

United States General Accounting Office

GA

Report to the Chairman, Subcommittee
on Oversight of Government
Management, Restructuring, and the
District of Columbia, Committee on
Governmental Affairs, U.S. Senate

November 1998

PAPERWORK REDUCTION ACT

Implementation at IRS



General Government Division

B-281169

November 16, 1998

The Honorable Sam Brownback
Chairman, Subcommittee on Oversight of Government
Management, Restructuring, and the District of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

The Paperwork Reduction Act (PRA) was originally enacted in 1980, but the act was amended and recodified in 1995. One of the purposes of both the 1980 and the 1995 acts was to minimize the paperwork burden for individuals, small businesses, and others resulting from the collection of information by or for the federal government. However, instead of decreasing, federal agencies' overall annual paperwork burden estimates have risen from about 1.5 billion hours in 1980 to more than 7 billion hours in 1998. In each year since 1989, IRS' paperwork estimate has accounted for nearly 80 percent of the governmentwide estimate.

This report responds to your request that we provide you with information on how the PRA has been implemented at the Internal Revenue Service (IRS). Our specific objectives were to describe (1) the extent to which IRS' paperwork burden estimates contribute to the governmentwide estimate, and the extent to which those estimates have changed over time; (2) factors that IRS believes affect its estimates; and (3) IRS concerns about its burden-estimation methodology.

Results in Brief

Because IRS constitutes the preponderance of the governmentwide paperwork burden-hour estimate, changes in IRS' burden-hour estimate have a highly significant—and even determinative—effect on the governmentwide total. Non-IRS departments and agencies estimated that, in the aggregate, they had come close to the 25-percent burden-reduction goal envisioned in the PRA of 1995 by the end of fiscal year 1998. However, despite several initiatives by the agency to reduce its paperwork burden, IRS' burden-hour estimate increased by about 7.5 percent between fiscal years 1995 and 1998, resulting in an increase in the governmentwide estimate of the paperwork burden imposed on nonfederal entities. IRS said that most of the increase in its burden-hour estimates was due to factors outside of its control, such as changes in economic activity and new legislative requirements. IRS is currently attempting to change the way it measures paperwork burden to correct what it believes are

significant weaknesses in its current methodology, including reliance on out-of-date data and questionable technical assumptions.

Background

Information collection is one way in which regulatory agencies carry out their missions, such as collecting taxes, keeping workplaces safe and the banking system secure, and protecting the environment. Without such information, for example, IRS would not know the amount of tax owed by taxpayers. However, agencies are obligated under the PRA to keep the amount of paperwork as low as possible, while still fulfilling their missions.

Paperwork burden is defined in the PRA as including the time, effort, or financial resources expended to generate, maintain, or provide information to or for a federal agency. Paperwork burden is commonly measured in terms of “burden hours,” reflecting the amount of time agencies estimate it will take nonfederal entities to comply with their information collection requirements.

The PRA of 1980 established the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB) to provide central agency leadership and oversight of governmentwide efforts to reduce unnecessary paperwork burden and improve the management of information resources. The PRA of 1995 reaffirmed the principles of the original act, expanded OIRA’s leadership role, and gave new responsibilities to executive branch agencies.¹ Like the original statute, the 1995 act requires agencies to justify any collection of information from the public by establishing the need and intended use of the information, estimating the burden that the collection will impose on the respondents, and showing that the collection is the least burdensome way to gather the information.

The PRA of 1995 took effect on October 1, 1995, and required OIRA to set annual governmentwide goals for the reduction of information collection burdens by at least 10 percent in fiscal years 1996 and 1997 and by at least 5 percent in each of the succeeding 4 fiscal years. The act also required OIRA to establish annual agency burden-reduction goals that “represent the maximum practicable opportunity in each agency.” OIRA establishes these agency goals in an annual Information Collection Budget (ICB) that also describes each agency’s accomplishments during the preceding fiscal

¹See [Regulatory Management: Implementation of Selected OMB Responsibilities Under the Paperwork Reduction Act](#) (GAO/GGD-98-120, July 9, 1998) for a discussion of how OIRA has carried out its responsibilities.

year and planned initiatives for the current fiscal year to minimize paperwork burden. In January 1997, OMB instructed executive departments and agencies to prepare and implement ICBs and information streamlining plans that would include “goals and timetables to achieve, by the end of [fiscal year] 1998, a cumulative burden reduction of 25 percent from their [fiscal year] 1995 year-end level, consistent with the governmentwide burden-reduction goals in the Paperwork Reduction Act of 1995.”

