



December 2020

TAX ADMINISTRATION

Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap

GAO Highlights

Highlights of [GAO-21-102](#), a report to the Republican Leader, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

For tax year 2018, IRS received and processed more than 3.5 billion information returns that it used to facilitate compliance checks on more than 150 million individual income tax returns. By matching information reported by taxpayers against information reported by third parties, IRS identifies potential fraud and noncompliance.

GAO was asked to review IRS's use of information returns. This report provides an overview of information returns and assesses the extent to which IRS has a coordinated approach to identifying and responding to risks related to the use of information returns in the tax system, among other objectives.

GAO reviewed IRS documents and data on information returns filing, processing, and use, and interviewed cognizant officials. GAO compared IRS's efforts in this area to federal internal control standards, and IRS's strategic plan.

What GAO Recommends

GAO is making nine recommendations to IRS, including that IRS revise its modernization plans for its information returns processing systems and incorporate it into broader IT modernization efforts and develop a collaborative mechanism to improve coordination among IRS groups that use information returns. IRS neither agreed, nor disagreed with the recommendations; however, IRS outlined actions it plans to take to address the recommendations. Social Security Administration had no comments.

View [GAO-21-102](#). For more information, contact James R. McTigue at (202) 512-9110 or McTigueJ@gao.gov.

December 15, 2020

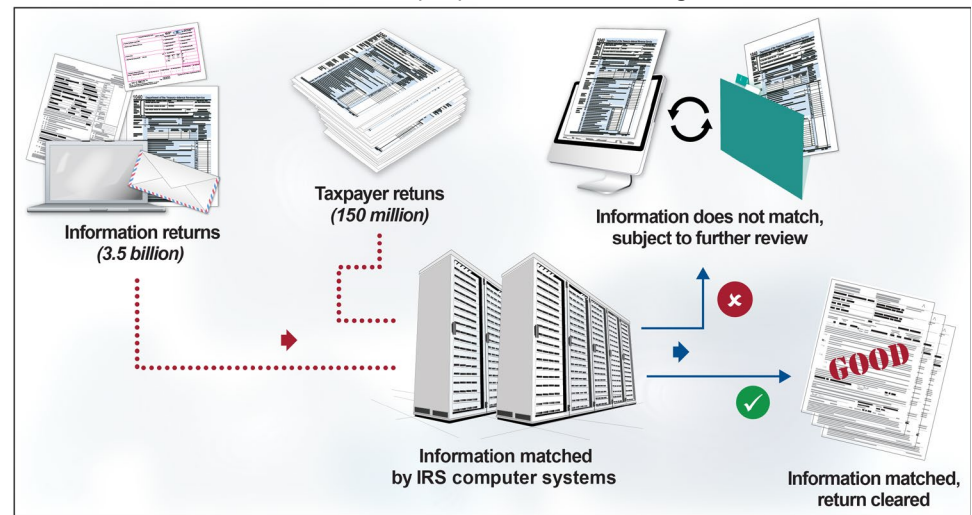
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What GAO Found

Information returns are forms filed by third parties, such as employers and financial institutions that provide information about taxable transactions. These forms are submitted to the Internal Revenue Service (IRS), the Social Security Administration, and taxpayers. Fifty unique types of information returns provide information on individual taxpayers and have a variety of purposes, such as reporting on wages earned or amounts paid that qualify for a tax credit or deduction. IRS identifies mismatches between information returns and tax returns for potential additional review, including enforcement actions. According to IRS research, taxpayers are more likely to misreport income when little or no third-party information reporting exists than when substantial reporting exists.

Overview of Internal Revenue Service's (IRS) Process for Matching Information Returns



Source: GAO analysis of tax year 2018 IRS information. | [GAO-21-102](#)

IRS's ability to process and use information returns is limited by its outdated legacy information technology (IT) systems. In 2017, IRS developed a plan to modernize its information return processing systems; however, IRS paused its efforts due to, according to IRS, resource constraints. IRS has an opportunity to capitalize on prior planning efforts by re-evaluating and updating these efforts and integrating them into its broader IT modernization efforts.

IRS does not have a coordinated approach with cross-agency leadership that strategically considers how information reporting could be improved to promote compliance with the tax code. While information returns affect many groups across IRS and support multiple compliance programs, no one office has broad responsibility for coordinating these efforts. A formalized collaborative mechanism, such as a steering committee, could help provide leadership and ensure that IRS acts to address issues among the intake, processing, and compliance groups. For example, IRS has not undertaken a broad review of individual information returns to determine if thresholds, deadlines, or other characteristics of the returns continue to meet the needs of the agency.

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Abbreviations

AMMPS	Automatic Magnetic Media Processing Systems
AIR	Affordable Care Act Information Return
ASFR	Automated Substitute for Return
AUR	Automated Underreporter
CCNIP	Case Creation NonFiler Identification Program
DLN	Document Locator Number
FIRE	Filing Information Returns Electronically
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
IMF	Individual Master File
IRM	Internal Revenue Manual
IRMF	Information Return Master File
IT	information technology
IRS	Internal Revenue Service
IRPAC	Information Reporting Program Advisory Committee
IRSAC	Internal Revenue Service Advisory Council
LB&I	Large Business and International
PATH Act	Protecting Americans from Tax Hikes Act of 2015
PMF	Payer Master File
RRB	Railroad Retirement Board
RRP	Return Review Program
SSA	Social Security Administration
SFR	Substitute for Return
TCJA	Tax Cuts and Jobs Act of 2017

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December 15, 2020

The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

Dear Mr. Brady:

Information returns are a vital, complex, and expanding component of the U.S. tax system. For tax year 2018, the Internal Revenue Service (IRS) processed more than 3.5 billion information returns that it used to facilitate compliance checks on more than 150 million individual income tax returns. Information returns are filed by third-party filers such as employers, businesses, health insurance providers, financial institutions, and universities.

These returns provide information on taxable transactions to government agencies, including IRS and the Social Security Administration (SSA), as well as taxpayers.¹ IRS uses this information to verify information reported by taxpayers on their tax returns. IRS identifies mismatches between the information reported by third parties and taxpayers for additional attention, including enforcement action.

We have previously reported that there is an alignment between third-party information reporting and the extent to which taxpayers accurately report their income.² Even a modest increase in reporting could yield significant financial benefits and help improve the government's fiscal position.

You asked us to review IRS's use of information returns, particularly those used in return matching programs. This report (1) describes the inventory and characteristics of information returns related to individual

¹Taxable payments include payments made to a taxpayer, such as wages and tips, proceeds from bartering, an exchange of property or services, and the fair market value of property or services received, which all constitute income. All income is taxable except that specifically excluded by law. However, information reporting is not limited to only taxable payments, as it can also be used to verify benefits, such as health insurance coverage, or other transactions that adjust income.

²GAO, *Tax Gap: IRS Needs Specific Goals and Strategies for Improving Compliance*, [GAO-18-39](#) (Washington, D.C.: Oct. 31, 2017).

income tax returns; (2) assesses the way in which IRS obtains information return data; (3) assesses how IRS uses the information collected to detect, prevent, and reduce noncompliance and fraud; and (4) assesses the extent to which IRS has a coordinated approach to identifying and responding to risks related to the use of information returns in the tax system.

To describe the inventory and characteristics of information returns related to individual income tax returns, we reviewed IRS forms and publications to identify information returns for calendar year 2019 and their characteristics, such as due dates, thresholds, and e-filing requirements. We developed a list of 50 information returns that relate to an individual tax return and confirmed the results with IRS officials to ensure completeness.³

We compiled and analyzed data from the Information Return Master File (IRMF) to review the cumulative volume of paper and electronic information returns processed by IRS.⁴ Based on electronic data testing and interviews with agency officials, we found these data to be sufficiently reliable for the purposes of analyzing the volume of information returns and analyzing them by date to determine if the returns were processed in a timely manner.

To evaluate the ways in which IRS obtains information returns and their data, we reviewed IRS's processing systems for electronically filed returns and paper filed returns, including the transcription of information from these forms. We reviewed information on SSA's process for transmitting wage information to IRS. We also interviewed IRS officials from the programs that process and use information returns to gain insight on processing time frames, including delays in processing.

³We included some information returns that relate to partnerships and corporations, if those information returns include information that could be relevant to returns of individual taxpayers.

⁴The IRMF is the IRS database where third-party data on taxpayers' income, credit, and deductions from information returns are stored.

We compared the processes for processing information returns to the standards describing use of quality information in the *Standards for Internal Control in the Federal Government*.⁵

To assess how IRS uses information collected to detect, prevent, and reduce noncompliance and fraud, we selected IRS's four automated compliance programs. To identify our selection, we interviewed IRS officials to determine which programs rely on information return data to aid their matching programs. These programs were the Return Review Program, the Automated Underreporter Program, and the nonfiler programs, Automated Substitute for a Return in Collections and Substitute for a Return in Examination.⁶

We reviewed which information returns were used by each of the matching processes to identify and select tax returns for further review. In addition, we reviewed IRS's time frames for its matching processes and compared these to filing deadlines for tax returns. We also interviewed officials to determine how IRS reviews its matching efforts and considers making changes to strengthen controls.

We reviewed IRS's and others' research efforts and proposals to increase information return reporting to address significant portions of the tax gap, such as with sole proprietors, and better use data to prevent fraud and noncompliance, and to reduce burden. We spoke with IRS officials to understand the extent to which IRS has researched or analyzed ways IRS could implement proposals. We compared these efforts against the *Standards for Internal Control in the Federal Government*, which states that agencies should use quality information and perform monitoring activities.

We also reviewed IRS data on penalties for late-filed information returns. We compared IRS's monitoring of penalties associated with information returns to the *Standards for Internal Control in the Federal Government* principle on monitoring systems. We also interviewed IRS officials to

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

⁶According to IRS officials, information returns are also used in other types of examination programs such as field, office, and correspondence audits. However, those programs were beyond the scope of this report.

determine if they collect data on characteristics of third parties that file information returns late.

To assess the extent to which IRS has a coordinated approach to identifying and responding to risks related to the use of information returns in the tax system, we reviewed IRS documentation on prior research efforts that reviewed information return usage at a strategic level. We compared the steps IRS took to implement the recommendations that resulted from the prior efforts against the principles in *Standards for Internal Control in the Federal Government* that discuss identifying and analyzing risks to respond to them appropriately and timely.

We also reviewed IRS's plans to modernize the processing of information returns and compared those efforts to the principles in *Standards for Internal Control in the Federal Government* that discuss design activities for information systems and to stated objectives in IRS's *Fiscal Year 2018-2022 Strategic Plan*.

We assessed the extent to which IRS reviewed certain characteristics of information returns, including to prior efforts related to changing deadlines and thresholds, and to consolidating forms. We also reviewed data on the number of information returns submitted to the agency that were either corrected or amended. We assessed their efforts against the principles in *Standards for Internal Control in the Federal Government* that discuss adapting to changes in risk and IRS's *Fiscal Year 2018-2022 Strategic Plan*.

Finally, we reviewed documents and interviewed cognizant officials from various groups within IRS responsible for the intake, processing, and use of information returns and considered how these entities communicate and coordinate. We compared their efforts in these areas to the principles in *Standards for Control in the Federal Government* that discuss using organizational structure to achieve agency objectives. We also reviewed our previous work on developing collaborative mechanisms and implementing collaborative practices.⁷

⁷GAO, *Managing for Results: Key Consideration for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012); and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

We interviewed members from four third-party stakeholder groups that represented a cross section of industry members to gain insight into how IRS works with the third parties that provide information returns and to understand these groups' experiences with IRS and its systems. See appendix I for more information on our scope and methodology.

We conducted this performance audit from May 2019 to December 2020 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Information reporting requirements are established by the Internal Revenue Code and associated regulations from IRS and the Department of the Treasury. These requirements have expanded over time, often as a result of legislation. For example, the Current Tax Payment Act of 1943 re-established automatic withholding by employers and required employers to report wages paid and amounts withheld.⁸ The Tax Equity and Fiscal Responsibility Act of 1982 expanded information reporting in several areas and increased penalties on third parties for failing to file certain information returns and furnish taxpayer identification numbers.⁹

Since 2011, IRS has created 9 new information return forms, including the 1097-BTC, Bond Tax Credit; the 1098-MA, *Mortgage Assistance Payments*; and the 3922, *Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)*. Some of the new forms were created to implement statutory provisions. Recent examples of statutes that have amended existing or created new information reporting requirements include:

- **The Taxpayer First Act.** This act allowed IRS to lower the threshold for electronic filing of returns so that third parties could be required to file information returns electronically if they file 100 or more information returns in 2021 or 10 or more in subsequent years.¹⁰ The law also requires IRS to develop an online platform for preparing and

⁸Pub. L. No. 68, ch. 120, § 2, 57 Stat. 126, 128–137 (1943).

⁹Pub. L. No. 97–248, §§ 301–319, 96 Stat. 324, 576–611 (1982).

¹⁰Pub. L. No. 116–25, § 2301, 133 Stat. 981, 1012–1013 (2019).

submitting forms in the 1099 series, which consists of forms generally used to report various kinds of income.¹¹

- **Public Law 115-97.** This statute, commonly referred to as the Tax Cuts and Jobs Act of 2017 (TCJA), included a number of provisions related to information returns, such as reporting on certain life insurance contract transactions, and fines and penalties.¹² In implementing TCJA, IRS changed many of its existing forms. For example, TCJA created special rules for investments in qualified opportunity funds.¹³

To implement this change, IRS added a check box to Form 1099-B to report disposition of qualified opportunity funds. IRS also created a variety of new forms for use by taxpayers and third parties, such as 1099-LS, *Reportable Life Insurance Sale*; 1099-SB, *Seller's Investment in Life Insurance Contract*; and 1098-F, *Fines, Penalties, and Other Amounts*. IRS will likely need to create additional returns to implement other TCJA provisions. For example, in our prior work, we identified 11 business and international provisions for which TCJA's statutory language either required or authorized additional information reporting to administer and enforce them.¹⁴

- **Protecting Americans from Tax Hikes Act of 2015 (PATH Act).** The PATH Act moved the deadline for filing information returns for wages and nonemployee compensation forward to January 31.¹⁵ This change required third parties to submit Forms W-2, *Wage and Tax Statement*, and 1099-MISC, *Miscellaneous Income*, reporting

¹¹Pub. L. No. 116-25, § 2102, 133 Stat. 981, 1010 (2019).

¹²Pub. L. 115-97, §§ 13306(b), 13520, 131 Stat. 2054, 2128-2129, 2148-2151 (2017).

¹³Pub. L. No. 115-97, § 13823, 131 Stat. at 2183-2188.

¹⁴GAO, *Tax Cuts and Jobs Act: Considerable Progress Made Implementing Business Provisions, but IRS Faces Administrative and Compliance Challenges*, [GAO-20-103](#) (Washington, D.C.: Feb. 25, 2020).

¹⁵Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. Q, § 201, 129 Stat. 2242, 3076 (2015). Prior to enactment of the PATH Act, the deadlines were the end of February for paper-filed returns and the end of March for electronically filed returns.

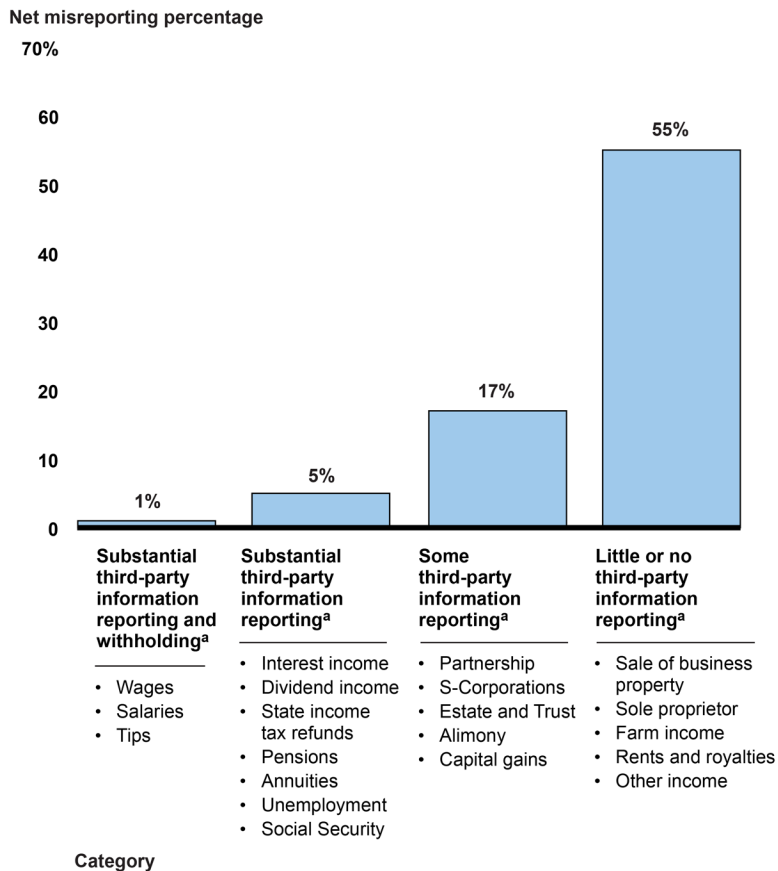
nonemployee compensation, earlier so that IRS could use the information to check tax returns before issuing refunds.¹⁶

Generally, the more transparent a taxable payment is to IRS, the more likely a taxpayer is to report it on a tax return. As we have found in the past, misreporting is much higher when little or no third-party information reporting exists than when substantial reporting exists (see fig. 1).¹⁷ For items subject to substantial third-party information reporting, such as employers reporting wages on Form W-2, IRS is able to use automated processes to identify and address noncompliance. Information reporting also produces indirect benefits by increasing taxpayers' incentive to comply, knowing that IRS collects the information, according to IRS officials.

