United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

December 1994

TAX ADMINISTRATION

IRS Notices Can Be Improved

GAO/GGD-95-6

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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December 7, 1994

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Each year the Internal Revenue Service (IRS) sends millions of notices to taxpayers concerning the status of their tax accounts. Notices are often the first form of IRS contact that taxpayers receive to alert them to a potential tax problem. In 1993, IRS sent more than 60 million such notices affecting about $190 billion of taxpayer transactions.

This report responds to your continuing interest in IRS' ability to provide taxpayers with notices that are understandable. Specifically, you asked us to review a group of commonly used notices for clarity and offer suggestions for improvement where appropriate, as we did on a more limited basis in our 1993 report.[1] You also requested that we examine IRS' processes for ensuring that the notices IRS issues convey essential information to taxpayers as clearly as possible.

Results in Brief

Using a checklist of items that should be present for purposes of clarity, we identified clarity concerns with 31 of the 47 most commonly used notices we reviewed. We selected high-volume notices that were frequently sent to individual and business taxpayers. Our concerns addressed both the content and appearance of the notice as well as the sufficiency of the instructions given to taxpayers to resolve their problems. In addition, we believe taxpayers with multiple or inter-related tax problems would be better served by receiving a single, comprehensive notice summarizing the status of their accounts, rather than the stream of multiple notices that IRS now sends to them. This would provide taxpayers with a clearer picture of their tax account status and minimize the confusion that might occur when taxpayers start receiving numerous pieces of IRS correspondence. Through a Tax Systems Modernization (TSM) initiative that is exploring ways to issue single notices addressing multiple tax issues, IRS hopes to be able to deliver comprehensive tax account notices to taxpayers.

[1]Tax Administration: Selected IRS Forms, Publications, and Notices Could be Improved (GAO/GGD-93-72, Apr. 30, 1993).

The Chief of IRS' Notice Clarity Unit (NCU), the national office unit charged with reviewing notices for clarity, and other pertinent IRS officials agreed to consider most of the suggestions we made to improve clarity of the 31 notices. Our suggestions and IRS' responses related to specific notices are contained in appendix III.

Despite IRS' process and commitment of resources to improve notice clarity, in some cases, taxpayers continued to receive notices that the NCU said were problematic. Although NCU may have reviewed the notice and recommended text changes, IRS continued to issue the inferior version, since the revisions were not programmed in a timely fashion. For example, one balance due notice revised by NCU in May of 1991 was not programmed for use until January 1993. In calendar year 1992, this notice was issued to more than 1.2 million taxpayers. According to NCU officials, implementation of many revisions has been delayed for months, while others have never been implemented.

Many of the recommended notice revisions were delayed or never made due to IRS' limited computer programming resources. The IRS computer system, which currently generates master file notices regarding account status, is antiquated and requires labor-intensive reprogramming to make the simplest of text changes. Further complicating this situation are higher priority programming demands, such as those implementing tax law changes and essential preparation for processing tax returns during the next filing season. Consequently, even revisions with strong organizational support may be significantly delayed.

Improvements may be gained from the transfer of notices to Correspondex, a more modern computer system that produces other IRS correspondence. Correspondex has many enhancements that are not found on the computer system producing master file notices. For example, the text of these notices can be changed more readily, and text can also be viewed on a computer screen. The production of a select group of collection notices is currently being tested on this system. These collection notices do not run on the same computer system as the master file notices that are frequently issued to taxpayers. While the system supporting these collection notices is more compatible with Correspondex than the system generating master file notices, Correspondex and NCU officials are both optimistic about the possibility of ultimately producing master file notices on the Correspondex system. IRS has also initiated several other efforts that may improve the quality of notices to taxpayers.

Background

In recent years IRS and we have reported problems with IRS' written communications to taxpayers. Instances of IRS correspondence being incorrect, incomplete, unclear, and nonresponsive have been documented by GAO and IRS. The need to improve the formats of notices has also been identified. In a recent annual report,[2] IRS acknowledged that taxpayers too often find its notices confusing. Describing its written communications with taxpayers as a "seemingly intractable problem," IRS made a commitment to improve the clarity of these documents. Its current Business Master Plan, a strategic planning document, establishes measurable clarity improvements in notices as one of its goals.

IRS master file notices may request payment, seek information, inform taxpayers of account activity, or provide instructions related to account settlement. Many notices concern discrepancies identified during the processing of returns or result from collection efforts, examination of returns, and related audit activities.

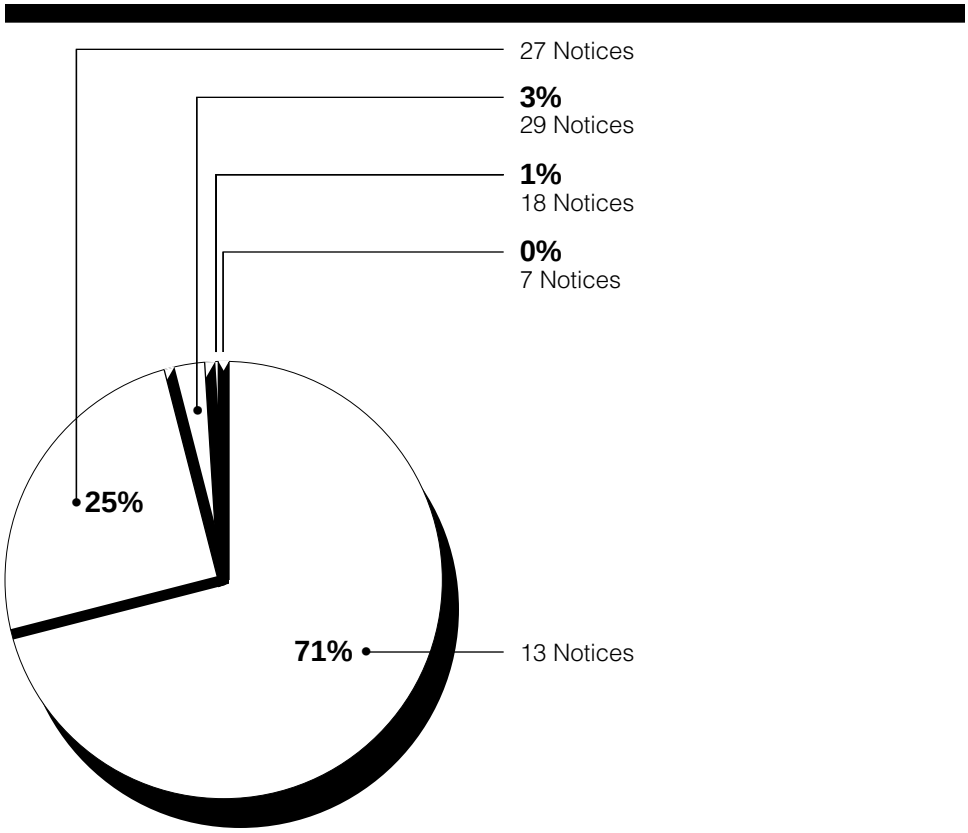
Under IRS procedures, notices are comprised of standard paragraphs written by staff in IRS functional units such as Returns Processing, Collections, Examination, and IRS field offices. NCU reviews notices to ensure that the text is clear and understandable.

IRS' master files contain specific account information for each taxpayer and IRS relies on these data to generate notices. The Individual Master File (IMF) and the Business Master File (BMF) contain histories of transactions maintained by IRS, including returns submitted by taxpayers, information returns submitted by third parties, and payments made. IMF and BMF notices may be generated, for example, when a discrepancy occurs between information reported on a taxpayer's return and data stored in the master file. At that point, the notice is automatically printed and sent to the taxpayer. Appendix I illustrates a flowchart of a common situation precipitating the issuance of a notice—a mathematical error made by the taxpayer. The flowchart shows the steps involved in processing the notice.

IRS has 94 different IMF-generated notices that it sends to taxpayers. However, as figure 1 shows, in 1993 13 IMF notices comprised approximately 71 percent of all IMF-generated notices sent that year.

[2]Internal Revenue Service, Annual Report 1990.

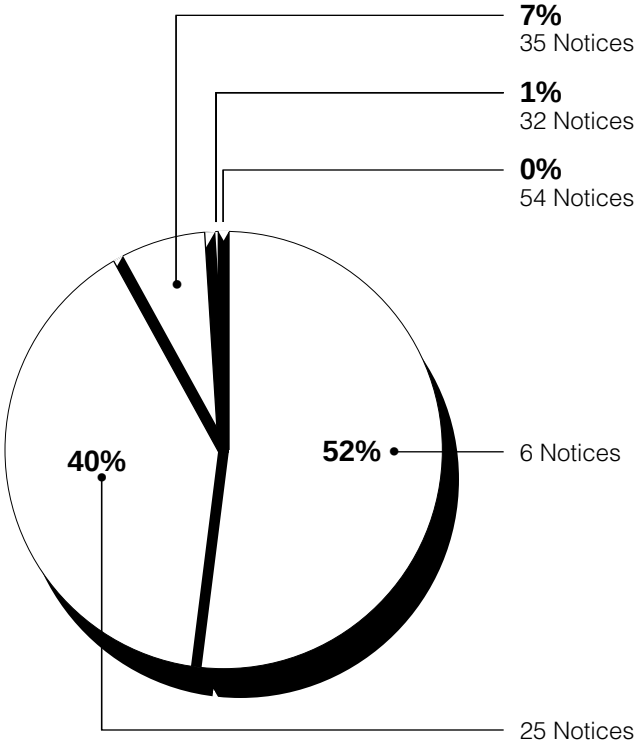
Figure 1: Percentage of IMF-Generated Notices IRS Sent in 1993



Source: IRS data.

Figure 2 shows the distribution of the 152 different BMF-generated notices during 1993. A total of 31 BMF notices accounted for 92 percent of all BMF-generated notices sent to business taxpayers.

Figure 2: Percentage of BMF-Generated Notices IRS Sent in 1993



Source: IRS Data

Because a notice's content and format may affect the taxpayer's ability and willingness to comply, it is important that notices be clear, informative, and comprehensive. If a notice is unclear, a taxpayer may become less willing to respond out of frustration with IRS. IRS recognized the need to improve the quality of its written communication to taxpayers and established NCU in 1990 to initiate clarity reviews. NCU was tasked with evaluating notice revisions proposed by functional units as well as examining notices suspected of confusing taxpayers. This unit, comprised of approximately eight professional staff, analyzes notices for clarity, readability, and logical material presentation. According to IRS officials, functional units are required to obtain NCU's approval of new notices and text revisions to existing notices before computer programs containing

text will be created or altered. Appendix II depicts the notice revision process and the various IRS units involved.

Objectives, Scope, and Methodology

Our objectives were to (1) review a group of commonly used notices and offer suggestions to enhance their clarity where appropriate and (2) determine if the IRS' process for issuing notices produces clear notices.

To address the first objective, we examined 47 high-volume IMF and BMF notices. We selected the notices that were most frequently sent to taxpayers by IRS, excluding those we previously reviewed for our April 1993 report. These 47 notices resulted in the issuance of more than 33 million notices in 1993, or almost 52 percent of all IMF and BMF notices sent to taxpayers that year. We reviewed the versions of the notices currently being sent to taxpayers as well as any revisions to these notices proposed by NCU, but not yet implemented.

In reviewing these notices for clarity, understandability, and usefulness, we considered if more specific language, clearer references, and consistent use of terminology would enhance these documents. We assessed whether the material was logically presented, whether sufficient information and detail was provided so taxpayers could evaluate their situations, and whether the taxpayer could resolve the matter without additional guidance. We also evaluated the notice's format, the suitability of the notice's title, the directions or guidance provided in enclosures or remittance forms, and whether IRS provided the taxpayer with all pertinent information in a single notice or whether additional notices would have to be sent to resolve the situation.

Each notice was independently reviewed by at least two GAO evaluators. They considered the same factors in determining if the notices clearly conveyed the message IRS wanted to convey to taxpayers, including whether the

- text of the notice contained IRS' intended message;
- title of the notice was consistent with the text;
- tax statement or statement of adjustment or other transaction was easy to read and compare to the taxpayer's return;
- notice made any assumptions and, if so, whether they were clearly explained;
- terminology in the notice was easy to understand and logically presented;

- notice clearly explained what, if any, action was expected of the taxpayer and when;
- notice provided the taxpayer with sufficient, but not excessive, information regarding the situation; and
- notice provided the taxpayer a telephone number to call or address to write to should he or she have questions or need additional guidance.

We used appropriate guidance found in IRS' Taxpayers Service's Handbook and the Catalog of Federal Tax Forms, Form Letters and Notices to verify the purposes of the 47 notices. We also discussed all of our concerns and suggestions with the NCU Chief. However, we did not attempt to determine if the notices we reviewed were appropriate given a taxpayer's particular circumstances.

In addressing the second objective, we also gathered information to help us assess whether IRS had established a workable process for adopting and implementing notice text improvements. We also obtained data on the number of notice revisions proposed by NCU and the number implemented. However, data were not available on the length of time IRS took to implement the revisions. We identified the computer programming changes required to implement the revisions. We also gathered information concerning how IRS set priorities for requested computer programming changes, including notice revisions, and obtained information on proposed revisions that were rejected. Finally, we identified IRS' efforts to improve the quality of notices and documented its recent testing of notice production on the Correspondex computer system, which may make revisions more efficiently.

We did our work at IRS' National Office in Washington, D.C., from August 1993 to June 1994 in accordance with generally accepted government auditing standards. We provided a draft of this report to pertinent IRS officials including the National Director of Planning, the Chief of NCU, and representatives from the Information Systems Management Division (ISM) and other organizational units involved in the notice development and review process. We met with these officials on September 26, 1994, to discuss this report. They suggested several minor technical modifications, which we adopted, but generally agreed with the facts presented as well as our conclusions and recommendations.

Notice Language and Format Can Be Improved

Our review of 47 IMF and BMF notices revealed problems with both the language and format of 31 of these notices. For example, we found that many of the 31 notices would have been improved by more specific language, clearer references, consistent terminology, logical presentation of material, and sufficient information and guidance.

Format problems included instances where the attached remittance form contained directions that were in conflict with those found in the body of the notice. Another format problem we identified was IRS' inability to issue notices that addressed multiple or inter-related tax problems with a taxpayer's account in a single piece of correspondence. Instead, taxpayers would receive several notices in a relatively short time period that addressed several different problems with their tax accounts rather than a detailed, comprehensive notice. This could cause taxpayers confusion and frustration and give taxpayers the impression that IRS is unsure of its position.

IRS Computer System and Competing Priorities Impede Notice Revision

IRS' computer system is old and inefficient and is largely responsible for the delay in implementing notice language changes. Because of the time-consuming nature of the programming required to make notice text revisions along with other program changes, a bottleneck occurs. Consequently, IRS must evaluate and prioritize program requests.

Notices are presently maintained on an aging computer system, which uses an old computer programming language—known as assembler language—that is difficult to change. Each master file notice exists as a separate program and, because of the technical difficulties involved in implementing language changes, minor revisions can result in major reprogramming efforts. Unlike modern word processing technology, which processes text changes almost as quickly as typing, the assembler language uses an older programming technique that requires each letter of every word and every character to be separately programmed. This character-by-character programming is known as hard coding and affects all IMF and BMF notices. Consequently, these notice revisions are not simple or quick to do. A single change in a word or punctuation mark would require that every subsequent character be reprogrammed. This is time consuming and inefficient and serves as a deterrent to improving notices.

IRS established the National Automation Advisory Group (NAAG) in 1992 to facilitate establishment of programming priorities. According to IRS officials, NAAG is comprised of representatives from IRS' Returns

Processing, the major initiator of programming changes, and computer programming officials from ISM. NAAG allows Returns Processing to establish its own priorities, in view of limited resources and the technical difficulties specifically associated with the proposed changes.

Faced with numerous demands to alter existing operational programs, ISM has found that it does not have the resources to respond to all requests. Programming changes to process returns for the next filing season and those related to implementing new tax laws, for example, take precedence over notice text revisions. These higher priority demands for computer programming changes lessen the likelihood that notice text changes will be made. While recommended notice text changes remain unprogrammed, the old version of the notice continues to be issued to taxpayers.

The cyclical nature of IRS' programming activities further delays prompt implementation of text revisions. Because certain programming must be performed at certain times of the year, IRS schedules specific programming tasks to be performed at particular times—for example, preparation for the upcoming filing season. If the development of a notice revision does not coincide with the appropriate programming cycle, its implementation may be delayed for months, until the next available cycle. Generally, because of the high demand for programming changes, IRS staff submit programming requests 6 to 12 months in advance of their preferred implementation date, to allow sufficient scheduling time.

IRS officials responsible for programming notice text changes said that in most instances proposed notice revisions should be submitted at the beginning of the calendar year so they can be scheduled. Those submitted later in the year may not be considered for scheduling until the beginning of the next calendar year.

Demand for Reprogramming Not Met

Because of the high demand for computer programming changes, the submission of a revision request by a functional unit does not guarantee that the reprogramming will be done. Revisions may be assigned as priority 1 or priority 2, or the revision may be rejected outright. According to NCU officials, a priority 2 status has only a slight chance of being programmed.

Only one programming request for a notice was given a priority 1 status at NAAG's March 1994 meeting. Fifty-nine various programming requests were presented, and 17 related to notices. Of the 59 programming requests, only

22 received priority 1 status, 8 were granted a priority 2 status, 1 was withdrawn, and the remaining 28 were rejected. Of the 17 notice-related requests, only 1 was assigned as priority 1. This request called for the establishment of new notices to accompany a new tax form. IRS needed these notices for those taxpayers with tax problems who used the new form. Four notice-related requests were designated as priority 2s. The remaining 12 requests were rejected. Although a few of these rejected requests called for changes that would improve IRS' internal processing of notices, others involved improving the clarity or usefulness of the notices to taxpayers. These rejected requests for improvements to benefit taxpayers could have enhanced over 3 million taxpayer contacts, the notice volume associated with these notices in 1993.

One rejected request concerned a notice sent in 1993 to nearly 1 million earned income credit (EIC) filers. NCU officials identified an erroneous reference to a section of the EIC tax form in the text of the notice. By the time this error was discovered, the notice had already been sent to a group of recipients. When the request to correct the language was brought to NAAG, it decided to retain the incorrect reference. According to NCU officials, NAAG made this decision because some taxpayers had already received the incorrect version and, it seemed too late to do anything about the problem, which was not viewed by NAAG members from other units as very serious compared to other programming needs.

Another request would have merged information now contained in two notices into a single notice with revised text. IRS had anticipated that this merger would not only simplify matters for taxpayers but also annually save an estimated $2.4 million in reduced processing and mailing costs. This request received a priority 2 status and was forwarded to ISM for consideration. Because of higher priority requests, including legislative changes, ISM determined it could not implement the change in January 1995 as requested. According to ISM computer programming officials, they could not make the large commitment of resources needed to make the change.

