taking approximately 70 seconds longer to answer taxpayers' calls when compared to the 2006 Filing Season. The Average Speed of Answer is currently at 252 seconds (4.2 minutes); this appears to have affected the rate at which taxpayers hang up, which increased 3.4 percentage points from the 2006 Filing Season.

The IRS developed and implemented a Tactical Plan to increase each daily planned Level of Service by 2 percent or 3 percent, to be in a better position to obtain the Fiscal Year 2007 82 percent planned Level of Service. For example, it planned for calls from taxpayers seeking assistance relating to the Telephone Excise Tax Refund. As of March 10, 2007, these calls had not materialized, and the IRS had seen only 2 percent of the planned number of calls. It has taken steps to move assistors from the Telephone Excise Tax Refund applications to the account applications where the demand is high.

The Volunteer Income Tax Assistance Program plays an increasingly important role in the IRS' efforts to improve taxpayer service and facilitate participation in the tax system. We are in the process of evaluating return preparation accuracy for this Program. As of March 10, 2007, we had 18 tax returns prepared with a 56 percent accuracy rate, compared to the 39 percent accuracy rate reported for the 2006 Filing Season. Volunteers did not always use the tools and information available when preparing returns. We will report the final results in August 2007.

Taxpayers are continuing to increase their use of IRS.gov to obtain tax-related information. As of the week ending March 10, 2007, the IRS had reported a 9.1 percent increase in the number of visits to IRS.gov over the same period in the 2006 Filing Season. It had also reported a 21.9 percent increase in the number of taxpayers obtaining their refund information online via the "Where's My Refund" option found on IRS.gov.

Recommendation

This report is to provide interim information only; therefore, we made no recommendations in the report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the IRS managers affected by the report information. Please contact me at (202) 622-6510 if you have questions or Michael McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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Abbreviations

CADE	Customer Account Data Engine
IRS	Internal Revenue Service
TAC	Taxpayer Assistance Center
TETR	Telephone Excise Tax Refund
VITA	Volunteer Income Tax Assistance



Background

Preparing for the 2007 Filing Season

The filing season¹ is critical for the Internal Revenue Service (IRS) because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The IRS estimates almost 136 million individual income tax returns (more than 56 million paper and 79 million electronic) will be received. It continues to experience substantial growth in electronic filing, and total volumes are projected to increase 8.5 percent in Calendar Year 2007. Online-filed electronic returns continue to experience the fastest growth among the electronic filing options available for individual taxpayers.²

Before the filing season begins, the IRS must identify new tax law and administrative changes; where possible, revise the various tax forms, instructions, and publications; and reprogram its computer system to ensure returns are accurately processed. Moreover, the 2007 Filing Season presented additional challenges. In addition to the usual tax law changes and updates that needed to be incorporated into computer programs, forms, and instructions, there were three significant tax provisions the IRS had to implement this season.

- One-time refund of the Telephone Excise Tax.
- Implementation of the split refund option.
- Late passage of the law extending some tax deductions.

Telephone Excise Tax Refund (TETR)

The TETR is a one-time refund, available on the 2006 Federal income tax return, designed to refund previously collected long-distance Federal excise taxes. It is available to anyone who paid long-distance taxes on landline, cell phone, or Voice over Internet Protocol service. The IRS will refund taxes on long-distance service billed for the period after February 28, 2003, and before August 1, 2006. Taxpayers request this refund when they file their Tax Year 2006 tax returns.

Individual taxpayers can take a standard amount ranging from \$30 to \$60 based on the number of exemptions claimed on their tax returns. For those claiming:

¹ The filing season is the period between January 1 and April 15 when most tax returns are filed.

² Calendar Year Projections of Individual Returns by Major Processing Categories (Document 6187), Fall 2006 Update, produced by the IRS Office of Research.



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- One exemption, the standard refund amount is \$30.
- Two exemptions, the standard refund amount is \$40.
- Three exemptions, the standard refund amount is \$50.
- Four exemptions or more, the standard refund amount is \$60.

Individuals choosing the standard amount can simply fill in the amount on the various individual income tax returns.³ People who do not need to file a return can use the Request for Refund of Federal Telephone Excise Tax (Form 1040EZ-T) to choose the standard amount. Individuals who decide not to use the standard amount must compute their refunds using the actual amounts of taxes they paid. To choose this option, taxpayers can fill out the Credit for Federal Telephone Excise Tax Paid (Form 8913) and attach it to their regular income tax returns.

The IRS estimated more than 157 million individuals would be eligible to receive this refund, including 22 million “new” filers that had no other tax obligations but would be eligible to make a claim using Form 1040EZ-T. It was estimated that 49 percent of the 22 million new Forms 1040EZ-T would be filed electronically and 51 percent would be filed on paper.

Split refund option

Beginning in 2007, individual taxpayers can elect to have their Federal income tax refunds split and electronically deposited into up to three accounts, such as checking, savings, or Individual Retirement Arrangements. In addition, the accounts can be with up to three different United States financial institutions, including banks, brokerage firms, or credit unions. This change gives taxpayers more options for managing their refunds along with the speed and safety of direct deposit. The IRS estimated taxpayers would choose to split their refunds on approximately 3.8 million returns this year.