¹⁶This resulted in the Form 1099-MISC to have two different due dates: one for information related to nonemployee compensation and the other for other types of compensation reported on Forms 1099-MISC. Because this caused confusion among employers and taxpayers, for 2020, IRS reinstated Form 1099-NEC to report nonemployee compensation by the earlier deadline. Form 1099-MISC is to be used to report other transactions with the later due date.

¹⁷GAO, *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance*, [GAO-19-558T](#) (Washington, D.C.: May 9, 2019).

Figure 1: Effect of Third-Party Information Reporting on Net Misreporting Percentage, Tax Years 2011-2013



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-102

Note: Net misreporting percentage is the sum of the net misreported amount divided by the absolute values (over or underreported) of the amounts that should have been reported, expressed as a percentage. IRS's most recent estimates are for tax year 2011-2013.

^aIRS receives information from third parties that it uses to verify income or deduction amounts that taxpayers report on their tax returns. IRS categorized various line items on the individual income tax return into four different groupings of third-party reporting in IRS Publication 1415, Federal Tax Compliance Research: Tax Gap for Tax Years 2011-2013, September 2019. However, IRS did not provide a scale to define the differences between substantial, some, and little or no third-party information reporting.

Our work has long highlighted the importance of information returns as a tool to prevent fraud and noncompliance. For example, in 2014, we found that IRS was unable to match wage information that employers report on the Form W-2 to individuals' tax returns before issuing refunds because the information returns that report these data were unavailable to IRS

until months after most refunds were issued.¹⁸ We recommended IRS assess the costs and benefits of accelerating W-2 deadlines and report this information to Congress, which IRS did in 2015. As previously discussed, Congress advanced the deadline for employers to file Forms W-2 and 1099-MISC that reports nonemployee compensation in the PATH Act.¹⁹ We have since found that this earlier reporting of key information returns has helped IRS stop at least \$1.8 billion in invalid refunds.

IRS Collects a Large Number of Information Returns to Support Key Compliance Programs

IRS receives a large variety of information returns that it uses to verify information on individual tax returns. Working with IRS, we identified 50 information returns that relate to information on individual tax returns (see appendix II for the list of information returns we identified). Of the 50 information returns we identified, data from 43 forms are in the Information Return Master File (IRMF), which is IRS's main repository of information returns. Six other information returns are stored in different databases and one is not transcribed. For example, information returns related to health care coverage are processed through the Affordable Care Act Information Returns system and stored in the Information Return Database, which is a more modern system than the IRMF.

Of the 43 information returns located in the IRMF, IRS collected more than 3.5 billion information returns for tax year 2018. Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, made up about two-thirds (65 percent or 2.3 billion) of the total volume of information returns.²⁰ W-2s accounted for more than 250 million or 7 percent of the total volume. The other 41 information returns in the IRMF together equal about 28 percent of the total volume of information returns collected by IRS (see fig. 2).²¹

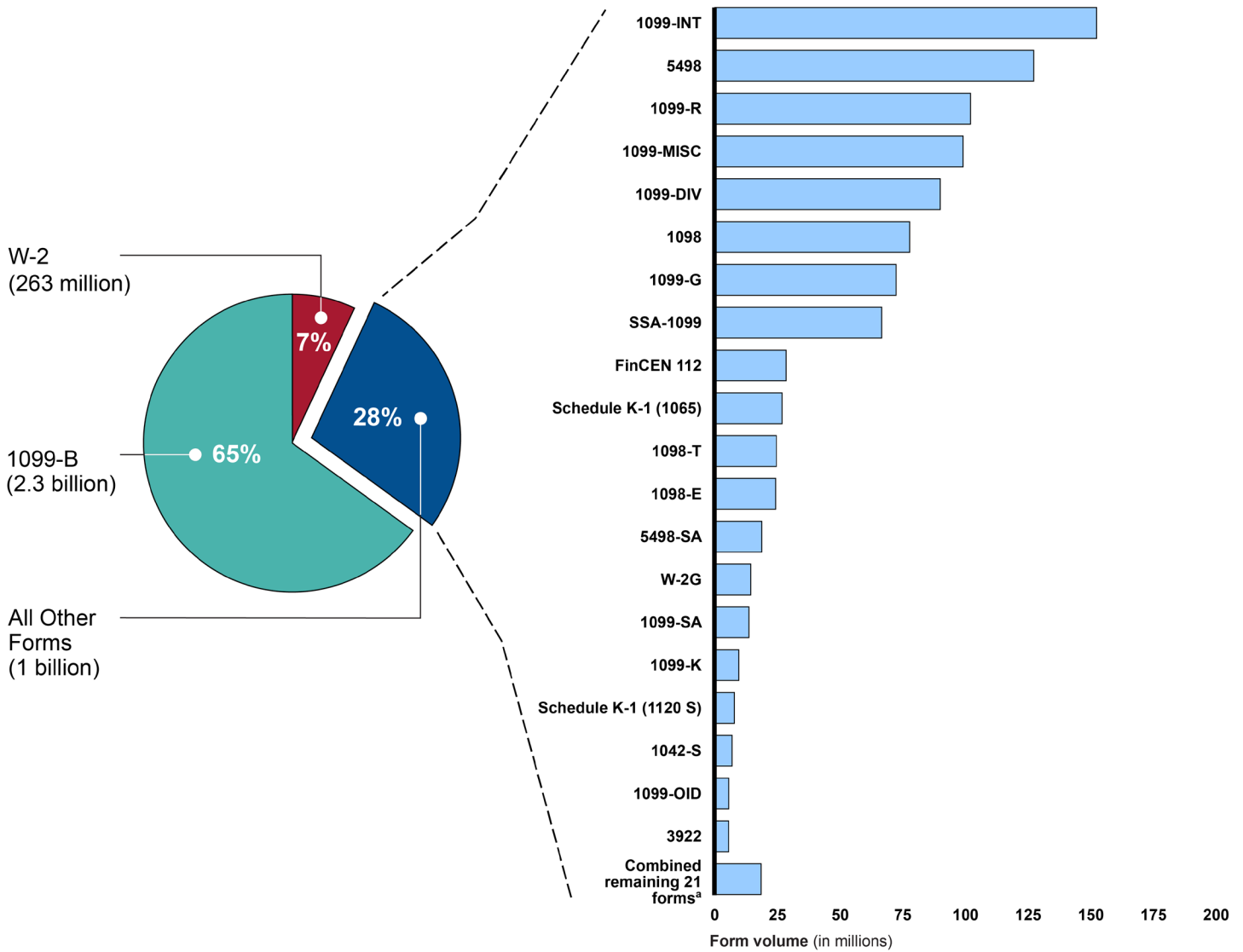
¹⁸GAO, *Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud*, [GAO-14-633](#) (Washington, D.C.: Aug. 20, 2014).

¹⁹Pub. L. No. 114-113, div. Q, § 201, 129 Stat. at 3076.

²⁰IRS instructions for Forms 1099-B indicate that both individuals and corporations can be brokers.

²¹Our data analysis was limited to the 43 information returns stored in the IRMF. Data from the seven other forms are either not stored in the IRMF or are not transcribed.

Figure 2: Volume of Information Returns, Tax Year 2018



Source: GAO analysis of Internal Revenue Service (IRS) Information Return Master File data. | GAO-21-102

Note: This volume represents the 43 information returns contained in the Information Return Master File.

^aEach of the 21 forms had a volume of less than 5 million.

For tax year 2018, information returns' characteristics vary in four main ways:

-
- **Purpose.** Information returns have varying purposes. Most returns, such as the Form 1099 series and Form W-2, are used to report various types of income, including distributions from a pension, interest, dividends, or income received from a trust or partnership. Some form series, such as the Form 1095 series, are used to verify that a taxpayer has health care coverage. Other information returns, such as the Form 1098 series, are used to report payments that qualify for a tax credit or deduction, such as a deduction for student loan interest.
 - **Due dates.** Due dates are established by statute or regulation. There are two types of due dates related to information returns. First, there is the furnishing deadline, which is when the form must be mailed or otherwise provided to the taxpayer to be used in filing a tax return. Generally, this deadline is January 31 following the close of the year in which the payment was made.²² Form 1099-B, the most commonly filed information return, has a deadline for furnishing the form to taxpayers on February 15 following the close of each year.

Second, there is the deadline by which third parties must submit the information return to IRS or the Social Security Administration (SSA) (see fig. 3). Several forms are due to IRS or SSA on January 31; two of these are related to income.²³ These forms include the W-2 and the forms that report nonemployee compensation, which IRS uses for prerefund compliance checks.²⁴ Other information returns submitted on paper are due to IRS by February 28. The deadline for most electronically filed returns is March 31.²⁵

Specifically, 28 of the 43 forms in the IRMF have a due date of March 31 for electronic filing.²⁶ Some forms related to retirement and health savings accounts are due May 31 because taxpayers can make contributions to these accounts up until the tax filing deadline,

²²Generally, if any due date falls on a weekend or holiday, the form is due on the next business day.

²³26 U.S.C. § 6071(c). If a Form 1099-MISC reports nonemployee compensation, then it is due to IRS on January 31; however, other miscellaneous income is due to IRS by February 28 (if submitting by paper) or March 31 (if submitting electronically).

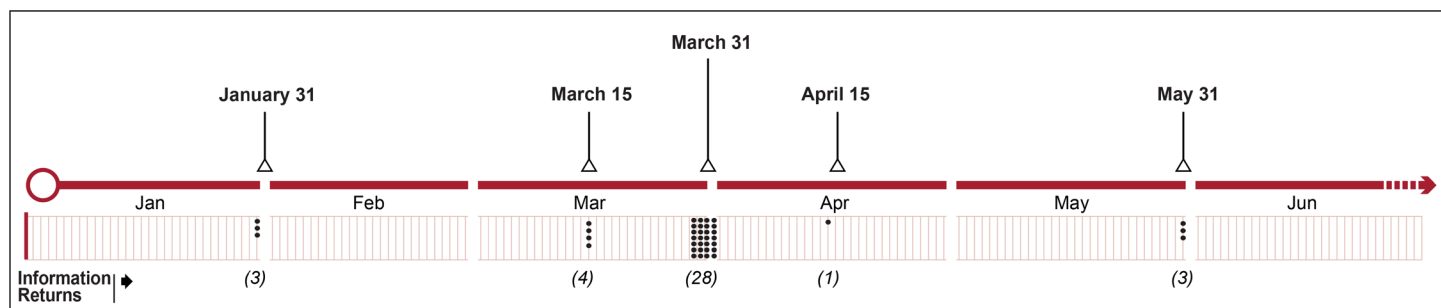
²⁴For tax year 2018, nonemployee compensation information was reported on the 1099-MISC form. For tax year 2020, IRS instituted a 1099-NEC form that split nonemployee compensation from Form 1099-MISC.

²⁵See 26 U.S.C. § 6071(b).

²⁶The count of forms includes 1099-MISC which has two deadlines: January 31 for nonemployee compensation and March 31 for all other types of income.

generally April 15, and reduce tax liability for the prior tax year (see appendix III).

Figure 3: Electronically Filed Information Return Deadlines



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-21-102

Note: This figure only displays the electronic due dates for forms in the Information Return Master File. Forms with either a variable due date or data received from an agency data exchange are not represented in this figure. Form 1099-MISC is represented twice: the due date for forms with nonemployee compensation is January 31, while all other amounts are due on March 31.

There are some exceptions to the deadline structure described above. For example, Form 8288-A, *Statement of Withholding on Disposition by Foreign Persons of U.S. Real Property Interest*, has a variable due date of the 20th day after the transfer of property. Two other forms do not have a due date to IRS because IRS receives a copy of the information from a data exchange with other agencies.

- **Thresholds.** Monetary thresholds, if any apply, are established by statute or regulation. At least 20 information returns have to be filed regardless of the amount of money involved (see appendix II for a list of all thresholds). Others only need to be filed if transactions meet a specific dollar-value threshold, such as Form 1099-INT, *Interest Income*, which has a threshold of \$10 or in some cases \$600.

However, other forms can have more than one threshold and those thresholds can vary substantially. For example, Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, has multiple thresholds, including a \$1 threshold for barter transactions and all broker transactions (except for the sale of a partial share of stock for less than \$20). Form 1099-MISC also has multiple thresholds. For example, royalties of \$10 or more are reported and a

payment made in the course of a trade or business of \$600 or more to an individual or business must be reported.²⁷

Form 1099-K, *Payment Card and Third Party Network Transactions*, has a threshold of \$20,000 and 200 transactions for third-party network transactions before a third party is required to submit an information return to the taxpayer and IRS. As discussed below, these varying thresholds can be confusing to taxpayers and can create compliance issues.

- **Complexity.** Information returns vary in complexity based on the underlying reporting requirements. The instructions page length of certain information returns can indicate complexity. For example, some instructions are four pages long; however another form has instructions that are more than 35 pages.

Some instructions cover multiple forms, even in the case when the forms' rules and exceptions differ. In addition, several stakeholders we spoke to said Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, is complex because the guidance and instructions for this form are challenging and require interpretation.

Detailed requirements associated with some information reporting can also contribute to a form's complexity. For example, Form 1099-MISC has more than 10 exceptions based on the underlying reporting requirements for reporting information to IRS.²⁸ These include payments of various types such as business travel allowances paid to employees or payments made to tax-exempt organizations.

²⁷See 26 U.S.C. §§ 6041(a), 6042, 6049, 6050N.

²⁸26 U.S.C. § 6041; 26 C.F.R. §§ 1.6041-1 to 1.6041-10.

IRS's Processing Systems Are Operating at Capacity, Creating Limitations in IRS's Ability to Use Information Return Data

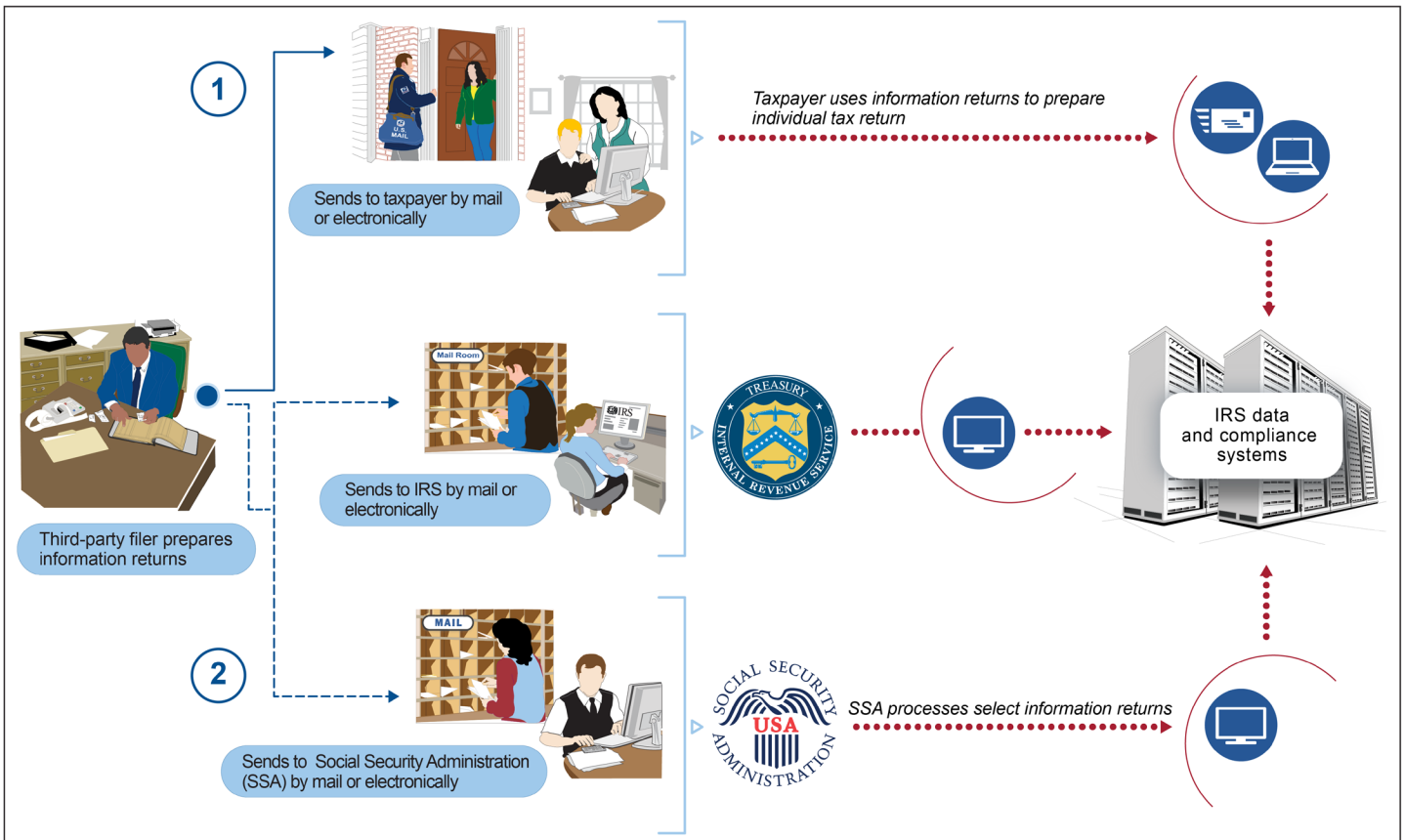
IRS Has Multiple Systems for Receiving and Processing Information Returns

Third-party filers are responsible for sending information returns to taxpayers, IRS, and SSA to improve transparency and help record keeping of taxable transactions (see fig. 4). Generally, one copy of the information return data is sent to the taxpayer, while another copy is submitted to either IRS or SSA, as detailed below.²⁹

Of the 3.5 billion information returns IRS received in tax year 2018, approximately 90 percent were electronically filed with IRS, 9 percent were electronically transferred through agency data exchanges, and 1 percent was submitted on paper. IRS can process electronic forms faster, more accurately, and more cost-effectively than paper forms, which must be transcribed. While paper forms only make up 1 percent of information returns, that percentage represents 34 million forms.

