



## Treasury Inspector General for Tax Administration Office of Audit

### ELDERLY TAXPAYERS WOULD BENEFIT BY THE INTERNAL REVENUE SERVICE AND TAX PROFESSIONALS PARTNERING TO REDUCE UNNECESSARY FILINGS

Issued on May 28, 2009

## Highlights

Highlights of Report Number: 2009-30-076 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Taxpayers aged 65 or older will directly benefit by not filing returns when they have no need to do so. These taxpayers will have less burden and will save time and financial costs. To realize these benefits, taxpayers will need to work with tax professionals and guidance from the Internal Revenue Service (IRS) to reevaluate their withholding requirements if they do not anticipate tax liabilities in future years.

### WHY TIGTA DID THE AUDIT

This audit was initiated because taxpayers who received minimal income were filing tax returns to reclaim income tax withheld. Eliminating unnecessary filings could reduce the IRS' processing costs as well as reduce taxpayer burden for this specific group. The overall objective of this audit was to determine what steps, if any, the IRS had taken to inform taxpayers who file returns to reclaim withholding from non-taxable Social Security benefits for which they do not have to have income tax withheld or file returns.

### WHAT TIGTA FOUND

Taxpayers aged 65 or older who had minimal income filed returns regardless if they were due a refund from income tax withholding. Many taxpayers used tax professionals to file these unnecessary returns. Taxpayers expended a significant amount of time and money to file unnecessary returns. The IRS and the tax professional community share responsibility to educate taxpayers aged 65 or older to discontinue their withholding and filing of unnecessary tax returns.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, ensure consistency between the IRS' public web site and written products by reviewing and, if necessary, revising the

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IRS' most common publications and U.S Individual Income Tax Return (Form 1040/1040A) instructions. The revisions should advise taxpayers to discontinue income tax withholding if there is little likelihood that they will be required to file in subsequent years. Also, the Commissioner, Wage and Investment Division, should conduct focus groups to determine why taxpayers are filing unnecessary returns. As part of its existing outreach and education efforts for tax professionals, the IRS should include discussions on 1) tax responsibilities of the elderly, 2) discontinuing withholding on Social Security benefits, 3) coordinating rollovers with financial institutions to avoid the mandatory 20 percent withholding, and 4) filing requirements.

In their response to the report, IRS officials did not agree to revise the IRS' most common publications and the instructions to the Form 1040/1040A. Such a change would risk causing confusion for the vast majority of taxpayers in order to accommodate a small number of filers. However, they plan to reinforce the message about unnecessary filings in the *Tax Guide for Seniors* (Publication 554) and will review those publications targeting the elderly. The Wage and Investment Division Research office is working in conjunction with the Media and Publications function to review prior research for internal and external entities, such as the American Association of Retired Persons. Once they have reviewed this research, they plan to determine what future action is necessary, including whether they should conduct focus groups with the elderly, tax professionals, and/or payers of pensions and annuities.

Although TIGTA agrees that reinforcing the message regarding unnecessary filings in publications specifically for the elderly is necessary, an increased awareness effort may not be successful if it is limited to only those publications. The IRS should refer elderly taxpayers from the instructions and most common publications to the targeted publication for more detailed information. In addition, IRS management stated that they would only consider conducting focus groups if their review of prior research warranted them. However, TIGTA believes the focus groups will provide valuable insight into the root causes of why the elderly continue to file and/or have income tax withheld. Focus groups and outreach efforts to engage the preparer community will assist the IRS with its effort to reduce taxpayer burden.

After considering the IRS' comments, TIGTA maintains that the outcome measures in the report are sound and reasonable.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200930076fr.pdf>

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