Taxpayers can continue to use the direct deposit line on Form 1040 to electronically send their refunds to one checking or savings account or use the new Direct Deposit of Refund to More Than One Account (Form 8888) to split their refunds among two or three different accounts/financial institutions. The IRS will electronically deposit refunds to the accounts designated by the taxpayer, providing the taxpayer supplies accurate account and routing numbers and the financial institutions accept direct deposits for the type of accounts designated.

The IRS developed the split refund option to address concerns raised by members of Congress and public interest organizations about the low savings rate of the United States population. The IRS was urged to develop a way in which taxpayers could enhance their savings by depositing some of their income tax refunds into savings or retirement accounts, while at the same time allowing the taxpayers to receive part of their refunds for immediate needs.

³ U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040A), Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ), or U.S. Nonresident Alien Income Tax Return (Form 1040NR).



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Legislation to extend expired tax deductions

The Tax Relief and Health Care Act of 2006⁴ was passed by Congress and sent for the President's signature on December 8, 2006. Provisions in this legislation include extending the college tuition and fees deduction, the State and local sales tax deduction, and the deduction for educator expenses. As a result of the late passage of the legislation, these tax deductions were not included on the 2006 Form 1040 and related instructions. Applicable cautions notifying taxpayers of pending legislation were included in the appropriate tax products.

During December 2006 and January 2007, the IRS revised and tested the computer programming needed for the legislative changes. It did not begin processing paper or electronic tax returns claiming these tax deductions until February 3, 2007, to ensure the computer updates were working as intended. This also allowed private vendors providing tax preparation software to update their programs to include the extended tax deductions. In addition, because taxpayers filing paper tax returns would not have forms with "dedicated" lines for these tax deductions, the IRS had to ensure it correctly notified taxpayers about how to claim these tax deductions on their returns. It issued instructions to taxpayers to use certain codes and enter the deduction claimed on lines labeled as "other" on the Forms 1040 and 1040A and Form 1040 Itemized Deductions and Interest (Schedule A) and Ordinary Interest Dividends (Schedule B). While these instructions are helpful, there still may be confusion for taxpayers that may lead to errors on the tax returns or some not claiming the deductions to which they are entitled.

Customer Account Data Engine (CADE)

The CADE consists of current and planned databases that will eventually replace the IRS Master File⁵ as the official repository of taxpayer account information. The CADE is designed to post information to taxpayers' accounts daily rather than weekly, which will facilitate faster refunds to taxpayers and provide IRS employees more up-to-date and accurate account information. This ongoing project is being implemented in a series of successive releases, each with increased functionality. Release 2 was planned to significantly increase the population of taxpayers eligible to be included in the CADE. For the 2007 Filing Season, in addition to accepting almost all Form 1040 types, the CADE will include returns with most filing statuses, certain dependents, and the most common schedules. These changes were expected to significantly increase the volume of returns posting to the CADE from the approximately 7 million returns posted during Calendar Year 2006 to approximately 33 million this year.

These interim 2007 Filing Season results are being presented in accordance with *Government Auditing Standards*. We will provide locations of the audit work and more detailed objectives and scope in our final report on the 2007 Filing Season; we will also issue later this year a report

⁴ Pub. L. No. 109-432, 120 Stat. 2922 (2006).

⁵ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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covering many filing season-related topics. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Processing Tax Returns

As of March 10, 2007, we had not identified any significant problems with the IRS' processing of individual income tax returns during the 2007 Filing Season. While we have some concerns that are discussed in this report, in general, the IRS had accurately processed the returns received and timely issued refunds. During the 2007 Filing Season, the IRS expects to process almost 136 million individual income tax returns. As of March 10, 2007, the IRS had received approximately 60.9 million returns. Of those, approximately 45.5 million were filed electronically (an increase of 4.9 percent from this time in 2006), and approximately 15.4 million were filed on paper (a decrease of 10.9 percent from this time in 2006).⁶ Additionally, more than 50.5 million refunds totaling approximately \$128.7 billion had been issued. Of these, 39.1 million (77 percent of all refunds) were directly deposited to taxpayer bank accounts, an increase of 5.6 percent compared to 2006. Figure 1 presents some tax return filing statistics.

Figure 1: Comparative Filing Season Statistics

Cumulative Filing Season Data	2006 Actual As of March 10	2007 Actual As of March 10	% Change
Individual Income Tax Returns			
Total Returns Received (in thousands)	60,657	60,875	0.4%
Paper Returns Received (in thousands)	17,301	15,409	-10.9%
Electronic Returns Received (in thousands)	43,356	45,466	4.9%
Practitioner Prepared	31,010	32,156	3.7%
Home Computer	12,346	13,342	8.1%
Free File (Also Included in Home Computer Total)	2,616	2,471	-5.5%
Refunds			
Total Number Issued (in thousands)	50,656	50,515	-0.3%
Total \$ (in millions)	\$122,752	\$128,736	4.9%
Average \$	\$2,423	\$2,548	5.2%
Direct Deposit Number (in thousands)	37,031	39,088	5.6%
Total Direct Deposit \$ (in millions)	\$101,009	\$110,090	9.0%

Source: IRS 2007 Filing Season Weekly Reports. Totals may not compute to those presented due to rounding.