²⁹Disclosure of tax return information, including wage data reported to SSA, is generally prohibited by law. 26 U.S.C. § 6103. SSA is an agent of IRS for the purposes of recording wage data, which it uses to calculate benefit amounts for all types of beneficiaries, including retired workers, spouses, widow(er)s, children, and the disabled. In general, SSA cannot share it with any other federal agency unless authorized by section 6103. The Railroad Retirement Board also submits data on the Form RRB-1099, *Payments by the Railroad Retirement Board*, directly to IRS via a data exchange program, and provides a copy of the information return to the taxpayer.

Figure 4: Flow and Use of Information Return Data



Source: GAO analysis of Internal Revenue Services (IRS) and Social Security Administration (SSA) data. | GAO-21-102

- Electronic submission.** Third-party filers are required to submit their returns electronically to IRS if the number of returns they file are above certain thresholds.³⁰ Third-party filers use IRS's Filing Information Returns Electronically (FIRE) System to submit their information returns. Third-party filers must register with IRS to create an account, user names, passwords, personal identification numbers, and obtain transmitter control codes, which are required to transmit information returns electronically.

³⁰For calendar year 2020 and years prior any third-party filing 250 or more information returns was required to do so electronically. The Taxpayer First Act allowed IRS to change that threshold to 100 information returns for returns filed in 2021 and 10 information returns for subsequent years. 26 U.S.C. § 6011(e).

Several information returns are submitted through other IRS systems. For example, third-party filers submit information returns related to health care coverage through the Affordable Care Act Information Return system. Schedule K-1s, which report share of income or deductions for trusts, partnerships, and corporations, are submitted through the Modernized e-filing system, which also processes the tax returns for those entities.

Third-party filers must upload data according to specific file formats and record layouts. According to IRS officials, FIRE can accept uploads of data between one and 1 million records per file. If a third-party filer has 5 million information return records, they would need to upload at least 5 files. Once a file is uploaded to FIRE, the data are subject to a 10–calendar-day hold, during which the third-party filer can check the status of a file, review for errors within the file, and resubmit replacement files if errors are found. The data are then electronically moved into several downstream processing systems before they are posted to the IRMF.³¹

- **Paper submission.** Third-party filers can submit paper information returns if the number of returns they file are below certain thresholds or there is no electronic filing option. Once IRS receives paper information returns, staff sort and process them through either an automated system that uses optical character recognition to transcribe information or manually transcribe the data.³² IRS officials reported manual transcription is much slower and has a higher error rate than other processing means. Regardless of how the data were originally processed, they go through a series of edit checks before they are posted to the IRMF.

³¹In September 2019, the Treasury Inspector General for Tax Administration (TIGTA) found that processes and procedures to authenticate users of the FIRE System do not comply with federal government information security standards. They recommended that IRS ensure a Digital Identity Risk Assessment is completed for the FIRE System and an implementation plan for identity proofing the FIRE Systems' users is developed. TIGTA, *Strengthened Validation Controls Are Needed to Protect Against Unauthorized Filing and Input of Fraudulent Information Returns*, 2019-40-071 (Washington, D.C.: September 2019).

³²Optical character recognition reads text directly from paper returns using optical scanners and recognition software and converts the text to digital data.

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- **Electronic transfer.** As required by IRS regulation, employers file Forms W-2 directly with SSA.³³ SSA has an online system, the Business Service Online, to accept these forms electronically by businesses of all sizes, but SSA received about 18.4 million (7 percent) of the forms on paper in tax year 2018.³⁴ SSA scans most of the fields on the paper W-2 to make the data available electronically.

SSA uses W-2 information to update earnings records and to determine retirement and disability benefits. After processing W-2s, SSA sends the W-2 information to IRS daily as part of the Combined Annual Wage Reporting process. IRS conducts various quality checks before sending the data to the IRMF where the information can be used by downstream processes, similar to the data IRS receives directly from third-party filers.

IRS also obtains some benefit data from SSA and the Railroad Retirement Board through an electronic data exchange for forms: Form SSA-1099, *Social Security Benefits Statement*, and Form RRB-1099, *Payments by the Railroad Retirement Board*, respectively.

Information Returns Processing and Compliance Check Timelines Are Contingent upon Filing Deadlines and Extensions, Systems Limitations, and Paper Processing

We found that a significant proportion of information returns submitted in 2019 (for tax year 2018) were processed several weeks or more after the filing deadline. Twenty-eight information returns in the IRMF share the same March 31 electronic filing deadline.³⁵ Figure 5 shows the processing timeline for the top six information returns by volume as well as the

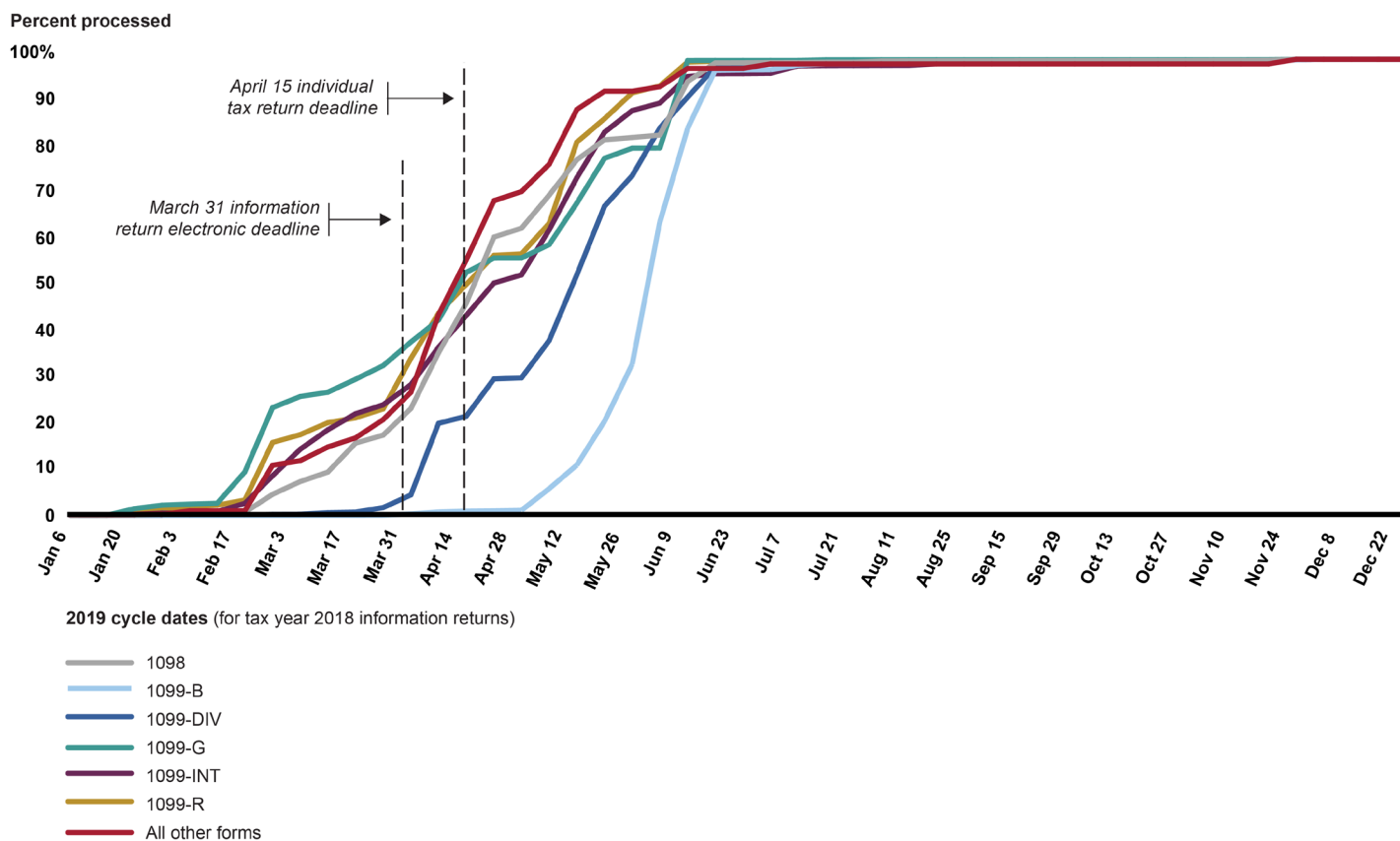
³³26 C.F.R. § 31.6051-2. Employers file the W-2C, *Corrected Wage and Tax Statement*, with SSA. SSA also accepts W-3, *Transmittal of Wage and Tax Statements*, and W-3C, *Transmittal of Corrected Wage and Tax Statements*, which are forms (and corrected forms) an employer uses to report the total amount of wages, and taxes a business withheld throughout the year. W-3 and W-3C forms are not furnished to a taxpayer, and therefore are not included in our scope of work.

³⁴SSA can also accept information from other government agencies, some large employers, and payroll services through other secure electronic data transmission methods.

³⁵Twenty-seven of these information returns also share the same deadline for paper submitted returns, February 28 of each year. The later deadline for electronic returns can serve as a de facto incentive to file electronically because paper returns take longer to process.

remaining 21 returns combined into a single line.³⁶ IRS does not process and post most information returns to the IRMF until late May or early June, several weeks after the filing deadline and the April 15 deadline for filing individual tax returns.

Figure 5: Processing Timeline for Electronically Submitted Information Returns with a March 31 Deadline, Tax Year 2018



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-102

Note: The “all other forms” category includes data from 21 information returns that share the same March 31 deadline. For any deadline that falls on a weekend or holiday, the form is generally due on the next business day. We did not specifically include Form 1099-MISC in this figure because it has two due dates for reporting income. For Form 1099-MISC, weekly processing counts do not differentiate between nonemployee compensation and all other income.

³⁶We excluded Form 1099-MISC in this figure because it has two due dates for reporting income. For Form 1099-MISC, weekly processing counts do not differentiate between nonemployee compensation and all other income. This graphic represents only electronic information returns.

Two factors contribute significantly to returns being processed after the deadline: (1) extensions available to third parties that submit information returns, and (2) capacity issues in the IRS legacy systems that process the returns.

Third-party filers may request two 30-day extensions to the filing deadline for most information returns, the first of which is automatic.³⁷ The automatic extension is widely used, according to IRS and several external stakeholder representatives involved in the filing of information returns. According to IRS, without the extension, third-party filers might either file the information return late and be penalized, file on time with less accurate information, or file an amended information return later. Still, without a reason or incentive for earlier filing, the processing timelines suggests that the automatic extension creates a second, de facto filing deadline of April 30, 15 days after the April 15 filing deadline for tax returns for individual taxpayers.

This de facto filing deadline can create additional burden for some taxpayers because the third-party filers could potentially correct the data after taxpayers file their tax returns. This creates a burden for taxpayers in that they have potentially calculated their tax liability and filed their return using incorrect data and may need to file an amended return (Form 1040-X, *Amended U.S. Individual Income Tax Return*), or they could receive a notice from IRS that they have a mismatch in information reported.

After the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) moved the filing deadlines for submitting Forms W-2 and forms reporting nonemployee compensation forward to January 31, IRS initially proposed amending its regulations to eliminate the automatic extension for most information returns.³⁸ However, several stakeholder groups we spoke with said they objected to this proposal because they need additional time to potentially correct information returns before sending them to IRS. Comment letters submitted on the proposed rule were consistent with what external stakeholders told us. IRS issued a final rule that only

³⁷26 C.F.R. § 1.6081-8. Forms W-2 and forms reporting nonemployee compensation do not have this automatic extension option. To receive a 30-day extension for filing these forms, filers must present a reason and get approval from IRS.

³⁸80 Fed. Reg. 48472 (Aug. 13, 2015).

eliminated the automatic extension for Forms W-2 and 1099-MISC reporting nonemployee compensation.³⁹

The second factor that contributes significantly to returns being processed after the deadline is limitations of IRS legacy technology systems. When information returns are submitted and accepted, they move from the FIRE submission system to the Automatic Magnetic Media Processing System (AMMPS) where capacity constraints extend the time required to process information returns and post them to the IRMF. IRS officials explained that there are multiple capacity constraints in AMMPS, as described below.

First, AMMPS assigns each third-party filer a unique Document Locator Number (DLN), which is used to match third-party filers with their information returns. However, the system can only generate a certain number of unique numeric combinations each day. As a result, each week the system can only move 68,000 files to the next step in the processing pipeline. Each file can contain between five and 1 million individual information returns. IRS officials stated that it would be costly to expand or modify the DLN field to accommodate more unique combinations because the agency would need to make extensive changes across numerous other programs that also use the DLN.

Second, as AMMPS accepts files from FIRE, it runs an error check and sends the results back to FIRE, which then sends a receipt to the filer. IRS officials said that during peak submission times, receipts can take several days to reach the filer, because AMMPS can only send out a limited number of files a day due to a system limitation. To manage the delay, IRS officials said during 2019 they implemented duplicate stream processing, which doubled the system's processing capacity for sending results back to filers from 26,500 to 53,000 a day. The officials said as a result, the 48-hour time frame for sending a submission receipt back to third-party filers was only missed for 3 days in 2019 and 2020. IRS is considering options to run a triple processing stream, but noted that change may require more resources than are available.

Third, files in AMMPS are subject to a hold period of 10 business days, during which transmitters can recall files if they discover errors. IRS uses the hold period to conduct manual anti-fraud screenings. IRS officials told us they are considering reducing this hold period. The officials noted that

³⁹83 Fed. Reg. 38023 (Aug. 3, 2018).

processing information returns and posting them to the IRMF more quickly could potentially help fight fraud because it would increase the amount of information available to the Return Review Program (RRP), IRS's automated prerefund compliance program. RRP uses these data to identify potential fraud and noncompliance and to help verify tax returns of legitimate taxpayers.

IRS officials told us they informed Information Technology (IT) management about the system issues when changes related to the PATH Act increased backlogs. They implemented duplicate processing to partially address the issue, but resources were unavailable to fully address the other challenges. The officials explained that IRS only provides legacy systems, such as AMMPS, with sufficient resources to conduct routine maintenance and make changes necessitated by statutory requirements and other updates for new filing seasons.

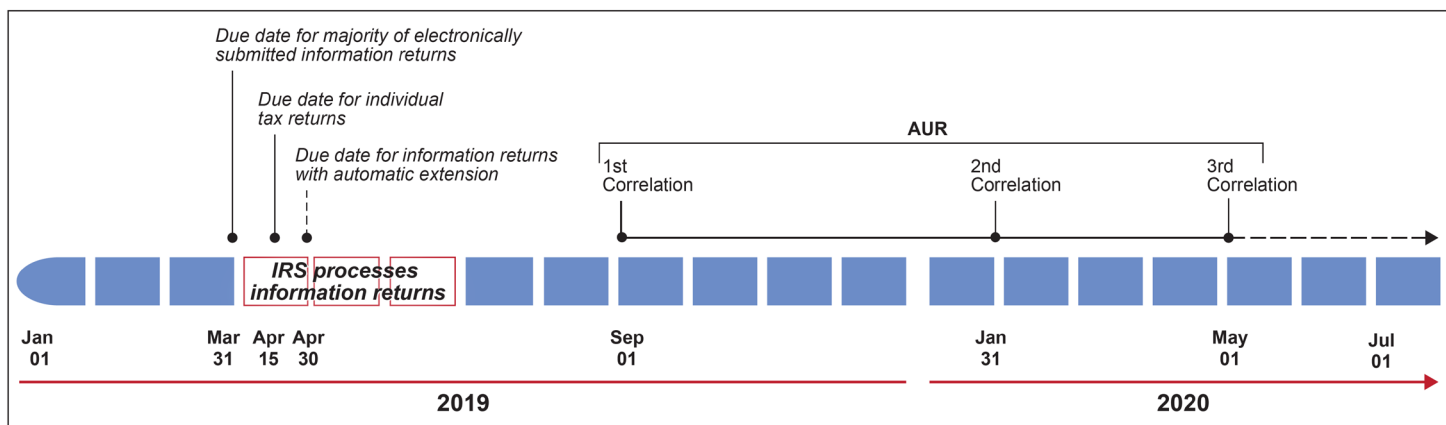
As a legacy system established in 1992, AMMPS uses an antiquated programming language that is not widely used today, making it difficult for IRS to find staff with the skills to work in this area, according to IRS officials. IRS officials also said that many AMMPS staff members are eligible for retirement or planning to retire soon. We have previously reported that legacy systems using outdated languages may become increasingly more expensive and agencies may pay a premium to hire staff or contractors with the knowledge to maintain these systems.⁴⁰ As discussed above, IRS officials stated that IRS generally prioritizes developing new, modernized systems over making major updates to legacy systems, some of which are slated for retirement. These system limitations can protract the time it takes for IRS to make data available for use in downstream systems.

Filing deadlines, along with the processing timelines, for information returns influence when the information becomes available for use by IRS programs, and therefore when compliance programs can start. For example, according to IRS officials, the Automated Underreporter Program (AUR) does not begin matching information reported by taxpayers against information returns until late August or early

⁴⁰See GAO, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, [GAO-19-471](#) (Washington, D.C.: June 11, 2019). We have previously reported on the need for agencies to develop modernization plans for critical legacy systems. GAO, *Information Technology: Federal Agencies Need to Address Aging Legacy Systems*, [GAO-16-468](#) (Washington, D.C.: May 25, 2016).

September, months after individual taxpayers file their tax returns (see fig. 6).