Even when notice revisions are approved, it may be months before they are actually programmed. Because of the backlog of programming requests, the intense level of effort associated with those changes, and the cyclical nature of completing the program changes, revisions were often submitted months in advance. For example, the requester of the single notice revision that was approved at the March 1994 NAAG meeting had

proposed a January 1995 implementation, as had many others requesting changes during that session.

Notice Revisions Not Tracked

Revisions to improve the clarity of notices made by NCU were not always adopted promptly. Among the notices we reviewed were several that had been revised by NCU more than a year earlier, but not implemented as of May 1994. We believe that the changes NCU had made will improve the clarity of these notices, but we are concerned with the length of time that has elapsed since NCU revisions were proposed.

Although programming delays are significant, IRS has not established a tracking system that would enable it to measure the extent of the delays. There is no system for monitoring whether requested changes are made, or if approved, the progression of notice revisions from submission to implementation. Without a system to track the progress of these revisions through the computer programming stage, it is difficult to document the overall timeliness of notice revision implementation. Without this documentation, delays and other problems may go unobserved.

To collect data on the implementation of its recommendations, NCU conducted a special review in March 1993 to determine the status of all its prior recommendations. The study revealed that 36 percent of NCU's revisions were never implemented. Although the report did not document the extent of overall delays in implementing those revisions that were ultimately programmed, it identified several instances where revisions to high-volume notices took a year or more to implement.

IRS Efforts to Improve Notice Development and Issuance Process

IRS recognizes that notices need improvement and has several initiatives in process to enhance notice quality. First, several high-volume collection notices have been programmed and tested on IRS' Correspondex computer system, a letter-writing system used for replying to taxpayers' correspondence. Text changes can be made more quickly and easily on the Correspondex system than on the assembler language system currently producing notices.

Correspondex officials acknowledge that while this system is not as efficient as word processing technology, Correspondex can make text revisions much sooner than the 6 to 12 months that it often takes to implement assembler language system changes. These officials told us that

text changes to IRS' Correspondex letters typically take 30 days but under critical circumstances can be made within 1 day.

Correspondex has the capacity to produce most IMF and BMF notices. According to Correspondex officials, it seems that only those notices with an unusually large amount of data imported from a taxpayer's master file record are unsuitable for transfer. Correspondex also provides the advantage of more visually appealing print features presently unavailable on the assembler language system, such as lower-case letters. Figure 3 shows an example of a commonly sent collection notice as it would look if produced by the assembler system. Figure 4 shows the same notice produced by Correspondex.

Figure 3: Example of a Current Assembler Language System Style IRS Notice CP 504

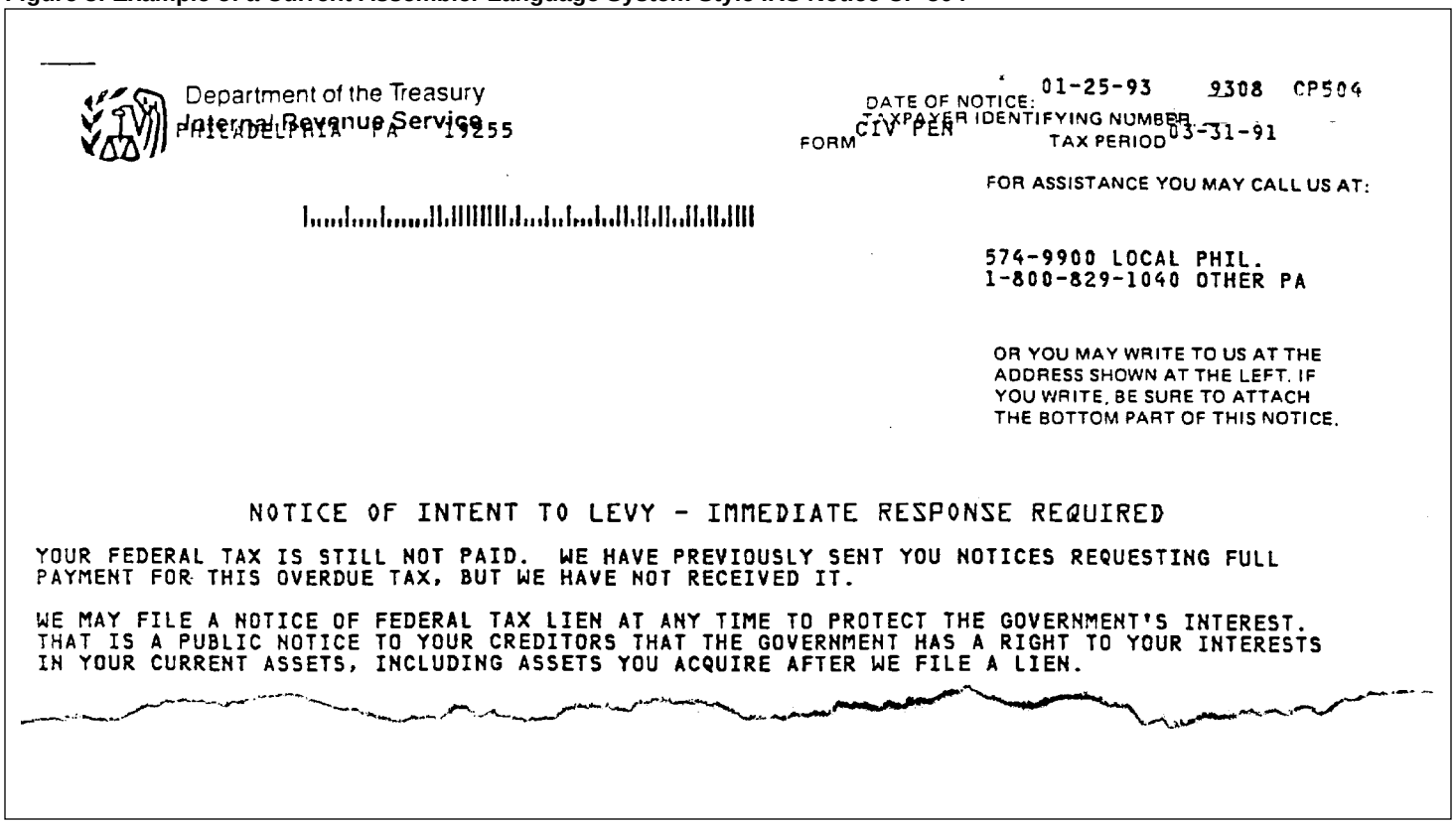
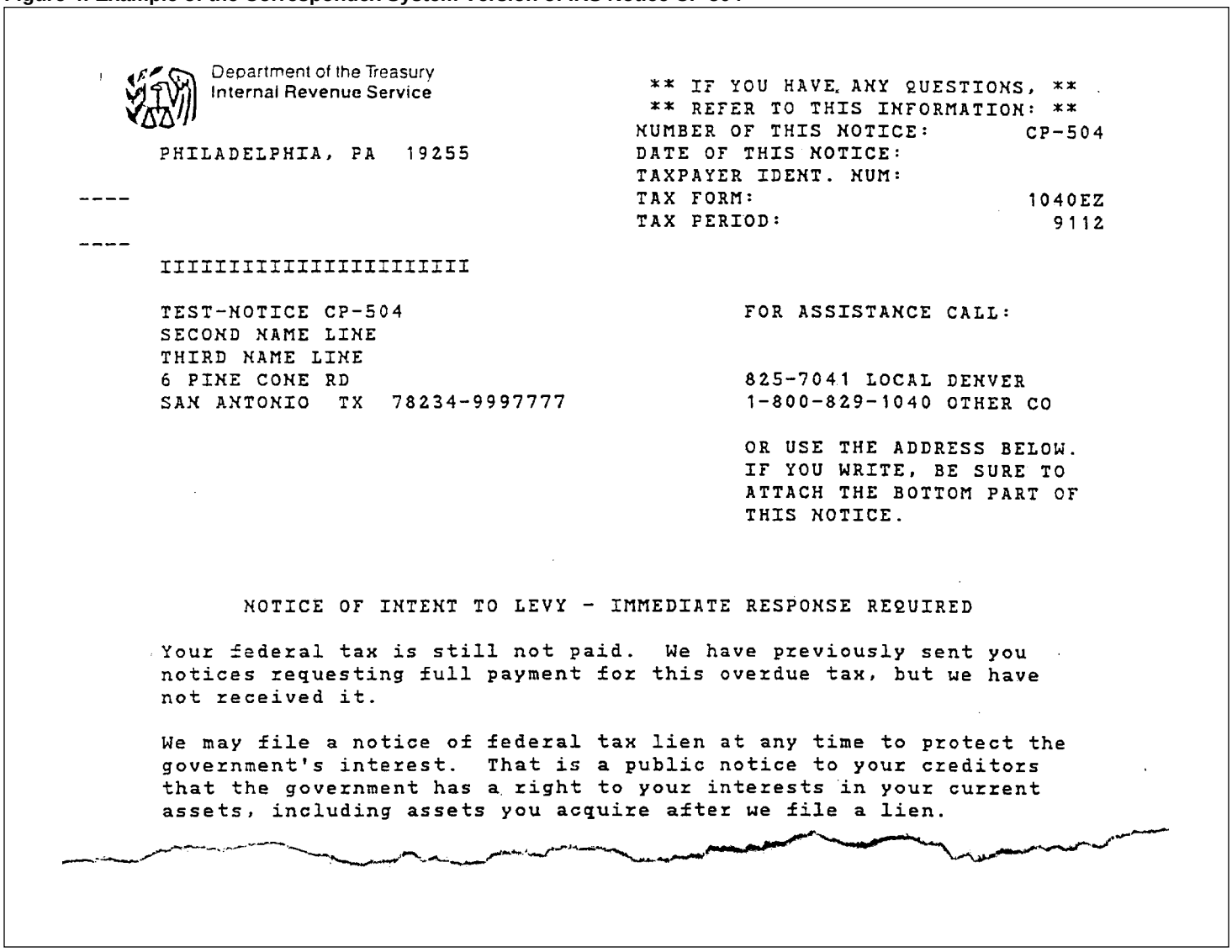


Figure 4: Example of the Correspondex System Version of IRS Notice CP 504



Department of the Treasury
Internal Revenue Service

PHILADELPHIA, PA 19255

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TEST-NOTICE CP-504
SECOND NAME LINE
THIRD NAME LINE
6 PINE CONE RD
SAN ANTONIO TX 78234-9997777

** IF YOU HAVE ANY QUESTIONS, **
** REFER TO THIS INFORMATION: **
NUMBER OF THIS NOTICE: CP-504
DATE OF THIS NOTICE:
TAXPAYER IDENT. NUM:
TAX FORM: 1040EZ
TAX PERIOD: 9112

FOR ASSISTANCE CALL:

825-7041 LOCAL DENVER
1-800-829-1040 OTHER CO

OR USE THE ADDRESS BELOW.
IF YOU WRITE, BE SURE TO
ATTACH THE BOTTOM PART OF
THIS NOTICE.

NOTICE OF INTENT TO LEVY - IMMEDIATE RESPONSE REQUIRED

Your federal tax is still not paid. We have previously sent you notices requesting full payment for this overdue tax, but we have not received it.

We may file a notice of federal tax lien at any time to protect the government's interest. That is a public notice to your creditors that the government has a right to your interests in your current assets, including assets you acquire after we file a lien.

The testing of notices on Correspondex has not fully demonstrated its suitability for producing IMF and BMF notices. Testing has been limited to the collection notices maintained on the Integrated Data Retrieval System (IDRS), which operates on the same computer system as Correspondex. This computer system is different from the computer system on which IMF

and BMF operate. IDRS notices are easier to convert to Correspondex than IMF and BMF notices.

However, Correspondex officials said that they are confident they can successfully produce IMF and BMF notices even though transferring these notices will technically be more difficult than the IDRS notices. While the officials said it would be fairly simple to reproduce the standard notice text on Correspondex, new computer programs would have to be written to merge taxpayer data into the appropriate places in the new Correspondex text. Assembler language system programmers would need to develop these programs and would continue to be responsible for accessing the master file. However, once this programming transition is complete, the assembler programming staff would play a smaller role in the notice process and may be able to devote more time to higher priority work.

Correspondex officials also told us that they hope to test several IMF and BMF notices this year and, if successful, would like to ultimately transfer most notices, including IMF and BMF notices, to Correspondex. Even if all IMF and BMF notices could not be transferred, a substantial number of other notices could be improved by transferring those with recognized clarity problems or volume. As we discussed earlier, many taxpayer contacts could be improved by changing a relatively few notices.

Both Correspondex and NCU officials are optimistic about this testing and view it as a way to improve the clarity and format of notices, at least until more sophisticated developments arrive later this decade under TSM. However, IRS management has not committed to expanding the testing to IMF and BMF notices.

A second effort in progress is the testing of a new notice format, which includes a revised "tax statement" modelled after a version suggested in our April 1993[3] report on IRS forms, publications, and notices. Taxpayers who are sent math error notices from the IRS Kansas City Service Center receive either the traditional IRS format or the new version modelled after our suggestion. Each version has a unique control number. Taxpayers calling or writing IRS about the notice provide this unique number, thereby enabling IRS to determine which version generates the most questions. This test will help IRS decide whether it would be cost beneficial to convert to the new format.

[3]GAO/GGD-93-72, April 30, 1993.

Preliminary response data clearly demonstrate that taxpayers who receive the traditional version continue to contact IRS with questions at twice the rate of the taxpayers receiving the new version.

A third effort involves the acquisition of new printing equipment for IRS' 10 service centers. These printers should improve the general appearance of notices. IRS prints master file notices in upper-case type because with the current equipment its lower-case type is illegible. The new printers could feature lower-case type and different fonts. Another advantage would be that the notice borders would be printed as text. These borders often contain important information regarding where taxpayers should call or write for additional assistance. Presently, borders are contained on various plastic overlays that are copied on to paper before the notice text is printed. By printing these borders as text, the likelihood that a notice would be issued with an inappropriate border, which could confuse taxpayers, should be reduced.

Finally, a fourth effort involves a TSM initiative that may also lead to improved notices. TSM is exploring ways of issuing single notices that could address multiple tax issues. IRS currently sends taxpayers with multiple or inter-related tax problems a separate notice for each tax matter. The receipt of several notices within a brief period may both confuse and frustrate taxpayers. The master file lacks the ability to identify and address multiple tax problems in a single notice. However, TSM officials hope to be able to deliver to taxpayers comprehensive notices containing all account activity and adjustments.

In addition to these ongoing efforts, IRS is considering other ways of supplementing notices so they become more useful and understandable to taxpayers. IRS is considering (1) placing commonly asked questions and answers on the back of each notice and (2) expanding the existing tele-tax system to include notice information. This system operates on a toll-free number and provides prerecorded explanations about tax return preparation. IRS officials told us that often taxpayers merely want to speak to a telephone assistor and confirm that their interpretation of a notice is correct. These officials speculated that the common questions and answers placed on the notices themselves, along with the general notice information to be put on tele-tax, may provide some taxpayers with sufficient information and a greater comfort level, thereby decreasing the number of taxpayers who require the assistance of a telephone assistor.

Conclusions

IRS can do more to improve the clarity of its notices. We suggested clarity changes to 31 of the 47 notices we reviewed. These suggestions related to the content, appearance, and sufficiency of instructions the notices provided to taxpayers. In addition, the series of multiple notices, which may be sent to taxpayers with numerous or inter-related tax problems, is another area where gains in clarity improvement can be made. An ongoing TSM effort addressing this problem, if successful, would make a major contribution to notice clarity.

While IRS recognizes the importance of better communications with taxpayers and makes efforts to enhance taxpayer understanding of existing notices, taxpayers continue to receive notices that do not reflect the most recently recommended versions approved by NCU. These recommended notice changes include language and format modifications that are designed to improve notice clarity and usefulness.

Computer limitations appear to be one of the most important causes of continued use of notices that IRS processes have identified as needing revision. Notices are generated from the IMF-BMF computer system, and this system cannot make notice revisions efficiently. Text changes require extensive and time-consuming programming efforts. Because of other high-priority programming requests and limited programming resources, computer programming priorities generally do not favor notice language changes. Thus, few changes survive this process. Those that do are made with great difficulty and may take over a year to complete because of the programming requirements.

IRS has a different computer system on which Correspondex operates, and Correspondex may provide an alternative to the IMF-BMF computer system for issuing notices. Text changes can be made much more quickly and easily on Correspondex. Although Correspondex officials are confident that Correspondex can produce IMF and BMF notices, they said tests using those notices have not been made.

The lack of a system to track the progress of proposed notice language changes limits IRS' ability to oversee notice clarity improvements. Delays may not be detected and millions of unclear notices may be issued to taxpayers in the interim.

Recommendations to the Commissioner of Internal Revenue

We recommend that the Commissioner of Internal Revenue test the feasibility of using Correspondex to produce IMF and BMF notices and, if possible, transfer as many IMF and BMF notices as practical to the Correspondex system. To help the transition to Correspondex, we recommend that notices be transferred in stages and that a mechanism be established or an existing body, such as NAAG, establish the order in which notices would be transferred. The ease of the transition, the costs of the transfer, and the benefits of making these transfers should all be considered in establishing the order.

We recommend that the Commissioner establish a system to monitor proposed notice text revisions to oversee progress or problems encountered in improving notice clarity. This system should be able to identify when a revision was proposed and the revision status at all times until it is implemented. We also recommend that the Commissioner include in the monitoring system a threshold beyond which delays must be appropriately followed up and resolved.

Agency Comments and Our Evaluation

We obtained oral comments on a draft of this report from IRS officials. These comments were supplemented by a memo elaborating on remarks made during our previous discussion. IRS agreed with our comments that more can be done to improve the clarity of notices to taxpayers and also with our recommendations. IRS also suggested some technical changes that we considered in preparing the final report.

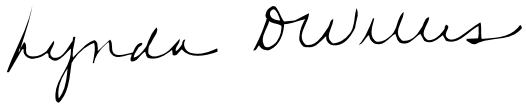
Specifically, IRS has agreed to test the feasibility of using Correspondex to produce both IMF and BMF notices. IRS has also agreed to pursue the development of a system to monitor implementation of proposed notice text revisions in the context of its planned Tax System Modernization efforts and business vision-related actions. IRS intends for this system to ensure that proposed revisions are considered and implemented in a timely manner.

In addition, IRS also agreed to consider most of the suggested notice text revisions we offered to clarify the text of the master file notices we reviewed during the course of this assignment.

We are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties.

Major contributors to this report are listed in appendix IV. If you or your staff have any questions concerning the report, please call me on (202) 512-9110.