⁶ These volumes do not include approximately 248,000 Forms 1040EZ-T.



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Increase in electronic filing

As of March 10, 2007, electronic filing had increased 4.9 percent compared to the same period in 2006. While the number of taxpayers who electronically file from their home computers is up 8.1 percent this filing season, the number of taxpayers taking advantage of free online filing is down 5.5 percent from 2006.

The IRS has seen a steady growth in the electronic filing of income tax returns over the past several years. In Calendar Year 2003, 40.7 percent of the approximately 130.1 million individual income tax returns received by the IRS were electronically filed. In Calendar Year 2006, the percentage of electronically filed returns increased to 53.8 percent of the total individual income tax returns received. While the IRS will not meet its goal of having 80 percent of all tax returns electronically filed by the end of 2007, it does expect to see continued growth in electronic filing, although at a somewhat diminished growth rate from year to year. For example, the IRS expects the electronic filing percentage of individual income tax returns to reach 57.7 percent in 2007 and 60.6 percent in 2008.

Decline in the use of the Free File Program

The Free File Program provides taxpayers with access to free online tax preparation and electronic filing services made possible through a partnership agreement between the IRS and the tax software industry. Eligible taxpayers may prepare and electronically file their Federal income tax returns using commercial online software provided by Free File Alliance members. According to statistics provided by the Alliance, almost 2.8 million taxpayers used the Program in its first year. In subsequent years, use of the Free File Program increased significantly, to about 3.5 million taxpayers in 2004 and about 5.1 million taxpayers in 2005. However, use of the Program declined in 2006 to approximately 3.9 million taxpayers. The decline in usage appears to be continuing in 2007; only about 2.4 million taxpayers had used the Program as of March 10, a decline of 5.5 percent from the same time period last year.

The IRS will be in a better position to evaluate the trends in the Free File Program after this filing season. Calendar Year 2006 was the first year in which the IRS was able to include a Free File indicator on taxpayer accounts. At the end of this filing season, the IRS will have 2 years' worth of data that will provide the patterns and demographics of taxpayers using the Free File Program. For example, the IRS will be able to determine the number of taxpayers who converted from filing paper tax returns to filing electronic tax returns via the Program, the number of taxpayers who reverted to filing paper returns, and the number of taxpayers who convert to another method of electronic filing. This will help the IRS evaluate the extent to which the Free File Program contributes to increasing the number of electronic tax returns filed. Last year, approximately 18 percent of the taxpayers using the Program were new to electronic filing, which would indicate the Program is contributing to the increase in electronic filing as long as there is not a significant reversion to paper filing in subsequent years.



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Delays in release of the CADE

The latest release of the CADE, Release 2.2, was to be placed into production in mid-January 2007, in preparation for the 2007 Filing Season. With this Release, the IRS expected to post approximately 33 million returns on the CADE. However, the Release did not actually enter production until the first week of March due to technical problems, including a delay in completing the required testing of the programs and an out-of-balance condition when reconciling the number of returns posted at the end of the day. The implementation delay prevented taxpayers who filed tax returns in January and February from receiving the benefit of the faster CADE refund processing. In addition, the initial production Release did not include all planned functionality, so the volume of returns posted to the CADE during the 2007 Filing Season should be substantially lower than projected. The IRS now projects it will process approximately 16 million to 19 million tax returns onto the CADE. As of March 10, 2007, the CADE had posted only about 1.2 million tax returns.

Claims for the TETR

Through the week ending March 10, 2007, 36.8 million individual taxpayers had claimed the TETR for a total of \$1.7 billion. Of these taxpayers, more than 99 percent had claimed the safe harbor amounts of between \$30 and \$60. However, the IRS had identified more than 16.8 million individual taxpayers who did not claim the TETR on their tax returns. Figure 2 shows TETR statistics as of March 10, 2007.

Figure 2: TETR Statistics As of March 10, 2007 – Individual Taxpayers

Number of Forms 1040EZ-T Filed	205,840
Number of Tax Returns Claiming the TETR	36,800,000
Percentage of Tax Returns Claiming the TETR	68.7%
Percentage of Tax Returns Claiming the Standard TETR Amount	99.6%
Amount of TETR Claimed	\$1,700,000,000
Number of Tax Returns Not Claiming the TETR	16,800,000

Source: IRS TETR Performance Measures Reports.

The number of claims received for the one-time TETR has been lower than expected, especially the number expected from taxpayers who were not otherwise required to file tax returns. The IRS had received only 205,840 Forms 1040EZ-T, which is used by persons claiming the TETR but who are not required to file an income tax return. This is substantially less than the 11.2 million Forms 1040EZ-T the IRS had expected by this time. Based on this trend, the total receipts of Form 1040EZ-T will fall far short of the 22 million projected for the filing season.