Figure 6: Typical Timeline of Return Processing for Automated Underreporter



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-102

Note: For any due date that falls on a weekend or holiday, the form is generally due on the next business day.

AUR officials stated that there are several important tradeoffs that effect the timeline by which information return data are used for matching. One is the desire to have the optimal number of tax returns and information returns in their systems before it starts matching. This helps IRS avoid mismatches that could occur because an information return is unavailable and minimize the number of times a taxpayer would be contacted by IRS for a single year’s tax return. Officials stated they must balance the impact on taxpayer burden of later checks versus earlier checks with less information against the scheduling of other critical IRS processes, such as filing season.

The optimal number of tax returns is affected by the availability of some forms in IRMF, as they have later due dates to IRS. For example, a high-volume Form 5498, *IRA Contribution Information*, is not due until May 31, which is two months later than the majority of the other information returns.⁴¹ Further, third-party filers can request a 30-day extension for this form, which is automatically granted and makes its de facto filing deadline

⁴¹According to IRS officials, they use the information on Form 5498 to verify if a taxpayer rolled over a disbursement from a retirement account into a new retirement account, as reported on the 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

June 31. Since contributions made to an individual retirement account before April 15 of a given year can be claimed as a deduction on a previous year's tax return, the deadline for submitting Forms 5498 cannot realistically be made earlier.

IRS officials also told us that many Schedule K-1s, which are generated when partnerships, estates and trusts, and corporations file their taxes, are unavailable in the IRMF until September, the same time tax returns with an extension are due from partnerships. IRS uses these forms to identify incorrect reporting.

Another trade off IRS officials consider is the availability of paper information returns data in the IRMF. IRS transcribes paper information returns after paper tax returns have been transcribed. The same employees transcribe both types of returns. However, IRS officials stated they prioritize the transcription of tax returns in part because IRS must pay interest on taxpayer refunds if not paid within 45 days of the filing deadline.⁴²

IRS officials said they consider IT systems agility when setting the timeline for when compliance systems can begin checking tax returns. For example, IRS's legacy systems cannot identify certain taxpayers in less complex situations such as those only having wage income for earlier matching and compliance checks. IRS's legacy systems require that IRS wait until it is confident that it has maximized the information available before it begins matching. IRS officials also stated that many of its IT systems are interconnected and if a timeline is changed in one system it would necessitate changes in timelines of other systems and processes.

In light of these considerations—the availability of data, due dates of some information returns, limitations in IRS's legacy systems, and the interconnected nature of various IT systems—IRS reported it would not be feasible for AUR to run correlations earlier in the year. While there may be benefits to having information available earlier, we appreciate that without a modernized system that could potentially conduct checks in real time, or identify certain types of returns that could be checked earlier, adjusting the time frames or addressing some of the processing issues may not be practical.

⁴²26 U.S.C. § 6611(a), (e).

IRS's Ability to Transcribe Data Is Limited by a System That Is at Maximum Capacity

Not all data from information returns submitted on paper are transcribed into IRS's systems for use by IRS compliance programs. The lack of complete data from these forms has been a long-standing issue. In 2014, we found that not all partnership and S corporation line items were transcribed, which limited the effectiveness of IRS compliance programs.⁴³ While most data from the 1099 and 1098 series of information returns are transcribed for individual taxpayers, the amount of partnership data that is transcribed and stored in the IRMF is limited, according to IRS officials.

Partnerships are flow-through entities, which generally do not pay taxes themselves on income but instead pass income or losses to their partners, who must include that income or loss on their individual income tax returns. Specifically, the Form 1065, Schedule K-1, is used to report a partner's share of income, deductions, and credits for their individual tax return. In tax year 2018, about 1.5 million of these schedules were submitted on paper.

The transcription of data from Schedule K-1s is limited because of capacity constraints of some of IRS's systems. This means that additional data cannot be transcribed and entered into the IRMF even if the data would improve IRS's compliance efforts. Moreover, according to IRS, because of the need to treat taxpayers similarly, this limits the amount of data IRS systems can use to select returns for additional review, for both paper and electronic information returns.

In June 2020, IRS officials stated that the Large Business and International (LB&I) operating division received approval to expand the system capacity to allow for additional transcription from the Form 1065, Schedule K-1. LB&I requested this change due to revisions necessitated by the TCJA. According to IRS officials, the expanded transcription would have captured additional information from Schedule K-1s and made those data available to IRS compliance programs. However, in July 2020, IRS officials informed us that this expansion was postponed until January

⁴³We recommended that IRS develop a plan for conducting testing or other analysis to determine whether the improved Schedule K-1 data, perhaps combined with other IRS information about businesses and taxpayers, could be used more effectively to ensure compliance with the reporting of flow-through income. IRS reported that it would consider the proposed methodology of advanced testing, but as of September 2020, it did not have the budgetary resources to conduct such tests. See GAO, *Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance*, GAO-14-453 (Washington, D.C.: May 14, 2014).

2022 based on feedback from the public on the revised Form 1065, Schedule K-1, and resource constraints.

We have previously reported on the benefits of using all electronically filed return data to improve the way IRS identifies and selects tax returns for audits.⁴⁴ More specifically, we reported that using more data to select tax returns for additional review would likely reduce the chances IRS would conduct unnecessary examinations of compliant electronic returns. This could potentially save IRS resources and reduce taxpayer burden. We also made various recommendations aimed at determining the costs and benefits of transcribing more information from tax returns.⁴⁵

Standards for Internal Control in the Federal Government calls for management to use quality information to achieve objectives. In the case of K-1s, there is a system limitation to the amount of information IRS can use from paper information returns that it receives. This also limits the information IRS can use for electronically filed returns for compliance purposes. IRS's *Fiscal Year 2018-2022 Strategic Plan* stated that the agency has prioritized using data to inform decision-making and improve operational outcomes. The plan also recognized that advancements in how data are collected, stored, accessed, and analyzed will allow IRS to use data better.

We have previously reported that partnerships can be challenging for IRS to audit. However, cost-effective enforcement of tax law governing partnerships is important because of partnerships growing significance in the economy. We last reported that the number of partnerships, particularly large partnerships with 100 or more partners, has grown

⁴⁴GAO, *Tax Administration: IRS Could Improve Examinations by Adopting Certain Research Program Practices*, [GAO-13-480](#) (Washington, D.C.: May 24, 2013); *E-Filing Tax Returns: Penalty Authority and Digitizing More Paper Return Data Could Increase Benefits*, [GAO-12-33](#) (Washington, D.C.: Oct. 5, 2011); and *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated*, [GAO-08-38](#) (Washington, D.C.: Nov. 15, 2007).

⁴⁵[GAO-13-480](#), [GAO-12-33](#), and [GAO-08-38](#).

dramatically.⁴⁶ Yet, according to the most recent tax gap estimate, underreporting of partnership income, along with income from S-corporations, estates, and trusts, account for an average of \$19 billion in taxes not voluntarily paid each year by individual income tax filers.⁴⁷

As long as IRS systems lack access to data from paper information returns with critical tax information about these entities, such as the Form 1065, Schedule K-1, IRS enforcement programs will face limitations in their ability to cost-effectively identify and select the cases for further review.

Increased Information Reporting Could Help Improve Compliance

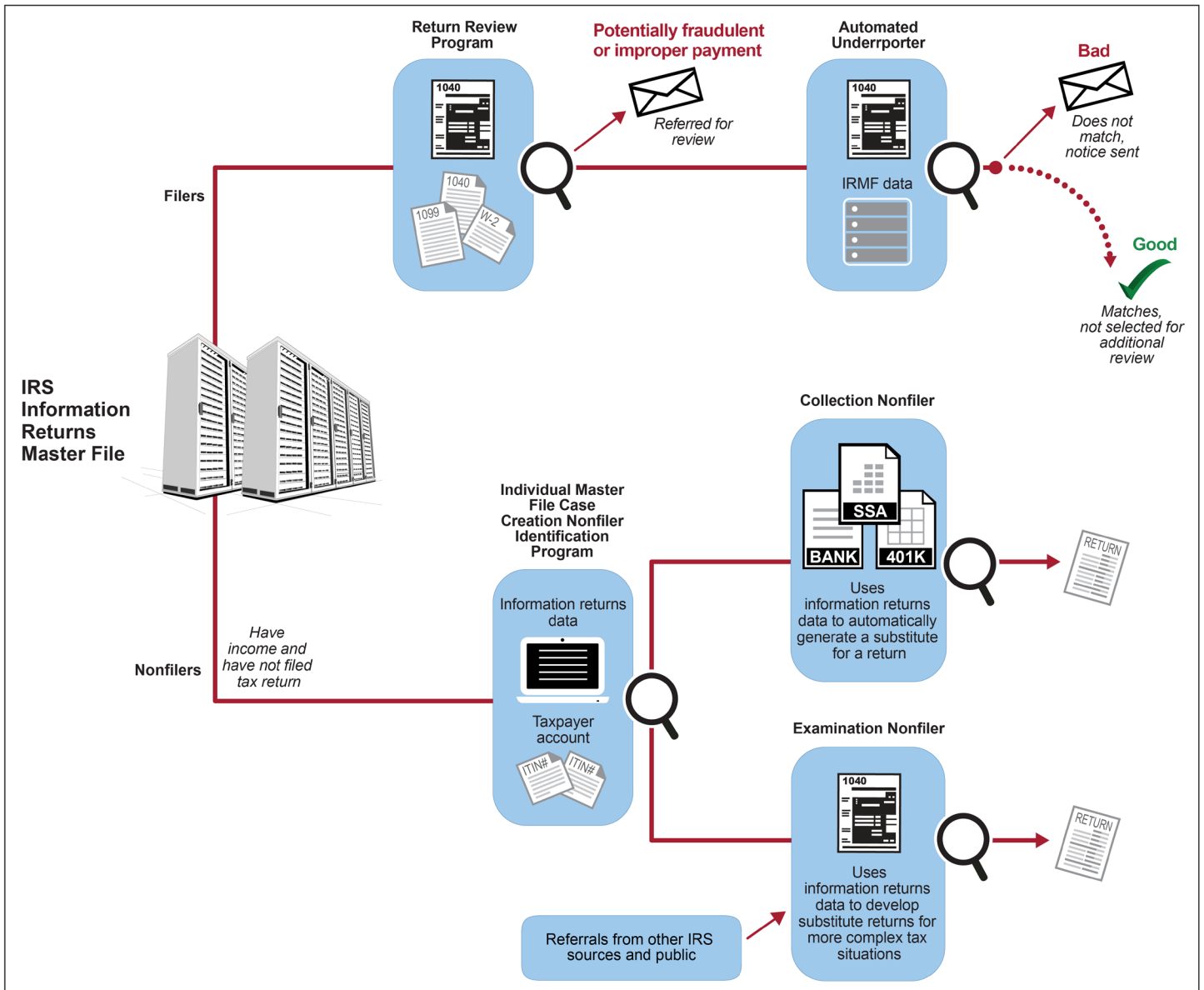
IRS Compliance Programs Use Information Returns in a Variety of Ways to Detect Fraud and Noncompliance

IRS compliance programs use data on taxable transactions from information returns to (1) identify cases of potential noncompliance and fraud; (2) select cases from within this pool to be addressed by a compliance program, or treated; and (3) determine accurate tax liability. Some compliance programs use information returns to help identify and detect fraud and noncompliance among taxpayers filing tax returns, as well as for those failing to file tax returns (see fig. 7).

⁴⁶Our previous reports have highlighted the growth and the challenges IRS faces in auditing large partnerships. See GAO, *Large Partnerships: Growing Population and Complexity Hinder Effective IRS Audits*, [GAO-14-746T](#) (Washington, D.C.: July 22, 2014); and *Large Partnerships: Characteristics of Population and IRS Audits*, [GAO-14-379R](#) (Washington, D.C.: Mar. 19, 2014). For details about all partnerships, see GAO, *Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance*, [GAO-14-453](#) (Washington, D.C.: May 14, 2014).

⁴⁷IRS, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013*, Publication 1415 (September 2019).

Figure 7: Overview of IRS Compliance Programs That Use Information Returns



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-102

The Return Review Program (RRP) and AUR both match information returns submitted by third parties against income tax returns submitted by taxpayers. RRP is IRS’s primary prerefund fraud and improper payment detection system that uses multiple analytic techniques and filters to

detect a variety of suspicious returns, before refunds are issued. The systemic verification feature of RRP compares wage and nonemployee compensation information returns to a taxpayer's tax returns to detect potentially suspicious cases.

AUR also compares information reported by taxpayers against information returns, but identifies cases well after the filing season ends to determine if taxpayers may have underreported income or claimed unwarranted deductions. Inconsistencies between the information returns IRS has for a taxpayer and what that taxpayer claims on his or her tax return can indicate that the taxpayer has reported something incorrectly, either mistakenly or intentionally. Because AUR operates after the filing season, it has a wider variety of information returns available for these checks.

IRS also has two nonfiler groups within the Collection and Examination program areas that use information returns to identify nonfilers and calculate the tax due for these individuals. Both nonfiler programs focus primarily on income to determine if the taxpayer had a significant income tax liability. The Collection Nonfiler program automatically creates a substitute for a return.

Examination Nonfiler uses a less automatic process to develop tax returns for nonfilers with more complex tax situations. In the last 2 years, Examination Nonfiler has reviewed fewer returns, including those pertaining to higher income nonfilers or meeting other areas of compliance focus for IRS, and those referred to it from other sources, both internal and external to IRS.

Return Review Program (RRP)

Forms matched. RRP primarily uses Form W-2 for matching purposes before issuing refunds in a process known as systemic verification. IRS officials told us that systemic verification also uses Form 1099-MISC reporting nonemployee compensation to help determine if a business activity reported on a taxpayer return is legitimate. As described above, both of these forms have a January 31 deadline, which was put in place by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), to facilitate prerefund verification.⁴⁸ The program uses 10 other information returns to inform its rules and analytic techniques.

⁴⁸Pub. L. No. 114-113, div. Q, § 201, 129 Stat. at 3076.

The Automated Underreporter Program (AUR)

Frequency of match. RRP screens returns as they are received and processed during filing season and can freeze refunds before they are issued.⁴⁹ RRP uses information from selected information returns, including W-2 and 1099-MISC reporting nonemployee compensation, to verify income, withholdings, and other information reported by taxpayers on their tax returns. For example, a tax return submitted in April 2019 would be screened at that time. According to IRS, in cases where RRP does not select a return for further review, RRP continues to look for updated matching information before issuing a refund.

Results. IRS officials reported that between January 2015 and September 25, 2019, RRP protected more than \$10.98 billion of revenue in confirmed fraud, independent of legacy systems.⁵⁰ IRS officials reported that they calculated the return on investment for RRP to be approximately 1,800 percent as of the end of fiscal year 2019.

Forms matched. According to IRS, AUR matches data from 27 of the 50 information returns we identified. AUR officials told us that they consider a variety of factors when determining whether or not to include an information return in AUR's matching processes. One factor is data must be available to AUR automated systems (as AUR can only use data from forms stored in the IRMF for matching). Another factor is that information returns must have clear instructions for how to report on a tax return, ideally corresponding to a specific line on a tax return (complex forms and forms on which data do not match to a line on a 1040 return may not produce reliable matches). Finally, the volume of the information returns must be high enough to justify the complexity involved in using it in automated checks.

Frequency of match. AUR conducts matching, referred to as "correlation," generally three times per year. The exact dates vary, but correlation is generally done in late August or early September of the year in which the taxpayer files the return and then late January and late April of the following year. Tax returns filed in April generally are checked in

⁴⁹In July 2018, we recommended that IRS process W-2s more frequently to increase the number of W-2s available prior to issuing refund (see GAO, *Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement*, [GAO-18-544](#) (Washington, D.C.: July 24, 2018)). In response, in 2019, IRS began processing W-2s received from SSA and uploading them to the IRMF daily between January and April, rather than weekly as it did previously (see GAO, *2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency*, [GAO-20-55](#) (Washington, D.C.: Jan. 15, 2020)).

⁵⁰IRS noted that refund value and revenue protection figures exclude refunds claimed in excess of \$5 billion.

the first and second correlations, while tax returns filed by the individual extended filing deadline (generally October 15) are checked during the second and third correlations. Tax year 2018 returns were only correlated twice, once in October 2019 and again in April 2020, because of processing delays and COVID-19 considerations, according to IRS officials. Officials said the correlations are scheduled to ensure most information returns have been processed into the IRMF and most tax returns have been received by IRS.

After the correlations are completed, IRS uses criteria to select AUR cases to be worked. These criteria include selecting returns that are above certain thresholds for the amount of additional tax due, that have the highest potential for collecting additional tax due, and that provide underreporter coverage across all types of individual taxpayers and returns. According to IRS officials, they also consider the resources available to work AUR cases. Officials reported that during difficult budget times, as IRS responsibilities have expanded, AUR resources have diminished.

Results. For tax year 2018, AUR identified 22.3 million cases with discrepancies and selected 2.9 million of these cases for further review by AUR examiners. According to IRS officials, in 2019 AUR closed approximately 2 million cases with an associated dollar value of \$6.7 billion.

Collection Nonfiler

Forms matched. Collection Nonfiler works cases identified by the Individual Master File (IMF) Case Creation Nonfiler Identification Program (CCNIP) system. This system matches information returns and other documents against taxpayer accounts to identify individuals who have a sufficient tax liability but did not file a tax return. IMF CCNIP uses nearly all information returns in the IRMF to identify cases.⁵¹

According to IRS officials, the program then uses select information returns to income to select cases to receive notices. When notices fail to resolve these cases, they are assigned to a variety of IRS programs for further review.