Sincerely yours,



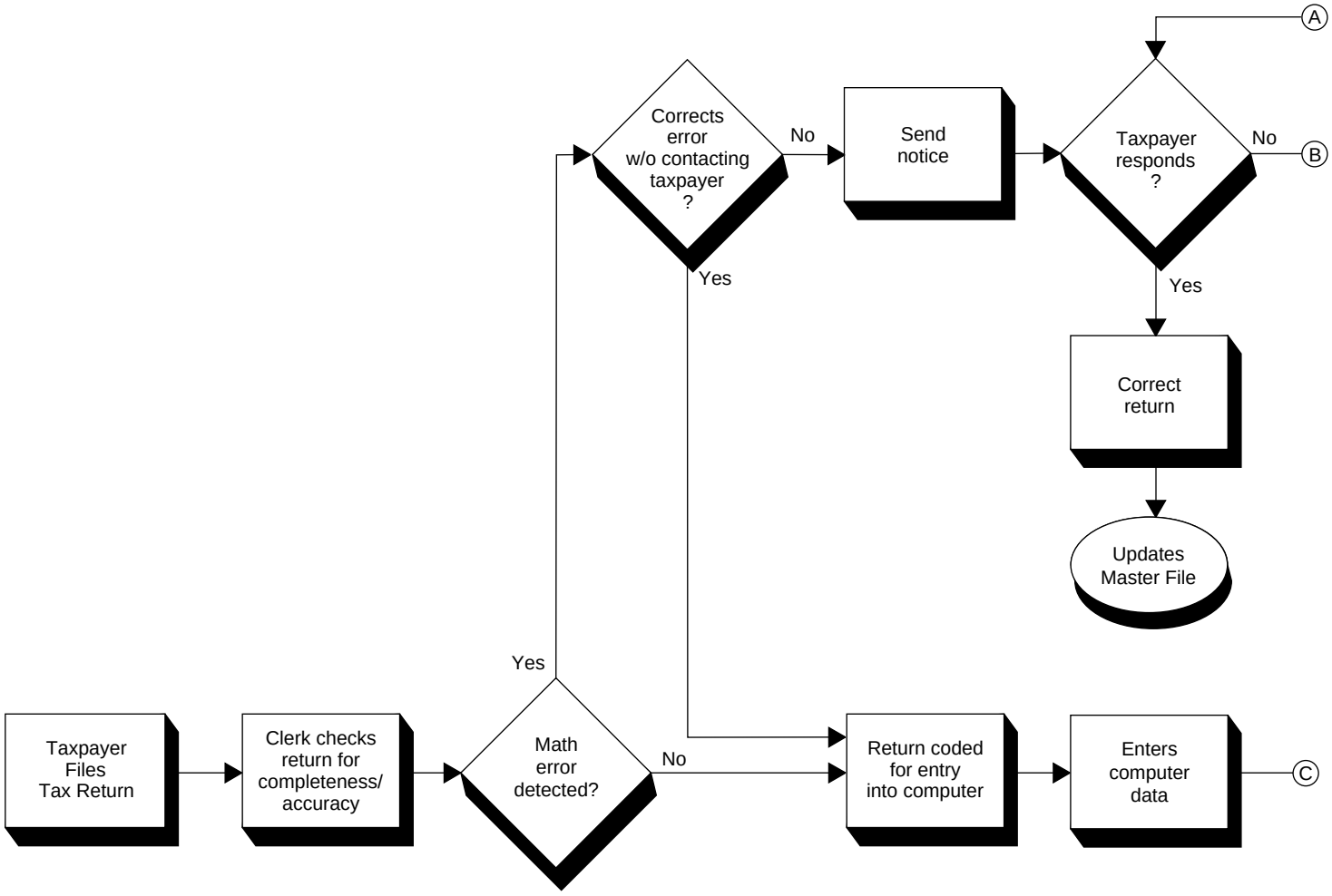
Lynda D. Willis
Associate Director, Tax Policy and
Administration Issues

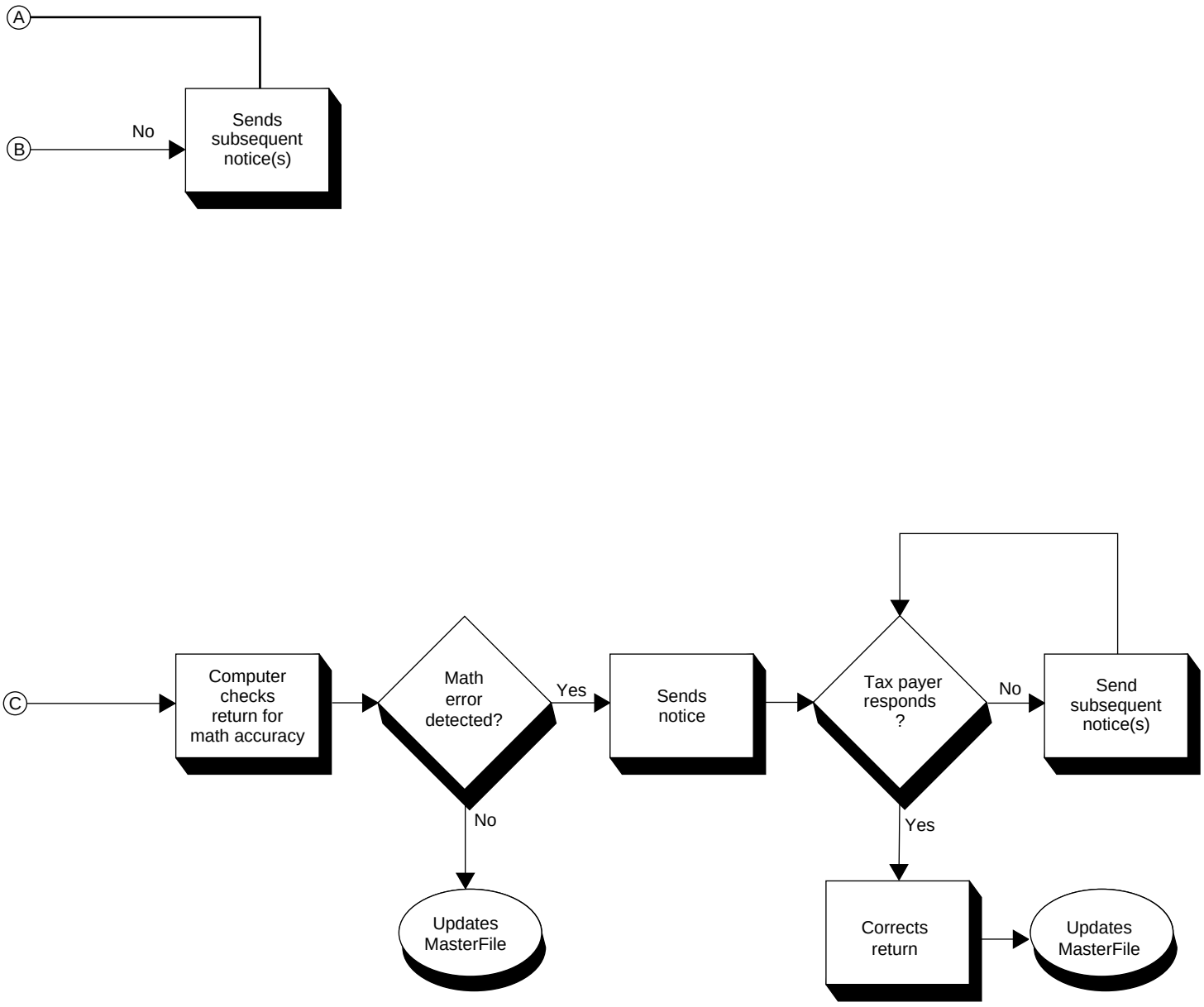
Contents

Abbreviations

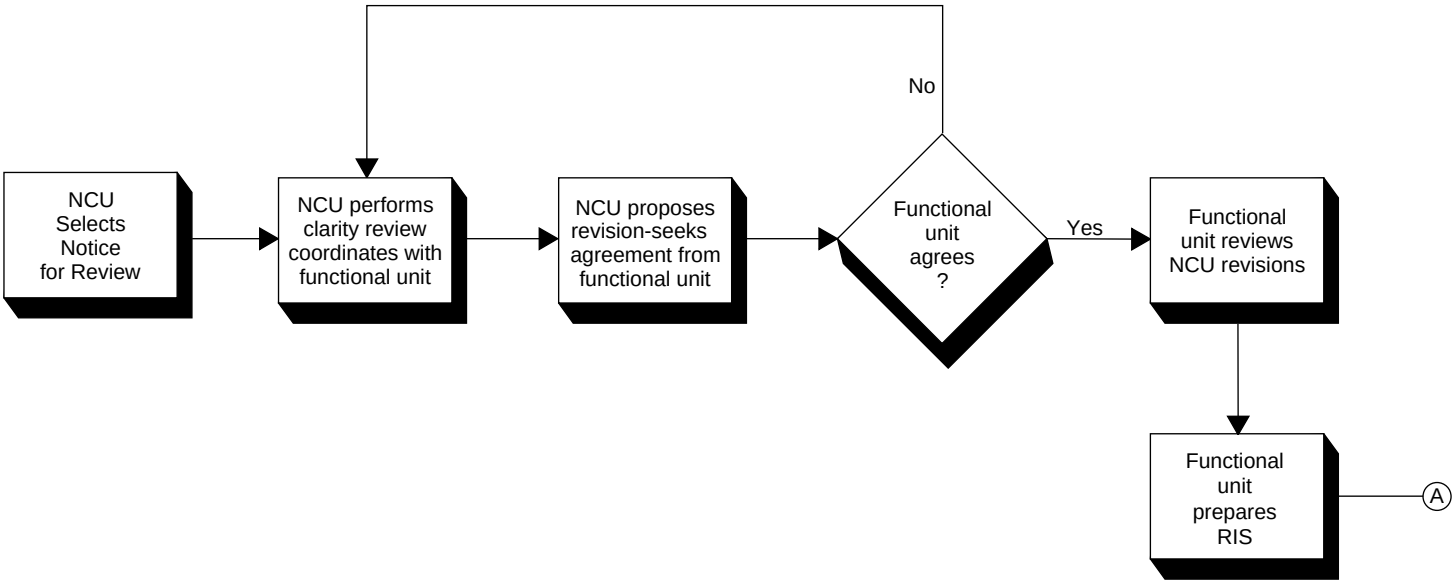
BMF	Business Master File
CP	computer paragraph
EIC	Earned Income Credit
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRS	Internal Revenue Service
ISM	Information Systems Management
NAAG	National Automation Advisory Group
NCU	Notice Clarity Unit
RIS	Request for Information Services
SSA	Social Security Administration
TSM	Tax Systems Modernization

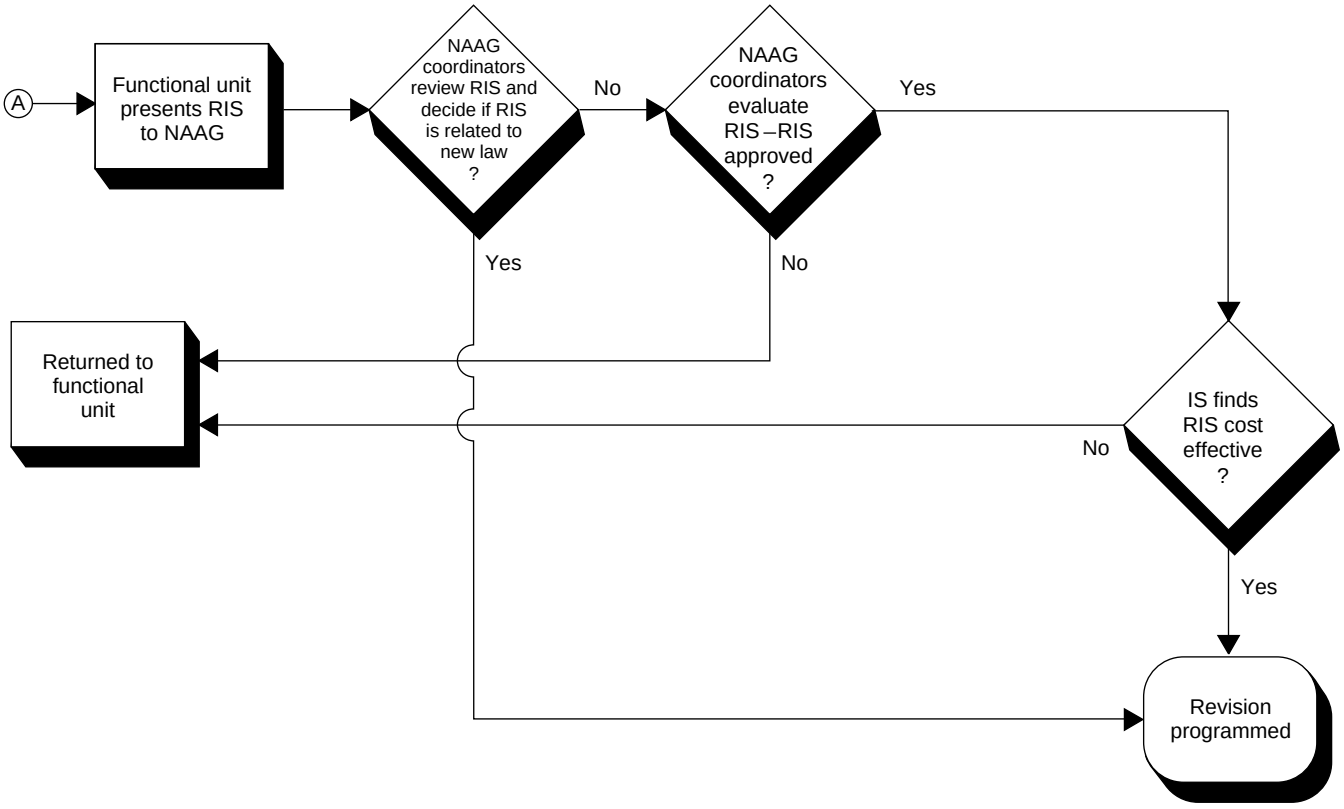
Flowchart of the IRS' Mathematical Error Notice Process




A
B
No
Sends subsequent notice(s)
C
Computer checks return for math accuracy
Math error detected?
Yes
No
Updates MasterFile
Sends notice
Tax payer responds ?
No
Send subsequent notice(s)
Yes
Corrects return
Updates MasterFile

Flowchart of the IRS' Notice Revision Process




A
Functional unit presents RIS to NAAG
NAAG coordinators review RIS and decide if RIS is related to new law ?
No
NAAG coordinators evaluate RIS–RIS approved ?
Yes
Yes
No
Returned to functional unit
IS finds RIS cost effective ?
No
Yes
Revision programmed

GAO Suggestions for Improving Clarity of IRS Notices Reviewed

To assess the clarity and usefulness of IRS notices, we reviewed 47 Individual Master File (IMF) and Business Master File (BMF) notices that IRS frequently sends to taxpayers. These notices accounted for about 50 percent of all IMF and BMF notices sent to taxpayers in 1993.

As explained in more detail in the objectives, scope, and methodology section of this report, we used a long list of factors to determine whether each notice clearly conveyed the message IRS wanted to convey. For example, we reviewed each notice to determine whether (1) the title of the notice was consistent with the text and (2) the terminology in the notice was easy to understand and presented in a logical order. We used these factors to judge clarity because IRS had not established guidance to determine what constitutes a clear notice. We identified items of concern in 31 of the 47 notices.

Our concerns take into account the version of the notice currently being sent to taxpayers and, if applicable, the revision proposed by NCU. At the time we did our work, NCU had reviewed 46 of the 47 notices. Our concerns include the need for additional guidance, more specific language, clearer references, appropriate terminology, logical presentation of material, sufficient information or detail, and correct and consistent formats. We also identified several IMF and BMF notices that could confuse or frustrate taxpayers who may receive several of these notices, instead of a single comprehensive notice, that would summarize the status of their tax accounts. These notices are also identified in this appendix.

Among the notices we reviewed were several NCU revisions proposed more than a year ago, but not yet implemented at the time we did our work. Our positions on these notices mirrored NCU's. Our only additional concern was the length of time that had elapsed since NCU's revision was proposed.

IRS already has efforts underway that should help address some of our concerns. NCU officials generally agreed with our suggestions but typically could not specify if and when our suggestions would be adopted. The delays in implementing notice text revisions, as discussed in the body of this report, often precluded the officials from giving a more precise response.

Our specific concerns with the IMF and BMF notices that we reviewed are noted in this appendix. IRS' response immediately follows. Also, examples of these notices currently being sent to taxpayers accompany our concerns highlighting the potential problem. In some cases, we raised the

same concern with more than one notice. In these instances, we described the concern in relation to a particular notice and mentioned the other notices with comparable problems.

Individual Master File Notices

CP 08—Refund to Be Issued, SSA Records Need Correction

GAO Concern 1

Type of change: additional guidance and specific language.

This notice assumes that to Social Security Association's (SSA) records need correction, which may not be true. It suggests that the error was made either by the taxpayer or SSA and does not acknowledge that the error could be IRS's. We suggested IRS advise the taxpayer how to correct IRS' information if the error was not made by SSA or the taxpayer. We also noted this concern on several other notices including CP 54B, CP 54G, CP 54Q, and CP 59. Examples of these notices are not shown in this report.

Similarly, we found the notice's title does not acknowledge the possibility that IRS records may need correction. We suggested a more suitable title such as "IRS/SSA Records Do Not Agree."

IRS Response

IRS agreed to consider this suggestion.

