



## Treasury Inspector General for Tax Administration Office of Audit

### ANALYZING TAXPAYER ERRORS CAN HELP TO IMPROVE FORMS AND INSTRUCTIONS

Issued on June 11, 2009

## Highlights

Highlights of Report Number: 2009-30-083 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Past estimates indicate that the Internal Revenue Service (IRS) annually sends more than 7 million math error notices to taxpayers informing them that changes were made to their tax returns as a result of mathematical or clerical errors they made on their returns. Some of these errors could result from unclear or inadequate forms and instructions and could signal specific areas where the IRS could make improvements. Changes to tax forms and instructions could reduce errors made by taxpayers on their individual income tax returns. Moreover, simplifying the filing process of taxpayers by clarifying forms and instructions increases compliance and reduces burden.

### WHY TIGTA DID THE AUDIT

This audit was part of our audit coverage in the TIGTA FY 2009 Annual Audit Plan. The overall objective of this audit was to determine whether an analysis of Individual Master File math error notices could help the IRS identify areas on its individual income tax forms and instructions that need improvement and/or clarity.

### WHAT TIGTA FOUND

An in-depth analysis of taxpayer errors could be an effective method of improving forms and instructions and would also help determine what effect changes made to forms and instructions have upon the taxpayers using them. For example, TIGTA identified a specific instance where a wording change made on the exemption line of the 2005 U.S. Individual Income Tax Return (Form 1040) contributed to a 123 percent spike in errors made by taxpayers. Then, a subsequent change back to the original wording on the 2007 Form 1040 led to a corresponding drop in errors.

In addition, TIGTA identified three specific areas where modifying the Form 1040 and its associated instructions could reduce taxpayer errors. They included: 1) errors made computing the exemption

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amount; 2) the omission of dependent Social Security Numbers or Individual Taxpayer Identification Numbers; and 3) children claimed for the Child Tax Credit exceeding the age limit.

For each of these issues, TIGTA developed illustrations showing proposed changes to the Form 1040 that were believed to reduce the errors in these areas. TIGTA presented these ideas to professional tax preparers in a focus group setting. The professional tax preparers provided their opinions and additional ideas they had for improvements. TIGTA incorporated some of their ideas into the recommended changes.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS consider additional analyses of the types and volumes of errors made by taxpayers as part of its obligation to improve forms and instructions. In addition, the IRS should take steps to improve current individual income tax forms and reduce taxpayer errors by clearly denoting on the Form 1040 the purpose and description of the exemption line, that a Social Security Number or Individual Taxpayer Identification Number is required for each dependent claimed as an exemption, and the qualifying age requirement necessary to claim the Child Tax Credit.

In their response to the report, IRS management agreed with three of the four recommendations addressed to the IRS. Specifically, they intend to continue to analyze math error reports as part of their annual revision process. In addition, they plan to consider revisions to the exemption line and also plan to modify the Child Tax Credit column in the Exemptions section of Form 1040. The IRS disagreed with the specific recommendation to add a statement that a Social Security Number or Individual Taxpayer Identification Number is required for each dependent claimed as an exemption because there are certain groups of taxpayers that are not required to provide these numbers. However, management plans to pursue alternative methods to emphasize this issue.

TIGTA also recommended legislation to allow for the judicious use of additional colors on tax returns and instructions to highlight important warnings and information. The IRS did not comment on the legislative recommendation because it was outside of the IRS' jurisdiction, but agreed to review the Forms 1040 to determine where it can more effectively use shading, bolding, and other changes, such as font sizes, to highlight the most important areas of the forms. TIGTA will provide a copy of the report to the Department of the Treasury, Office of Tax Policy for consideration.

### 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/200930083fr.pdf>.

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