One of these programs is the Automated Substitute for Return (ASFR) program in Collection. ASFR selects cases to work based on the age and estimated tax assessment associated with them. ASFR uses information returns in the IRMF to determine the correct tax liability and develop

⁵¹IRS officials told us that forms not used by IMF CCNIP in the identification of nonfilers do not reflect information about income in a way that is useful in the IMF CCNIP process. Because of this, it would not be beneficial to incorporate them.

substitute tax returns. In developing these returns, ASFR uses information returns reporting income (e.g., Forms 1099), rather than forms reporting deductions (e.g., Forms 1098). ASFR does not calculate credits that a taxpayer could potentially claim had they filed their own tax return.

Timeline. IMF CCNIP typically checks taxpayer accounts two or three times a year. IRS officials told us it generally begins the first matching check in September of the filing year, and the second in January of the following year. For example, IRS would begin checking if tax returns that should have been filed in April 2019 were in fact filed in September 2019 and again in January 2020. Officials said the first round of notices to nonfilers identified in the September check is typically sent out in late October or early November, with a second notice sent at the end of December. ASFR issues letters to selected cases in its inventory every week.

Results. IRS officials told us that in fiscal year 2019, the IMF CCNIP identified approximately 11 million cases from tax year 2017 and selected 3.1 million for review based primarily on characteristics associated with the cases. Of those, about 700,000 were sent to the ASFR program in Collection, which uses information returns to estimate the tax liability. ASFR selected approximately 380,000 cases to begin work on, based on prioritized characteristics of the cases. While IMF CCNIP only works one tax year during a fiscal year, ASFR can work cases from multiple tax years in any fiscal year; however, IRS reported that research has shown that concentrating casework on a single year's assessments are more productive. In fiscal year 2019, ASFR closed approximately 365,000 existing cases either by concluding work on these cases, seeing them resolved by other IRS programs, or terminating them.

The dollar value associated with cases closed by ASFR in 2019 was approximately \$6.6 billion in additional assessments. In prior years, this program brought in more revenue because it worked a higher case load. For example, in 2009, ASFR closed approximately 1.4 million cases and assessed \$16.6 billion (in 2009 dollars) in taxes owed. In 2016, the agency paused its nonfiler programs due to declining resources but restarted the programs in 2018, according to IRS officials. IRS told us that this pause was always viewed as a temporary measure given the value of the nonfiler programs and their overall impact on compliance.

Examination Nonfiler

Forms matched. Similar to ASFR in Collection, Examination Nonfiler works cases referred to it by IMF CCNIP as well as other enforcement programs and initiatives, such as the Federal Employee/Retiree Delinquency Initiative and IRS virtual currency initiative, through its

IRS Is Not Exploring Ways to Increase Information Reporting That Could Reduce Sole Proprietor Noncompliance and Reduce the Tax Gap

substitute for a return program. Examination Nonfiler also focuses on information returns that indicate income when selecting nonfiler cases to pursue and developing substitute returns.

Timeline. Examination Nonfiler does not add cases to its list of available inventory until June of the year after returns are due, according to IRS officials. For example, tax returns that should have been filed in April 2019 would first be added to Examination Nonfiler's list in June 2020. Officials said this allows taxpayers ample time to file their tax returns and to ensure that all relevant information returns are processed.

Results: In 2019, the Examination Nonfiler program received almost 1 million referrals and started work on approximately 63,000 cases. In the same year, the program processed and closed approximately 49,000 cases with a dollar value of approximately \$1.2 billion in additional taxes.

IRS has limited research on ways it could potentially expand and use more information reporting to address sole proprietor noncompliance and reduce the tax gap.⁵² Research into how to develop and implement more third-party information reporting on sole proprietors is important because IRS attributes the largest share of individual income tax underreporting to this group (\$68 billion annually for tax years 2011-2013). Sole proprietor income has little or no information reporting requirements.⁵³ IRS officials told us that existing law does not require substantial third-party information reporting for sole proprietorships, although Forms 1099-K and 1099-MISC provides some limited information reporting. Furthermore, sole proprietor income is generally not subject to withholding.

Officials from the Research, Applied Analytics and Statistics Division referred us to one study on the effect of Form 1099-K, which reports payment card transactions that can be used to monitor some sole

⁵²Sole proprietors are self-employed individuals who should file a Schedule C with their individual tax return to report profits and losses from their business. Sole proprietors include those who provide services, such as doctors or accountants; produce goods, such as manufacturers; and sell goods, such as car dealers and grocers.

⁵³Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013*, Publication 1415 (September 2019). In this publication, IRS categorizes various line items on the individual income tax return into four different groupings of third-party reporting. However, IRS does not provide a scale to define the differences between substantial, some, and little or no third-party information reporting.

proprietors' tax compliance.⁵⁴ Researchers found mixed results depending on the set of taxpayers studied. Many of the study's taxpayers offset increased reported receipts with increased reported expenses, which are not subject to third-party information reporting. The study authors note that this finding suggests it is important to consider a business's decision to report receipts and expenses jointly.

The study's findings are consistent with our 2009 report that discussed IRS research on the high rate of noncompliance associated with claims of sole proprietor business losses.⁵⁵ However, the study IRS referred us to only focused on the use of one IRS form, Form 1099-K, and did not evaluate more broadly ways IRS could increase third-party information reporting to enhance tax compliance among this population. Without third-party information on the income received by sole proprietors, IRS has difficulty ensuring these taxpayers accurately report their income. The absence of substantial information reporting on sole proprietor income makes refundable credits, such as the Earned Income Tax Credit, more vulnerable to fraud.⁵⁶ Without information reporting, IRS cannot verify income, which can artificially inflate these refundable credits.⁵⁷

Additional research beyond the work described above could reveal other ways to make sole proprietor income and expenses more transparent to IRS and help the agency better evaluate proposals to achieve this goal. IRS stated that it has not assessed a 2020 proposal by former IRS

⁵⁴Joel Slemrod, Brett Collins, Jeffrey L. Hoopes, Daniel Reck, and Michael Sebastiani, "Does credit-card information reporting improve small-business tax compliance?" *Journal of Public Economics*, vol. 149 (2017).

⁵⁵GAO, *Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses*, [GAO-09-815](#) (Washington, D.C.: Sept. 10, 2009).

⁵⁶The Earned Income Tax Credit was enacted in 1975 to encourage work by offsetting payroll taxes for low-income taxpayers. It is a refundable tax credit, which means that in addition to offsetting tax liability, any excess credit over the tax liability is refunded to the taxpayer. 26 U.S.C. § 32.

⁵⁷In 2016, we reported that IRS's methods for identifying income misreporting rely to a great extent on the types of third-party income and employment documentation that are likely to be available for wage earners but are largely absent for the self-employed. We also reported that taxpayers who claim the Earned Income Tax Credit and Additional Child Tax Credit are more likely to be sole proprietors than the general taxpayer population. See GAO, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Address Noncompliance*, [GAO-16-475](#) (Washington, D.C.: May 27, 2016).

Commissioner Charles Rossotti that would require sole proprietors to designate the primary bank account or accounts used by their businesses on their tax returns.

At the end of the year, the bank would generate a record of deposits received and disbursements made by those accounts and provide it to both IRS and the sole proprietor.⁵⁸ This record of transactions may provide IRS more insight into the earnings and expenses of the sole proprietorship, including more information about transactions that are not currently reported on the 1099-K or as nonemployee compensation.

In addition, we have long highlighted issues associated with sole proprietor noncompliance and proposed possible solutions. For example, in 2007, we recommended that the Department of the Treasury (Treasury) ensure that the tax gap strategy include a segment on improving sole proprietor compliance in coordination with broader tax gap reduction efforts.⁵⁹ As of January 2020, Treasury had taken no action to address the recommendation. In the same report, we also highlighted a number of options for Treasury and IRS to improve sole proprietor compliance. The report discussed the tradeoffs associated with each option. Options included:

- helping improve records of both income and expenses for sole proprietors, for example, by requiring business bank accounts to be separated from personal bank accounts;
- identifying unreported income and overstated expense deductions through more detailed reporting of gross receipts on tax returns or matching of expense deductions claimed by a business with information returns filed by the same business; and
- expanding withholding.

Even a partial increase in third-party reporting can positively affect voluntary compliance. For example, a 2019 National Bureau of Economic Research working paper estimates that increasing information reporting requirements even modestly for income that is currently subject to little or

⁵⁸Charles O. Rossotti, "Recover \$1.6 Trillion, Modernize Tax Compliance and Assistance," *Tax Notes Federal* (Mar. 2, 2020), 1414-1415. Only taxpayers with more than \$25,000 would be subject to the requirements of this proposal.

⁵⁹GAO, *Tax Gap: A Strategy for Reducing the Gap Should Include Options for Addressing Sole Proprietor Noncompliance*, [GAO-07-1014](#) (Washington, D.C.: July 13, 2007).

no information reporting requirements, including sole proprietor income, could generate roughly \$115 billion in revenue in 2020.⁶⁰

Standards for Internal Control in the Federal Government states that the management of government entities should use quality information to achieve their respective entities' objectives. This involves using the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. Based on identified information requirements, management should obtain relevant data from reliable internal and external sources in a timely manner.

Further, one of IRS's strategic goals is to protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code. One of the objectives behind this goal is to identify and plan for compliance risks proactively, through supporting activities including continuously analyzing risks to determine priority compliance issues and creating comprehensive strategies to prevent and address noncompliance in high-risk areas.

IRS officials reported that expanding information reporting on sole proprietors may not be feasible in the current environment. IRS officials told us that this is because sole proprietors receive income from many sources, including from personal transactions with individuals. The officials also said IRS would have to make changes to the types of payments that are reportable, which could increase the burden for individuals and would be difficult for IRS to administer. Further, sole proprietors may not separate personal and business transactions if they use one account for both purposes.

However, given the size of the underreporting tax gap for this area, IRS may be missing an opportunity to develop and implement more third-party information reporting on sole proprietors. Imposing additional information reporting requirements for sole proprietorships would likely require amending the Internal Revenue Code. However, more extensive IRS research into various proposals and their strengths and potential drawbacks could help inform legislation and provide guidance on options to improve compliance without overburdening sole proprietors or third-party reporters. We also recognize that increased information reporting on

⁶⁰Natasha Sarin and Lawrence H. Summers, "Shrinking The Tax Gap: Approaches and Revenue Potential," *National Bureau of Economic Research*, NBER Working Paper 26475 (Cambridge, Mass.: November 2019).

IRS Has Not Researched the Effectiveness of Penalties on Information Return Filing Compliance

income might result in fraudsters overstating expenses, but it is possible that increased reporting might also improve IRS's ability to distinguish between legitimate and inflated expenses. Without research into options to increase information reporting for sole proprietorships, IRS is missing an opportunity to help address a significant part of the tax gap.

IRS is able to track whether information returns are filed on time through its Payer Master File (PMF), but IRS does not monitor or analyze this information to determine the characteristics of late filers or the reasons why they file late. Officials from the Office of Servicewide Penalties told us their office has not conducted any research or analysis to determine the effectiveness of penalties on filing compliance for information returns.

Third parties who fail to file an accurate and complete information return on time are generally subject to a penalty per return, up to an annual maximum.⁶¹ In general, penalties exist to incentivize compliance, such as timely and accurate filing of information returns. Penalties per late, incorrect, or never filed returns range from \$50 (for a return filed within 30 days of the due date) to \$280 (for a return filed after August 1 or never filed).⁶² Third parties that intentionally disregard the filing requirements can be penalized \$560 per information return, with no annual maximum. IRS must meet certain procedural requirements before assessing a penalty and it must assess and collect penalties in the same manner as taxes.⁶³

⁶¹26 U.S.C. § 6721. The amount of the penalty per return and annual maximum varies depending on when or if a corrected return is filed. The penalties for late filing or failure to file Forms 1099-SA, 5498-SA, 5498, 1099-Q, 1099-QA, 5498-QA, and 5498-ESA, to which section 6721 does not apply, have no annual maximum.

⁶²For returns filed in 2020, the penalty per return for accurate returns filed more than 30 days late but before August 1 is \$110. The annual maximums are \$565,000 for accurate returns filed within 30 days from the deadline, \$1,696,000 for accurate returns filed after 30 days from the deadline but before August 1, and \$3,392,000 for inaccurate returns or for returns filed after August 1 or not filed. The annual maximum is reduced for businesses with gross receipts less than or equal to \$5 million (average annual gross receipts for the most recent 3 taxable years). There are exceptions for failures due to reasonable cause, for inconsequential errors or omissions, and for de minimis errors.

⁶³26 U.S.C. §§ 6665(a), 6671(a). Collections are subject to a 10-year statute of limitations. 26 U.S.C. § 6502. An example of a procedural requirement is that an initial determination of a penalty must be personally approved (in writing) by the immediate supervisor of the individual making the initial assessment determination prior to being assessed, unless an exception applies. 26 U.S.C. § 6751(b); Internal Revenue Manual 20.1.1.2.3.

IRS uses PMF data to systemically generate and distribute proposed individual civil penalty notices to third parties that fail to file timely and accurate information returns. For tax year 2016, IRS assessed these penalties on approximately 6,000 filers. While each of these filers can submit a multitude of late returns, IRS told us that it does not monitor the number of individual information returns associated with late and incorrect filings on assessed filers.

The penalties assessed for those late filers totaled about \$448 million. Subsequently, IRS abated \$67 million of the penalties for reasons such as when circumstances beyond the control of the filer prevented timely filing.⁶⁴ Officials told us that after making contact with the filer, the process of assessing or abating a penalty can take 3 to 4 years, depending on the case. However, collecting on a penalty can take up to 10 years.

IRS officials said they have not analyzed the connection between penalties, including assessments and collections, and filing compliance. Office of Servicewide Penalties officials reported that they plan to study the behavioral impact of assessing civil penalties to help determine if they encourage voluntary compliance; however, IRS had no further details of the study at this time. IRS officials also told us that they do not identify repeat late filers unless a filer requests an exception to a penalty. In this case the IRS employee reviewing the request would be able to see if the same filer had a pattern of late filing, which could make it less likely that a penalty would be waived.

According to *Standards for Internal Control in the Federal Government*, management should establish ongoing monitoring as part of the normal course of business. Management should also evaluate the results of the monitoring efforts to help identify issues. Timely receipt of information returns is a critical part of IRS's compliance programs. For example, if Forms W-2 and 1099-MISC, which are used to conduct preredund compliance checks, are filed late, IRS risks releasing fraudulent or noncompliant refunds. There is also a risk of burdening legitimate taxpayers whose refunds could be cleared with data from these information returns. Further, if third parties are missing IRS filing

⁶⁴Unless otherwise specified in the Internal Revenue Manual, IRS may waive or abate an information return penalty when a filer requests a waiver of the penalty and establishes reasonable cause. Reasonable cause for the information return penalties generally exists when the filer acted in a responsible manner, both before and after the failure occurred, and there were significant mitigating factors or the failure was the result of circumstances beyond the filer's control.

deadlines, they may not be providing timely, accurate, and complete reporting to taxpayers, which could add to taxpayer and administrative burden. For example, a taxpayer who filled out his or her tax return without complete information from a third party might have to file an amended return.

IRS may be missing an opportunity to use data that it already has to encourage timely filing of information returns. By analyzing data to identify trends or patterns, such as repeated violations by particular parties or types of businesses, or common types of errors made by filers, IRS could determine if there are opportunities to improve compliance with information return filing requirements.

IRS Does Not Have a Coordinated Approach to More Effectively Use Information Returns

IRS Has Taken Some Actions on Previous Research Efforts, but Critical Risks Remain

IRS reported, it took several actions to address critical risks and recommendations previously identified to improve the use of information returns. However, many of the risks and recommendations remain unaddressed. In 2016, IRS undertook an extensive study of information return reporting and its expanding role in the U.S. tax system. The internal report included a review of the current environment and documented critical risks to the information returns system.

Among other things, the report found significant opportunities for IRS to strategically leverage the information return reporting system and materially increase filing, payment, and reporting compliance. While specifics of the report are sensitive, and therefore unavailable to the general public, it contained many recommendations. Several of the issues and recommendations identified in the IRS report are similar to issues we have identified in this report. One of the recommendations—decreasing the threshold for when third-party filers are required to file returns electronically—was realized through recent amendments to the Internal Revenue Code by the Taxpayer First Act.⁶⁵ IRS also took steps to

⁶⁵Pub. L. No. 116-25, § 2301, 133 Stat. 981, 1012–1013 (2019).

address other recommendations related to enforcement actions. However, many of the study's recommendations on these critical risks remain unaddressed.

Standards for Internal Control in the Federal Government discusses how management should analyze risks to estimate their significance, which provides a basis for responding to risks. Further, changing conditions often prompt new risks or changes to existing risks that need to be assessed. Additionally, identified risks may require further assessment to determine whether the defined risk tolerances and risk responses need to be revised, or if deficiencies need to be addressed in a timelier manner.

IRS told us that many of the recommendations were not pursued due to resource constraints that were further strained by implementation of many broad legislative changes, such as the TCJA. IRS officials also stated that many of the staff who helped develop the report were either no longer in the unit responsible for developing the report or no longer at IRS. While we recognize changing circumstances can affect IRS's ability to respond to risks, it does not mean that the risks IRS identified in its report are no longer valid. Instead, it makes it more important to prioritize which risks IRS can address given its resources and the level of identified risk.

IRS invested time and resources to develop a thorough analysis that identified actionable recommendations. Reassessing the issues identified in the report and developing a timeline to implement the remaining recommendations would help IRS ensure that the risks are mitigated on a timely basis. Communicating this information to Congress could help Congress make informed decisions about the resources required and any legislative changes needed to address the identified risks. Without following through on the effort, IRS leadership is missing an opportunity to capitalize on potential solutions developed by senior IRS officials to mitigate risks.

