TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Eliminating the Automatic Mailing of Tax Packages Achieved Significant Savings, Although Some Taxpayers Were Burdened

December 13, 2011

Reference Number: 2012-40-008

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ELIMINATING THE AUTOMATIC MAILING OF TAX PACKAGES ACHIEVED SIGNIFICANT SAVINGS, ALTHOUGH SOME TAXPAYERS WERE BURDENED

Highlights

Final Report issued on December 13, 2011

Highlights of Reference Number: 2012-40-008 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Part of the IRS's mission is to help taxpayers meet their tax responsibilities. To assist taxpayers, the IRS mailed forms with instructions and publications to individual and business taxpayers. However, in response to the continued increase in electronic filing and to save postage and publishing costs, the IRS discontinued the mailing of tax packages in Fiscal Year 2011.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess the implementation of the IRS's strategy to eliminate or reduce the mailing of tax products, beginning with Tax Year 2010. This included the IRS's efforts to monitor cost savings and the impact on tax compliance and taxpayer burden. This is a follow-up review to a prior TIGTA report.

WHAT TIGTA FOUND

As of August 2011, TIGTA determined the IRS saved approximately $14.19 million by not mailing Tax Year 2010 tax packages. The IRS estimated that as of July 27, 2011, it had saved about $8.25 million. However, TIGTA determined the IRS overestimated its postage and printing savings by $2.08 million and did not include $8.02 million realized by processing more tax returns electronically. In addition, the data the IRS used to identify taxpayers who would have received a Tax Year 2010 tax package and notify them they would not be receiving one were inaccurate.

The IRS captured costs and savings associated with the elimination of tax package mailings. However, it did not document all calculations and sources or validate and consider all costs and savings.

Eliminating individual tax package mailings increased the burden for a number of taxpayers, including those who complained they could not locate the forms they needed or did not know which forms to use. It also caused about 6 million taxpayers to spend an additional 1.5 million hours to obtain tax forms. The IRS did not capture all the comments and complaints received by the various sources as part of a long-term strategy to monitor taxpayer burden.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop a process to ensure savings and cost data related to the future elimination or reduction of mailing tax products are current and reliable. In addition, a formal strategy should be developed and documented to ensure that publishing and postage costs are continually evaluated and cost and savings calculations are documented and validated.

The IRS agreed with the recommendations and developed a process to ensure information leading to the elimination and reduction in the mailing of the remaining two tax packages is complete, current, and reliable. In addition, it developed strategies to ensure it continually evaluates costs, implements efficiencies, and evaluates taxpayer burden.

The IRS did not agree with TIGTA's outcome measure related to the first recommendation. It agreed with TIGTA's methodology for calculating the average cost per tax package, but believes TIGTA should have multiplied the average costs by a 10-year trending estimate in volume decreases to calculate the average percentage decrease for individual tax packages. TIGTA used the formula first provided by the IRS to calculate total savings, but used updated bid prices for the average cost per tax package. The IRS did not provide its own estimate of the cost savings using the 10-year trending estimate in volume decreases.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

December 13, 2011

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Eliminating the Automatic Mailing of Tax Packages Achieved Significant Savings, Although Some Taxpayers Were Burdened (Audit # 201140041)

This report presents the results of our review to assess the implementation of the Internal Revenue Service's strategy for the elimination or reduction of mailing tax products to individuals and businesses beginning with Tax Year 2010. This included the Internal Revenue Service's efforts to monitor cost savings and the impact on tax compliance and taxpayer burden. This was a follow-up review to a prior Treasury Inspector General for Tax Administration report.[1] This audit is included in our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

Management's complete response to the draft report is included in Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

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[1] Treasury Inspector General for Tax Administration, Ref. No. 2011-40-025, *Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs* (February 2011).

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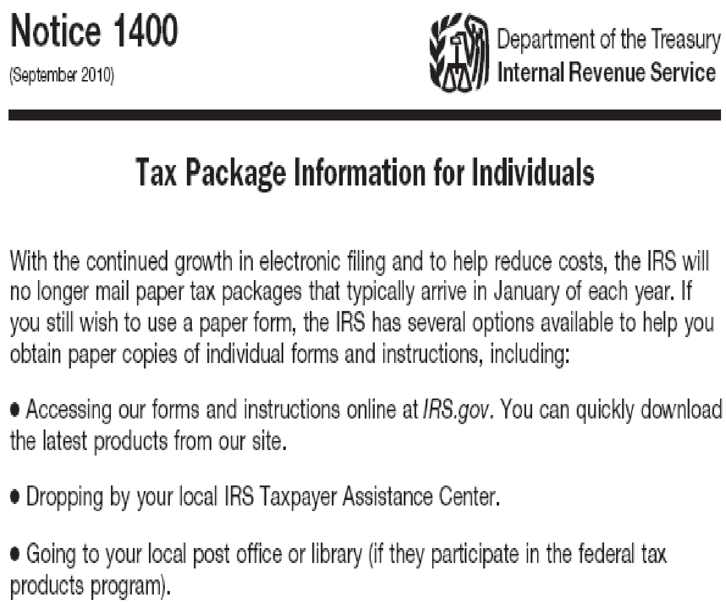
Abbreviations

e-file(d)	Electronically-file(d)
IRS	Internal Revenue Service
PPBR Task Force	Printing and Postage Budget Reduction Task Force
TIGTA	Treasury Inspector General for Tax Administration

Background

The Internal Revenue Service (IRS) mission includes helping taxpayers understand and meet their tax responsibilities as well as helping them stay compliant with tax laws. For taxpayers who traditionally file their tax returns via paper without the assistance of tax return preparation software or paid tax return preparers, this included sending them the forms, schedules, and instructions (tax packages) they needed to file their tax returns.