GAO Concern 2

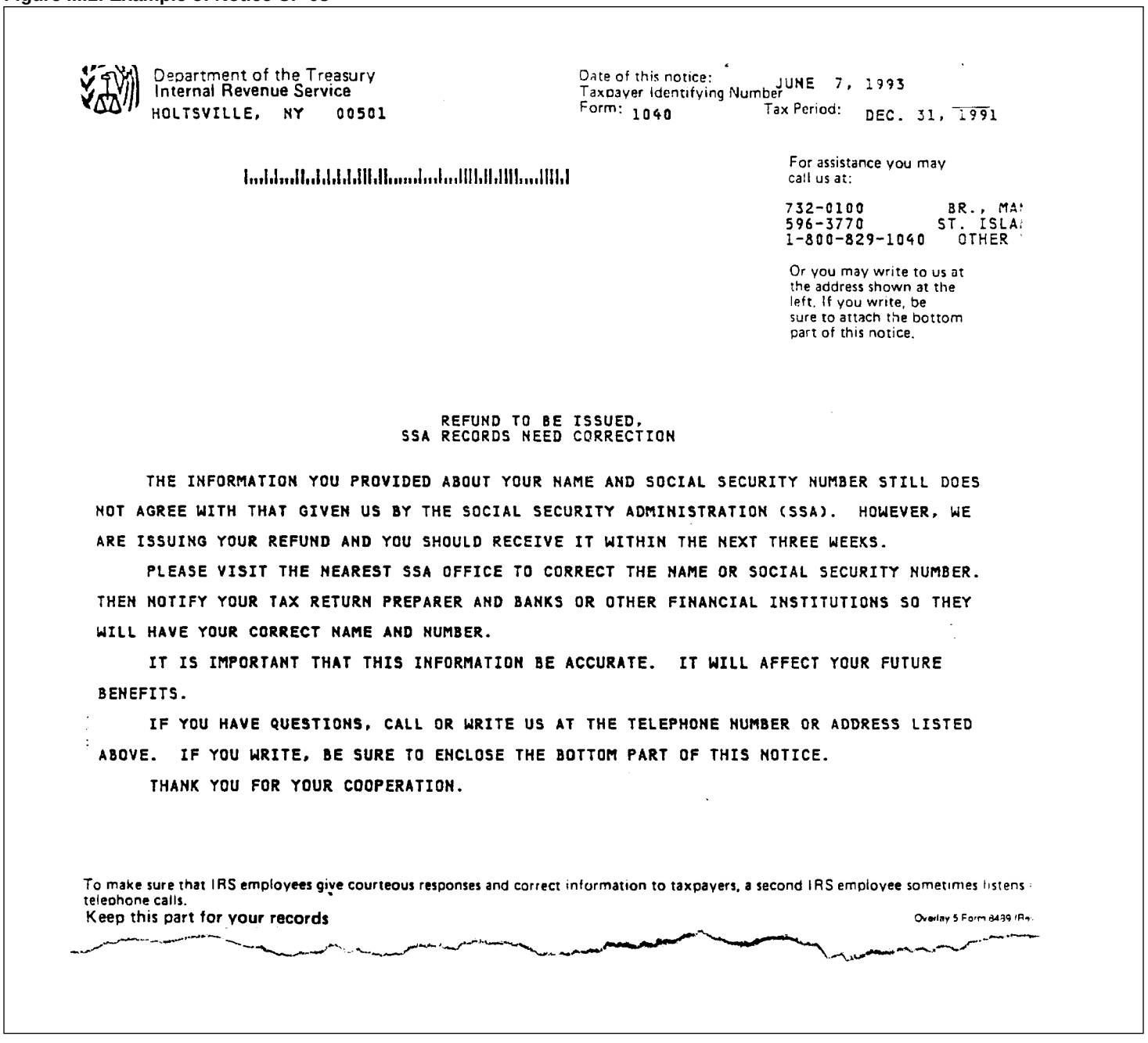
Type of change: specific language.

This notice does not stress the importance of why the SSA' records should be correct. We suggested emphasizing that correct information is needed so SSA can provide individuals with proper credit for all earned income, thereby protecting their earnings record and future social security benefits.

IRS Response

IRS agreed to consider this suggestion.

Figure III.1: Example of Notice CP 08



Department of the Treasury
Internal Revenue Service
HOLTSVILLE, NY 00501

Date of this notice: JUNE 7, 1993
Taxpayer Identifying Number
Form: 1040 Tax Period: DEC. 31, 1991

For assistance you may call us at:

732-0100 BR., MA
596-3770 ST. ISLA
1-800-829-1040 OTHER

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

REFUND TO BE ISSUED,
SSA RECORDS NEED CORRECTION

THE INFORMATION YOU PROVIDED ABOUT YOUR NAME AND SOCIAL SECURITY NUMBER STILL DOES NOT AGREE WITH THAT GIVEN US BY THE SOCIAL SECURITY ADMINISTRATION (SSA). HOWEVER, WE ARE ISSUING YOUR REFUND AND YOU SHOULD RECEIVE IT WITHIN THE NEXT THREE WEEKS.

PLEASE VISIT THE NEAREST SSA OFFICE TO CORRECT THE NAME OR SOCIAL SECURITY NUMBER. THEN NOTIFY YOUR TAX RETURN PREPARER AND BANKS OR OTHER FINANCIAL INSTITUTIONS SO THEY WILL HAVE YOUR CORRECT NAME AND NUMBER.

IT IS IMPORTANT THAT THIS INFORMATION BE ACCURATE. IT WILL AFFECT YOUR FUTURE BENEFITS.

IF YOU HAVE QUESTIONS, CALL OR WRITE US AT THE TELEPHONE NUMBER OR ADDRESS LISTED ABOVE. IF YOU WRITE, BE SURE TO ENCLOSE THE BOTTOM PART OF THIS NOTICE.

THANK YOU FOR YOUR COOPERATION.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens to telephone calls.

Keep this part for your records

Overlay 5 Form 8439 (Rev.

CP 14—Request for Tax Payment

GAO Concern

Type of change: appropriate terminology.

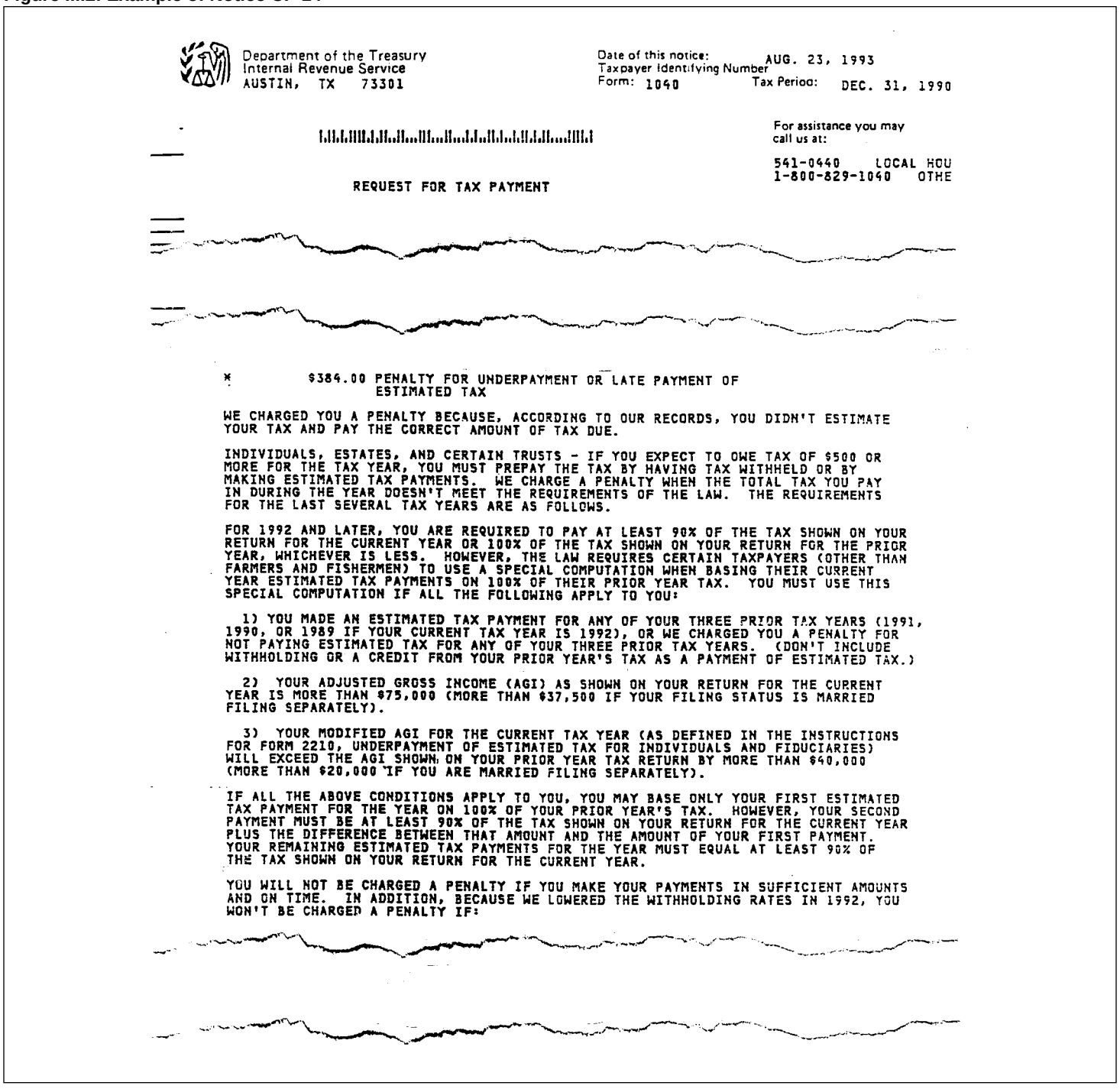
This notice currently includes excerpts from the applicable penalty and interest sections of IRS' Notice 746, which is a preprinted explanation of IRS' penalty and interest policies. The explanations in this notice are extremely detailed and may be confusing for the taxpayer. Some of the explanations may not apply in every case. We suggested that a brief and clear explanation of the specific penalty and interest charges being levied against the taxpayer receiving the notice be provided.

IRS Response

IRS agreed that our suggestion had merit. IRS had already been working on a CP 14 revision designed by one of its Service Centers as an interim step in combining the CP 14 with the relevant parts of Notice 746. Typically, Notice 746 is enclosed with the CP 14.

IRS plans to discontinue Notice 746 by providing only the applicable penalty and interest explanations in the notice text. Providing only the pertinent explanations will prevent the taxpayer from searching through irrelevant narrative. IRS is also clarifying the language and developing an easier to read format for the CP 14.

Figure III.2: Example of Notice CP 14



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: 1040 Tax Period: DEC. 31, 1990

For assistance you may call us at:

541-0440 LOCAL HOU
1-800-829-1040 OTHE

REQUEST FOR TAX PAYMENT

* $384.00 PENALTY FOR UNDERPAYMENT OR LATE PAYMENT OF ESTIMATED TAX

WE CHARGED YOU A PENALTY BECAUSE, ACCORDING TO OUR RECORDS, YOU DIDN'T ESTIMATE YOUR TAX AND PAY THE CORRECT AMOUNT OF TAX DUE.

INDIVIDUALS, ESTATES, AND CERTAIN TRUSTS - IF YOU EXPECT TO OWE TAX OF $500 OR MORE FOR THE TAX YEAR, YOU MUST PREPAY THE TAX BY HAVING TAX WITHHELD OR BY MAKING ESTIMATED TAX PAYMENTS. WE CHARGE A PENALTY WHEN THE TOTAL TAX YOU PAY IN DURING THE YEAR DOESN'T MEET THE REQUIREMENTS OF THE LAW. THE REQUIREMENTS FOR THE LAST SEVERAL TAX YEARS ARE AS FOLLOWS.

FOR 1992 AND LATER, YOU ARE REQUIRED TO PAY AT LEAST 90% OF THE TAX SHOWN ON YOUR RETURN FOR THE CURRENT YEAR OR 100% OF THE TAX SHOWN ON YOUR RETURN FOR THE PRIOR YEAR, WHICHEVER IS LESS. HOWEVER, THE LAW REQUIRES CERTAIN TAXPAYERS (OTHER THAN FARMERS AND FISHERMEN) TO USE A SPECIAL COMPUTATION WHEN BASING THEIR CURRENT YEAR ESTIMATED TAX PAYMENTS ON 100% OF THEIR PRIOR YEAR TAX. YOU MUST USE THIS SPECIAL COMPUTATION IF ALL THE FOLLOWING APPLY TO YOU:

1) YOU MADE AN ESTIMATED TAX PAYMENT FOR ANY OF YOUR THREE PRIOR TAX YEARS (1991, 1990, OR 1989 IF YOUR CURRENT TAX YEAR IS 1992), OR WE CHARGED YOU A PENALTY FOR NOT PAYING ESTIMATED TAX FOR ANY OF YOUR THREE PRIOR TAX YEARS. (DON'T INCLUDE WITHHOLDING OR A CREDIT FROM YOUR PRIOR YEAR'S TAX AS A PAYMENT OF ESTIMATED TAX.)

2) YOUR ADJUSTED GROSS INCOME (AGI) AS SHOWN ON YOUR RETURN FOR THE CURRENT YEAR IS MORE THAN $75,000 (MORE THAN $37,500 IF YOUR FILING STATUS IS MARRIED FILING SEPARATELY).

3) YOUR MODIFIED AGI FOR THE CURRENT TAX YEAR (AS DEFINED IN THE INSTRUCTIONS FOR FORM 2210, UNDERPAYMENT OF ESTIMATED TAX FOR INDIVIDUALS AND FIDUCIARIES) WILL EXCEED THE AGI SHOWN ON YOUR PRIOR YEAR TAX RETURN BY MORE THAN $40,000 (MORE THAN $20,000 IF YOU ARE MARRIED FILING SEPARATELY).

IF ALL THE ABOVE CONDITIONS APPLY TO YOU, YOU MAY BASE ONLY YOUR FIRST ESTIMATED TAX PAYMENT FOR THE YEAR ON 100% OF YOUR PRIOR YEAR'S TAX. HOWEVER, YOUR SECOND PAYMENT MUST BE AT LEAST 90% OF THE TAX SHOWN ON YOUR RETURN FOR THE CURRENT YEAR PLUS THE DIFFERENCE BETWEEN THAT AMOUNT AND THE AMOUNT OF YOUR FIRST PAYMENT. YOUR REMAINING ESTIMATED TAX PAYMENTS FOR THE YEAR MUST EQUAL AT LEAST 90% OF THE TAX SHOWN ON YOUR RETURN FOR THE CURRENT YEAR.

YOU WILL NOT BE CHARGED A PENALTY IF YOU MAKE YOUR PAYMENTS IN SUFFICIENT AMOUNTS AND ON TIME. IN ADDITION, BECAUSE WE LOWERED THE WITHHOLDING RATES IN 1992, YOU WON'T BE CHARGED A PENALTY IF:

CP 30—We Have Charged You an Estimated Tax Penalty

GAO Concern 1

Type of change: logical presentation of material.

We suggested that the tax statement be placed at the top of this notice. Placing the paragraph requesting the taxpayer to write IRS with questions after the tax statement enhances the clarity of the notice.

We also offered this suggestion on a related notice, the CP 30A, concerning a reduction in the estimated tax penalty (see fig. III.4).

IRS Response

IRS agreed to consider this suggestion.

GAO Concern 2

Type of change: logical presentation of material.

We suggested that a tax statement similar to the one recommended on page 8 of our previous report[1] be adopted. Such a tax statement would provide a better summary of what the taxpayer reported on their return and how IRS had made any needed corrections.

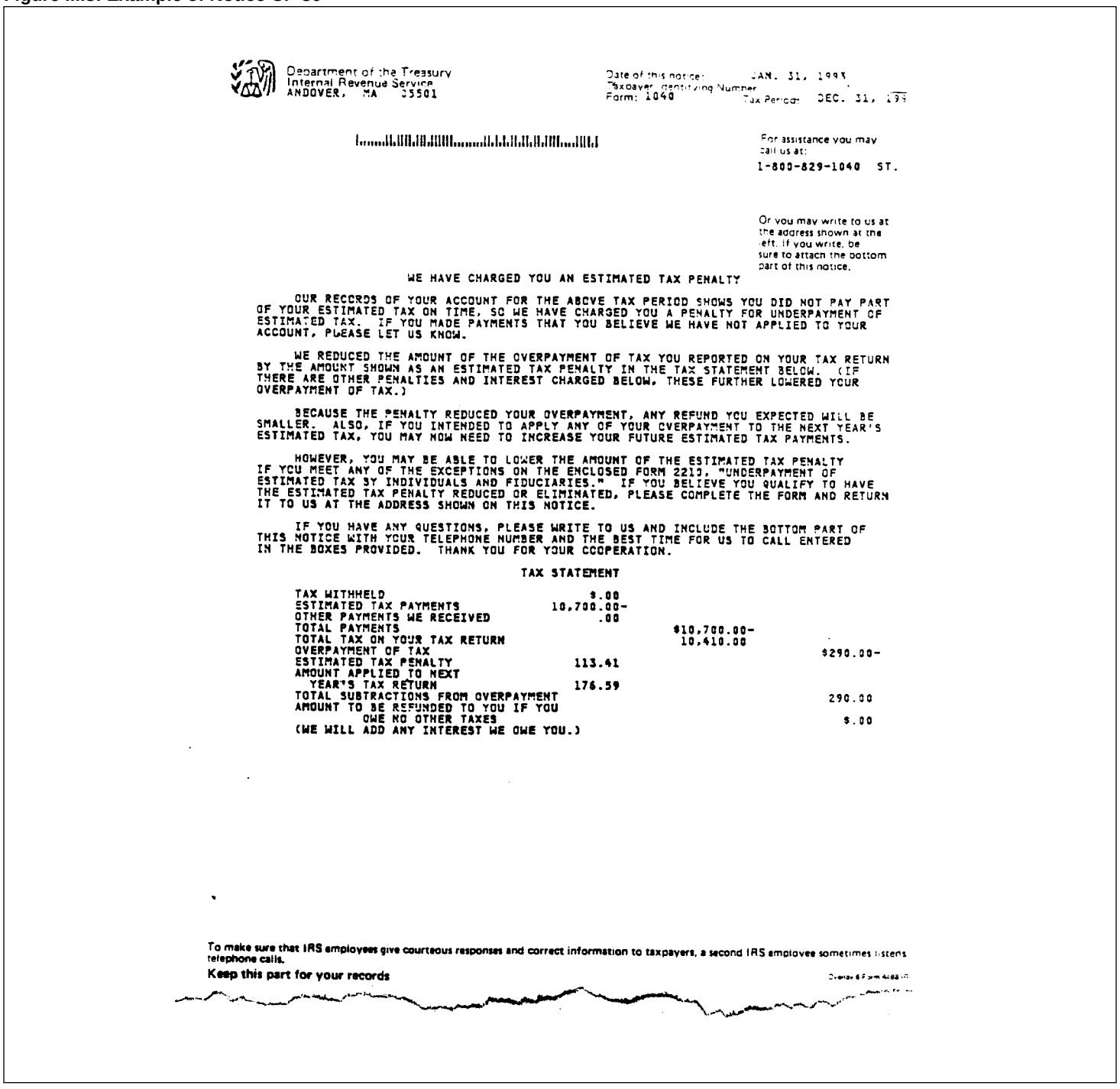
We also noted this concern on the CP 30A noted above and the CP 132, which is an IMF math error notice.

IRS Response

IRS agreed that our suggested tax statement is preferable. They stated, however, that IRS is not able to use this type of statement at the present time because of the limitations of its current printing equipment. IRS is presently testing a new tax statement format on two other math error notices. The testing is being conducted on special printing equipment in one of the service centers. IRS cautioned us that complete implementation of this effort could not occur until 1995.

[1]Tax Administration: Selected IRS Forms, Publications, and Notices Could be Improved (GAO/GGD-93-72, Apr. 30, 1993).

Figure III.3: Example of Notice CP 30



Department of the Treasury
Internal Revenue Service
ANDOVER, MA 05501

Date of this notice: JAN. 31, 1993
Taxpayer identifying Number
Form: 1040 Tax Period: DEC. 31, 199

For assistance you may call us at:
1-800-829-1040 ST.