IRS Has Restarted Efforts to Modernize Systems for Processing Information Returns but Has Few Details

IRS has recognized the need to modernize its information returns processing systems to address issues in the intake, processing, and use of information returns and has started to take some initial steps. Some of these systems were developed in the 1970s and use programming languages that are outdated and difficult for IRS to maintain. IRS reported that these systems served IRS well for many years, but they are no longer able to accommodate processing requirements and evolving needs, such as the capacity limitations described above. IRS officials who are responsible for some of the processing systems also noted that as

electronic filing continues to increase each year, the strain on systems is getting worse.

To address these concerns, in January 2017, IRS released an information returns system modernization plan. This detailed document outlined a multiyear effort to modernize the system architecture, including intake and processing systems and databases. The new system would support the submission processing of all information returns and feed all of the information into a database to support access for downstream users. However, IRS reported that it paused the modernization effort due to resource constraints in 2017 and has not resumed its efforts. IRS officials said resource constraints continue to be an issue with its modernization efforts.

As of March 2020, IRS officials reported that they were just beginning to discuss including modernization of information return systems as a part of the annual budget formulation process.⁶⁶ According to IRS, those discussions will help to determine the scope of work that the IT team will be able to undertake in fiscal year 2022.

It is unclear how much IRS's earlier 2017 planning efforts will inform these discussions, or how information return modernization would be integrated or prioritized into the broader IRS modernization efforts. IRS officials reported that since they were at the beginning stages of the project they had no details on what this modernization system would include or which specific systems it would replace.

However, IRS officials also told us that other statutory requirements concerning IT, such as those prescribed in the Taxpayer First Act, may affect modernization efforts in coming years.⁶⁷ Officials also said plans

⁶⁶In April 2019, IRS released its multiyear Integrated Modernization Business Plan, which outlines IRS's plans to modernize several tax administration systems, IRS operation and cybersecurity efforts, among other efforts. The first phase of the plan covered projects in fiscal years 2019-2021, while the second phase of the plan covers fiscal years 2022-2024. Modernization of information return processing is proposed for phase 2, which has yet to be fully developed.

⁶⁷For example, the Taxpayer First Act requires IRS to develop a website or other electronic interface by January 1, 2023, that allows users, such as small business owners, to electronically (1) prepare and file Forms 1099, (2) distribute forms to recipients, and (3) maintain a record of completed, filed, and distributed Forms 1099. Pub. L. No. 116-25, § 2102, 133 Stat. at 1010.

could be affected by the ability to establish a stable budget environment for the business systems modernization fund.

There are several criteria for IRS to consider as it reviews and revises its modernization plan for information returns systems. These criteria can help IRS integrate its modernization efforts to increase the cost effectiveness of operations, as well as address challenges in the information reporting environment, such as with new risks and changing legislation. As we have previously reported, the Government Performance Results Act of 1993 (GPRA) as updated by the GPRA Modernization Act of 2010 (GPRAMA) can serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives.⁶⁸

Among other things, GPRAMA states that strategic plans should contain the goals and objectives of a program along with measures of performance so that an agency can be held accountable. GPRAMA also states that plans should describe what is needed to carry out the strategy described in the plan, including determining resource needs and setting milestones over the long term.⁶⁹ Further, communicating these resource needs and milestones to internal and external stakeholders can help provide transparency and integrate agency efforts.

These criteria are consistent with what we have previously reported on government and industry best practices for the modernization of federal IT systems; agencies should have documented modernization plans for legacy systems that, at a minimum, include three key elements: (1) milestones to complete the modernization, (2) a description of the work necessary to modernize the legacy system, and (3) details regarding the disposition of the legacy system.⁷⁰

Standards for Internal Control in the Federal Government also states that changing conditions often prompt a need to assess new risks or changes to existing risks. Other standards call for setting a tone at the top and communicating with internal and external stakeholders. Still other

⁶⁸Pub. L. No. 103-62, 107 Stat. 285 (1993); Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011); and GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013), and *Veteran-Owned Small Businesses: Planning and Data System for VA's Verification Program Need Improvement*, [GAO-13-95](#) (Washington, D.C.: Jan. 14, 2013).

⁶⁹5 U.S.C. § 306.

⁷⁰[GAO-19-471](#).

standards call for management to design information systems to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks in a timely manner. These standards are reflected in IRS's *Fiscal Year 2018-2022 Strategic Plan*, which includes objectives aimed at advancing data access, usability, and analytics to inform decision-making and improve operational outcomes; collaborating with external partners proactively to improve tax administration; and enabling taxpayers to meet their tax obligations.

IRS may be missing an opportunity to capitalize on the planning efforts it has already made. As with other projects in the past, there are risks inherent to IRS's ability to modernize the information return processing systems. For example, in 2018 we found that IRS experienced issues in the development of several modernization investments that were both behind schedule and delivering less scope than planned.⁷¹ As IRS developers plan the new system, building on the lessons learned from prior efforts could help save time, as these prior efforts could be updated to account for changes in the environment, priorities, and risks.

Further, IRS officials in some of the processing units noted that little is known about how the modernization efforts will address many of the processing issues IRS faces today. Coordination between developers and the processing units would help ensure that the issues in the processing pipeline are addressed (such as those described above) and the various business units that access the data are able to use the information. For example, Automated Underreporter Program (AUR) officials stated that it will be important to consider how a modernized processing system and database could be accessed by legacy systems until those systems are updated. A modernized system may also allow for earlier identification and selection of cases for further review, such as with AUR, thereby helping IRS to reduce taxpayers' interest payments on misreported income, credits, and deductions.

As part of the broader modernization effort, it is important that IRS can explain to Congress and other decision makers the critical need to modernize the information reporting system, the proposed scope of the project, proposed schedule, and the resources required to implement the project. We recognize that a modernization plan by necessity will be at a

⁷¹GAO, *Information Technology: IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing*, [GAO-18-298](#) (Washington, D.C.: June 28, 2018).

high level and that proposals may not be fully developed early in the planning process.

This is especially true for technology-related investments. However, without a plan that provides an overall picture of what IRS is investing in, it will be difficult for Congress and other decision makers to understand the funding needs, as well as the benefits that can be expected. Because some of the costs being incurred today are for foundational efforts, it is even more important that a strategy explains the long-term benefits.

IRS Has Not Comprehensively Assessed Information Return Reporting

IRS has not undertaken a broad review of individual information returns to determine if thresholds, deadlines, or other characteristics of the returns continue to meet the needs of the agency. IRS officials told us that because various business units may use the same information return, users throughout the agency can suggest changes to information returns. Still, individual business units are responsible for making policy and program decisions about forms under their control.

However, IRS does not have a formal, service-wide approach for researching and assessing information reporting to ensure the service is leveraging the full compliance value of the information collected. Further, the agency does not regularly review the use of information returns to determine how they are being used across IRS.

We identified several areas where IRS could evaluate options to better use information returns to increase compliance and decrease burden. A more comprehensive evaluation of information returns or their characteristics could identify additional options that require legislative changes; however, it may also identify areas where changes may not be cost effective. Considering the characteristics of information returns that we discuss above, we found several areas that IRS could consider in any additional research efforts.

Thresholds. We found the top 10 highest volume information returns all had relatively low dollar-reporting thresholds or no dollar-reporting thresholds, which may contribute to IRS receiving more information returns than it can effectively utilize. For example, IRS received approximately 2.3 billion Forms 1099-B in tax year 2018. The form has two thresholds: a \$20 threshold for broker transactions involving less than a share of stock and a \$1 threshold for barter transactions. Every broker or barter transaction at or above these thresholds must be reported on a separate Form 1099-B.

IRS officials told us they developed a proposal to introduce aggregate reporting of broker and barter transactions but did not implement it because the change would have hurt reporting and compliance initiatives related to Qualified Opportunity Funds, which were created as part of TCJA. Investors who place capital gains or certain other eligible gains in a qualified opportunity fund within 180 days of the date of sale can defer tax on those gains.⁷²

The proposed aggregation would eliminate the reporting of individual sales dates, which is needed to enforce this requirement. The IRS proposal did not, however, look at how a change to the dollar thresholds for Form 1099-B would affect other reporting and compliance initiatives. Such an approach could reduce the volume of Forms 1099-B while also meeting enforcement needs such as those related to Qualified Opportunity Funds.

Conversely, other forms have much higher reporting thresholds, which may leave potential gaps in reporting certain income and create the potential for fraud. For example, Form 1099-K, *Payment Card and Third Party Network Transactions*, has a threshold of \$20,000 and 200 transactions.⁷³ We recently reported that the threshold amount exceeds the average gross income from a single company for many platform workers.⁷⁴

Lowering this threshold would provide workers with more information to help comply with their tax obligations. Lower thresholds may also improve transparency of income to IRS. We recommended the Commissioner of IRS work with the Secretary of the Department of the Treasury to determine what thresholds would be the most appropriate for payment information reporting.⁷⁵ As of September 2020, IRS had not taken action to address this recommendation.

⁷²26 U.S.C. § 1400Z-2.

⁷³26 U.S.C. § 6050W(e).

⁷⁴Platform workers are those workers who provide goods or services to customers through an online platform, operated by a company that facilitates the match, transaction, and payment. Examples of these companies are Uber, Etsy, Airbnb, and Care.com. See GAO, *Taxpayer Compliance: More Income Reporting Needed for Taxpayers Working Through Online Platforms*, [GAO-20-366](#) (Washington, D.C.: May 28, 2020).

⁷⁵[GAO-20-366](#).

In addition, differing reporting thresholds between information returns may also contribute to confusion among taxpayers concerning reporting requirements. We reported that to avoid duplicative reporting of certain transactions that could be reported on both the 1099-K and 1099-MISC, IRS instituted a “tie-breaker” rule. This rule instructs certain kinds of businesses—including some platform companies that act as intermediaries connecting buyers with sellers and facilitating payments between them—to report these transactions only on the 1099-K.⁷⁶

Payments made by these kinds of businesses and reported on the 1099-K are subject to an annual \$20,000 and 200 transaction threshold, while payments reported on Form 1099-MISC are subject to an annual \$600 threshold. As a result, many taxpayers may be left confused and lack information reporting to help them meet their tax filing responsibilities.

We recommended that IRS amend this rule to address this potential gap in payment reporting requirements.⁷⁷ IRS responded that it is working on guidance to address this challenge, but was unable to provide an implementation date. This situation is another example of the need to consistently evaluate information return requirements in a changing environment. By not researching the consequences of thresholds for specific information returns and making recommendations about needed changes, IRS risks not obtaining the optimal amount of information to help select the highest priority returns for additional attention.

Deadlines. IRS may be able to achieve efficiencies or other benefits by adjusting some deadlines for filing information returns. For example, IRS officials stated that Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, and W-2G, *Certain Gambling Winnings*, are becoming more associated with fraud risks, as fraudsters are targeting the withholdings. While IRS has identified and analyzed this emerging threat, IRS has not developed a formal proposal to move the filing deadline to an earlier date, for example, January 31. If the deadline for these forms was adjusted, the Return Review Program (RRP) could potentially use the data to verify withholding information before refunds are issued.

⁷⁶As we have previously, reported businesses such as Uber, that facilitate the transfer of payment from passenger to driver through their platform, are subject to this “tie-breaker” rule. See [GAO-20-366](#).

⁷⁷[GAO-20-366](#).

IRS may be able to find efficiencies by evaluating options for adjusting deadlines and availability of extensions that are shared by large numbers of information returns. Most of the information returns are due on the same date (March 31), putting pressure on IRS's already strained ability to process information returns in a timely manner. As previously noted, some extensions seem to act as de facto due dates that also result in pressure on processing returns.

While extensions may be needed in some cases to ensure accurate reporting, options may exist to consider eliminating or abbreviating others. Some information returns could potentially be filed earlier without substantive burden on filers. Spreading out the deadlines for these forms and researching the costs and benefits of filing some forms earlier could potentially help ease the processing bottlenecks for the remaining forms due March 31.

Corrections and amendments. IRS is missing an opportunity to understand and address reporting issues associated with particular information returns. Depending on the nature of the correction or amendment, the change may need to be made by either the third party or the taxpayer.⁷⁸ It has not established monitoring activities to track the numbers and types of information returns that are corrected or amended, which could provide insight into issues with a particular form.

In tax year 2018, more than 19 million information returns were either corrected or amended. Form 1099-B had the highest volume of corrections and amendments with more than 2.6 million (0.12 percent) corrections and 9.4 million (0.41 percent) amendments. While this form has a relatively low percentage of corrected or amended returns, the absolute volume is substantial. Our analysis also found that the highest rate of amendments and corrections was for Form 1099-A, *Acquisition or Abandonment of Secured Property*, at 4.25 percent and 1.73 percent respectively. In tax year 2018, this form had an approximate total volume of 277,000, which means approximately 16,600 forms were either corrected or amended.

By reducing the number of corrected and amended returns, IRS could help reduce taxpayer confusion and burden. For example, when a form is corrected, an additional version of that form is then sent to the taxpayer

⁷⁸A correction to an information return happens when there is an error or mistake on the form. An amendment to an information return is needed when information is missing or must be updated.

indicating that it has been corrected. This may confuse taxpayers because they may not know why the form was corrected and whether they have the latest version of their information return to file their tax return or if they need to amend a previously filed tax return. Taxpayer confusion can lead to an increase in IRS administrative costs as taxpayers try to contact IRS with questions or concerns about the corrected form.

Consolidation. There may also be opportunities to consolidate some forms that cover similar topics or are issued by similar types of third-party payers. Consolidating forms that cover similar topics may enhance efficiency and ease pressure on IRS's legacy systems for processing returns.

- Banks and brokerage firms often submit consolidated statements that provide their taxpayers with information related to interest and dividends. IRS requires this information on two separate forms: the 1099-INT, *Interest Income*, and 1099-DIV, *Dividends and Distributions*.
- Forms related to acquisition or abandonment of secured property (1099-A) and cancellation of debt (1099-C) are connected, with the instructions for Form 1099-A telling the taxpayer to coordinate with Form 1099-C. According to the *Instructions for Forms 1099-A and 1099-C*, if boxes 4, 5, and 7 are filled out on Form 1099-C there is no need to file Form 1099-A.
- Forms related to reporting foreign financial assets often require duplicative reporting, as we have previously reported.⁷⁹ Because of overlapping statutory reporting requirements, IRS and the Federal Crimes Enforcement Network (FinCEN)—both bureaus within Treasury—collect duplicative foreign financial asset data using two different forms (Form 8938, *Statement of Specified Foreign Financial Assets*, and FBAR, *Report of Foreign Bank and Financial Accounts*).
- In 2012, we recommended that Treasury direct the Office of Tax Policy, IRS, and FinCEN to determine whether the benefits of implementing a less duplicative reporting process exceeded the costs and, if so, implement that process.⁸⁰ Treasury did not implement our

⁷⁹GAO, *Foreign Asset Reporting: Actions Needed to Enhance Compliance Efforts, Eliminate Overlapping Requirements, and Mitigate Burdens on U.S. Persons Abroad*, [GAO-19-180](#) (Washington, D.C.: Apr. 1, 2019).

⁸⁰GAO, *Reporting Foreign Accounts to IRS: Extent of Duplication Not Currently Known, but Requirements Can Be Clarified*, [GAO-12-403](#) (Washington, D.C.: Feb. 28, 2012).

recommendation. Therefore in 2019, we suggested that Congress consider amending the Internal Revenue Code, Bank Secrecy Act of 1970, and other statutes to address the overlap in foreign financial asset reporting requirements, among others things. As of October 2020, Congress had not amended the statutes to address this matter.

Standards for Internal Control in the Federal Government describes how agencies should use quality information and consider the expectations of both internal and external users. Further, agency management should identify information requirements in an iterative and ongoing process. As changes to objectives and risks occur, management needs to adjust information requirements to meet the modified objectives and risks. Additionally, IRS's *Fiscal Year 2018-2022 Strategic Plan* emphasizes the use of data analytics to inform decision-making and improve operational outcomes.

Without a more comprehensive evaluation of information returns or their characteristics, IRS risks gathering information that it cannot use effectively in some areas and burdening filers and taxpayers and not gathering enough information for enhancing compliance in other areas. Additionally, some of the issues we identified above—low filing thresholds and clustered deadlines for the majority of information returns—may contribute to backlogs in IRS's systems that delay when data are available to IRS's downstream enforcement programs, such as AUR.

Evaluating the deadlines or monetary thresholds of information returns could help IRS identify changes that may reduce backlogs. Reviewing the entire suite of information returns regularly and proactively—instead of conducting reactive reviews—could help IRS achieve administrative efficiencies and improve tax compliance. Such a review could help IRS better achieve its stated goal of advancing data access, usability, and analytics to inform decision-making and improve operational outcomes.

IRS Lacks Centralized Leadership to Make Strategic Decisions about Information Reporting

IRS does not have a coordinated approach with cross-agency leadership that considers information reporting strategically and how it could be improved to more effectively promote compliance with the tax code or further agency objectives. IRS has some limited efforts focused on specific challenges, such as the Nonfiler Program Executive Steering Committee that was formed in 2018 to oversee operationalizing actions on nonfiler strategic issues. However, there is little other formal coordination among intake, processing, and compliance groups that match information returns against tax returns. Officials from the nonfiler steering committee told us that there are benefits associated with a

coordinated approach, since it spans multiple programs and there are limited resources with which to do the work.

There are many areas where IRS could collaborate among programs to think more strategically about how to better utilize information returns to increase compliance. However, many of the issues discussed in this report—additional capacity for more transcription efforts, the need for more information reporting for sole proprietors, and undertaking research related to late information return filers—highlight areas where IRS could benefit from a more strategic, coordinated approach to leverage the value of information returns. In addition, multiple other opportunities exist for IRS to capitalize on prior research and modernization efforts to identify areas where IRS could decrease taxpayer burden while increasing compliance.