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The IRS has issued press releases and publicized use of the Form 1040EZ-T for persons who want to claim the TETR but are otherwise not required to file an income tax return; however, despite this publicity, few people are filing Form 1040EZ-T. Because there are far fewer Forms 1040EZ-T being filed than expected, the IRS has revised its projections for the remainder of the filing season. The IRS is now projecting the number of Forms 1040EZ-T receipts to be about 637,000 through May 4, 2007.⁷

Some of the TETR claims are obviously incorrect or potentially abusive. Through March 10, 2007, the IRS had received over 46,000 claims for amounts over \$500. The TETR and interest reported on these claims totaled more than \$63 million. For many of these excessive claims, the taxpayer's long distance telephone bills would have had to have amounted to more than 25 percent of the taxpayer's total annual incomes to justify the TETR claims. Moreover, some of these excessive claims were so high in relation to the taxpayers' incomes that the taxpayers would have to have paid more than their total yearly incomes for long-distance or bundled telephone services to justify the claims.

Many taxpayers filing large claims appear to be entering the total amount billed for long-distance and bundled services rather than just the Federal excise tax associated with those amounts. The IRS came to this conclusion early in the filing season and addressed it in a press release in late January 2007. Instructions for Form 8913 expressly state that taxpayers are to claim the amount of Federal excise tax on long-distance or bundled services only. However, the column headings for taxpayers to enter those amounts are labeled, "Long Distance Service" and "Bundled Service." Taxpayers and preparers may be misunderstanding those column headings. We will continue to monitor this issue during the filing season.

Limited use of split refunds

While the majority of taxpayers are choosing to have the refunds directly deposited to their checking or savings accounts (77 percent of refunds issued through March 10, 2007, were direct deposits), the number of taxpayers choosing to split their refunds into 2 or 3 different accounts was much lower than anticipated at this point in the filing season. We identified only 52,696 taxpayers who had attached Forms 8888 to split refunds; this represents only one-tenth of 1 percent of the direct deposits. The split refunds totaled \$184.6 million, or an average of \$3,503 per refund. The IRS had estimated 3.8 million Forms 8888 would be filed this year; however, it now estimates the actual number will be significantly lower. We have not determined why so few taxpayers are taking advantage of the split refund option, but we will continue to monitor and analyze this throughout the filing season.

⁷ The "Lower" projection has the IRS receiving only 315,208 Forms 1040EZ-T; the "Most Likely" projection is 637,030, and the "Optimistic" projection is 7,347,546.



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Delayed processing of tax returns with extended tax deductions

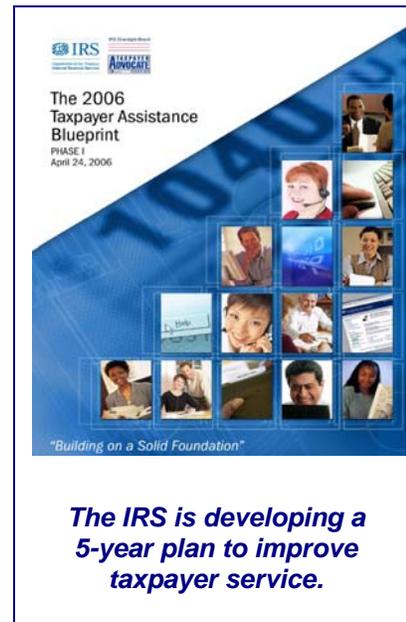
The IRS did not begin processing tax returns claiming the educator expense, tuition and fees, and State sales tax deductions until February 3, 2007, to ensure the computer programming updates were working as intended. The IRS stated this delay would not affect the vast majority of taxpayers because only about 930,000 of the tax returns filed by February 1, 2006, had a claim for any of these 3 deductions. Our results as of March 10, 2007, indicated the IRS' delay in processing returns with these deductions had not caused any problems, and there did not appear to be a significant number of errors related to the use of the deductions. We identified the following approximate totals:⁸

- Claiming the State Sales Tax deduction – 2 million taxpayers.
- Claiming the Tuition and Fees deduction – 1 million taxpayers.
- Claiming the Educator Expense deduction – 854,000 taxpayers.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers (TAC), and the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly Programs. Taxpayers can also get self-assistance through the IRS public Internet site, IRS.gov.

The IRS is finalizing its 5-year plan, called the Taxpayer Assistance Blueprint, to improve taxpayer service. The plan should include long-term goals and outline the services the IRS should provide to improve service to taxpayers. The Taxpayer Assistance Blueprint Phase I Report was issued April 24, 2006. The Phase II Report is due some time in Fiscal Year 2007. The Phase I Report identifies strategic improvement themes by researching IRS service relative to taxpayers' needs and preferences. IRS officials state the Phase II Report will validate those themes through further research of taxpayers' service preferences and will develop the 5-year plan for service delivery. We are planning a strategy to assess the Taxpayer Assistance Blueprint.