It is important to recognize that the basic data used to gauge paperwork burden have significant limitations. Estimating the amount of time it will take for an individual or business to collect and provide information or how many individuals and businesses an information collection will affect is not a simple matter. It is often unclear to what degree agency burden-hour estimates reflect real burden and difficult to determine the factors that cause changes to the estimates. Therefore, users of those estimates should interpret them with caution. Nevertheless, there are no better indicators of paperwork burden available. Burden-hour estimates can be useful as long as their limitations are borne in mind.

Scope and Methodology

To describe the contribution of IRS’ burden-hour estimates to the governmentwide estimate and changes in those estimates over time, we reviewed our previous reports and testimonies on the PRA and obtained additional information from OIRA’s ICB for fiscal year 1998² and from the Department of the Treasury’s paperwork officer. We also obtained information from the ICB on the factors that IRS believes affect its paperwork burden totals. We contacted IRS officials to identify the agency’s concerns about its burden estimation methodology and to obtain information on recent IRS efforts to improve the measurement of its paperwork burden. We did not assess the accuracy of any of the burden-hour estimates included in this report.

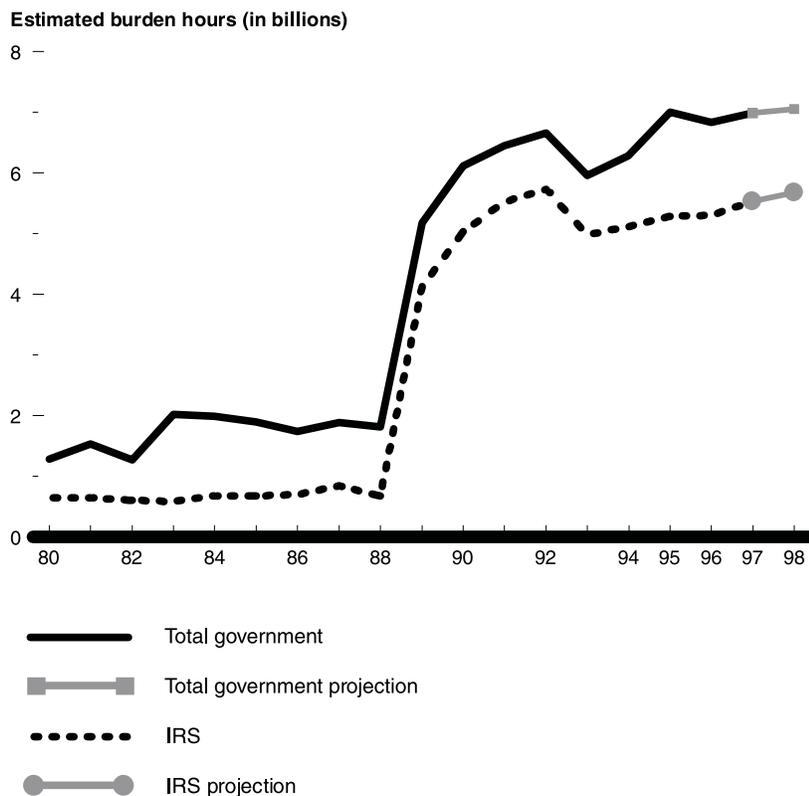
At the conclusion of our review, we obtained comments on a draft of this report from IRS’ Chief Operations Officer, whose comments are reflected at the end of this report. We conducted our review in August and September 1998 in accordance with generally accepted government auditing standards.