According to IRS officials, lack of resources and legal authority constrain better use of information returns, but improved coordination among units could be beneficial. However, there is no formal coordination or information sharing among the nonfiler groups and AUR or RRP. For example AUR officials stated that due to system limitations AUR and RRP cannot communicate, but it would provide a helpful starting point if RRP could pass return related fraud information to the Information Return Master File, assuming that system could be enhanced to accept it.

These missed opportunities are due, in part, to IRS's lack of centralized leadership and coordination over developing, accepting, processing, and using information returns—whether over just those applicable to individual filers considered in this report or all information returns. While multiple IRS offices work with these returns and coordinate to some extent, no one office is responsible for, or has the authority to provide, the strategic vision, research and oversight, or coordination over all aspects of information returns.

Standards for Internal Control in the Federal Government states that agencies should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. A formalized structure or collaborative mechanism, such as a steering committee, task force, or working group, could help provide this level of leadership and collaboration across the agency.⁸¹

⁸¹[GAO-12-1022](#).

We have previously reported on the importance of collaboration—defined as any joint activity that is intended to produce more public value than could be produced when participants act alone—within the federal government.⁸² In our prior work, we have described the key features of mechanisms to implement collaborative efforts, as well as the leading practices agencies can follow to enhance and sustain collaborative efforts.⁸³ These leading practices include, among others, defining and articulating common outcomes, identifying and addressing needs by leveraging resources, and establishing compatible policies, procedures, and other means to operate across boundaries.⁸⁴

A collaborative mechanism could also help facilitate communication and coordination among IRS and external stakeholders who provide information returns to IRS. All of the external stakeholders we spoke to told us that an executive steering committee or some other centralized group focused specifically on information returns would be beneficial to the industry. For example, some said it would make it easier to identify clear points of contact within IRS if they encountered issues with specific information returns or some part of the process.

Some stakeholders said that changes to the external advisory committees IRS uses to collect external perspectives had contributed to this challenge. In 2019, IRS merged the Information Reporting Program Advisory Committee (IRPAC)—a group of diverse external stakeholders from industries including tax preparation, banking, colleges and universities, and others—into the Internal Revenue Service Advisory Council (IRSAC). IRPAC focused specifically on topics related to information reporting and was able to raise specific questions to the agency.⁸⁵

Stakeholders told us combining the IRPAC with the IRSAC, which advises IRS on much broader issues, was problematic because the focus

⁸²[GAO-06-15](#).

⁸³[GAO-12-1022](#) and [GAO-06-15](#).

⁸⁴[GAO-06-15](#).

⁸⁵IRPAC advised IRS on information reporting and administration issues of mutual concern to the private sector and the federal government. The committee provided recommendations on information reporting administration issues.

on issues specifically related to information returns declined.⁸⁶ One third-party representative said he felt that industry communication with IRS was less open and effective under the new IRSAC structure. Another third-party representative said that the previous IRPAC structure recommended substantive changes that he believed had improved information reporting. IRS officials who work with the external groups told us they felt like these advisory committees facilitated a useful dialogue with the industry both before and after the consolidation.

Without a collaborative mechanism to develop, implement, and lead a coordinated approach to using information returns, IRS risks missing opportunities to improve the effectiveness of its development, intake, processing, and use of information returns and to address many of the issues we have identified throughout this report. A collaborative mechanism focused on information reporting could help provide strategic oversight of information returns and ensure greater collaboration among the various IRS offices that use the information.

A collaborative mechanism would be better situated than individual business operating divisions to understand the needs of other units, how their actions impact other agency operations, and how resource allocations align with overall agency goals. In addition, such leadership could help ensure that IRS addresses issues previously identified related to the inventory of information returns and their intake, processing, and use. It could also help IRS think more strategically about how to use new or additional information reporting in the future, such as how to respond to new trends in fraud and noncompliance or attempt to address persistent issues contributing to the tax gap.

Conclusions

IRS's information reporting system is an extensive network with complex requirements. IRS receives and processes billions of information returns that it uses to conduct compliance checks on more than 150 million individual income tax returns. Information returns reduce record keeping burdens for taxpayers and help IRS verify information reported by

⁸⁶IRSAC is an advisory body designed to focus on broad policy matters. It proposes enhancements to IRS operations; recommends administrative and policy changes to improve taxpayer service, compliance, and tax administration; discusses relevant information reporting issues; addresses matters concerning tax-exempt and government entities; and conveys the public's perception of professional standards and best practices for tax professionals.

taxpayers on their tax returns. Information returns reported to IRS also motivate taxpayers to report accurately.

This reporting system requires significant IT resources as it impacts various IRS units differently, and requires the involvement of a diverse group of external stakeholders. However, IT system limitations and other obstacles constrain IRS's ability to process the electronic and paper information it receives in a timely and comprehensive manner. These challenges hamper IRS's ability to identify potential fraud and noncompliance—including intentional or unintentional misreporting—quickly after taxpayers file their returns. Prioritizing the expansion of the IT systems that are used to capture data from paper information returns is one way to help enforcement efforts, as more data become available to help select the most productive cases to review.

IRS uses the information in multiple compliance programs that seek to detect potentially fraudulent returns, errors made by taxpayers, or others who have not filed a tax return. However, IRS has not fully explored potential ways to address a significant portion of the tax gap by increasing information reporting requirements for sole proprietorships. Even small gains in the visibility of income can lead to a substantial increase in compliance. Nevertheless, IRS has not researched potential options for addressing this issue nor has it developed a proposal to increase third-party information reporting for sole proprietor income.

Further, IRS has not researched the effectiveness of penalties on the timeliness of information return filing. One late third-party information return filer could have broader compliance effects on thousands of individual tax accounts. Ensuring third-party filers submit their information returns on time could enhance compliance by enabling IRS to conduct more timely checks and reduce taxpayer and administrative burden.

IRS has not taken a strategic approach to managing information reporting, nor is it collaborating among programs to improve its usage of information returns. While IRS is making some plans to address issues related to information returns, it is missing opportunities to capitalize on prior lessons learned and build upon efforts that were never completed. Because information returns affect so many areas within IRS, it is imperative that the agency develop a coordinated approach across the many offices that manage their intake, processing, and use.

A centralized collaborative mechanism, such as a steering committee, could help ensure communication and coordination across the agency

and would be better situated to understand how needs of business units interrelate. It could also help align resources with agency goals. A centralized collaborative mechanism could help IRS approach information reporting more strategically in the future as the agency responds to new trends in fraud and noncompliance or attempts to address persistent issues contributing to the tax gap.

Recommendations for Executive Action

We are making the following nine recommendations to IRS:

- 1) The Commissioner of Internal Revenue should expedite final planning efforts and implement the expansion of IRS's capacity to allow for additional transcription of K-1 Schedules. (Recommendation 1)
- 2) The Commissioner of Internal Revenue should research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietor's income and expenses. (Recommendation 2)
- 3) The Commissioner of Internal Revenue should evaluate characteristics of late information return filers to determine the effect of penalty assessment for late and incorrect information returns on third-party information reporting compliance. (Recommendation 3)
- 4) The Commissioner of Internal Revenue should reassess the risks described and recommendations made in its internal 2016 report related to information returns and identify potential new risks and recommendations as a result of changes to the tax administration environment. (Recommendation 4)
- 5) The Commissioner of Internal Revenue should prioritize and develop a timeline for implementing the remaining recommendations from its internal 2016 report related to information returns, along with any newly identified recommendations. (Recommendation 5)
- 6) The Commissioner of Internal Revenue should revise the 2017 Information Returns Systems Modernization plans by evaluating changes in the environment, assessing risks to systems and programs, and detailing how the agency plans to address issues in the intake, processing, and use of information returns across business units. (Recommendation 6)

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- 7) The Commissioner of Internal Revenue should submit a revised information returns system modernization plan to Congress that describes how it integrates with IRS's broader IT modernization efforts, the resources needed to achieve effective and timely modernization, and the proposed schedule and scope of the effort. (Recommendation 7)
 - 8) The Commissioner of Internal Revenue should develop a plan and schedule to systematically evaluate the suite of information returns with a goal of improving compliance, and reducing fraud and reporting burden. The evaluation should consider factors such as filing requirement thresholds, deadlines for filing, corrections and amendment data, and the potential to consolidate similar forms and include recommendations for needed changes. (Recommendation 8)
 - 9) The Commissioner of Internal Revenue should develop a collaborative mechanism to coordinate among the internal stakeholders who are responsible for the intake, processing, and use of information returns, as well as to improve outreach to external stakeholders in relation to information returns. (Recommendation 9)

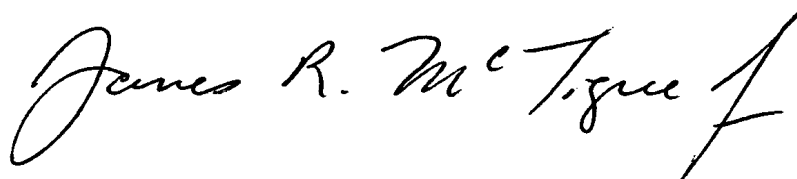
Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue and the Commissioner of Social Security Administration for review and comment. In comments reproduced in appendix IV, IRS neither agreed, nor disagreed with our recommendations. However, in its detailed response, IRS outlined actions it plans to take that are consistent with implementing each of our recommendations. As reproduced in appendix V, SSA had no comments on the report. Both IRS and SSA provided technical comments, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending copies of the report to the Commissioner of Internal Revenue and other interested parties. In addition, this report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or MctigueJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink that reads "James R. McTigue, Jr." The signature is written in a cursive style with a large, stylized initial "J" at the end.

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe the inventory and characteristics of information returns related to individual income tax returns; (2) assess the way in which the Internal Revenue Service (IRS) obtains information return data; (3) assess how IRS uses the information collected to detect, prevent, and reduce noncompliance and fraud; and (4) assess the extent to which IRS has a coordinated approach to identifying and responding to risks related to the use of information returns in the tax system.

To describe the inventory and characteristics of information returns related to individual income tax returns, we created a list from several different sources of information returns. We reviewed these three sources to compile a list of 50 information returns that relate to an individual tax return: the *2019 General Instructions for Certain Information Returns*; *Internal Revenue Manual 3.10.8.2.1 Information Returns List*; and Appendix B from *Data Elements of the Information Return Master File (IRMF)*. We confirmed this list with IRS officials to ensure completeness.¹ We reviewed IRS forms and publications to identify current information returns for calendar year 2019 and their characteristics, such as due dates, thresholds, and e-filing requirements.

We found that data on 43 of these forms were included in the IRMF.² Six other information returns are stored in a different database and one is not transcribed. We limited our analysis to the data from the 43 information returns stored in the IRMF because these are the information returns used in IRS's compliance programs. We identified the cumulative volume of paper and electronic information returns processed by the agency. To assess the reliability of the data we performed electronic testing for obvious errors and compared the cumulative total volume of information returns with IRS's 2019 Data Book, which provided data on the 2018 filing season. We also interviewed IRS officials about data reliability processes used to ensure data are complete. We found the data to be sufficiently reliable for analyzing the volume of information returns and analyzing them by date to determine if the returns were processed in a timely manner.

¹We included some information returns that relate to partnerships and corporations, if those information returns include information that could be relevant to returns of individual taxpayers.

²The IRMF is the database where third-party data on taxpayers' income, credit, and deductions from information returns is stored.

To evaluate the ways in which IRS obtains information returns and their data, submitted both electronically and on paper, we reviewed IRS's and Social Security Administration (SSA) processing systems for electronically filed returns and paper filed returns, including the transcription of information from these forms. We reviewed the Filing Information Returns Electronically System that IRS uses to receive electronically filed information returns from third parties. We reviewed the process IRS uses to transcribe paper information returns. We reviewed information on SSA's Business Services Online system that receives Forms W-2, *Wage and Tax Statement*, and the processes involved in collecting paper W-2s, including the transcription of information from these forms. We reviewed process flow charts to understand how the data move within each agency and ultimately to the IRMF.

We used the IRMF data to analyze the weekly processing timeline for electronically submitted information returns for tax year 2018, the most recently complete data at the time of this audit, to determine if information returns are being processed in a timely manner. We graphed the weekly data cycles of when information returns are processed by IRS and compared those data to the deadlines for when information returns and income tax returns are due to the agency. To assess the reliability of the IRMF data, we performed electronic testing of the data for obvious errors and then compared the data with IRS's 2019 *Data Book* and determined the data to be sufficiently reliable to report aggregate processing timelines. We interviewed IRS officials responsible for various aspects of the processing of information returns to gain insight on processing time frames, including delays in processing.

We also interviewed IRS officials related to the system capacity that determines how much data IRS could transcribe. We compared the processes for processing information returns to principles related to using quality information in the *Standards for Internal Control in the Federal Government* and IRS's *Fiscal Year 2018-2022 Strategic Plan*.

To assess how IRS uses information collected to detect, prevent, and reduce noncompliance and fraud, we selected IRS's four automated compliance programs. To identify our selection, we interviewed IRS officials to determine which programs rely on information return data to conduct their matching programs. These programs were the Return Review Program, the Automated Underreporter Program, and the nonfiler programs Automated Substitute for a Return in Collection and Substitute for a Return in Examination. We reviewed lists of information returns used by each of the matching processes to identify and select tax returns for

further review. In addition, we reviewed IRS's time frames for its matching processes and compared these to filing deadlines for tax returns.

We also interviewed officials to determine how IRS reviews its matching efforts and considers making changes to strengthen controls. We reviewed the extent to which IRS has researched or analyzed ways IRS could increase information return reporting to address significant portions of the tax gap, such as with sole proprietors, and better use data to prevent fraud and noncompliance, and reduce burden. We reviewed IRS's most recent tax gap estimates.³ We interviewed officials from IRS's Research, Applied Analytics and Statistics division to obtain their perspective on how information returns relate to the tax gap and if there were any current efforts underway to incorporate more information return reporting for sole proprietors. We reviewed a 2020 proposal by former IRS Commissioner Charles Rossotti and a 2019 National Bureau of Economic Research working paper.⁴ We compared IRS's efforts to the *Standards for Internal Control in the Federal Government* which states that management should use quality information to achieve its entity's objectives and perform monitoring activities.

We identified the various penalties that exist from IRS's *General Instructions* for Certain Information Returns that can be applied to a third-party filer or payer if information returns are late, inaccurate, missing information, or not filed. We interviewed officials in the Office of Servicewide Penalties to determine if IRS can identify characteristics of late information return filers to encourage timely filing. We also reviewed IRS data on penalties for late-filed information returns. We compared IRS's monitoring of penalties associated with information returns to the *Standards for Internal Control in the Federal Government* principle on monitoring systems. We also interviewed IRS officials to determine if they collect data on characteristics of third parties that file information returns late.

To assess the extent to which IRS has a coordinated approach to identifying and responding to risks related to the use of information returns in the tax system, we reviewed IRS documentation on prior

³Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013*, Publication 1415 (September 2019).

⁴Charles O. Rossotti, "Recover \$1.6 Trillion, Modernize Tax Compliance and Assistance," *Tax Notes Federal* (Mar. 2, 2020) 1414-1415, and Natasha Sarin and Lawrence H. Summers, "Shrinking The Tax Gap: Approaches and Revenue Potential," *National Bureau of Economic Research*, NBER Working Paper 26475 (Cambridge, MA: 2019).

research efforts that reviewed the use of information returns at a strategic level. Specifically, we reviewed a two-phased internal report, *Information Reporting in the United States Tax System*, which was issued in 2016. We determined the extent to which IRS implemented its own recommendations and compared these actions to the *Standards for Internal Control in the Federal Government* which discusses identification and analysis of risks, along with response to risk. We reviewed and summarized IRS's prior efforts to modernize the receipt and processing of information returns by reviewing a 2017 system architecture document, Information Returns System Modernization Solution Architecture, and interviewed IRS officials about their plans to modernize. We compared IRS's modernization efforts for information returns processing to the *Standards for Internal Control in the Federal Government* principles on designing activities for information systems to obtain and process information to achieve the agency's objectives. We also compared those efforts to IRS's *Fiscal Year 2018-2022 Strategic Plan*. In addition, we discussed previously reported government and industry best practices for the modernization of federal IT systems.⁵

We assessed the extent to which IRS has reviewed certain characteristics of information returns, service-wide, to increase compliance or decrease burden. For example, we interviewed IRS officials to determine how they reviewed characteristics of information returns and their uses by asking about reviews that considered deadlines for filing, thresholds for filing, potential for consolidation of information returns, and if IRS utilizes data on the number of corrections or amendments submitted to IRS as part of its monitoring procedures. We interviewed IRS officials about how changes to forms are proposed, evaluated, and eventually implemented. We compared those steps to principles in *Standards for Internal Control in the Federal Government* about adapting processes to continually changing risks and IRS's assessment of information returns to IRS's *Fiscal Year 2018-2022 Strategic Plan*.

We also interviewed IRS officials and reviewed documentation to determine the extent to which IRS units work across their unique functions and capabilities to understand and use information returns effectively and efficiently. We considered data and information used to support other findings and assessed the extent to which IRS units collaborate, share information, and coordinate to best use information returns to support overall objectives. We compared the efforts of these

⁵[GAO-19-471](#).

groups to *Standards for Internal Control in the Federal Government* related to organizational structure. We also discuss our prior work on establishing collaborative mechanisms and using leading practices to enhance and sustain collaborative efforts.⁶

We conducted semistructured interviews with members of the following four industry groups and related organizations that represented a cross section of the various third-party members that file information returns to understand these groups' experiences with IRS and its systems:

- National Association of Computerized Tax Processors
- American Bankers Association
- Securities Industry and Financial Markets Association
- American Payroll Association

We conducted this performance audit from May 2019 to December 2020 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶[GAO-12-1022](#) and [GAO-06-15](#).