However, on September 24, 2010, the IRS announced it would no longer mail certain tax packages in order to achieve savings towards the $26 million savings outlined in the Fiscal Year[1] 2011 printing and postage budget request and to support the President's Going Green Campaign. Specifically, it announced that individual taxpayers will no longer receive Form 1040, *U.S. Individual Income Tax Return*, series paper tax packages in the mail, and business taxpayers will no longer receive Form 1065, *U.S. Return of Partnership Income*; Form 1120, *U.S. Corporation Income Tax Return*; and Form 1120S, *U.S. Income Tax Return for an S Corporation*, paper tax packages in the mail.



Notice 1400
(September 2010)

Department of the Treasury
Internal Revenue Service

Tax Package Information for Individuals

With the continued growth in electronic filing and to help reduce costs, the IRS will no longer mail paper tax packages that typically arrive in January of each year. If you still wish to use a paper form, the IRS has several options available to help you obtain paper copies of individual forms and instructions, including:

- Accessing our forms and instructions online at *IRS.gov*. You can quickly download the latest products from our site.
- Dropping by your local IRS Taxpayer Assistance Center.
- Going to your local post office or library (if they participate in the federal tax products program).

In early October 2010, the IRS sent a postcard, Notice 1400, *Tax Package Information for Individuals*, to 11,232,261 individuals it determined had filed Tax Year[2] 2009 paper tax returns before April 30, 2010, and did not use a paid tax return preparer or tax return preparation software. The Notice 1400 advised the taxpayers they would no longer receive tax packages in the mail. The IRS also sent a postcard, Notice 1400-A, *Tax Product Information for Forms 1065/1120/1120S*

[1] A fiscal year is a 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's Fiscal Year begins on October 1 and ends on September 30.
[2] A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Filers, to 595,524 businesses that normally received their tax forms and publications from the IRS.

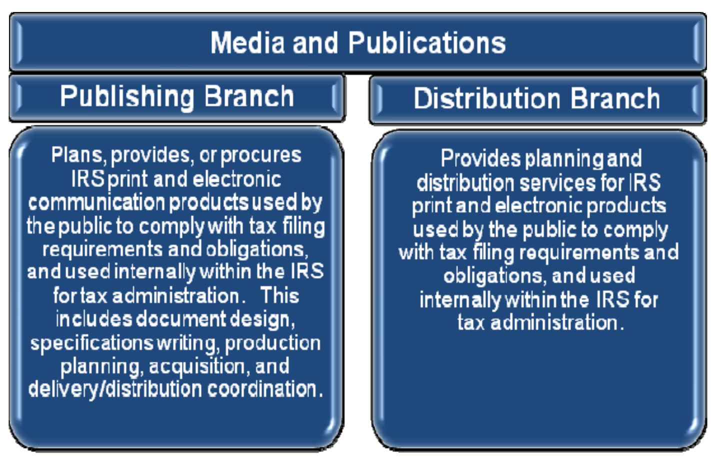
There were various risks associated with the IRS decision to discontinue sending tax packages in the mail. They included:

- **Increased Taxpayer Burden –** Taxpayers who need the tax products they received automatically in the past will have to call the IRS, visit local IRS offices called Taxpayer Assistance Centers, visit Tax Form Outlet Program partners such as libraries, or go to the IRS Internet website (IRS.gov) to obtain them.

- **Increased Costs to the IRS –** If a significant number of taxpayers call the IRS or visit a Taxpayer Assistance Center, the IRS will be providing the documents at a greater cost per document.

- **Reduction in Tax Compliance –** Taxpayers may either forget to file or decide not to file their tax returns if they do not receive a tax package in the mail.

The Media and Publications function of the IRS's Wage and Investment Division is responsible for the majority of the IRS's publishing and distribution services—with many of the publishing services outsourced to contracted vendors through the Government Printing Office. Although the Media and Publications function administers the publishing and distribution budget for the majority of the IRS's documents, it does not control or own any of its tax products, and the administration of the publishing and postal budget is affected by different IRS business units, offices, and functions. Each head of office determines printing and publishing needs of their respective areas.



In July 2010, IRS management established the Printing and Postage Budget Reduction Task Force (PPBR Task Force) to recommend proposals to reduce printing and mail costs and lay the foundation for long-term implementation of cost reductions for Fiscal Years 2011 and 2012.

In February 2011, the Treasury Inspector General for Tax Administration (TIGTA) reported that the IRS needed to more effectively manage printing and postage costs to reduce future costs and recommended that the IRS:[3]

1. Establish and implement a system of internal controls to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable.
2. Develop a strategy to ensure the IRS continually evaluates printing and postage costs. The strategy should include goals and measures, as well as steps to monitor the effect on taxpayer burden and compliance.

The IRS agreed, stating that its PPBR Task Force had implemented a system to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable. In addition, IRS management stated they had developed strategies to ensure the IRS continually evaluates printing and postage costs including a comprehensive strategy to measure the effect on compliance and taxpayer burden.

This review was performed at the IRS Wage and Investment Division's Media and Publications function in Washington, D.C., and the Small Business/Self-Employed Division in New Carrollton, Maryland, during the period April through August 2011. We conducted this performance audit 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[3] TIGTA, Ref. No. 2011-40-025, *Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs* (February 2011).

Results of Review

Significant Savings Were Achieved by Not Mailing Tax Packages, but Steps Need to Be Taken to Ensure Data Are Complete and Accurate

As of August 2011, the TIGTA determined the IRS saved approximately $14.19 million by not mailing Forms 1040, 1065, 1120, and 1120S Tax Year 2010 tax packages to individuals and businesses, including $7.74 million in printing and postage savings for individual tax packages and $547,000 in printing and postage savings for Forms 1065, 1120, and 1120S tax packages. Figure 1 shows the components of the savings and expenditures resulting from the elimination of Tax Year 2010 individual and business tax packages.