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

WE HAVE CHARGED YOU AN ESTIMATED TAX PENALTY

OUR RECORDS OF YOUR ACCOUNT FOR THE ABOVE TAX PERIOD SHOWS YOU DID NOT PAY PART OF YOUR ESTIMATED TAX ON TIME, SO WE HAVE CHARGED YOU A PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX. IF YOU MADE PAYMENTS THAT YOU BELIEVE WE HAVE NOT APPLIED TO YOUR ACCOUNT, PLEASE LET US KNOW.

WE REDUCED THE AMOUNT OF THE OVERPAYMENT OF TAX YOU REPORTED ON YOUR TAX RETURN BY THE AMOUNT SHOWN AS AN ESTIMATED TAX PENALTY IN THE TAX STATEMENT BELOW. (IF THERE ARE OTHER PENALTIES AND INTEREST CHARGED BELOW, THESE FURTHER LOWERED YOUR OVERPAYMENT OF TAX.)

BECAUSE THE PENALTY REDUCED YOUR OVERPAYMENT, ANY REFUND YOU EXPECTED WILL BE SMALLER. ALSO, IF YOU INTENDED TO APPLY ANY OF YOUR OVERPAYMENT TO THE NEXT YEAR'S ESTIMATED TAX, YOU MAY NOW NEED TO INCREASE YOUR FUTURE ESTIMATED TAX PAYMENTS.

HOWEVER, YOU MAY BE ABLE TO LOWER THE AMOUNT OF THE ESTIMATED TAX PENALTY IF YOU MEET ANY OF THE EXCEPTIONS ON THE ENCLOSED FORM 2210, "UNDERPAYMENT OF ESTIMATED TAX BY INDIVIDUALS AND FIDUCIARIES." IF YOU BELIEVE YOU QUALIFY TO HAVE THE ESTIMATED TAX PENALTY REDUCED OR ELIMINATED, PLEASE COMPLETE THE FORM AND RETURN IT TO US AT THE ADDRESS SHOWN ON THIS NOTICE.

IF YOU HAVE ANY QUESTIONS, PLEASE WRITE TO US AND INCLUDE THE BOTTOM PART OF THIS NOTICE WITH YOUR TELEPHONE NUMBER AND THE BEST TIME FOR US TO CALL ENTERED IN THE BOXES PROVIDED. THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

TAX WITHHELD	$.00		
ESTIMATED TAX PAYMENTS	10,700.00-		
OTHER PAYMENTS WE RECEIVED	.00		
TOTAL PAYMENTS		$10,700.00-	
TOTAL TAX ON YOUR TAX RETURN		10,410.00	
OVERPAYMENT OF TAX			$290.00-
ESTIMATED TAX PENALTY	113.41		
AMOUNT APPLIED TO NEXT YEAR'S TAX RETURN	176.59		
TOTAL SUBTRACTIONS FROM OVERPAYMENT			290.00
AMOUNT TO BE REFUNDED TO YOU IF YOU OWE NO OTHER TAXES (WE WILL ADD ANY INTEREST WE OWE YOU.)			$.00

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens telephone calls.

Keep this part for your records

CP 30A—We Have Reduced Your Estimated Tax Penalty

GAO Concern

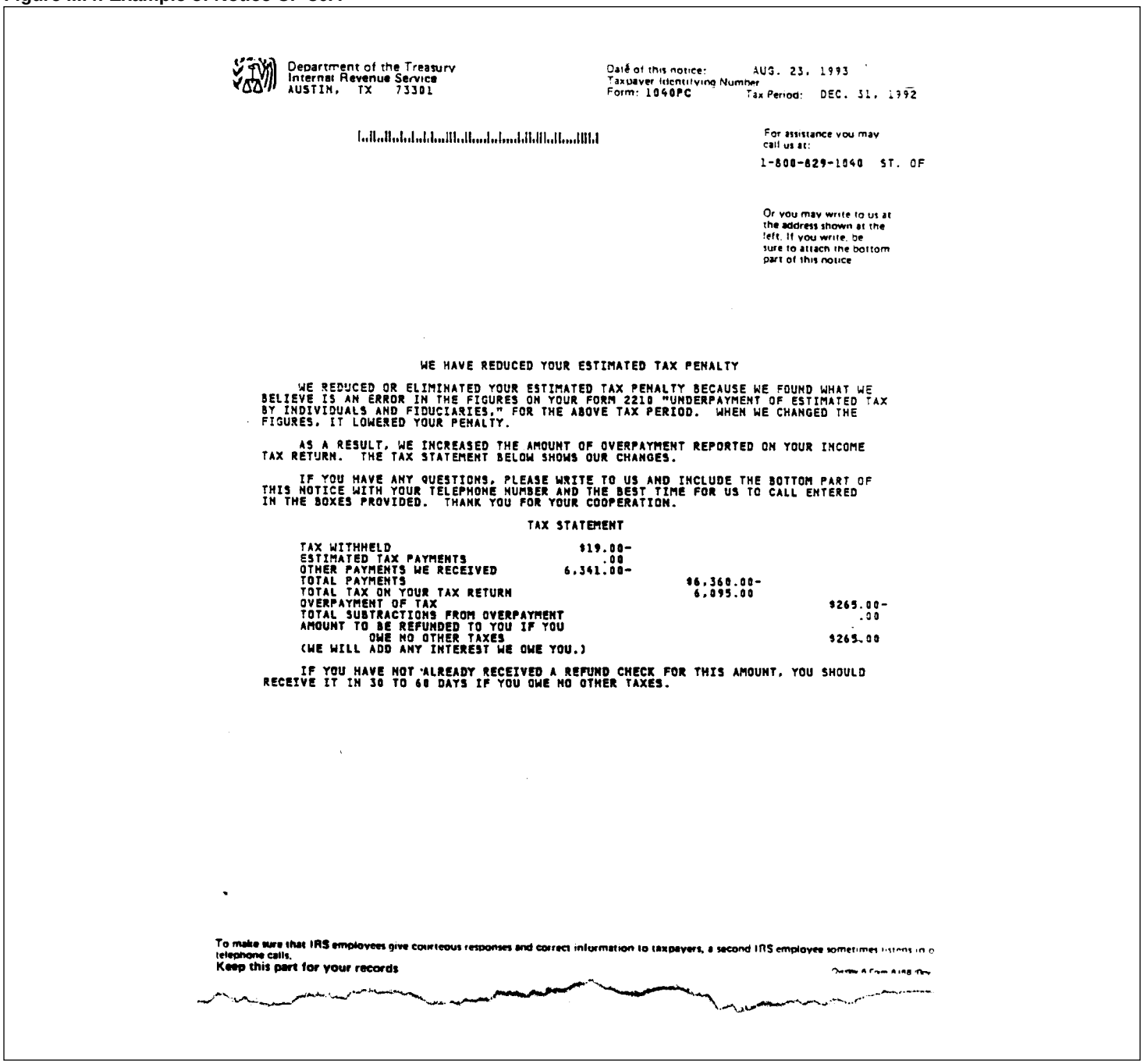
Type of change: specific language.

We suggested revising the first sentence of this notice to "We reduced your Estimated Tax Penalty . . .," deleting the words "or eliminated" because they are unnecessary. If the penalty was eliminated, it would, in fact, be reduced to zero. We believe that this change would be less confusing to taxpayers.

IRS Response

IRS agreed to consider our suggestion.

Figure III.4: Example of Notice CP 30A



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: 1040PC Tax Period: DEC. 31, 1992

For assistance you may call us at:
1-800-829-1040 ST. OF

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice

WE HAVE REDUCED YOUR ESTIMATED TAX PENALTY

WE REDUCED OR ELIMINATED YOUR ESTIMATED TAX PENALTY BECAUSE WE FOUND WHAT WE BELIEVE IS AN ERROR IN THE FIGURES ON YOUR FORM 2210 "UNDERPAYMENT OF ESTIMATED TAX BY INDIVIDUALS AND FIDUCIARIES," FOR THE ABOVE TAX PERIOD. WHEN WE CHANGED THE FIGURES, IT LOWERED YOUR PENALTY.

AS A RESULT, WE INCREASED THE AMOUNT OF OVERPAYMENT REPORTED ON YOUR INCOME TAX RETURN. THE TAX STATEMENT BELOW SHOWS OUR CHANGES.

IF YOU HAVE ANY QUESTIONS, PLEASE WRITE TO US AND INCLUDE THE BOTTOM PART OF THIS NOTICE WITH YOUR TELEPHONE NUMBER AND THE BEST TIME FOR US TO CALL ENTERED IN THE BOXES PROVIDED. THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

TAX WITHHELD	$19.00-		
ESTIMATED TAX PAYMENTS	.00		
OTHER PAYMENTS WE RECEIVED	6,341.00-		
TOTAL PAYMENTS		$6,360.00-	
TOTAL TAX ON YOUR TAX RETURN		6,095.00	
OVERPAYMENT OF TAX			$265.00-
TOTAL SUBTRACTIONS FROM OVERPAYMENT			.00
AMOUNT TO BE REFUNDED TO YOU IF YOU OWE NO OTHER TAXES			$265.00

(WE WILL ADD ANY INTEREST WE OWE YOU.)

IF YOU HAVE NOT ALREADY RECEIVED A REFUND CHECK FOR THIS AMOUNT, YOU SHOULD RECEIVE IT IN 30 TO 60 DAYS IF YOU OWE NO OTHER TAXES.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on telephone calls.
Keep this part for your records

CP 42—Overpaid Tax Applied to Other Federal Taxes Owed on Secondary Social Security Number

GAO Concern

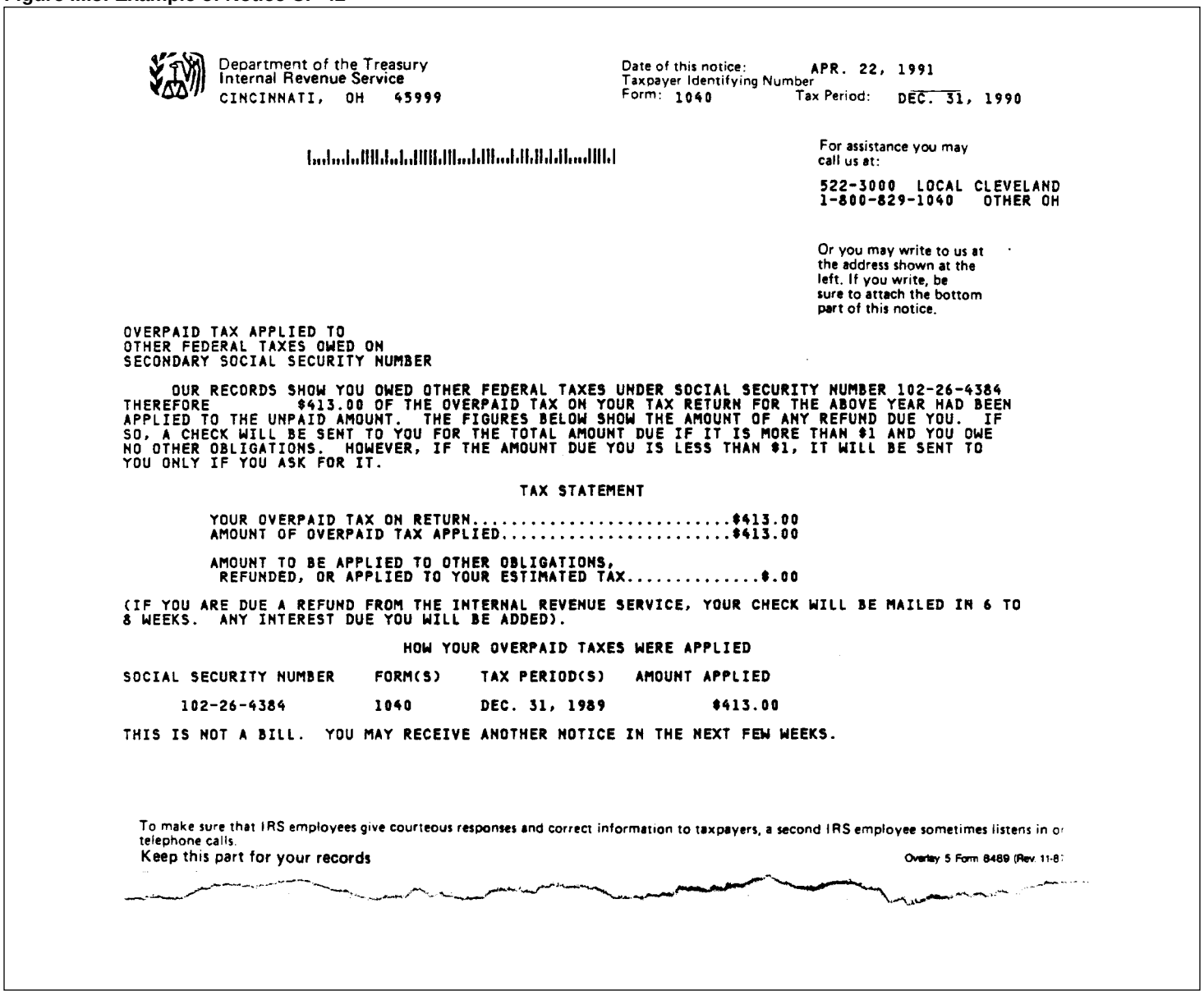
Type of change: specific language.

NCU has proposed a revision to this notice. The currently programmed title is more descriptive than the proposed title, which merely refers to "another debt." The current title specifies "other federal taxes owed." Because "another debt" could refer to debts owed to other federal agencies and IRS already has another separate notice to address such situations, we thought the title should be as specific as possible and refer to the other federal taxes owed.

IRS Response

IRS agreed to consider revising the title of the proposed version of this notice and using the currently programmed title.

Figure III.5: Example of Notice CP 42



Department of the Treasury
Internal Revenue Service
CINCINNATI, OH 45999

Date of this notice: APR. 22, 1991
Taxpayer Identifying Number
Form: 1040 Tax Period: DEC. 31, 1990

For assistance you may call us at:

522-3000 LOCAL CLEVELAND
1-800-829-1040 OTHER OH

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

OVERPAID TAX APPLIED TO
OTHER FEDERAL TAXES OWED ON
SECONDARY SOCIAL SECURITY NUMBER

OUR RECORDS SHOW YOU OWED OTHER FEDERAL TAXES UNDER SOCIAL SECURITY NUMBER 102-26-4384 THEREFORE $413.00 OF THE OVERPAID TAX ON YOUR TAX RETURN FOR THE ABOVE YEAR HAD BEEN APPLIED TO THE UNPAID AMOUNT. THE FIGURES BELOW SHOW THE AMOUNT OF ANY REFUND DUE YOU. IF SO, A CHECK WILL BE SENT TO YOU FOR THE TOTAL AMOUNT DUE IF IT IS MORE THAN $1 AND YOU OWE NO OTHER OBLIGATIONS. HOWEVER, IF THE AMOUNT DUE YOU IS LESS THAN $1, IT WILL BE SENT TO YOU ONLY IF YOU ASK FOR IT.

TAX STATEMENT

YOUR OVERPAID TAX ON RETURN.....$413.00
AMOUNT OF OVERPAID TAX APPLIED.....$413.00

AMOUNT TO BE APPLIED TO OTHER OBLIGATIONS, REFUNDED, OR APPLIED TO YOUR ESTIMATED TAX.....$.00

(IF YOU ARE DUE A REFUND FROM THE INTERNAL REVENUE SERVICE, YOUR CHECK WILL BE MAILED IN 6 TO 8 WEEKS. ANY INTEREST DUE YOU WILL BE ADDED).

HOW YOUR OVERPAID TAXES WERE APPLIED

SOCIAL SECURITY NUMBER	FORM(S)	TAX PERIOD(S)	AMOUNT APPLIED
102-26-4384	1040	DEC. 31, 1989	$413.00

THIS IS NOT A BILL. YOU MAY RECEIVE ANOTHER NOTICE IN THE NEXT FEW WEEKS.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in or telephone calls.

Keep this part for your records

Overlay 5 Form 8489 (Rev. 11-87)

CP 51A—We Figured Your Tax for You—There Is an Amount Due IRS

GAO Concern

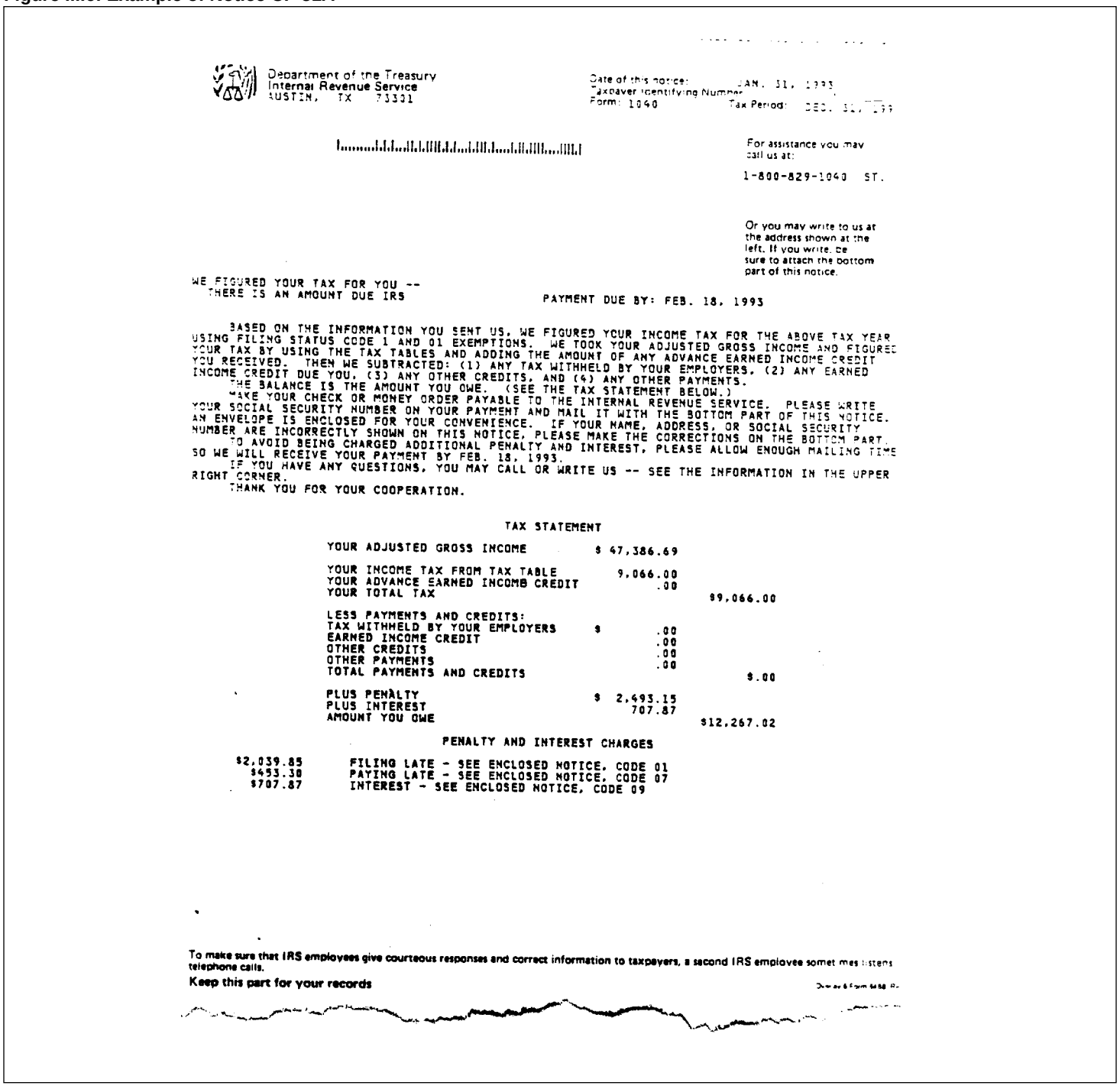
Type of change: additional guidance.