⁸ The actual number of taxpayers may be less than the total volumes shown because a taxpayer could claim two or more of the three deductions listed.



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In addition, we are currently conducting an audit to assess the taxpayer experience during the 2007 Filing Season. We will determine the quality of customer service the IRS provides to taxpayers who seek assistance when preparing their tax returns. This includes assistance at the TACs; assistance through the toll-free telephone lines; and self-help assistance on IRS.gov and with IRS tax forms, instructions, and publications. We plan to report the results of this review in August 2007.

Face-to-face assistance at the TACs

The TACs are walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns. The IRS plans to assist more than 6 million taxpayers in Fiscal Year 2007. As of March 10, 2007, the TACs had served 1.8 million taxpayers during this filing season.

Figure 3 shows the number of contacts by product line at the TACs for Fiscal Years 2004 through 2007. The Field Assistance Office does not maintain historical data by filing season.

Figure 3: Contacts for Fiscal Years 2004–2007 (in millions)

Contacts/Product Lines	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007 (Projected)
Tax Returns Prepared	.5	.4	.4	.5
Tax Law Contacts	1.4	1.2	.7	.7
Accounts Contacts	2.5	2.5	2.7	2.8
Forms Contacts	1.8	1.6	1.4	1.2
Other Contacts	1.5	1.4	1.3	1.3
Totals	7.7	7.1	6.5	6.5

Source: Field Assistance Office management information reports.

The IRS expected to serve more taxpayers this filing season because of the TETR. The Field Assistance Office, which is responsible for the TAC program, did not plan to use staff from other IRS offices but planned to hire 135 temporary employees to support the filing season. However, it was able to hire only about 120 temporary employees and expected staffing shortfalls in selected TACs. As in prior years, employees are traveling to those TACs with no permanently assigned assistors to provide part-time assistance to ensure all TACs provide service. The IRS had reported taxpayers have generally waited 30 or fewer minutes for assistance.

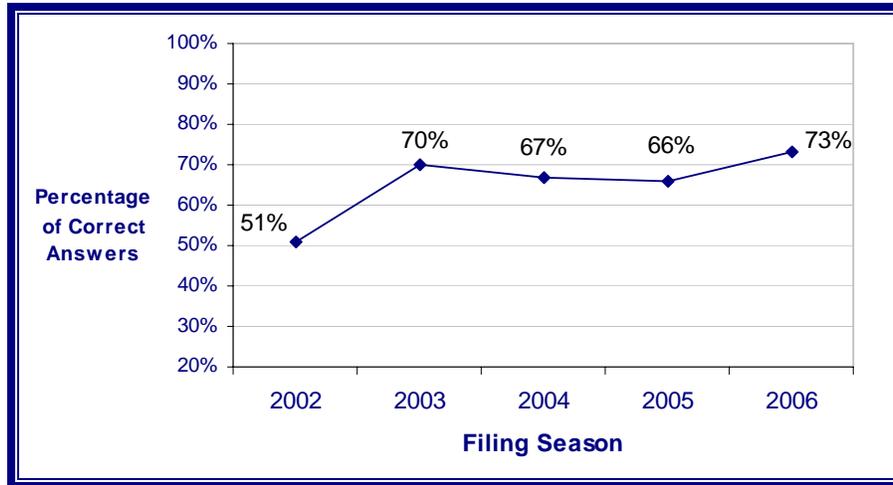
In Fiscal Year 2006, the IRS began the final implementation phase of a standardized quality measurement system to measure the quality of taxpayer service at its TACs. Prior to this, the IRS had used our audit results to measure the accuracy of assistors' responses to tax law



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questions. Figure 4 presents the results of our testing at the TACs since Fiscal Year 2002. The percentages represent the correct responses to tax law questions.

Figure 4: Results of the Treasury Inspector General for Tax Administration's Visits to Taxpayer Assistance Centers (2002-2006 Filing Seasons)



Source: Treasury Inspector General for Tax Administration audit results.

The IRS plans to report tax law and tax account accuracy rates for Fiscal Year 2007; this will be the baseline year. As of March 10, 2007, the Field Assistance Office had reported a 78 percent accuracy rate for tax law and tax account questions.

The Field Assistance Office is implementing a system to measure the quality of face-to-face assistance. No other Federal Government agency is using a system that measures the quality of face-to-face assistance to the extent of the system the IRS is implementing. This measurement system, called the Embedded Quality Business Integration, is a centralized data collection tool that uses Contact Recording and the Q-MATIC System.⁹ Contact Recording automatically records the audio portion of a customer contact and synchronizes it with an employee's computer screen activity. The Q-MATIC System signals the recording to begin at the start of each contact and turns it off at the appropriate time. Group managers critique a selection of contacts to evaluate individual employee performance and identify training needs. Quality reviewers use statistically valid samples of selected contacts to verify the accuracy of employee responses to taxpayers, which results in customer accuracy reported internally and externally. The samples will also be used to analyze trends, identify errors, and assist the Field Assistance Office with quality improvement efforts.