²Office of Management and Budget, Office of Information and Regulatory Affairs, Information Collection Budget of the United States Government, July 20, 1998.

IRS' Burden-Hour Estimates Have Increased

As figure 1 illustrates, because IRS has accounted for nearly 80 percent of the governmentwide paperwork burden-hour estimate in each of the past 10 years, changes in IRS' paperwork burden estimates have had a substantial impact on the governmentwide trends. The near tripling of the governmentwide burden-hour estimate during fiscal year 1989 was primarily caused by IRS' adoption of a new methodology for computing burden, which increased its paperwork estimate by about 3.4 billion hours. However, this increase did not signify an actual increase in burden, only an increase in the estimate of that burden. The actual burden imposed on the public was unaffected by the changes to the estimation process.

Figure 1: Changes in IRS and Governmentwide Burden-Hour Estimates Between Fiscal Years 1980 and 1998

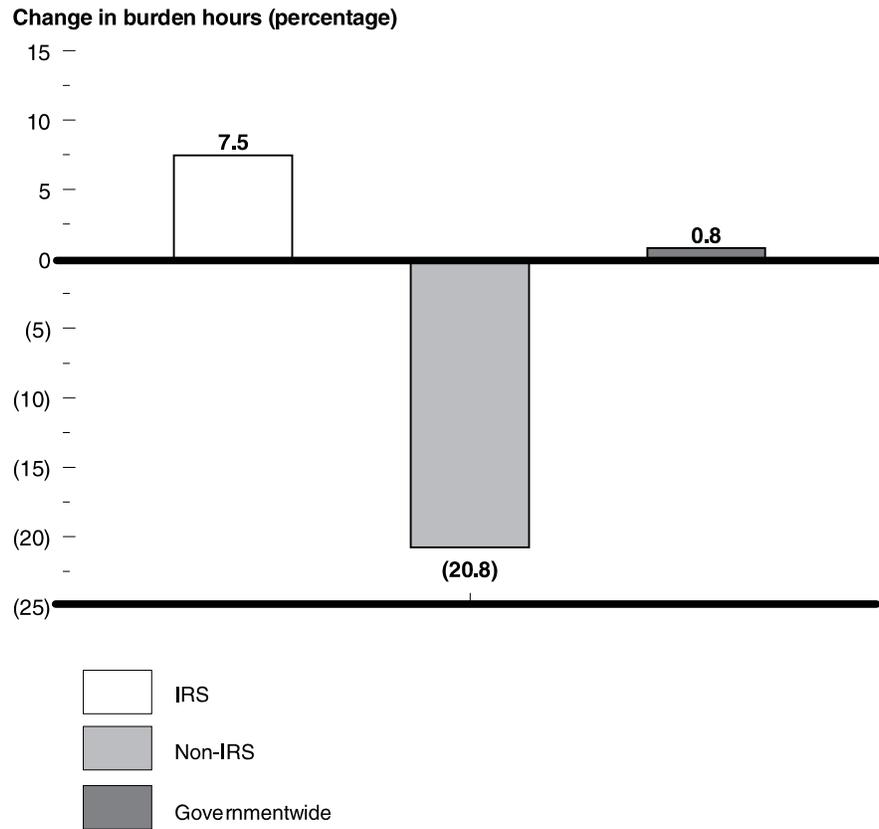


Note: Data are estimated as of September 30 each year. Data for 1998 are projections reported in the July 1998 ICB.

Source: OMB and Department of the Treasury.

When the PRA of 1995 took effect on October 1, 1995, IRS' estimated burden-hour total was slightly less than 5.3 billion hours. Achievement of a 25-percent reduction in that baseline in accordance with the governmentwide goals envisioned in the PRA would have put IRS' total at just under 4 billion burden hours by September 30, 1998. However, when the ICB was published in July 1998, IRS projected that its burden-hour total would be nearly 5.7 billion hours by the end of fiscal year 1998—about a 7.5 percent increase from IRS' fiscal year 1995 baseline. In contrast, agencies outside of IRS have, in the aggregate, reported that they reduced their paperwork burden by nearly 21 percent since September 30, 1995. More than half of the departments and agencies identified in the ICB reduced their burden-hour estimates during this period, some by more than 40 percent. However, because IRS constitutes nearly 80 percent of the governmentwide burden-hour estimate, IRS' 7.5 percent burden-hour increase has more than offset the reductions reported by the other agencies. As a result, the governmentwide burden-hour estimate has increased by about 1 percent since the PRA took effect at the end of fiscal year 1995. (See fig. 2.)