The text of this notice refers to a filing status code. We noted that taxpayers may not understand this code and may be confused. We suggested that IRS use a brief narrative explanation rather than a numerical computer code.

IRS Response

IRS agreed to consider this suggestion.

Figure III.6: Example of Notice CP 51A



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: JAN. 31, 1993
Taxpayer Identifying Number:
Form: 1040 Tax Period: DEC. 31, 199

For assistance you may call us at:

1-800-829-1040 ST.

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

WE FIGURED YOUR TAX FOR YOU --
THERE IS AN AMOUNT DUE IRS

PAYMENT DUE BY: FEB. 18, 1993

BASED ON THE INFORMATION YOU SENT US, WE FIGURED YOUR INCOME TAX FOR THE ABOVE TAX YEAR USING FILING STATUS CODE 1 AND 01 EXEMPTIONS. WE TOOK YOUR ADJUSTED GROSS INCOME AND FIGURED YOUR TAX BY USING THE TAX TABLES AND ADDING THE AMOUNT OF ANY ADVANCE EARNED INCOME CREDIT YOU RECEIVED. THEN WE SUBTRACTED: (1) ANY TAX WITHHELD BY YOUR EMPLOYERS, (2) ANY EARNED INCOME CREDIT DUE YOU, (3) ANY OTHER CREDITS, AND (4) ANY OTHER PAYMENTS.

THE BALANCE IS THE AMOUNT YOU OWE. (SEE THE TAX STATEMENT BELOW.)

MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. PLEASE WRITE YOUR SOCIAL SECURITY NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. IF YOUR NAME, ADDRESS, OR SOCIAL SECURITY NUMBER ARE INCORRECTLY SHOWN ON THIS NOTICE, PLEASE MAKE THE CORRECTIONS ON THE BOTTOM PART.

TO AVOID BEING CHARGED ADDITIONAL PENALTY AND INTEREST, PLEASE ALLOW ENOUGH MAILING TIME SO WE WILL RECEIVE YOUR PAYMENT BY FEB. 18, 1993.

IF YOU HAVE ANY QUESTIONS, YOU MAY CALL OR WRITE US -- SEE THE INFORMATION IN THE UPPER RIGHT CORNER.

THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

YOUR ADJUSTED GROSS INCOME	$ 47,386.69	
YOUR INCOME TAX FROM TAX TABLE	9,066.00	
YOUR ADVANCE EARNED INCOMB CREDIT	.00	
YOUR TOTAL TAX		$9,066.00
LESS PAYMENTS AND CREDITS:		
TAX WITHHELD BY YOUR EMPLOYERS	$ .00	
EARNED INCOME CREDIT	.00	
OTHER CREDITS	.00	
OTHER PAYMENTS	.00	
TOTAL PAYMENTS AND CREDITS		$.00
PLUS PENALTY	$ 2,493.15	
PLUS INTEREST	707.87	
AMOUNT YOU OWE		$12,267.02

PENALTY AND INTEREST CHARGES

$2,039.85	FILING LATE - SEE ENCLOSED NOTICE, CODE 01
$453.30	PAYING LATE - SEE ENCLOSED NOTICE, CODE 07
$707.87	INTEREST - SEE ENCLOSED NOTICE, CODE 09

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee some mes listens telephone calls.

Keep this part for your records

CP 71A—Reminder of Balance Due

GAO Concern 1

Type of change: specific language and sufficient information and detail.

We suggested clarifying both the language and tax statement portion of this notice so taxpayers would have an easier time understanding IRS' computations.

First, the notice states the amount unpaid from prior notices should reflect any credits and payments made since the last notice. We suggested revising the last sentence in the first paragraph to read: "We figured this amount as follows:".

Second, to make this clearer to the taxpayer, we suggested the statement start with the amount due from the last notice. Separate lines could show credits or payments made since that notice. This would make it easier for the taxpayer to identify credits or payments reflected in IRS' records since the last notice.

IRS Response

IRS advised us that they do not maintain a history of taxpayers' prior balances. As payments or adjustments are made, the "balance due" is updated and the prior balance is deleted. However, the NCU Chief noted that IRS may be able to show payments made by the taxpayer since the last notice. This would at least provide the taxpayer with information about whether all payments had been credited to the account. IRS agreed to explore this possibility.

GAO Concern 2

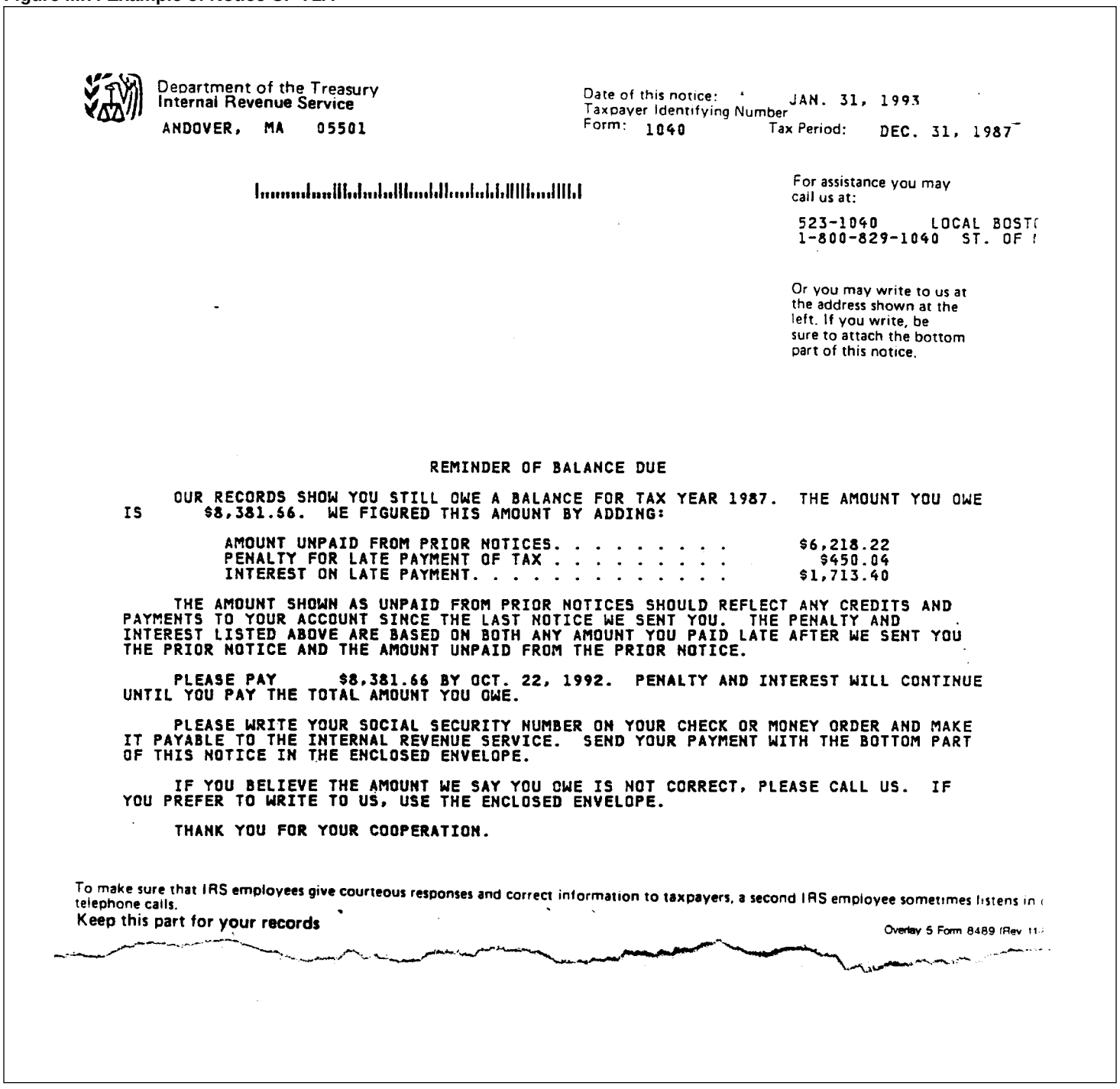
Type of change: appropriate terminology.

We found the second sentence of the second paragraph to be confusing. We suggested revising it to read: "The penalty and interest above are based on amounts you paid late plus amounts unpaid from prior notices."

IRS Response

IRS agreed to consider this suggestion.

Figure III.7: Example of Notice CP 71A



Department of the Treasury
Internal Revenue Service
ANDOVER, MA 05501

Date of this notice: JAN. 31, 1993
Taxpayer Identifying Number
Form: 1040 Tax Period: DEC. 31, 1987

For assistance you may call us at:
523-1040 LOCAL BOST(
1-800-829-1040 ST. OF !

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

REMINDER OF BALANCE DUE

OUR RECORDS SHOW YOU STILL OWE A BALANCE FOR TAX YEAR 1987. THE AMOUNT YOU OWE IS $8,381.66. WE FIGURED THIS AMOUNT BY ADDING:

AMOUNT UNPAID FROM PRIOR NOTICES.	$6,218.22
PENALTY FOR LATE PAYMENT OF TAX	$450.04
INTEREST ON LATE PAYMENT.	$1,713.40

THE AMOUNT SHOWN AS UNPAID FROM PRIOR NOTICES SHOULD REFLECT ANY CREDITS AND PAYMENTS TO YOUR ACCOUNT SINCE THE LAST NOTICE WE SENT YOU. THE PENALTY AND INTEREST LISTED ABOVE ARE BASED ON BOTH ANY AMOUNT YOU PAID LATE AFTER WE SENT YOU THE PRIOR NOTICE AND THE AMOUNT UNPAID FROM THE PRIOR NOTICE.

PLEASE PAY $8,381.66 BY OCT. 22, 1992. PENALTY AND INTEREST WILL CONTINUE UNTIL YOU PAY THE TOTAL AMOUNT YOU OWE.

PLEASE WRITE YOUR SOCIAL SECURITY NUMBER ON YOUR CHECK OR MONEY ORDER AND MAKE IT PAYABLE TO THE INTERNAL REVENUE SERVICE. SEND YOUR PAYMENT WITH THE BOTTOM PART OF THIS NOTICE IN THE ENCLOSED ENVELOPE.

IF YOU BELIEVE THE AMOUNT WE SAY YOU OWE IS NOT CORRECT, PLEASE CALL US. IF YOU PREFER TO WRITE TO US, USE THE ENCLOSED ENVELOPE.

THANK YOU FOR YOUR COOPERATION.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in telephone calls.

Keep this part for your records

Overlay 5 Form 8489 (Rev 11-

Business Master File Notices

CP 101—Correction Notice - Amount Due IRS

GAO Concern

Type of change: clear reference.

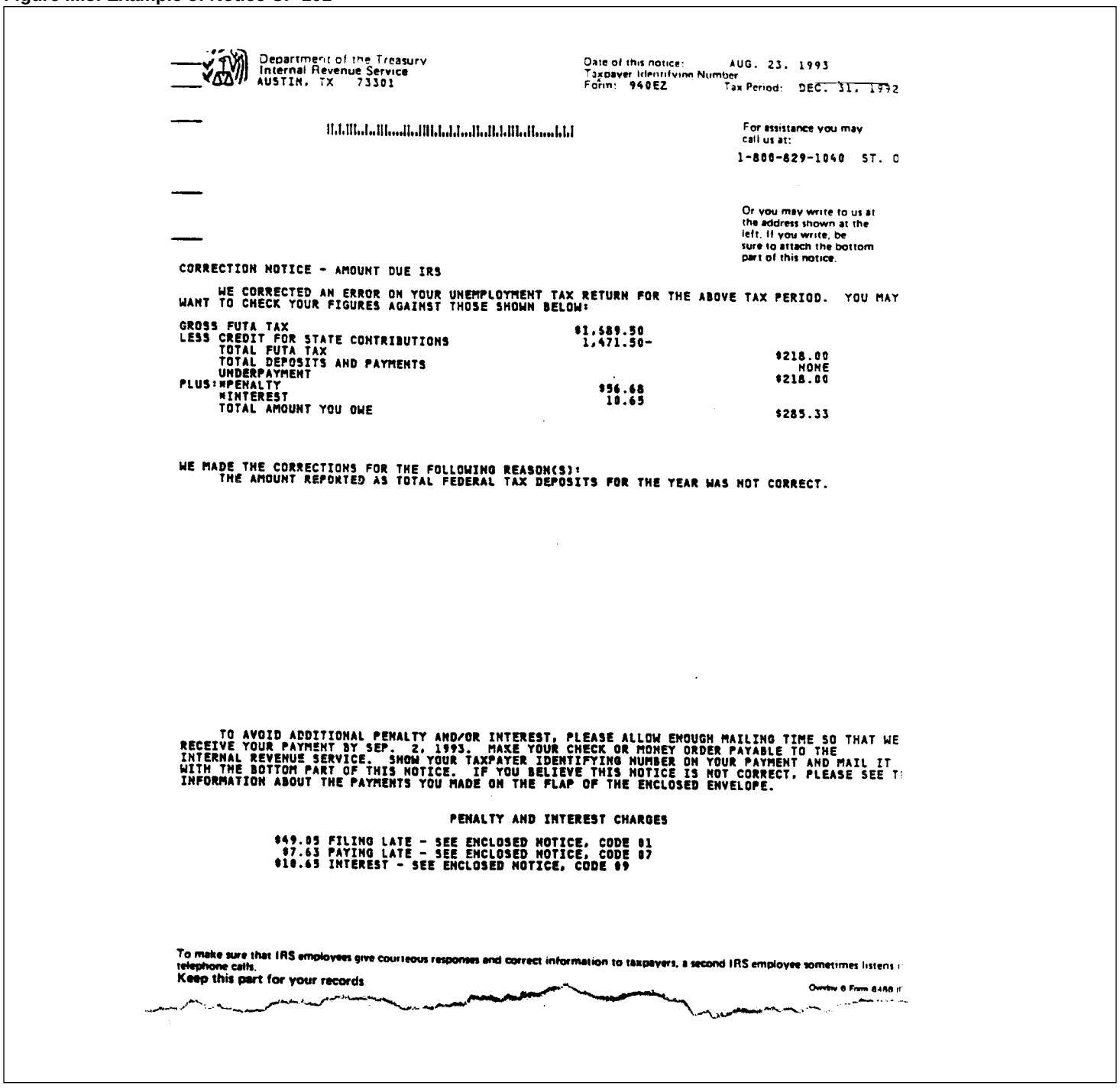
We found the "Credit Balance" and "Underpayment" references in the "Tax Statement of IRS Changes" section of the NCU's revision of this notice confusing. We thought the term Credit Balance suggested that the taxpayer had overpaid the tax and hence, received a credit. Yet the term Underpayment on the next line clearly shows that the taxpayer owes money to IRS. As this is a balance due notice, we suggested eliminating "Credit Balance" and replacing it with a term less likely to confuse taxpayers, such as "Total Credits Applied."

We also noted this problem on another notice, currently in use, the CP 161—a request for payment notice (example not included in this report).

IRS Response

IRS agreed to consider revising this terminology as we suggested.

Figure III.8: Example of Notice CP 101



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23. 1993
Taxpayer Identifying Number
Form: 940EZ Tax Period: DEC. 31. 1992

For assistance you may call us at:
1-800-829-1040 ST. 0

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

CORRECTION NOTICE - AMOUNT DUE IRS

WE CORRECTED AN ERROR ON YOUR UNEMPLOYMENT TAX RETURN FOR THE ABOVE TAX PERIOD. YOU MAY WANT TO CHECK YOUR FIGURES AGAINST THOSE SHOWN BELOW:

GROSS FUTA TAX	$1,589.50	
LESS CREDIT FOR STATE CONTRIBUTIONS	1,471.50-	
TOTAL FUTA TAX		$218.00
TOTAL DEPOSITS AND PAYMENTS		NONE
UNDERPAYMENT		$218.00
PLUS: *PENALTY	$56.68	
*INTEREST	10.65	
TOTAL AMOUNT YOU OWE		$285.33

WE MADE THE CORRECTIONS FOR THE FOLLOWING REASON(S):
THE AMOUNT REPORTED AS TOTAL FEDERAL TAX DEPOSITS FOR THE YEAR WAS NOT CORRECT.

TO AVOID ADDITIONAL PENALTY AND/OR INTEREST, PLEASE ALLOW ENOUGH MAILING TIME SO THAT WE RECEIVE YOUR PAYMENT BY SEP. 2, 1993. MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. IF YOU BELIEVE THIS NOTICE IS NOT CORRECT, PLEASE SEE T INFORMATION ABOUT THE PAYMENTS YOU MADE ON THE FLAP OF THE ENCLOSED ENVELOPE.