⁹ Contact Recording captures the audio portion of the employee/customer interaction, synchronized with computer screen activity, for replay and quality review. The Q-MATIC System is an automated queuing system used to control the flow of taxpayers waiting for assistance.



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Contact Recording has been installed at 126 TACs. The IRS will be unable to project the accuracy rates to all 401 TACs until installation is completed, but the statistical sample will provide a good indication of the accuracy rates at 126 of the 401 TACs. We are completing an audit of the Contact Recording implementation and plan to report the results in July 2007.

Toll-Free telephone assistance

Each filing season, approximately 15 million taxpayers contact the IRS by calling the various Customer Account Services function Toll-Free telephone assistance lines seeking assistance in understanding the tax law and meeting their tax obligations. For the 2007 Filing Season as of March 10, 2007,¹⁰ the IRS had planned to use approximately 2,007 Full-Time Equivalents¹¹ at 24 call centers located throughout the United States and Puerto Rico to meet the needs of taxpayers.

In the 2006 Filing Season, the IRS Level of Service was 82 percent. The Level of Service is the primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for services on the IRS toll-free telephone lines. As of March 10, 2007, the IRS had reported:

- An 83 percent Level of Service for the 2007 Filing Season. For this period, it had planned an 81.8 percent Level of Service.
- An Average Speed of Answer of 252 seconds (4.2 minutes), an increase of 38.5 percent from the 2006 Filing Season. It had planned for a 263 second Average Speed of Answer for this filing season.
- Accuracy rates through February 2007 of 88.7 percent for tax law questions and 92.9 percent for tax accounts.

Figure 5 presents a year-to-date comparison of select toll-free telephone measures and service indicators.

¹⁰ The 2007 Filing Season results are through the week ending March 10, 2007. The 2006 Filing Season data are as of March 11, 2006, unless specified otherwise.

¹¹ A Full-Time Equivalent is a measure of labor hours. One Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2006, 1 Full-Time Equivalent was equal to 2,080 staff hours. For Fiscal Year 2007, 1 Full-Time Equivalent is equal to 2,080 staff hours.



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Figure 5: Performance Measures and Service Indicators for the 2004–2007 Filing Seasons¹²

	2004 Through March 10	2005 Through March 10	2006 Through March 10	2007 Through March 10
Strategic Plan Measures				
Level of Service	84.3%	82.6%	84.2%	83.0%
Average Speed of Answer (seconds)	199	235	182	252
Automated Calls Answered (millions)	18.9	13.9	13.0	12.3
CAS Assistor Calls Answered (millions)	10.1	9.4	8.7	8.4
CAS Assistor Services Provided (millions)	11.9	11.2	10.3	10.1
Service Indicators				
Abandon Rate ¹³	10.0%	11.5%	8.9%	12.3%
Average Handle Time (seconds)	516	526	567	591
Assistor Availability	9.2%	5.9%	6.9%	6.3%
Primary Abandons ¹⁴ (millions)	4.5	3.6	3.8	4.2
Secondary Abandons (millions)	1.5	1.5	1.1	1.5
Total Blocked Calls ¹⁵ (millions)	0.5	0.5	0.6	0.3
Resource Indicators				
Total Toll-Free Program Full-Time Equivalents (Direct)	1078.0	975.0	962.0	963.2
Total Toll-Free Program Full-Time Equivalents (Direct + Overhead)	1,988.6	1,840.6	1,815.6	1,953.6

Source: IRS Enterprise Telephone Data Warehouse. CAS = Customer Account Services.

¹² The IRS averages its measures throughout the year; it does not weight them.

¹³ This is the Secondary Abandon Rate. The IRS refers to calls that disconnect after reaching the queue as secondary abandons.

¹⁴ The IRS refers to calls that disconnect before reaching the queue as primary abandons.

¹⁵ A blocked call is one that can not be connected immediately because either no circuit is available at the time the call arrives (i.e., the taxpayer receives a busy signal) or the system is programmed to block calls from entering the queue when the queue backs up beyond a defined threshold (i.e., the taxpayer receives a recorded announcement to call back at a later time). This is a derived figure from the IRS Executive Level Summary Reports designed to provide daily information; these Reports are not considered official reports of record.



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The performance measures and service indicators are currently lower than they were in the 2006 Filing Season

For the 2007 Filing Season (as of March 10, 2007), the IRS had answered about 91 percent of the planned 9.3 million assistor-answered calls. It had attained an 83 percent Level of Service and had planned for an 81.8 percent Level of Service, which is 1.2 percentage points lower than the actual 2006 Filing Season Level of Service. Also, the IRS had planned for 13.6 million automated calls answered and had answered 12.3 million automated calls.

The IRS is taking approximately 70 seconds longer (38.5 percent) to answer taxpayers' calls when compared to the 2006 Filing Season. The Average Speed of Answer is currently at 252 seconds compared to a planned 263 seconds. This appears to have affected the Abandon Rate, which increased 3.4 percentage points (38.2 percent) from the 2006 Filing Season.