Figure 1: Savings and Expenditures From Eliminating Tax Package Mailings for Forms 1040, 1065, 1120, and 1120S

Forms 1040 Packages Savings (in millions)		Forms 1040 Packages Expenditures (in millions)	
Printing Tax Packages	$3.66	Contract Termination Fees	$0.02
Postage Costs to Mail Tax Packages	$4.08	Printing Notice 1400	$0.27
Quality Management Expenses Saved	$0.53	Postage Costs for Notice 1400	$2.22
Tax Return Processing	$8.02		
Forms 1040 Total Savings*	**$16.30**	**Forms 1040 Total Expenditures***	**$2.50**
Forms 1065/1120/1120-S Savings (in millions)		**Forms 1065/1120/1120-S Expenditures (in millions)**	
Printing Tax Packages	$0.28	Printing Notice 1400-A	$0.02
Postage Costs to Mail Tax Packages	$0.26	Postage Costs to Mail Notices 1400-A	$0.13
Forms 1065/1120/1120S Total Savings*	**$0.55**	**Forms 1065/1120/1120S Total Expenditures**	**$0.15**
Total Savings*	**$16.84**	**Total Expenditures**	**$2.65**
TOTAL NET SAVINGS	**$14.19**		

Source: TIGTA analysis of the IRS's August 15, 2011, mail cost tracking spreadsheet, Government Printing Office contracts, and Form 1040 series individual tax returns filed by individual taxpayers as of June 30, 2011.
**Totals do not add up due to rounding.*

TIGTA's estimate of savings and costs resulting from the elimination of individual tax package mailings

In addition to saving $8.27 million in printing, postage, and management costs, the IRS achieved indirect savings from individual taxpayers who in the past had submitted their tax returns on paper but electronically filed (e-filed) their Tax Year 2010 tax returns. Of 10,571,648 taxpayers who received a Notice 1400 and filed Tax Year 2009 returns on paper, 2,952,257 (28 percent) chose to e-file their Tax Year 2010 returns instead of filing them via paper[4]—saving the IRS $3.50 per tax return, or $8.02 million.[5]

Not receiving a Tax Year 2010 tax package might not have been the sole reason taxpayers switched to e-filing. They might have been using forms that in the past could not be e-filed. They may not have had access to the Internet or tax preparation software in the past. Nevertheless, if these taxpayers continue to e-file their tax returns, the IRS should continue to realize similar savings in future years.

In contrast to the savings, the IRS incurred one-time expenditures of $2.5 million, such as contract cancellation fees and the costs of printing and mailing Notices 1400, when it decided to discontinue mailing individual tax packages. It should not have similar expenditures in the future unless it decides to mail Notices 1400 to taxpayers again. To date, the IRS realized a total net savings of $13.80 million by eliminating Form 1040 tax package mailings and should continue to realize savings in the future.

TIGTA's estimate of savings and costs resulting from the elimination of business tax package mailings

The IRS also saved $547,000 in printing and postage costs in Fiscal Year 2011 by not mailing Forms 1065, 1120, and 1120S Tax Year 2010 tax packages to business taxpayers. Again, if the IRS continues to not mail these tax packages to business taxpayers, it should continue to realize similar annual savings.

The IRS incurred one-time expenditures to mail Notices 1400-A to business taxpayers of $148,000. To date, the IRS realized a total net savings of $399,000 by eliminating Forms 1065, 1120, and 1120S tax package mailings.

[4] Of the 11,232,261 individual taxpayers who received Notice 1400, 660,613 had e-filed their Tax Year 2009 returns and should not have received the Notice 1400. In addition, some of these taxpayers should not have received a Notice 1400 because they used a paid tax return preparer.
[5] It costs the IRS approximately $3.66 to process a paper-filed tax return, but only about $.17 to process an e-filed tax return—a difference of $3.50.

Not all data used by the IRS to estimate and report cost savings were complete or reliable

The IRS estimated that as of July 27, 2011, it had saved a net total of approximately $8.25 million by not mailing Tax Year 2010 tax packages to individuals and businesses including:

- $7.74 million by eliminating the mailing of individual Form 1040 tax packages.
- $516,000 by eliminating the mailing of business Forms 1065, 1120, and 1120S tax packages.

The IRS did not initially plan to include the additional savings it realized when more tax returns were e-filed.

The IRS overestimated postage and printing savings by $2.08 million.[6]

- Postage savings was overestimated by $317,000.
- Printing savings for business tax packages was overestimated by $75,000.
- Printing savings for individual tax packages was overestimated by $1.69 million.[7]
  1. Fiscal Year 2009 contract bid prices and quantities were used instead of the Fiscal Year 2010 final contract costs. This did not account for changes in quantity and pricing, nor did it include printing contract surcharges.
  2. The calculation did not weight the tax packages by quantity when identifying the overall average cost per tax package. To identify the actual average printing cost per tax package, the calculation needed to divide the total cost for all tax packages by the total quantity produced.
  3. After contract modifications, surcharges, and correctly computing the average cost per tax package, the final contract cost to print a Form 1040 tax package dropped significantly to $0.326 per Form 1040 tax package, or $3.66 million, a difference of approximately $1.69 million.

The IRS used a control spreadsheet to track and compile the costs and savings associated with the elimination of tax packages. However, the control spreadsheet did not document all the methodologies or sources used to obtain costs and savings. Without complete and reliable information, the IRS cannot make informed decisions regarding the elimination of tax package mailings.

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[6] Totals do not add up due to rounding.
[7] As of August 15, 2011, the PPBR Task Force had not finalized the control spreadsheet and may make further modifications.