Figure 2: Percentage Changes in IRS, Non-IRS, and Governmentwide Burden-Hour Estimates Between Fiscal Years 1995 and 1998



Note: The governmentwide burden-reduction goal for this 3-year period was 25 percent.
 Source: OMB and Department of the Treasury.

Economic Activity and New Legislation Reportedly Affect Burden

The July 1998 ICB stated that initiatives by IRS and other parts of the Department of the Treasury had eliminated more than 100 million hours of paperwork burden between fiscal years 1995 and 1998. For example, the report stated that IRS had done the following:

- Reduced the burden associated with IRS Form 1040EZ by 3.7 million hours for tax year 1996 by encouraging taxpayers to use the 1040 TeleFile, IRS' telephone-based filing system.
- Expanded the use of the TeleFile program for businesses, thereby reducing the burden associated with IRS Form 941 (Employer's Quarterly Federal Tax Return) by an estimated 14 million hours during fiscal year 1998.
- Raised the threshold for which businesses had to maintain receipts to substantiate expenses for travel, entertainment, gifts, and listed property,

reducing the burden by an estimated 12.5 million hours during fiscal year 1997.

- Required those who file 250 or more of IRS Form 1042-S (Annual Withholding Tax Return for U.S. Source Income of Foreign Withholding) to do so on magnetic media, producing an estimated burden reduction of 21.1 million hours during fiscal year 1997.

The ICB also said that IRS has several long-term initiatives to reduce burden through the use of information technology and reengineered processes. For example, the report stated that the agency's Simplified Tax and Wage Reporting System streamlining initiative has established a number of prototypes to demonstrate the feasibility of single-point federal and state filing, electronic filing, streamlined customer service, and simplified legal requirements for tax and wage reporting by employers.

Despite these completed and long-term efforts, IRS' overall burden estimate increased by about 400 million hours between fiscal years 1995 and 1998. The July 1998 ICB indicated that this increase in the estimate was largely because of increased economic activity and new legislation that required new information collections. For example, the report said that an increase in the number of filings of the IRS U.S. Partnership Return of Income alone resulted in an increase of more than 225 million burden hours. It also said IRS anticipated that increased usage of the U.S. Tax Return for Estates and Trusts would add more than 77 million burden hours.

IRS and other agencies have contended for years that the bulk of their paperwork burden is directly attributable to the statutes that determine their mission. As a result, they say it is difficult or even impossible to substantially reduce paperwork burden and still comply with existing statutory requirements.³ Also, the ICBs for the past several years have reported that agencies' burden-hour estimates have increased because of new statutory requirements. The July 1998 ICB contains several examples of recent statutes that it says increased IRS's information collection activities. For example:

- The ICB said that the Taxpayer Relief Act of 1997 (P.L. 105-34) significantly increased the burden imposed on individual and business taxpayers, largely because of new provisions for the calculation and

³See Paperwork Reduction: Burden Reduction Goal Unlikely To Be Met (GAO/T-GGD/RCED-96-186, June 5, 1996) and Paperwork Reduction: Governmentwide Goals Unlikely To Be Met (GAO/T-GGD-97-114, June 4, 1997).

reporting of taxes owed on capital gains that required a major expansion of Schedule D for the Form 1040 (U.S. Income Tax Return). The report said the act required revisions to a total of 230 existing forms and their instructions, and that changes in just 5 of the forms would result in an increase of 60 million burden hours.