PENALTY AND INTEREST CHARGES

$49.05 FILING LATE - SEE ENCLOSED NOTICE, CODE 01
$7.63 PAYING LATE - SEE ENCLOSED NOTICE, CODE 07
$10.65 INTEREST - SEE ENCLOSED NOTICE, CODE 09

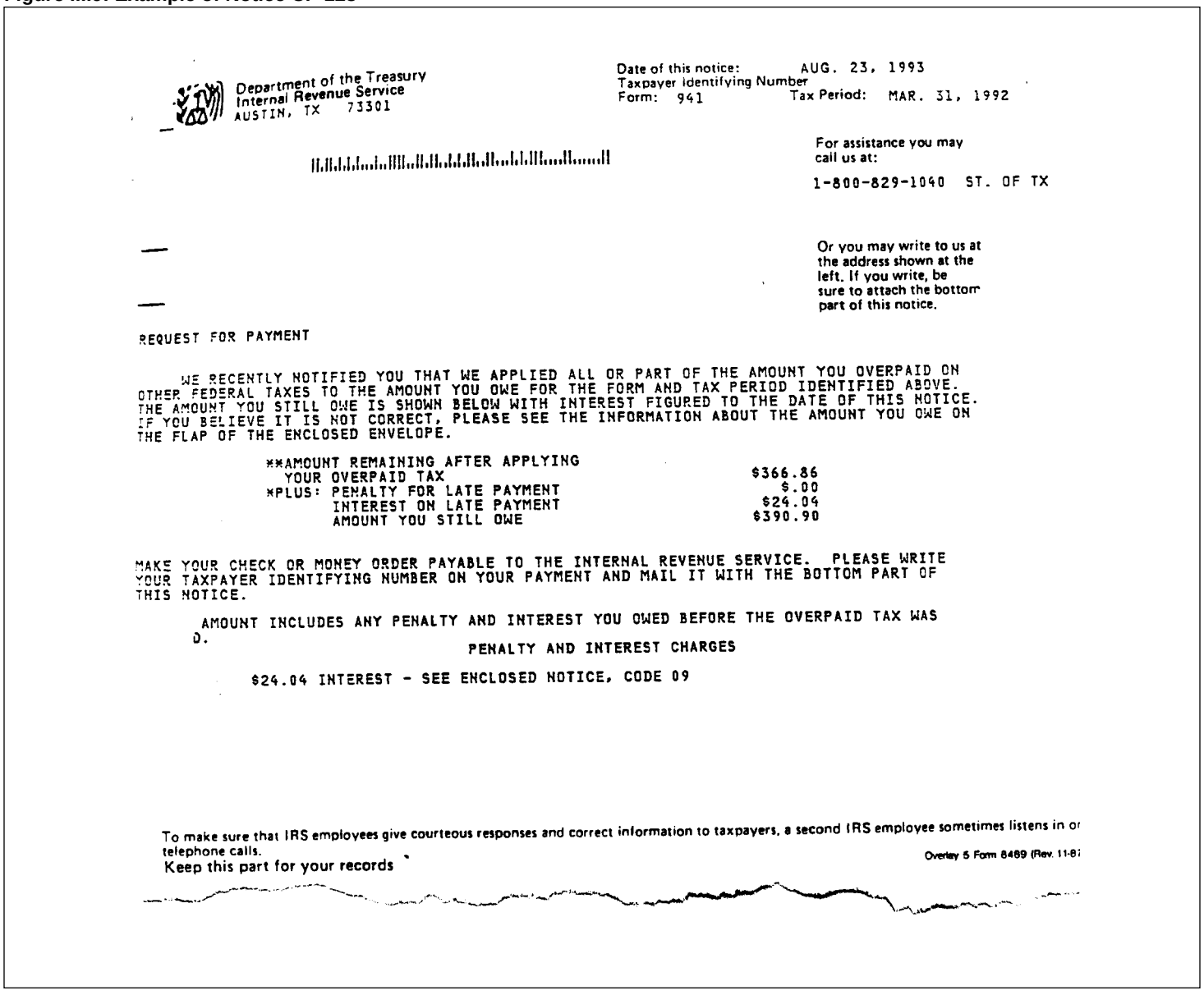
To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens i telephone calls.
Keep this part for your records

Overlay 6 Form 6468 (

CP 128—Request for Payment

GAO Concern 1	Type of change: logical presentation of material. For clarity, we suggested reversing the second paragraph concerning the amount owed and the third paragraph containing payment instructions.
IRS Response	IRS agreed to consider rearranging these paragraphs.
GAO Concern 2	Type of change: clear reference. We questioned why the "penalty for late payment" appeared in the list of charges when the amount charged was zero. We suggested that if the taxpayer was not charged a penalty this line in the statement should be suppressed. We also suggested that if the taxpayer was to be charged a penalty, this fact should be explained in the preceding paragraphs.
IRS Response	IRS advised us that a programming command may be responsible for the presence of the zero balance on the penalty line. IRS agreed it would be preferable to suppress this line if no penalty is to be applied. They agreed to pursue this matter. IRS also agreed to consider adding a brief explanation in the preceding paragraphs if a penalty has been charged.

Figure III.9: Example of Notice CP 128



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: 941 Tax Period: MAR. 31, 1992

For assistance you may call us at:

1-800-829-1040 ST. OF TX

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

REQUEST FOR PAYMENT

WE RECENTLY NOTIFIED YOU THAT WE APPLIED ALL OR PART OF THE AMOUNT YOU OVERPAID ON OTHER FEDERAL TAXES TO THE AMOUNT YOU OWE FOR THE FORM AND TAX PERIOD IDENTIFIED ABOVE. THE AMOUNT YOU STILL OWE IS SHOWN BELOW WITH INTEREST FIGURED TO THE DATE OF THIS NOTICE. IF YOU BELIEVE IT IS NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE FLAP OF THE ENCLOSED ENVELOPE.

**AMOUNT REMAINING AFTER APPLYING YOUR OVERPAID TAX	$366.86
*PLUS: PENALTY FOR LATE PAYMENT	$.00
INTEREST ON LATE PAYMENT	$24.04
AMOUNT YOU STILL OWE	$390.90

MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. PLEASE WRITE YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE.

AMOUNT INCLUDES ANY PENALTY AND INTEREST YOU OWED BEFORE THE OVERPAID TAX WAS D.

PENALTY AND INTEREST CHARGES

$24.04 INTEREST - SEE ENCLOSED NOTICE, CODE 09

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in or telephone calls.

Keep this part for your records

Overlay 5 Form 8489 (Rev. 11-8

CP 156—Reminder of Installment Payment Due IRS

GAO Concern

Type of change: logical presentation of material.

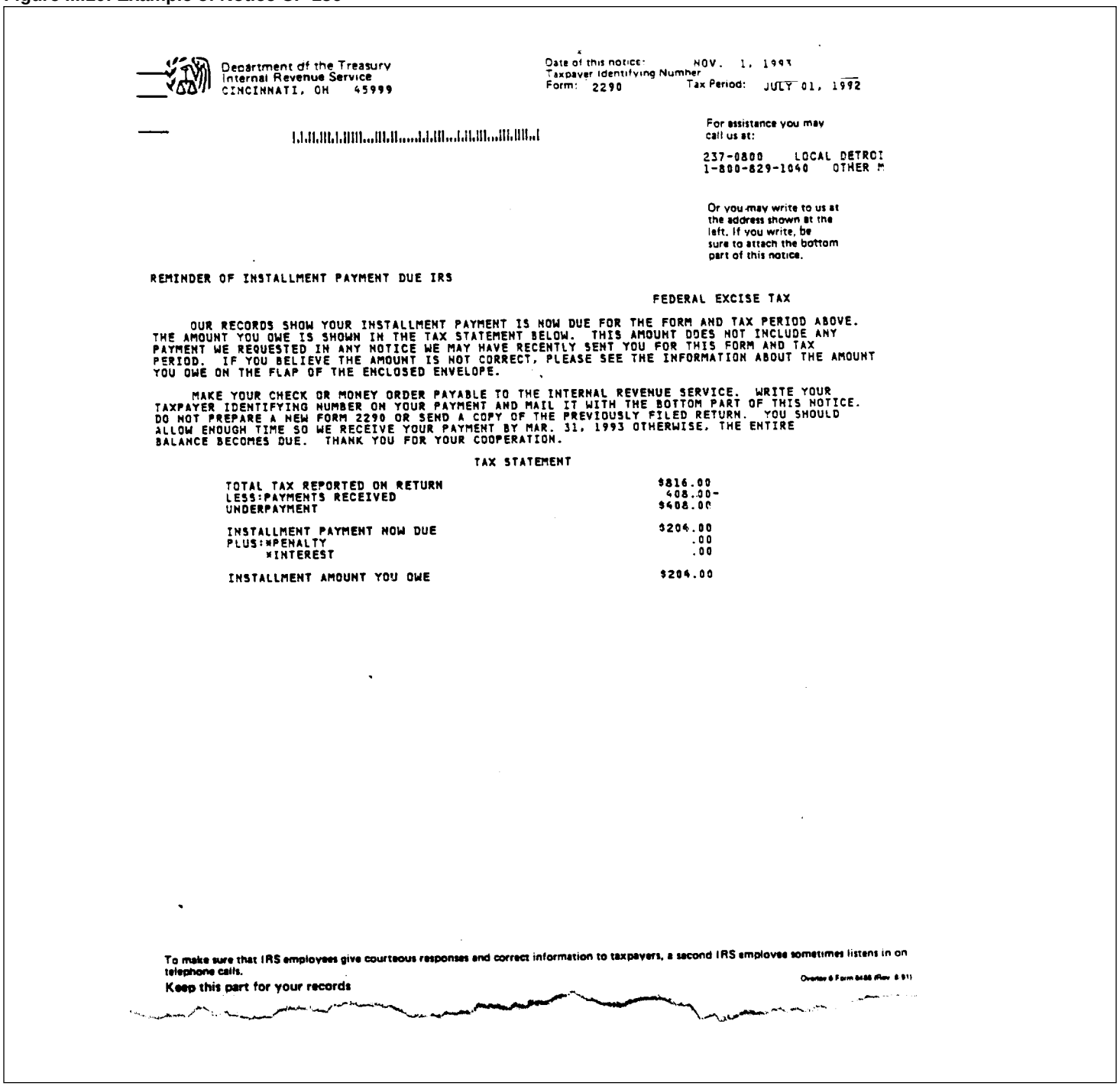
The "Tax Statement" summarizing the status of the taxpayer's account is the last item appearing on this notice. We suggested moving this statement before the payment instructions to enhance clarity.

We also noted this problem on the CP 161 and CP 163, notices reminding taxpayers of balances due. Examples of these notices are not included in this report.

IRS Response

IRS agreed to consider adopting our suggestion.

Figure III.10: Example of Notice CP 156



Department of the Treasury
Internal Revenue Service
CINCINNATI, OH 45999

Date of this notice: NOV. 1, 1993
Taxpayer Identifying Number
Form: 2290 Tax Period: JULY 01, 1992

For assistance you may call us at:

237-0800 LOCAL DETROI
1-800-829-1040 OTHER M

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

REMINDER OF INSTALLMENT PAYMENT DUE IRS

FEDERAL EXCISE TAX

OUR RECORDS SHOW YOUR INSTALLMENT PAYMENT IS NOW DUE FOR THE FORM AND TAX PERIOD ABOVE. THE AMOUNT YOU OWE IS SHOWN IN THE TAX STATEMENT BELOW. THIS AMOUNT DOES NOT INCLUDE ANY PAYMENT WE REQUESTED IN ANY NOTICE WE MAY HAVE RECENTLY SENT YOU FOR THIS FORM AND TAX PERIOD. IF YOU BELIEVE THE AMOUNT IS NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE FLAP OF THE ENCLOSED ENVELOPE.

MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. WRITE YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. DO NOT PREPARE A NEW FORM 2290 OR SEND A COPY OF THE PREVIOUSLY FILED RETURN. YOU SHOULD ALLOW ENOUGH TIME SO WE RECEIVE YOUR PAYMENT BY MAR. 31, 1993 OTHERWISE, THE ENTIRE BALANCE BECOMES DUE. THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

TOTAL TAX REPORTED ON RETURN	$816.00
LESS:PAYMENTS RECEIVED	408.00-
UNDERPAYMENT	$408.00
INSTALLMENT PAYMENT NOW DUE	$204.00
PLUS:*PENALTY	.00
*INTEREST	.00
INSTALLMENT AMOUNT YOU OWE	$204.00

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on telephone calls.

Keep this part for your records

CP 162—Penalty - Partnership Return

GAO Concern

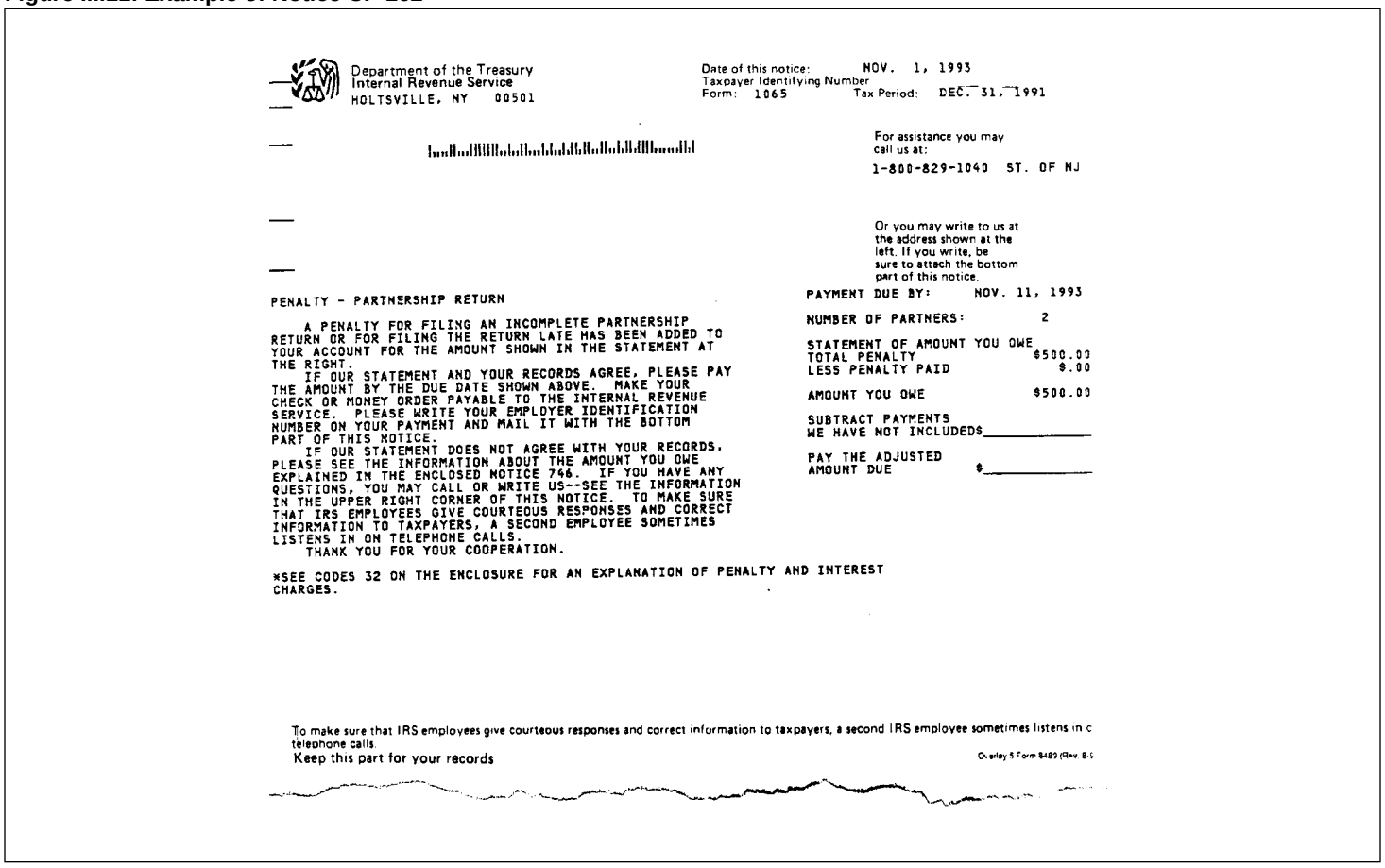
Type of change: sufficient information and detail.

To calculate the penalty, it is essential to know the number of months by which the return was late or considered incomplete. We suggested that IRS provide this information on the notice so the taxpayer can understand why a penalty has been assessed, determine how IRS calculated the penalty, and then decide if they agree the penalty is appropriate.

IRS Response

IRS advised us after the computer calculates the penalty it does not retain a history or any information regarding dates used in that calculation. However, IRS agreed to explore the possibility of inserting the date the return was due and the date it was received. This would allow the taxpayer to make this calculation themselves with the same information available to IRS. IRS said that the notice should specifically indicate whether the penalty is for a late or an incomplete return. IRS also said they are trying to eliminate notices with an "either/or" situation; in this case, the late or incomplete return.

Figure III.11: Example of Notice CP 162



Department of the Treasury
Internal Revenue Service
HOLTSVILLE, NY 00501

Date of this notice: NOV. 1, 1993
Taxpayer Identifying Number
Form: 1065 Tax Period: DEC. 31, 1991

For assistance you may call us at:
1-800-829-1040 ST. OF NJ

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

PENALTY - PARTNERSHIP RETURN

A PENALTY FOR FILING AN INCOMPLETE PARTNERSHIP RETURN OR FOR FILING THE RETURN LATE HAS BEEN ADDED TO YOUR ACCOUNT FOR THE AMOUNT SHOWN IN THE STATEMENT AT THE RIGHT.

IF OUR STATEMENT AND YOUR RECORDS AGREE, PLEASE PAY THE AMOUNT BY THE DUE DATE SHOWN ABOVE. MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. PLEASE WRITE YOUR EMPLOYER IDENTIFICATION NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE.

IF OUR STATEMENT DOES NOT AGREE WITH YOUR RECORDS, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE EXPLAINED IN THE ENCLOSED NOTICE 746. IF YOU HAVE ANY QUESTIONS, YOU MAY CALL OR WRITE US--SEE THE INFORMATION IN THE UPPER RIGHT CORNER OF THIS NOTICE. TO MAKE SURE THAT IRS EMPLOYEES GIVE COURTEOUS RESPONSES AND CORRECT INFORMATION TO TAXPAYERS, A SECOND EMPLOYEE SOMETIMES LISTENS IN ON TELEPHONE CALLS.

THANK YOU FOR YOUR COOPERATION.

PAYMENT DUE BY: NOV. 11, 1993

NUMBER OF PARTNERS: 2

STATEMENT OF AMOUNT YOU OWE
TOTAL PENALTY $500.00
LESS PENALTY PAID $.00

AMOUNT YOU OWE $500.00

SUBTRACT PAYMENTS
WE HAVE NOT INCLUDED $_____

PAY THE ADJUSTED
AMOUNT DUE $_____

*SEE CODES 32 ON THE ENCLOSURE FOR AN EXPLANATION OF PENALTY AND INTEREST CHARGES.