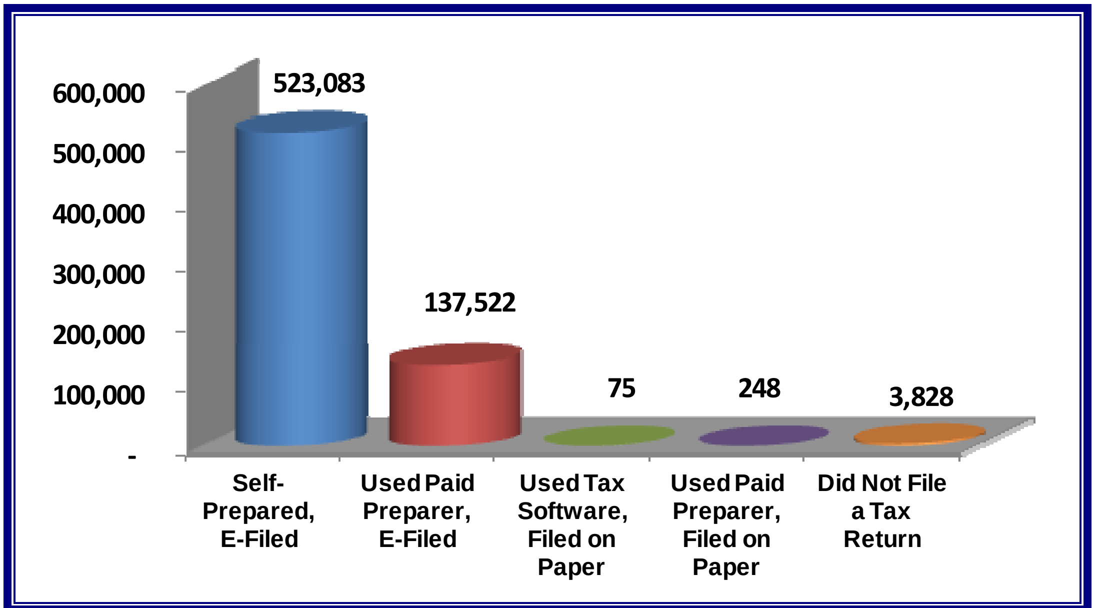
The data used to identify taxpayers meeting the Notice 1400 criteria were not accurate

Only taxpayers who filed a Tax Year 2009 paper return without the assistance of computer software or a paid tax return preparer should have received a Notice 1400. However:

- 664,756 (6 percent) of 11,232,261 taxpayers who received a Notice 1400 did not meet these criteria. This was an unnecessary cost of $147,243.
- 302,192 taxpayers who met Notice 1400 criteria did not receive one because they were not identified and included in the mailings. This may have unnecessarily burdened the taxpayers who were expecting but did not receive the tax packages.

Figure 2 shows the various filing methods used for Tax Year 2009 returns by the 664,756 taxpayers who unnecessarily received Notice 1400.

Figure 2: Tax Year 2009 Filing Methods of Taxpayers Who Unnecessarily Received Notice 1400



Source: Our analysis of IRS Tax Year 2009 Form 1040 series individual tax returns filed by individual taxpayers who unnecessarily received Notice 1400.

IRS management did not make the decision to send individual taxpayers Notice 1400 instead of tax packages until August 2010, but wanted the notices mailed to taxpayers before September 30, 2010. This gave the PPBR Task Force only one month to identify the taxpayers who should receive Notice 1400, generate the notices, and mail the notices. As a result, the PPBR Task Force did not document the criteria it used to extract the taxpayer information used to send the notices, nor was it able to validate the data.

The IRS initiated a communication strategy to notify the public it would no longer be mailing tax packages to individual taxpayers. The plan included several strategies to notify taxpayers of the IRS's decision to discontinue mailing individual tax packages, including creating news press releases and sharing it with external stakeholders, publishing articles on IRS.gov, creating a YouTube video, and contacting various stakeholder groups like the American Institute of Certified Public Accountants and the American Association of Retired Persons.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should develop a process to ensure that savings and cost data related to the current and future eliminations or reductions of mailing tax products are complete, current, and reliable. This includes documenting the methodologies and sources used to obtain costs and savings data.

> ***Management's Response:*** IRS management agreed with this recommendation. Based on lessons learned during the most recent Printing and Postage Budget Reduction effort, the IRS has developed a process to ensure that information leading to the elimination and reduction in mailing of the remaining two tax packages is complete, current, and reliable. The IRS has documented the methodologies and assumptions used.
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> ***Office of Audit Comment:*** The IRS did not agree with our outcome measure related to this recommendation. It agreed with our methodology for calculating the average cost per tax package, but believes we should have multiplied the average costs by a 10-year trending estimate in volume decreases to calculate the average percentage decrease for individual tax packages. We used the same formula and methodology the IRS initially used to calculate the cost savings. In calculating total savings, we used updated bid prices for the average cost per tax package. Our outcome measure is the difference between the formula's results when using correct cost figures and the results when using the IRS cost figures. In its response, the IRS did not provide its own estimate of the cost savings using the 10-year estimate in volume decreases.

Eliminating the Automatic Mailing of Individual Tax Packages Affected Eight Percent of All Taxpayers Who Filed Individual Tax Year 2010 Returns

The elimination of tax package mailings affected about 8 percent of the approximately 133 million individual taxpayers who have, as of May 28, 2011, filed Tax Year 2010 returns. A significant number of taxpayers who previously filed their tax returns on paper chose instead to e-file their Tax Year 2010 returns. A small number of taxpayers who received Tax Year 2009 tax packages and who timely filed their Tax Year 2009 returns filed Tax Year 2010 extensions. In addition, eliminating the tax package mailings increased taxpayer burden for some taxpayers who complained they could not locate the forms needed, did not know which forms to use, or lived in rural areas that are not near a Taxpayer Assistance Center or Tax Form Outlet Program partner.

Taxpayers who received a Notice 1400 were more likely to e-file and use software or a paid tax return preparer than taxpayers who received a Tax Year 2009 tax package

Of the 12,959,085 taxpayers who received a Tax Year 2009 tax package, 2,194,746 (16.94 percent) decided to e-file their Tax Year 2009 returns. In comparison, 2,952,257 (26.28 percent) of the 11,232,261 taxpayers who received a Notice 1400 decided to e-file their Tax Year 2010 returns. Therefore, taxpayers who received a Notice 1400 were 55.29 percent more likely to e-file than taxpayers who received a Tax Year 2009 tax package.

Similarly, although in smaller numbers, taxpayers who received a Notice 1400 were more likely to use a paid tax return preparer to prepare their tax returns than taxpayers who received a tax package in the prior year. Figure 3 shows the filing history and methods for taxpayers who received Tax Year 2009 packages compared to taxpayers who received Notices 1400 instead of Tax Year 2010 packages.