- The report said that IRS had to create a new form to implement a provision in the Disaster Assistance Act of 1988 to allow voluntary withholding of income tax from various federal payments, and that this new form imposes a burden of 9.7 million hours.
- The ICB said that the Small Business Job Protection Act of 1996 required IRS to add new tax code references and lines to Form 1065, "U.S. Partnership Return of Income," which added 4.3 million burden hours.

IRS officials said that the agency would not be able to reduce its paperwork burden if new statutes requiring information collections continue to be enacted and unless changes are made to the substantive requirements in the current tax code. Relatedly, business officials and tax experts have also told us that the complexity of the tax code and the frequent changes that are made to the code are the driving forces behind federal tax compliance burden in general, not just paperwork burden.⁴

Neither OIRA nor we have assessed the extent to which IRS' paperwork burden is directly attributable to statutory requirements and, therefore, is beyond the agency's control. If IRS' paperwork requirements truly are statutorily mandated, IRS may not be able to reduce its paperwork burden by the amounts envisioned in the PRA of 1995 without changes to the legislation underlying those requirements. However, even though a statute may require IRS to take certain actions, the agency may have discretion regarding whether paperwork requirements need to be imposed and, if so, the manner or frequency with which the information is collected.

IRS' Efforts to Measure Paperwork Burden

IRS currently measures its paperwork burden using a formula partly based on the number of lines on the forms to be completed. That methodology was first put in place in 1988, which resulted in the previously mentioned 3.4 million-hour increase in IRS' paperwork burden estimate during fiscal year 1989.

Although IRS said it believes this methodology significantly improved its ability to measure taxpayer burden, the agency now has determined that the methodology has a number of significant weaknesses. For example,

⁴Tax System Burden: Tax Compliance Burden Faced by Business Taxpayers (GAO/T-GGD-95-42, Dec. 9, 1994).

the methodology is based on 1984 survey data that may no longer be relevant because of changes in tax laws and increased use of computers and tax preparation software. Also, the methodology does not reflect reductions in paperwork burden attributable to improvements in IRS' customer service activities. Finally, IRS believes the methodology relies on questionable technical assumptions (e.g., that adding lines to a form will always increase burden).

Therefore, IRS is currently reexamining its taxpayer burden measures. It has drafted a statement of work soliciting contractor support to develop an improved methodological approach for measuring taxpayer burden. However, this reexamination effort will not be easy. In 1995, IRS issued a similar request for proposals seeking contractors to develop an approach for measuring taxpayer burden; but, according to IRS, no contractors were interested in doing the work. Earlier this year, we reported on the challenges IRS faces in developing and implementing performance measures to gauge its efforts to reduce taxpayer burden through improved customer service.⁵ One such challenge that we identified is developing a reliable measure of taxpayer burden, including the portion that IRS can influence.

As a result of IRS' reexamination of its taxpayer burden measures, it is unclear whether the agency's burden-hour estimate will go up, go down, or remain the same. Because IRS is not sure whether its burden-hour estimate is accurate and because IRS' estimate represents nearly 80 percent of the governmentwide paperwork burden estimate, it is also unclear whether the governmentwide burden-hour estimate is accurate.

Agency Comments

We obtained written agency comments on a draft of this report on October 15, 1998, from IRS' Chief Operations Officer. He said the report accurately reflects how IRS has implemented the PRA.

We are sending copies of this report to the Ranking Minority Member of the Senate Committee on Governmental Affairs' Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia; other interested committees; the IRS Commissioner; and the Administrator of OIRA. We will also make copies available to others on request.

⁵Tax Administration: IRS Faces Challenges in Measuring Customer Service (GAO/GGD-98-59, Feb. 23, 1998).

Major contributors to this letter were Curtis Copeland, Assistant Director, and Elizabeth Powell, Evaluator-in-Charge. Please contact me at (202) 512-8676 if you have any questions.

Sincerely yours,

A handwritten signature in black ink that reads "L. Nye Stevens". The signature is written in a cursive style with a long horizontal stroke at the end of the name.

L. Nye Stevens
Director
Federal Management and
Workforce Issues

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