The IRS had developed and implemented a Tactical Plan to increase each daily planned Level of Service by 2 percent or 3 percent, to be in a better position to obtain the Fiscal Year 2007 82 percent planned Level of Service. For example, it had planned for calls from taxpayers seeking assistance relating to the TETR. As of March 10, 2007, these calls had not materialized, and the IRS had seen only 2 percent of the planned TETR demand. It has taken steps to move assistors from the TETR applications to the account applications where the demand is high. This action provided the IRS with an opportunity to move trained assistors to work the paper inventory.

The TETR automated message

The IRS added 550 additional Full-Time Equivalents to handle the expected increase in calls about the TETR. In addition, to help alleviate assistors' time, the first menu item callers hear when calling the 1-800-829-1040 toll-free telephone line is about the TETR. After the welcome message, callers hear, "If you are calling about how to request the Telephone Excise Tax Refund, press 7." When callers choose this option, they are provided three additional options:

- For all individuals except those who file a business Schedule C, E, or F¹⁶ or for individuals who normally do not file a return, press 1.
- For individuals who file a Form 1040 return with a business Schedule C, E, or F, press 2.
- For corporations, partnerships, trusts, or tax-exempt organizations, press 3.

¹⁶ Profit or Loss From Business (Schedule C), Supplemental Income and Loss (Schedule E), Profit or Loss From Farming (Schedule F).



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Once callers make their selections, they hear a detailed message on how to file for the TETR. However, in late February when the IRS experienced router problems and increased contingencies, it temporarily reduced the recording to open up telephone lines. It has since restored the recording to its original length.

As of March 10, 2007, 349,130 callers had chosen to hear the TETR recorded message by pressing 7, and 287,251 (82.3 percent) callers had selected 1 of the 3 additional options to listen to at least a portion of the message. Nevertheless, after the recording ends, callers are not returned to the main menu so they can make another selection—instead the call is ended. We believe callers should be given the option to return to the main menu, which in our experience is better taxpayer service and is common practice when using customer service telephone lines.

IRS officials stated that, given the unusual circumstances, abbreviated lead time, and one-time nature of the TETR Program, they were concerned the potential volume of customers calling about the TETR could be very high and these callers could have a negative impact on the customers calling for assistance about other issues. The IRS' goal was to lead customers to venues other than the toll-free telephone assistors.

After developing and internally testing the TETR announcement, the IRS was confident that the vast majority of customers would obtain the information they needed from the announcement or via IRS.gov and would not need to speak with an assistor. To discourage unnecessary referrals to assistors, the IRS designed the message without an option to go back to the main menu or to an assistor.

Tax preparation assistance at volunteer sites

The VITA Program plays an increasingly important role in the IRS' efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing to underserved taxpayer segments, including low-income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply tax law.

For the 2007 Filing Season, we are including the AARP-sponsored¹⁷ Tax Counseling for the Elderly Program sites in our testing of VITA sites. We plan to visit 39 VITA sites to determine if taxpayers received quality service, including the accurate preparation of their individual income tax returns. We developed scenarios designed to present volunteers with a wide range of tax law topics that taxpayers may have needed assistance with when preparing their tax returns. These scenarios included the characteristics (e.g., income level, credits claimed) of tax returns typically prepared by the VITA Program volunteers based on an analysis of the Tax Year 2005 VITA-prepared tax returns.

¹⁷ The AARP is a nonprofit, nonpartisan membership organization for people age 50 and over.



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As of March 10, 2007, we had 18 tax returns prepared with a 56 percent accuracy rate, compared to the 39 percent accuracy rate reported for the 2006 Filing Season. Our observations are that volunteers did not always use the tools and information available when preparing returns. We will report our final results in August 2007.

Figure 6 presents comparisons of VITA Program activities for the 2006 and 2007 Filing Seasons.

Figure 6: Year-to-Date Comparisons of the 2006 and 2007 Filing Seasons Through March 10, 2007

	2006 Actual	2007 Actual	% Change
Volunteer Return Preparation (in millions)	1.2	1.3	7.6% ¹⁸
Volunteer Electronic Filing	93.8%	94.4%	0.6%

Source: IRS 2007 Filing Season Weekly Reports.

Self-assistance through IRS.gov

IRS.gov continues to be one of the most visited Internet sites in the world, especially during the filing seasons. As of the week ending March 10, 2007, the IRS had reported a 9.1 percent increase in the number of visits to IRS.gov over the same period in the prior filing season. It had also reported a 21.9 percent increase in the number of taxpayers obtaining their refund information online via the “Where’s My Refund” option found on IRS.gov. Figure 7 shows the year-to-date comparisons of various IRS.gov activity levels for the 2006 and 2007 Filing Seasons.

Figure 7: Year-to-Date Comparisons of the 2006 to 2007 Filing Seasons Through March 10, 2007 (in millions)

	2006 Actual	2007 Actual	% Change
IRS.gov Visits	76.4	83.3	9.1% ¹⁹
“Where’s My Refund?”	14.6	17.8	21.9%

Source: IRS 2007 Filing Season Weekly Reports.