Figure 3: Tax Return Preparation and Filing Methods for Taxpayers Who Received Tax Packages or Notices 1400

	Tax Year 2009		Tax Year 2010		
Filing Method	**Number of Tax Returns**	**Percentage**	**Number of Tax Returns**	**Percentage**	**Change in Percentage**
Paper Filed, Self-Prepared	7,937,274	61.25%	5,915,236	52.66%	-14.02%
Paper Filed, Used Paid Preparers	314,043	2.42%	326,999	2.91%	20.25%
Paper Filed, Used Tax Software	501,116	3.87%	478,521	4.26%	10.08%
E-Filed, Used Tax Software	1,248,457	9.63%	1,859,555	16.56%	71.96%
E-Filed, Used Paid Preparers	946,289	7.3%	1,092,702	9.73%	33.29%
Filed As Secondary Taxpayers	325,213	2.51%	179,290	1.6%	-36.25%
Did Not File Tax Returns	1,686,693	13.02%	1,379,958	12.29%	-5.61%
Totals	**12,959,085**	**100%**	**11,232,261**	**100%**	

Source: Individual Master File[8] Return Transaction File for Tax Year 2010 data and Wage and Investment Division Strategy and Research function for Tax Year 2009 data.

[8] The IRS database that maintains transactions or records of individual tax accounts.

Eliminating the automatic mailings of individual tax packages does not appear to have significantly affected voluntary compliance

Of the 11,232,261 taxpayers who received a Notice 1400 in the mail, 1,379,958 (12.29 percent) did not file a Tax Year 2010 return.[9] In comparison, of the 12,959,085 taxpayers who received a Tax Year 2009 tax package, 1,686,693 (13.02 percent) did not file a Tax Year 2009 return by August 2010. Therefore, eliminating the mailing of individual tax packages did not appear to cause a significant increase in noncompliance with tax obligations.

However, it may have caused an increase in the number of taxpayers who filed for extensions. A total of 235,983 (2.10 percent) of the 11,232,261 taxpayers filed a Tax Year 2010 extension. This is an 89 percent increase over the 124,905 (1.11 percent) Tax Year 2009 extensions filed by the same 11,232,261 taxpayers. In comparison, overall there was a slight decrease in Tax Year 2010 extensions for Tax Year 2010 returns from Tax Year 2009 extensions.

Of the remaining 1,143,975 taxpayers who did not file a Tax Year 2010 tax return or extension by June 30, 2011:

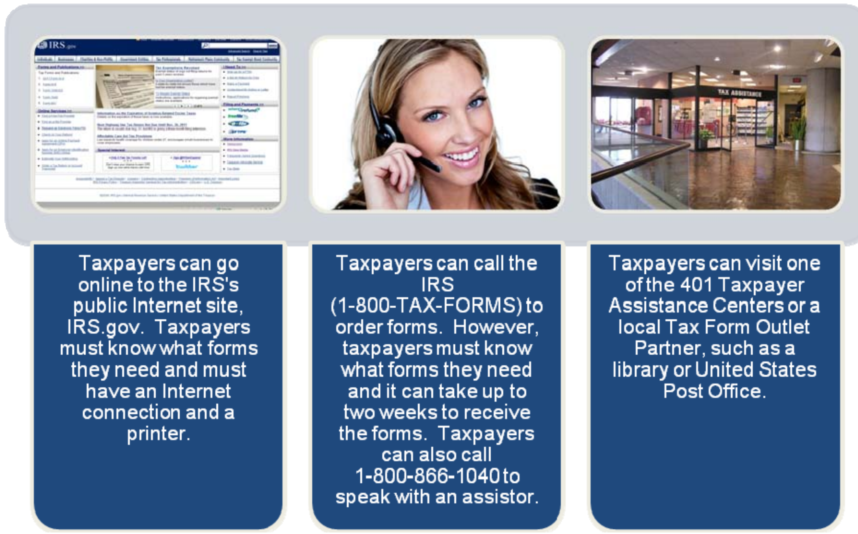
- 44,712 (3.91 percent) are deceased.
- 670,061 (58.57 percent) appear not to have a filing requirement (based on the amount of income reported to the IRS).[10]
- 429,202 (37.52 percent) appear to have a filing requirement. It is not yet known why they did not file a Tax Year 2010 return since a number of factors, including not receiving a tax package, could be the reason.

Some taxpayers experienced difficulties in obtaining tax forms, schedules, and instructions

Taxpayers who did not receive Tax Year 2010 tax packages reported difficulties in obtaining forms, schedules, and instructions. In addition to making it more difficult for taxpayers to voluntary comply with tax laws and file their tax returns, the IRS estimated it took the average taxpayer 15 minutes to obtain the forms they needed to file a tax return if they did not receive them in the mail. This is about 1.5 million additional hours in taxpayer burden for the nearly 6 million taxpayers who received a Notice 1400 and still elected to file a paper tax return without the assistance of tax return preparation software or a paid tax return preparer.

[9] As of June 30, 2011.
[10] The number of taxpayers without filing requirements is an estimate based on Tax Year 2010 income information, taxpayer's age, and previous filing status.

Taxpayers who ordered documents by calling the IRS or visiting a local office reported difficulties in knowing which forms, schedules, and instructions they needed to order or use. For those who ordered forms, if they did not order all of the correct documents, they needed to find another way to obtain the documents or call the IRS and wait another 10 days to receive the additional documents. Taxpayers who visited a local Taxpayer Assistance Center or Tax Form Outlet Program partner may have had to make another trip to their local office.



To help ensure taxpayers received the forms, instructions, and schedules they needed, the IRS automatically sent the applicable instructions to taxpayers who called to order forms. In addition, the IRS is developing an interactive tool that will assist taxpayers in determining which tax forms, schedules, and instructions they need. This tool will be available on IRS.gov.

A number of taxpayers complained to the IRS or their congressional representative

The IRS received 37 congressional inquiries, two White House inquiries, and 230 comments and complaints from individual taxpayers on the IRS's decision to eliminate the mailings of tax packages. Many of these taxpayers are elderly or disabled, live in rural areas, do not have easy access to personal computers or printers, or could not find the documents they needed at their local post offices or libraries.