Appendix II: Listing of Information Returns and Selected Characteristics

Table 1: Individual Information Returns

Form	Title	Paper/E-file to agency deadline	Dollar threshold ^a	Volume tax year 2018	
Forms with data stored in the Information Return Master File (IRMF)					
1	1099-B	Proceeds From Broker and Barter Exchange Transactions	February 28/March 31	All amounts; \$20 for fractional-share broker transactions; \$1 for Barters	2,295,895,871
2	W-2	Wage and Tax Statement	January 31	All amounts; under \$600 if no withholding	262,970,501
3	1099-INT	Interest Income	February 28/March 31	\$10; \$600 in some cases	153,552,204
4	5498	Individual Retirement Account (IRA) Contribution Information	May 31	All amounts	127,549,349
5	1099-MISC	Miscellaneous Income	January 31 for nonemployee compensation; All other 1099-MISC data due February 28/March 31	\$10 for royalties; \$600 for other payments.	102,443,609
6	1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	February 28/March 31	\$10	102,226,570
7	1099-DIV	Dividends and Distributions	February 28/March 31	\$10; \$600 for liquidation	90,328,169
8	1098	Mortgage Interest Statement	February 28/March 31	\$600	77,913,448
9	1099-G	Certain Government Payments	February 28/March 31	\$10 for state or local income tax; \$600 for payments made under the Reemployment Trade Adjustment Assistance Program	72,346,947
10	SSA-1099	Social Security Benefit Statement	No deadline to IRS due to data exchange with agency	All amounts	66,655,601
11	Federal Crimes Enforcement Network (FinCEN) 112	FinCEN Currency Transaction Report	Within 15 calendar days of the reported transaction(s)	\$10,000	28,958,032
12	Schedule K-1 (1065)	Partner's Share of Income, Deductions, Credits, etc.	Generally March 15 ^b	All amounts	28,589,507
13	1098-T	Tuition Statement	February 28/March 31	All amounts	25,267,399
14	1098-E	Student Loan Interest Statement	February 28/March 31	\$600	24,236,982
15	5498-SA	Health Savings Account (HSA), Archer Medical Savings Account (MSA), or Medicare Advantage MSA Information	May 31	All amounts	19,077,943

Appendix II: Listing of Information Returns and Selected Characteristics

Form	Title	Paper/E-file to agency deadline	Dollar threshold^a	Volume tax year 2018	
16	W-2G	Certain Gambling Winnings	February 28/March 31	Generally, \$600 or more; \$1,200 or more from bingo or slot machines; \$1,500 or more from keno; more than \$5,000 for winnings from a poker tournament	14,336,106
17	1099-SA	Distributions From an HSA, Archer MSA, or Medicare Advantage MSA	February 28/March 31	All amounts	13,591,671
18	1099-K	Payment Card and Third-Party Network Transactions	February 28/March 31	All amounts for payment card transactions; \$20,000 and 200 transactions for third party network transactions	9,767,060
19	Schedule K-1 (1120 S)	Shareholder's share of income, deductions, credits, etc.	Generally March 15 ^b	All amounts	8,002,760
20	1042-S	Foreign Person's U.S. Source Income Subject to Withholding	March 15	\$10; See form instructions	6,894,634
21	1099-OID	Original Issue Discount	February 28/March 31	\$10	5,575,167
22	3922	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)	February 28/March 31	All amounts	5,513,666
23	1099-S	Proceeds From Real Estate Transactions	February 28/March 31	\$600	4,366,995
24	1099-C	Cancellation of Debt	February 28/March 31	\$600	4,296,966
25	Schedule K-1 (1041)	Beneficiary's Share of Income, Deductions, Credits, etc.	April 15	All amounts	3,309,360
26	1099-Q	Payments From Qualified Education Programs (Under Sections 529 and 530)	February 28/March 31	All amounts	3,144,519
27	1099-PATR	Taxable Distributions Received From Cooperatives	February 28/March 31	\$10	1,604,470
28	RRB-1099	Payments by the Railroad Retirement Board	No deadline to IRS due to data exchange with agency	All amounts	459,227
29	1099-LTC	Long-Term Care and Accelerated Death Benefits	February 28/March 31	All amounts	424,864
30	FinCEN Form 8300	Report of cash payments over \$10,000 received in a Trade or Business	Within 15 days after the date the cash was received	\$10,000	393,022
31	5498-ESA	Coverdell Education Savings Account Contribution Information	May 31	All amounts	278,650
32	1099-A	Acquisition or Abandonment of Secured Property	February 28/March 31	All amounts	277,397
33	3921	Exercise of an Incentive Stock Option Under Section 422(b)	February 28/March 31	All amounts	213,161

Appendix II: Listing of Information Returns and Selected Characteristics

Form	Title	Paper/E-file to agency deadline	Dollar threshold ^a	Volume tax year 2018
34	1098-C	Contributions of Motor Vehicles, Boats, and Airplanes	February 28/March 31	\$500 116,374
35	8805	Foreign Partner's Information Statement of Section 1446 Withholding Tax	Generally March 15 ^b	All amounts 98,159
36	8288-A	Statement of Withholding on Disposition by Foreign Persons of U.S. Real Property Interests	20th day after the transfer	Variable withholding amounts; see form instructions 27,758
37	1098-Q	Qualifying Longevity Annuity Contract Information	February 28/March 31	All amounts 11,489
38	1099-H	Health Coverage Tax Credit Advance Payments	March 31	All amounts 2,625
39	1097-BTC	Bond Tax Credit	February 28/March 31	\$10 1,321
40	1099-CAP	Changes in Corporate Control and Capital Structure	February 28/March 31	\$1,000 474
41	1099-SB	Seller's Investment in Life Insurance Contract	February 28/March 31	All amounts 23
42	1098-F	Fine, Penalties, and Other Amounts	January 31	All amounts ^c
43	1099-LS	Reportable Life Insurance Sale	February 28/March 31	All amounts ^c
Forms not in IRMF				
44	1095-A	Health Insurance Marketplace Statement	January 31	All amounts ^d
45	1095-B	Health Coverage	February 28/March 31	^e ^d
46	1095-C	Employer-Provided Health Insurance Offer and Coverage	February 28/March 31	All Amounts ^d
47	1099-QA	Distributions From Achieving a Better Life Experience (ABLE) Accounts	February 28	All amounts ^d
48	5498-QA	ABLE Account Contribution Information	May 31	All amounts ^d
49	1098-MA	Mortgage Assistance Payments	February 28	All amounts ^f
50	8966	Foreign Account Tax Compliance Act Report	March 31	All amounts ^g

Source: GAO analysis of Internal Revenue Service (IRS) forms and instructions. | GAO-21-102

^aDollar values generally imply the listed amount or higher.

^bIf the partnership operates on a fiscal year for tax purposes then the due date would generally be the 15th day of the third month.

^cFor tax year 2018, IRS had not yet began to collect data on these forms because they are new forms that emerged from the Public Law 115-97, according to IRS officials.

^dData for these forms are maintained in the Affordable Care Act Information Returns system.

^eDollar thresholds are not applicable because this form relates to health care coverage.

^fData from this form are collected and stored in a physical location.

^gData from these forms are maintained in the International Compliance Management Model.

Appendix III: Information Returns Electronic Filing Deadlines

Most information returns have a fixed deadline that follows what is shown in table 2.¹ However, there are some information returns that have a fluctuating due date of 15 days within the date of transaction, such as Form Federal Crimes Enforcement Network (FinCEN) FC8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*, and Form FinCEN 112, *FinCEN Currency Transaction Report*, which are not shown in the table. Another example is Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interest*, which has a variable due date of the 20th day after the transfer of property. Other forms' data are received through a data exchange, such as RRB-1099, *Railroad Retirement Board*, and SSA-1099, *Social Security Benefit Statement*. Only information returns found in the information Return Master File are included in table 2.

Table 2: Electronic Information Returns with Fixed Deadlines for Submission to the Internal Revenue Service or Social Security Administration

Deadline	January 31	March 15	March 31	April 15	May 31	
Forms	W-2	1042-S	1099-B	1099-S	K-1 1041	5498
	1099-MISC ^a	8805 ^b	1099-INT	1099-C		5498-SA
	1098-F	K-1 1065 ^b	1099-MISC ^a	1099-Q		5498-ESA
		K-1 1120 S ^b	1099-R	1099-PATR		
			1099-DIV	1099-LTC		
			1098	1099-A		
			1099-G	3921		
			1098-T	1098-C		
			1098-E	1098-Q		
			W-2G	1099-H		
			1099-SA	1097-BTC		
			1099-K	1099-CAP		
			1099-OID	1099-SB		
			3922	1099-LS		

Source: GAO analysis of IRS information return forms. | GAO-21-102

^aOnly those forms with nonemployee compensation are due on January 31; all other amounts are due on March 31.

^bIf the partnership operates on a fiscal year for tax purposes then the due date would generally be the 15th day of the third month.

¹Generally, if any due date falls on a weekend or holiday, the form is due on the next business day.

Appendix IV: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

November 19, 2020

Mr. James R. McTigue, Jr.
Director, Tax Policy and Administration Strategic Issues Team
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McTigue:

We reviewed the draft report entitled, *Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap* (GAO-21-102, JC #103558), and appreciate the opportunity to provide comments.

Information reporting requirements are established by the Internal Revenue Code and associated regulations. The IRS receives information from third parties about a taxpayer's transactional events and, equally important, the taxpayer knows the government has received the information. Information reporting to the IRS by third parties is critical for ensuring voluntary compliance. There are more than fifty unique information returns, and the Service processes over 3.5 billion information returns annually.

As your report points out, the IRS has had continued success with compliance programs that use information returns to help identify and detect fraud and noncompliance, as well as the failure to file tax returns. For instance, between January 2015 and September 2019, the Return Review Program (RRP) protected over \$10.98 billion of revenue in confirmed fraud. Additionally, in 2019, the Automated Underreporter Program (AUR) closed approximately 2 million cases with an associated dollar value of approximately \$6.7 billion and the Collection Nonfiler Program and the Examination Nonfiler Program identified cases that resulted in closures with an associated dollar value of \$6.6 and \$1.2 billion, respectively.

Under Taxpayer First Act Section 2102, the IRS is developing an online filing portal for Forms 1099. This system will allow people to file Forms 1099 electronically, generate printable versions of the forms to distribute to recipients, and maintain a record of their filings. There is a Servicewide effort to ensure the newly designed system meets taxpayers' needs. We have engaged external stakeholders for feedback including the Internal Revenue Service Advisory Council, the Electronic Tax Administration Advisory Committee and the Reporting Agents Forum. We also began soliciting feedback on proposed user interactions with the portal through user interviews with self-employed individuals, small businesses and tax practitioners. We are analyzing the feedback and

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making modifications to requirements to enhance the user experience. We plan to make the portal available to the public in 2023.

As your report acknowledges, the Service is constrained by its legacy information technology systems, the timing of certain taxable events (e.g. contributions to individual retirement accounts may be made until April 15 after the close of the tax year), and the lack of legal authority to impact many aspects of information reporting (e.g. to change filing deadlines, filing threshold or to require information reporting for certain types of income such as sole proprietor income). However, despite these challenges, the Service has taken significant action to improve its use of information returns. We established a new 1099-Misc Non-Filers Unit and a new Backup Withholding Unit; reengineered the Examination Campus information returns process to eliminate delays in processing correspondence related to information returns; made tax forum presentations on information returns and backup withholding; and are currently implementing a Servicewide requirement that taxpayers filing Forms 941, 943, 944 and 945 use the same EIN on any associated information returns.

We appreciate your continued support and input as we work to improve the system of information reporting. We are in the process of identifying the specific IRS actions to be taken to effectively address your recommendations. Our high-level response to the recommendations is attached and additional details will be provided with the 180-Day Letter.

If you have questions, please contact either of us or a member of your staff may contact Thomas Brandt, Chief Risk Officer at 202-317-6988.

Sincerely,

Sincerely,

Sunita B. Lough

Digitally signed by Sunita B. Lough
Date: 2020.11.19 14:27:38 -05'00'

Sunita Lough
Deputy Commissioner for
Services and Enforcement

Jeffrey J. Tribiano
Deputy Commissioner for
Operations Support

Enclosure

Appendix IV: Comments from the Internal Revenue Service

ENCLOSURE

Recommendation 1: The Commissioner of Internal Revenue should expedite final planning efforts and implement the expansion of IRS's capacity to allow for additional transcription of K-1 Schedules.

Comment: The IRS will continue the effort to plan for the expansion of IRS's capacity to allow for additional transcription of Schedules K-1 for partnerships and S-corporations. IRS ability to implement will be based on requirements, funding, resource availability and agency prioritization.

Responsible Organization(s): W&I and IT

Recommendation 2: The Commissioner of Internal Revenue should research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietor's income and expenses.

Comment: The IRS will further research and evaluate the tax administration benefits and taxpayer burdens of expanding third-party information reporting for sole proprietors' income and expenses. However, proposing legislative changes is within the purview of the Department of Treasury and not within the control of the IRS. Upon conclusion of its research and evaluation, IRS will prepare a briefing document for the Department of Treasury and offer its support in developing any recommendations that the Department of Treasury chooses to pursue.

Responsible Organization(s): RAAS and SB/SE

Recommendation 3: The Commissioner of Internal Revenue should evaluate characteristics of late information return filers to determine the effect of penalty assessment for late and incorrect information returns on third party information reporting compliance.

Comment: The IRS will conduct a research study to determine the effects of asserting IRC section 6721 penalties on filers. The IRS will look at the behavioral impact of asserting the penalty, including trend analysis such as repeat late filers, reasonable cause analysis and reasons why filers may choose to file late. The goal of the study will be to utilize the data to improve policy and determine if there are any gaps to encourage voluntary compliance.

Responsible Organization: SB/SE

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Recommendation 4: The Commissioner of Internal Revenue should reassess the risks described and recommendations made in its internal 2016 report related to information returns and identify potential new risks and recommendations as a result of changes to the tax administration environment.

Comment: The IRS already has implemented many recommendations and addressed many risks identified in the 2016 report. However, the IRS will reassess the remaining risks in that report and create a working group to assist in identifying new opportunities to leverage our use of information returns.

Responsible Organization(s): SB/SE

Recommendation 5: The Commissioner of Internal Revenue should prioritize and develop a timeline for implementing the remaining recommendations from its internal 2016 report related to information returns, along with any newly identified recommendations.

Comment: We will make a determination based on the results of the reassessment conducted in response to Recommendation 4.

Responsible Organization(s): SB/SE

Recommendation 6: The Commissioner of Internal Revenue should revise its 2017 Information Returns Systems Modernization plans by evaluating changes in the environment, assessing risks to systems and programs; and detailing how the agency plans to address issues in the intake, processing, and use of information returns across business units.

Comment: The IRS stopped work in 2017 on the Information Returns Systems Modernization (IRSM) plans. As part of the implementation of Taxpayer First Act section 2102, we will implement a 1099 internet platform that will lay the foundation for the overall Information Return (IR) Modernization plans (see Recommendation 7).

Responsible Organization(s): IT

Recommendation 7: The Commissioner of Internal Revenue should submit a revised information returns system modernization plan to Congress that describes how it integrates with IRS's broader IT modernization efforts; the resources needed to achieve effective and timely modernization; and the proposed schedule and scope of the effort.

Appendix IV: Comments from the Internal Revenue Service

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Comment: The IRS will submit an Information Returns Systems Modernization plan to Congress that leverages the implementation of Taxpayer First Act section 2012 (1099 Internet Platform) as the foundation for IR modernization.

Responsible Organization(s): IT

Recommendation 8: The Commissioner of Internal Revenue should develop a plan and schedule to systematically evaluate the suite of information returns with a goal of improving compliance and reducing fraud and reporting burden. The evaluation should consider factors such as filing requirement thresholds, deadlines for filing, corrections and amendment data, and the potential to consolidate similar forms and include recommendations for needed changes.

Comment: The type of evaluation or study that may be appropriate for this recommendation is still being considered. We will provide additional details with the 180-Day letter.

Responsible Organization(s): RAAS

Recommendation 9: The Commissioner of Internal Revenue should develop a collaborative mechanism to coordinate among the internal stakeholders that are responsible for the intake, processing, and use of information returns, as well as to improve outreach to external stakeholders in relation to information returns.

Comment: The IRS is currently preparing a new organizational structure and design, as required by the Taxpayer First Act, that will provide for collaboration and coordination on the delivery of Servicewide programs, such as those involving information returns. In the interim, the DCSE will facilitate coordination among internal stakeholders.

Responsible Organization(s): DCSE

Appendix V: Comments from the Social Security Administration



SOCIAL SECURITY
Office of the Commissioner

November 12, 2020

Mr. James R. McTigue, Jr.
Director, Tax Issues, Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Director McTigue,

Thank you for the opportunity to review the draft report, "TAX ADMINISTRATION: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap" (GAO-21-102). We have no comments.

If you have any questions, please contact me at (410) 965-9704. Your staff may contact Trae Sommer, Director of the Audit Liaison Staff, at (410) 965-9102.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie Hall".

Stephanie Hall
Chief of Staff

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact:

James R. McTigue, Jr., (202) 512- 9110 or Mctiguej@gao.gov

Staff**Acknowledgments:**

In addition to the contact named above, Neil Pinney (Assistant Director), Robyn Trotter (Analyst-in-Charge), Anna Cielinski, Michele Fejfar, Steven Flint, Emilio Fonseca, Robert Gebhart, Robert Robinson, Andrew J. Stephens, and Sarah Wilson made key contributions to this report.

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