



## Treasury Inspector General for Tax Administration Office of Audit

### A SERVICE-WIDE STRATEGY IS NEEDED TO INCREASE BUSINESS TAX RETURN ELECTRONIC FILING

Issued on September 24, 2014

## Highlights

Highlights of Report Number: 2014-40-084 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### IMPACT ON TAXPAYERS

Electronic filing (e-filing) benefits both taxpayers and the IRS. For taxpayers, benefits include faster refunds, electronic confirmation of receipt of their tax return, and secure and confidential submission of sensitive return information. For the IRS, benefits include a significant reduction of submission processing costs and the receipt of a more accurate tax return, which reduces taxpayer burden and avoids additional processing costs.

### WHY TIGTA DID THE AUDIT

This audit was initiated because the Restructuring and Reform Act of 1998 (RRA 98) required e-filing as the preferred and most convenient method of filing Federal tax and information returns. The Act also established a goal that the IRS has at least 80 percent of all tax returns, individual and business, e-filed. Our review assessed the effectiveness of the IRS's efforts to increase the number of business tax returns and information returns electronically submitted.

### WHAT TIGTA FOUND

While e-filing of business tax returns continues to increase, the e-filing rate still lags behind that of individual tax returns. Since RRA 98 went into effect, the IRS has focused most of its efforts on increasing the e-filing rate of individual tax returns. These efforts have resulted in considerable growth in the e-filing of individual tax returns, which was at an 81 percent rate in Processing Year 2012 compared to a 41 percent rate for business tax returns in Tax Year 2012.

Employment tax returns provide the most significant opportunity for growth in business e-filing. For Tax Year 2012, more than 21.1 million (71 percent) employment tax returns were paper-filed. A burdensome electronic signature process has been cited by stakeholders as one of the barriers to e-filing employment tax returns.

Processes have not been established to consistently ensure compliance with e-filing requirements and assessment of penalties. In addition, establishing a requirement for paid preparers to e-file business returns corresponding to the individual return requirement of 11 or more returns filed would result in an increase of e-filed business returns. Our review of Tax Year 2012 business tax returns found that the IRS could increase its e-filing rate by 23.8 percent and reduce IRS paper return processing costs by more than \$17 million.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop a business tax return e-filing Service-wide strategy, continue to expand the types of business tax returns that can be e-filed, and evaluate providing business filers with the option of Free Fillable Forms. In addition, the IRS should develop a less burdensome electronic signature process for employment tax returns, evaluate the feasibility of using the Electronic Federal Tax Payment System<sup>®</sup> to e-file employment tax returns, and develop processes and procedures to consistently identify business filers that are not compliant with the e-filing requirements and assess penalties. Finally, the IRS should work with the Department of the Treasury and consider revising current requirements and/or creating new requirements for the e-filing of business tax returns that would increase the overall e-filing rate.

In their response, IRS officials agreed with five recommendations and disagreed with three recommendations. TIGTA believes it is important to consistently identify all businesses not meeting the e-filing requirements as outlined in the law and take the necessary actions to ensure future compliance, including assessing penalties when needed.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201440084fr.pdf>.