Taxpayers used several options to submit their comments and complaints to the IRS, including submitting comments on IRS.gov. They also contacted the Taxpayer Advocacy Panel,[11] which maintains a system to track and monitor complaints. In addition, some taxpayers chose to contact their congressional representatives who, in turn, contacted the IRS Congressional Correspondence Office. Each congressional inquiry represented one or multiple taxpayer complaints received in the Congressional Correspondence Office.

[11] The Taxpayer Advocacy Panel is a Federal Advisory Committee made up of volunteers representing all 50 States, the District of Columbia, and Puerto Rico. Based on feedback from the public, Taxpayer Advocacy Panel members are dedicated to helping taxpayers improve IRS customer service and responsiveness to taxpayer needs.

The IRS does not plan to evaluate how eliminating Forms 1065, 1120, and 1120S package mailings affected taxpayer burden. However, it plans to estimate the effect eliminating Form 1040 tax packages had on individual taxpayers and report the results in Fiscal Year 2012.

A Long-Term Strategy Is Still Necessary to Ensure Cost Savings, Voluntary Compliance, and Taxpayer Burden Are Continually Evaluated in a Consistent Manner

In February 2011, the TIGTA reported that the IRS was reducing publishing and mail costs, but the recent reductions resulted from budget cuts rather than as part of a long-term strategy.[12] In its response to the report, the IRS stated it would develop a strategy to continually evaluate printing and postage costs, to include goals and measures, and to include steps to monitor the effect on taxpayer burden and compliance.

Although the IRS has tracked the costs and savings and determined the effect on taxpayer burden, it still has not developed a strong set of internal controls to ensure the data used for all decisions are accurate and complete. The IRS maintained a control spreadsheet to capture the cost data monthly, but the data were not always complete, accurate, or reliable. Further, there was no documentation to show how the costs and savings were calculated or validated.

In addition, taxpayers' complaints and feedback relating to the elimination of the automatic mailings of the individual tax packages were not all captured in one location to facilitate analysis as part of a long-term strategy to monitor taxpayer burden. Doing so would allow the IRS to determine, when possible, the best methods to alleviate taxpayer burden. For example, the IRS could identify specific locations, such as rural areas, in which taxpayers had a particularly difficult time obtaining their tax forms, instructions, and publications. Having this information would allow it to ensure local libraries and other partners have the tax documents taxpayers need to file their tax returns.

Controls should be in place to ensure the methodology used to identify and estimate costs is documented and that all data are accurate and complete. The controls should also include creating and maintaining records to measure total costs and to determine the effect on taxpayers. Without these controls, the IRS cannot be assured that it is making sound business decisions.

Management will continue to encounter challenges until they develop a formal process or strategy to continually collect cost data and assess and monitor opportunities for cost reduction and efficiencies across functions. The IRS needs to implement sufficient controls and procedures to ensure the methodology for the decisions are documented and that the data used are accurate and complete. A long-term strategy should also include a plan to monitor results to

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[12] TIGTA, Ref. No. 2011-40-025, *Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs* (February 2011).

ensure the IRS is achieving expected savings and not adversely affecting taxpayers or compliance.

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should develop and document a formal strategy to gather, evaluate, and report cost and savings data associated with the elimination of tax packages and continually evaluate publishing and postage costs for additional savings. The strategy should ensure that all sources of information, methodologies, and calculations are documented and validated. In addition, the strategy should include goals and measures for future savings as well as steps to monitor how the elimination of tax packages affects taxpayer burden and voluntary compliance. This includes analyzing taxpayer complaints and geographic coverage of form distribution in Taxpayer Assistance Centers and Tax Form Outlet Program partners.

> ***Management's Response:*** IRS management agreed with this recommendation. The IRS has developed strategies to ensure it continually evaluates publishing and mail costs, and it will continue to implement efficiencies as outlined in the IRS Strategic Plan and the Wage and Investment Division Operations Plan. The IRS will also continue to obtain the assistance of the Wage and Investment Division Research function in evaluating taxpayer burden as it prepares its program plans and to monitor the effects its actions have on taxpayer behavior.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the implementation of the IRS's strategy for the elimination or reduction of mailing tax products to individuals and businesses beginning with Tax Year 2010. This included the IRS's efforts to monitor cost savings and the impact on tax compliance and taxpayer burden. To accomplish our objective, we:

I. Determined if the IRS effectively implemented corrective actions to install a system of internal controls to ensure all data used to monitor the effects of the elimination of business and individual tax packages are current and reliable.

   A. Identified PPBR Task Force, Wage and Investment Division Research function, and Small Business/Self-Employed Division Research function sources of data and determined if they identified and collected all relevant data.

   B. Determined how the IRS collected and controlled data to ensure they are current and evaluated the data validation process.

II. Determined if the cost and savings data used to determine if the IRS is actually realizing savings by eliminating the mailing of tax packages are accurate.

   A. Determined if the IRS accurately calculated its total Fiscal Year[1] 2010 savings.

   B. Determined if the IRS calculated its total Fiscal Year 2010 costs and ensured their accuracy and completeness.

III. Evaluated controls to determine if taxpayer compliance was significantly affected when taxpayers did not automatically receive Tax Year 2010 tax packages from the IRS.

   A. Determined if the IRS appropriately identified and notified all affected taxpayers that they would not receive Tax Year 2010 tax packages.

   B. Determined if taxpayers who received a Notice 1400, *Tax Package Information for Individuals*, filed their tax returns timely, filed extensions, or did not have a filing requirement.

   C. Calculated the number of taxpayers whose behaviors changed or that became noncompliant for Tax Year 2010 after not receiving Tax Year 2010 tax packages

[1] A fiscal year is a 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's Fiscal Year begins on October 1 and ends on September 30.

automatically from the IRS. This included determining how many taxpayers had a filing requirement but did not file a Tax Year 2010 return.