¹⁸ Percentages were calculated before numbers were rounded to millions. Actual numbers are 1,206,185 for 2006 and 1,297,484 for 2007.

¹⁹ Percentages were calculated before numbers were rounded to millions. Actual numbers are 76,448,880 for 2006 and 83,364,615 for 2007.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS filing season (the period between January 1 and April 15 when most tax returns are filed results) as of March 10, 2007. To accomplish our objective, we:

- I. Identified new tax legislation and administrative changes for the 2007 Filing Season that will have the greatest potential effect on individual taxpayers.
 - A. Reviewed tax forms, instructions, and publications to determine whether they were accurately updated with the changes.
 - B. Reviewed information on the IRS.gov web site instructing taxpayers how to complete tax returns that include any of these new changes.
- II. Determined the volumes of individual tax returns the IRS is expecting to receive during the 2007 Filing Season.
 - A. Obtained and reviewed the IRS Calendar Year Projections of Individual Returns by Major Processing Categories (Document 6187), Fall 2006 Update, produced by the IRS Office of Research.
 - B. Obtained from the IRS any changes to these projections based on current filing volumes of specific tax forms.
- III. Identified interim volumes of paper and electronically filed returns.
 - A. Obtained statistics from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts. They also provide a comparison to 2006 receipts for the same time period.
 - B. Obtained statistics from the IRS weekly TETR Performance Data reports.
- IV. Reviewed an email alert and the IRS' response to TETR issues identified by the Treasury Inspector General for Tax Administration Small Business and Corporate Programs business unit.



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- V. Obtained interim volumes of returns filed with late legislation issues and split refunds.
 - A. Identified interim volumes of returns claiming the State sales tax, tuition and fees, and educator expense deductions by analyzing weekly extracts of the Individual Return Transaction File.
 - B. Identified interim volumes of returns requesting a split refund by analyzing weekly extracts of the Individual Return Transaction File.
- VI. Obtained background information related to the CADE project.
 - A. Identified relevant background information from prior Treasury Inspector General for Tax Administration reports.
 - B. Obtained the CADE Release Content Master Plan document, which contained original volume projections and release functionality.
 - C. Obtained the CADE Weekly Production Report for the week ended March 10, 2007, which contained the current CADE production statistics.
- VII. Obtained implementation plans related to the CADE Release 2.2.
 - A. Obtained the Release 2.2 implementation schedule and weekly implementation status reports from the CADE Project Office.
 - B. Obtained information related to the cause and effect of implementation delays.
 - 1. Reviewed information related to the causes of the Release 2.2 implementation delay from the CADE Project Office. This information was obtained from the Wage and Investment Division Business Assurance Executive for the CADE.
 - 2. Obtained revised volume projections based on the Release 2.2 implementation delay from the CADE Project Office.
- VIII. Determined the impact of the October 2005 Free File Agreement between the IRS and the Free File Alliance on electronic filing.
 - A. Obtained and reviewed the October 2002 Free File Agreement and the October 2005 Free File Agreement to identify changes to the Agreement.
 - B. Obtained and reviewed the IRS Weekly Filing Season Report, which provides a year-to-date comparison of electronic and paper tax return filing for the 2006 and 2007 Filing Seasons through March 10, 2007.
 - C. Obtained and analyzed taxpayer data for the taxpayers who used the Free File Program during the 2006 filing season.



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- IX. Determined the focus and status of the IRS Taxpayer Assistance Blueprint.
 - A. Obtained and reviewed the Taxpayer Assistance Blueprint Phase I Report.
 - B. Identified results derived from the Taxpayer Assistance Blueprint Phase I Report and the focus of Phase II.
- X. Obtained interim results for the IRS TAC Program.
 - A. Obtained from the IRS Field Assistance Office statistics on taxpayers served as well as information about Contact Recording and quality measures.
 - B. Obtained the IRS Weekly Filing Season Report, which provides a year-to-date comparison of various TAC activity levels for the 2006 and 2007 Filing Seasons through March 10, 2007.
- XI. Obtained interim results for the IRS Toll-Free Telephone Assistance Program.
 - A. Obtained and reviewed Performance Templates and Executive Level Summary reports from the Enterprise Telephone Data Warehouse for results as of March 10, 2007.
 - B. Obtained and reviewed information relative to the TETR from IRS officials.
- XII. Obtained interim results for the VITA Program.
 - A. Obtained interim results from Treasury Inspector General for Tax Administration visits to VITA sites. A total of 18 tax returns had been prepared as of March 10, 2007.
 - B. Obtained the IRS Weekly Filing Season Report, which provides a year-to-date comparison of various VITA Program activity levels for the 2006 and 2007 Filing Seasons.
- XIII. Obtained interim results for IRS self-assistance through IRS.gov.
 - A. Obtained the IRS Weekly Filing Season Report, which provides a year-to-date comparison of various IRS.gov activity levels for the 2006 and 2007 Filing Seasons.



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Appendix II

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Interim Results of the 2007 Filing Season

Appendix III

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