IV. Evaluated controls to determine if the IRS effectively implemented corrective actions to continually measure the effect that the elimination or reduction of mailing tax products has on taxpayer burden.

   A. Identified all potential areas in which the elimination of tax product mailings could increase taxpayer burden.

   B. Determined how the IRS evaluated the effect the elimination of tax package mailings has on taxpayer burden.

   C. Determined if the IRS's decisions regarding the elimination of tax package mailings are consistent with taxpayer burden analysis results.

V. Determined if the IRS strategy to monitor cost savings and evaluate the effect the elimination of tax packages had on voluntary compliance and taxpayer burden allowed it to make sound and timely business decisions for the 2012 Filing Season.

VI. Evaluated the expected importance of data, the quality of corroborating evidence, and the anticipated level of risk in relying on Individual Master File data obtained from Forms 1040, *U.S. Individual Income Tax Return*, filed by taxpayers to determine its suitability for use.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the IRS's policies, procedures, and practices for ensuring cost-effective methods were used during the implementation of the IRS's strategy for the elimination of mailings of tax packages to individuals and businesses beginning with the 2010 Tax Year. We evaluated these controls by interviewing management, reviewing the Internal Revenue Manual, reviewing the IRS's efforts to monitor cost savings and the impact on tax compliance and taxpayer burden, and analyzing cost and savings data related to the elimination of tax packages for individuals and businesses.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; $2,078,618 (see page 4).

Methodology Used to Measure the Reported Benefit:

We determined the PPBR Task Force can take additional actions to make sure a process is in place to ensure savings and cost data related to the future eliminations or reductions of mailing tax products are current and reliable. Specifically, the PPBR Task Force did not sufficiently document the steps taken to test or validate its cost and savings data. As a result, it overestimated printing and postage savings for mailing tax packages by $2.08 million. Without complete and reliable information, the IRS cannot make informed decisions regarding the elimination of tax package mailings.

Individual Printing Savings

The PPBR Task Force used Fiscal Year[1] 2009 Government Printing Office contract bid prices and quantities for tax packages to identify an average printing cost per tax package of $0.462—the average printing cost per tax package it projects it would have spent had the IRS printed individual Tax Year[2] 2010 tax packages. The Task Force multiplied the $0.462 by the 11,079,829 Tax Year 2010 tax packages the IRS estimated it would have printed to project printing savings of $5,118,881. Then it added $229,513 in contract surcharges to calculate a total projected printing savings of $5,348,394.

Using the contract bid prices did not account for changes in quantity and pricing, nor did it include contract surcharges. In addition, the IRS's average printing cost per tax package calculation did not weight the tax packages by quantity when identifying the overall average cost per tax package.

[1] A fiscal year is a 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's Fiscal Year begins on October 1 and ends on September 30.
[2] A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

To identify the actual average printing cost per individual tax package, the calculation needed to divide the total tax package expenditures of $4,448,198 by the 13,652,107 tax packages actually printed. This produces an average printing cost per tax package of $0.326. Multiplying this by the 11,232,261 Notices 1400, *Tax Package Information for Individuals*, sent to taxpayers instead of actual Tax Year 2010 tax packages produces a total savings of $3,661,717, or $1,686,677 less than the PPBR Task Force projected.

Business Printing Savings

The PPBR Task Force used Fiscal Year 2009 Government Printing Office contract bid prices and quantities for tax packages to identify an average printing cost per tax package of $0.616—the average printing cost per tax package it projects it would have spent had the IRS printed business Tax Year 2010 tax packages. The Task Force stated it multiplied the $0.616 by the 590,868 Tax Year 2010 tax packages the IRS estimated it would have printed to project printing savings of $359,263.[3]

Using the contract bid prices did not account for changes in quantity and pricing, nor did it include contract surcharges. In addition, the IRS's average printing cost per tax package calculation did not weight the tax packages by quantity when identifying the overall average cost per tax package.

To identify the actual average printing cost per business tax package, the calculation needed to divide the total tax package expenditures of $369,918 by the 773,268 tax packages actually printed. This produces an average printing cost per tax package of $0.478. Multiplying this by the 595,524 Notices 1400-A, *Tax Product Information for Forms 1065/1120/1120S Filers*, sent to taxpayers instead of actual Tax Year 2010 tax packages produces a total savings of $284,660, or $74,603 less than the PPBR Task Force projected.

Individual Postage Savings

The PPBR Task Force used Fiscal Year 2009 Government Printing Office contract quantities and postage costs to identify an average postage cost per tax package of $0.39—the average postage cost per tax package it projects it would have spent had the IRS mailed individual Tax Year 2010 tax packages. The Task Force multiplied the $0.39 by the 11,079,829 Tax Year 2010 tax packages the IRS estimated it would have printed to project postage savings of $4,321,133. Then it added $36,858 in additional postage costs to calculate a total projected postage savings of $4,357,991.

Using the contract bid prices did not account for changes in quantity and pricing.

To identify the actual average postage cost per individual tax package, the calculation needed to divide the total tax package expenditures of $4,812,250 by the 13,240,173 tax packages actually

[3] The IRS control spreadsheet showed they calculated their printing savings for business tax packages by multiplying $0.616 by 590,868 to arrive at $359,263; however, the correct computation is $363,975.

mailed. This produces an average postage cost per tax package of $0.3635. Multiplying this by the 11,232,261 Notices 1400 sent to taxpayers instead of actual Tax Year 2010 tax packages produces a total savings of $4,082,927, or $275,064 less than the PPBR Task Force projected.

Business Postage Savings

The PPBR Task Force contract bid prices to estimate project postage savings of $304,305. However, using the contract bid prices did not account for changes in quantity.

To identify the actual average printing cost per business tax package, the calculation needed to divide the total tax package expenditures of $304,305 by the 690,441 tax packages actually mailed. This produces an average printing cost per tax package of $0.44. Multiplying this by the 595,524 Notices 1400-A sent to taxpayers instead of actual Tax Year 2010 tax packages produces a total savings of $262,031, or $42,274 less than the PPBR Task Force projected.

Calculation for determining the outcome measure: $1,686,677 overstated individual tax package printing savings + $74,603 overstated business tax package printing savings + $275,064 overstated individual tax package postage savings + $42,274 overstated business tax package postage savings = $2,078,618.

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

RECEIVED NOV 8 2011

November 8, 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr.
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Eliminating the Automatic Mailing of Tax Packages Achieved Significant Savings, Although Some Taxpayers Were Burdened (Audit # 201140041)

We have reviewed the subject draft report and appreciate your acknowledgement of the work we have done to reduce printing and postage costs, and the challenges we faced in achieving a savings goal of $26 million in Fiscal Year (FY) 2011, primarily in reduced printing and postage costs. After realizing one-time charges associated with contract termination fees, we achieved a savings of $24.87 million in FY 2011. We expect the full $26 million in annual savings to be realized in FY 2012 and beyond. Our efforts have also supported the President's Going Green Campaign by eliminating both the monetary and opportunity costs associated with printing and/or transporting tax packages that would have otherwise been used by many of the taxpayers who converted from paper to electronic filing for the 2010 Tax Year (TY). In addition to the elimination of mailing individual and business tax packages, the IRS also achieved savings of more than $4 million through increased use of ground shipping in lieu of next-day air service, the elimination of non-mandatory inserts in taxpayer notices, and improved efficiencies in the procurement of envelope stock, single-sheet forms, and instructions.

One of the challenges IRS faced with eliminating mailing individual and business tax packages was a short timeframe in which to identify and notify potentially affected taxpayers. Any taxpayer filing a 2009 individual tax return not prepared by an identified return preparer, or with the assistance of tax preparation software should have received Notice 1400, *Tax Package Information for Individuals*. Unfortunately, since the filing deadline for 2009 tax returns, under a timely-filed extension, would have been October 15, 2010, the list of affected taxpayers identified for receipt of Notice 1400 was not complete. To supplement our communication efforts, and to maximize the distribution

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of our message to the public, we also issued press releases, posted information on IRS.gov and social media sites, and contacted external stakeholders and partners in the tax return preparation community.

As noted in the report, our decision to eliminate the mailing of tax packages affected approximately eight percent of individual return filers. The IRS strives to provide high levels of service and support to the taxpaying public; however, with the availability of electronic services and the yearly increases experienced in electronic filing, the benefits of continuing automatic tax package mailings were not commensurate with the associated costs. We acknowledge some taxpayers were inconvenienced by the decision to discontinue the tax package mailings. While our action represented a significant change in a longstanding practice, it has resulted in a substantial savings to the public. In addition to providing tax forms and instructions electronically through IRS.gov, we continue to support taxpayers who request paper products through our Toll-free distribution service.

Another benefit realized by eliminating the tax package mailings was an increase in the number of taxpayers who changed their filing method from paper forms to electronic filing. We note in the report that Treasury Inspector General for Tax Administration measured the increase by comparing the number of taxpayers who filed on paper for TY 2009, then filed electronically for TY 2010. In recent years, certain tax provisions, such as the First Time Homebuyer Credit and the credit for Adoption Expenses, required taxpayers to file paper returns. For this reason, we took a conservative approach in measuring the increase in electronic filing attributable to not mailing the tax packages. We counted those taxpayers who filed paper returns in each of the five preceding years before changing to electronic filing for 2010.

As the steward of printing and postage cost reduction efforts, the Media and Publications function is guided by the IRS Strategic Plan to reduce IRS reliance on paper products, and to better use resources by reducing postage expenditures and exploring and implementing green initiatives in all aspects of our business. We are migrating to e-products and services to save resources and promote taxpayer self-sufficiency. We are reducing postage costs through product redesigns and printing contract methods, as well as developing alternative media. We also consult with stakeholders to reduce costs, and ensure that our educational efforts are focused on cost reduction.

Additionally, our executive and managerial commitments include requirements to reduce printing and postage costs. This requirement is communicated throughout the IRS, at all organizational levels, to educate and expand workforce awareness. As a result, our 10-year data trends show a significant decrease in the overall print volumes of tax products.

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We agree with your methodology in calculating the average cost per tax package; however, we believe it is appropriate to use data from the last 10 years to determine the trend in volume decreases and calculate the average percentage decrease for individual tax packages. Consequently, we do not agree with the outcome measure presented in the report.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Karen Becton-Johnson, Director of Media and Publications, Wage and Investment Division, at (202) 622-2875.

Attachment

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should develop a process to ensure that savings and cost data related to the current and future eliminations or reductions of mailing tax products are complete, current, and reliable. This includes documenting the methodologies and sources used to obtain costs and savings data.

CORRECTIVE ACTION

We agree with this recommendation. Based on lessons learned during the most recent Printing and Postage Budget Reduction effort, we have developed a process to ensure that information leading to the elimination and reduction in mailing of the remaining two tax packages is complete, current, and reliable. We have documented the methodologies and assumptions used.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Media and Publications, Wage and Investment Division

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should develop and document a formal strategy to gather, evaluate, and report cost and savings data associated with the elimination of tax packages and continually evaluate publishing and postage costs for additional savings. The strategy should ensure that all sources of information, methodologies, and calculations are documented and validated. In addition, the strategy should include goals and measures for future savings as well as steps to monitor how the elimination of tax packages affects taxpayer burden and voluntary compliance. This includes analyzing taxpayer complaints and geographic coverage of form distribution in Taxpayer Assistance Centers and Tax Form Outlet Program partners.

CORRECTIVE ACTION

We agree with this recommendation. We have developed strategies to ensure that publishing and mail costs are continually evaluated. We will continue to implement efficiencies as outlined in the IRS Strategic Plan and the Wage and Investment (W&I) Division Operations Plan. We will continue to obtain the assistance of W&I Research in evaluating taxpayer burden as we prepare our program plans and to monitor the effects our actions have on taxpayer behavior.

IMPLEMENTATION DATE

Implemented and ongoing

RESPONSIBLE OFFICIAL
Director, Media and Publications, Wage and Investment Division