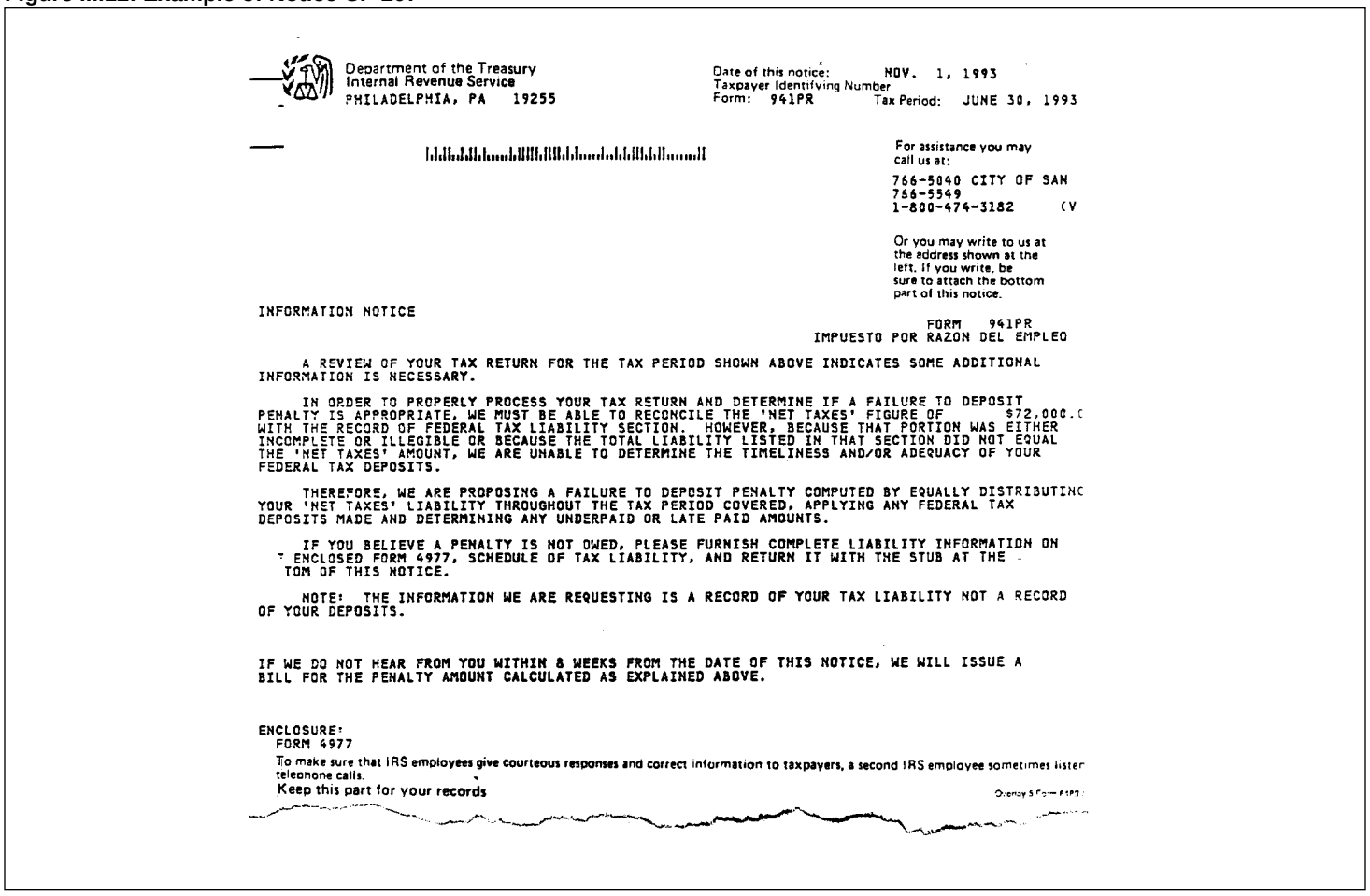
To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in c
telephone calls.
Keep this part for your records

Overlay 5 Form 8489 (Rev. 8-9

CP 207—Information Notice

GAO Concern 1	Type of change: appropriate terminology. We found the level of detail provided in this notice to be overwhelming, particularly as the notice is proposing, not assessing a penalty. We suggested requesting the necessary information from the taxpayer and advising them that if the information is not received within a specified time, that a penalty will then be assessed on the basis of available information.
IRS Response	IRS stated they had already identified the excessive detail in this notice as a concern and raised this matter with Returns Processing, the appropriate functional unit. Although Returns Processing officials regard this information as necessary, IRS agreed to pursue this matter with a Returns Processing task force, which had recently been established to identify and resolve returns processing type problems. IRS indicated that one alternative may be to delay sending a notice until a penalty is actually assessed, rather than when it is proposed.
GAO Concern 2	Type of change: sufficient information and detail. We suggested that the notice contain a record of tax deposits. This would allow taxpayers to identify a discrepancy by reconciling their records of deposits to IRS' records.
IRS Response	IRS advised us that it is not possible for the existing computer and printing equipment to supply this kind of information on a notice. It may be possible with the acquisition of the new equipment under TSM.

Figure III.12: Example of Notice CP 207



Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

Date of this notice: NOV. 1, 1993
Taxpayer Identifying Number
Form: 941PR Tax Period: JUNE 30, 1993

For assistance you may call us at:
766-5040 CITY OF SAN
766-5549
1-800-474-3182 (V

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

INFORMATION NOTICE

FORM 941PR
IMPUESTO POR RAZON DEL EMPLEO

A REVIEW OF YOUR TAX RETURN FOR THE TAX PERIOD SHOWN ABOVE INDICATES SOME ADDITIONAL INFORMATION IS NECESSARY.

IN ORDER TO PROPERLY PROCESS YOUR TAX RETURN AND DETERMINE IF A FAILURE TO DEPOSIT PENALTY IS APPROPRIATE, WE MUST BE ABLE TO RECONCILE THE 'NET TAXES' FIGURE OF $72,000.0 WITH THE RECORD OF FEDERAL TAX LIABILITY SECTION. HOWEVER, BECAUSE THAT PORTION WAS EITHER INCOMPLETE OR ILLEGIBLE OR BECAUSE THE TOTAL LIABILITY LISTED IN THAT SECTION DID NOT EQUAL THE 'NET TAXES' AMOUNT, WE ARE UNABLE TO DETERMINE THE TIMELINESS AND/OR ADEQUACY OF YOUR FEDERAL TAX DEPOSITS.

THEREFORE, WE ARE PROPOSING A FAILURE TO DEPOSIT PENALTY COMPUTED BY EQUALLY DISTRIBUTING YOUR 'NET TAXES' LIABILITY THROUGHOUT THE TAX PERIOD COVERED, APPLYING ANY FEDERAL TAX DEPOSITS MADE AND DETERMINING ANY UNDERPAID OR LATE PAID AMOUNTS.

IF YOU BELIEVE A PENALTY IS NOT OWED, PLEASE FURNISH COMPLETE LIABILITY INFORMATION ON THE ENCLOSED FORM 4977, SCHEDULE OF TAX LIABILITY, AND RETURN IT WITH THE STUB AT THE BOTTOM OF THIS NOTICE.

NOTE: THE INFORMATION WE ARE REQUESTING IS A RECORD OF YOUR TAX LIABILITY NOT A RECORD OF YOUR DEPOSITS.

IF WE DO NOT HEAR FROM YOU WITHIN 6 WEEKS FROM THE DATE OF THIS NOTICE, WE WILL ISSUE A BILL FOR THE PENALTY AMOUNT CALCULATED AS EXPLAINED ABOVE.

ENCLOSURE:
FORM 4977

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listen telephone calls.

Keep this part for your records

CP 210—Statement of Adjustment to Your Account

GAO Concern

Type of change: appropriate terminology.

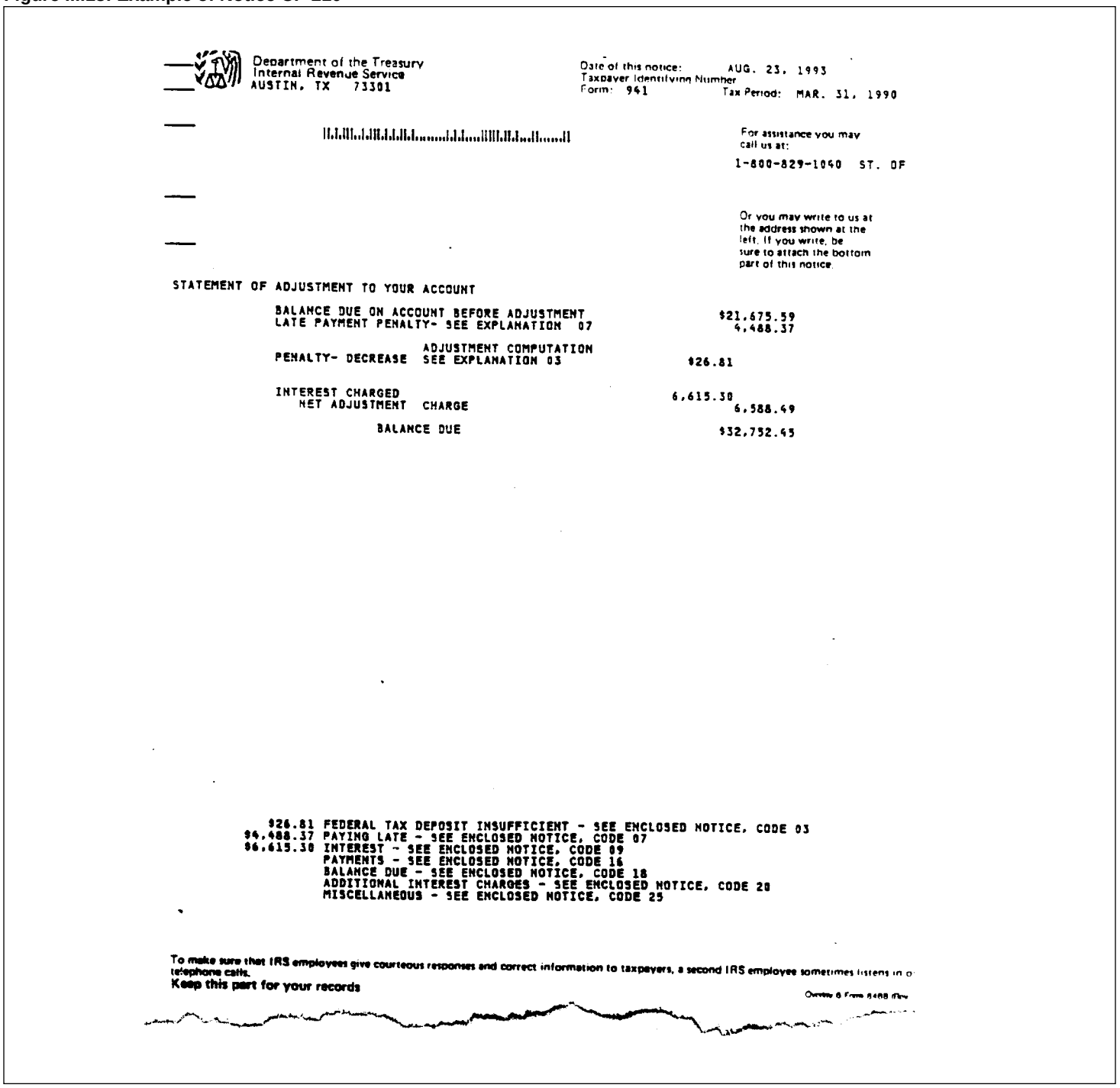
We found that the currently used versions of these notices were too terse and lacked a sufficient explanation for taxpayers. However, we found the NCU's proposed version to be confusing because of an excessive amount of detail. We found the statements relating to the installment agreements and the charges in the computation of change statement to be the most likely ones to confuse taxpayers. We suggested that NCU seek a middle ground so taxpayers were supplied with enough information to respond appropriately but were not overwhelmed with unnecessary details and technical terminology.

We also noted this concern on the CP 220, a balance due adjustment notice.

IRS Response

IRS agreed these notices are troublesome. They agreed to review them again to assess their clarity. NCU is presently working with Returns Processing to simplify these notices.

Figure III.13: Example of Notice CP 210



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: 941 Tax Period: MAR. 31, 1990

For assistance you may call us at:
1-800-829-1040 ST. OF

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

STATEMENT OF ADJUSTMENT TO YOUR ACCOUNT

BALANCE DUE ON ACCOUNT BEFORE ADJUSTMENT		$21,675.59
LATE PAYMENT PENALTY- SEE EXPLANATION 07		4,488.37
ADJUSTMENT COMPUTATION		
PENALTY- DECREASE SEE EXPLANATION 03	$26.81	
INTEREST CHARGED	6,615.30	
NET ADJUSTMENT CHARGE		6,588.49
BALANCE DUE		$32,752.45

$26.81 FEDERAL TAX DEPOSIT INSUFFICIENT - SEE ENCLOSED NOTICE, CODE 03
$4,488.37 PAYING LATE - SEE ENCLOSED NOTICE, CODE 07
$6,615.30 INTEREST - SEE ENCLOSED NOTICE, CODE 09
PAYMENTS - SEE ENCLOSED NOTICE, CODE 16
BALANCE DUE - SEE ENCLOSED NOTICE, CODE 18
ADDITIONAL INTEREST CHARGES - SEE ENCLOSED NOTICE, CODE 20
MISCELLANEOUS - SEE ENCLOSED NOTICE, CODE 25

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in o
telephone calls.
Keep this part for your records

Cut here 6 Form 6498 (Rev

CP 215—Notice of Penalty Charge

GAO Concern

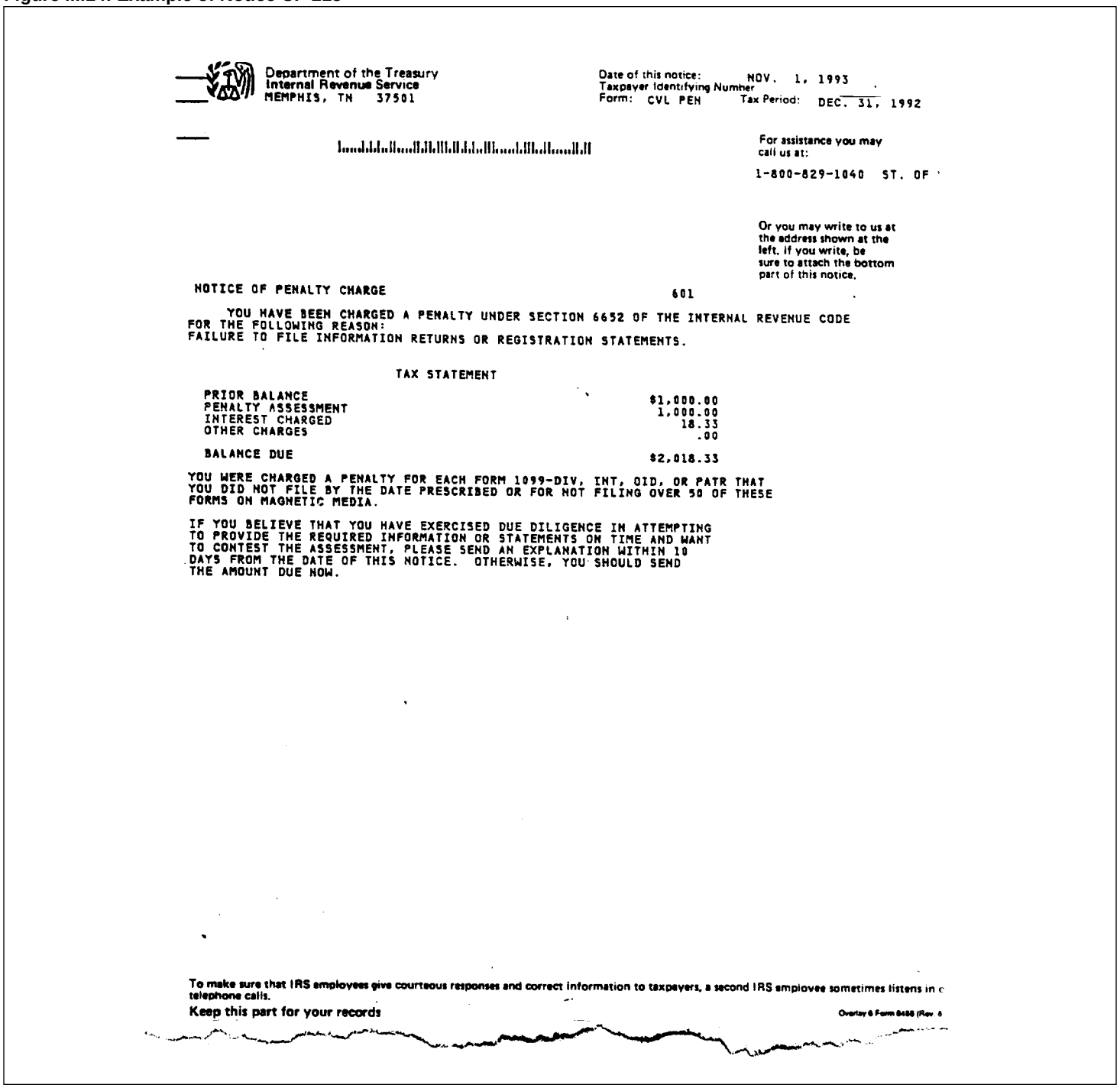
Type of change: sufficient information and detail.

We suggested that IRS provide additional information on the number of forms involved and the period by which they were late. This would clarify IRS' penalty calculation and make the notice easier for the taxpayer to understand.

IRS Response

IRS agreed to consider our suggestion. They explained there is a similar notice—the CP 945, which deals with Form 1099—that is sent in the same envelope. IRS is now working to combine these notices into a single notice. However, the computer programming involved in this change is complex and time consuming. IRS is not sure when this effort will be completed.

Figure III.14: Example of Notice CP 215



Department of the Treasury
Internal Revenue Service
MEMPHIS, TN 37501

Date of this notice: NOV. 1, 1993
Taxpayer Identifying Number
Form: CVL PEN Tax Period: DEC. 31, 1992

For assistance you may call us at:

1-800-829-1040 ST. OF

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

NOTICE OF PENALTY CHARGE 601

YOU HAVE BEEN CHARGED A PENALTY UNDER SECTION 6652 OF THE INTERNAL REVENUE CODE FOR THE FOLLOWING REASON:
FAILURE TO FILE INFORMATION RETURNS OR REGISTRATION STATEMENTS.

TAX STATEMENT

PRIOR BALANCE	$1,000.00
PENALTY ASSESSMENT	1,000.00
INTEREST CHARGED	18.33
OTHER CHARGES	.00
BALANCE DUE	$2,018.33

YOU WERE CHARGED A PENALTY FOR EACH FORM 1099-DIV, INT, OID, OR PATR THAT YOU DID NOT FILE BY THE DATE PRESCRIBED OR FOR NOT FILING OVER 50 OF THESE FORMS ON MAGNETIC MEDIA.

IF YOU BELIEVE THAT YOU HAVE EXERCISED DUE DILIGENCE IN ATTEMPTING TO PROVIDE THE REQUIRED INFORMATION OR STATEMENTS ON TIME AND WANT TO CONTEST THE ASSESSMENT, PLEASE SEND AN EXPLANATION WITHIN 10 DAYS FROM THE DATE OF THIS NOTICE. OTHERWISE, YOU SHOULD SEND THE AMOUNT DUE NOW.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in c telephone calls.

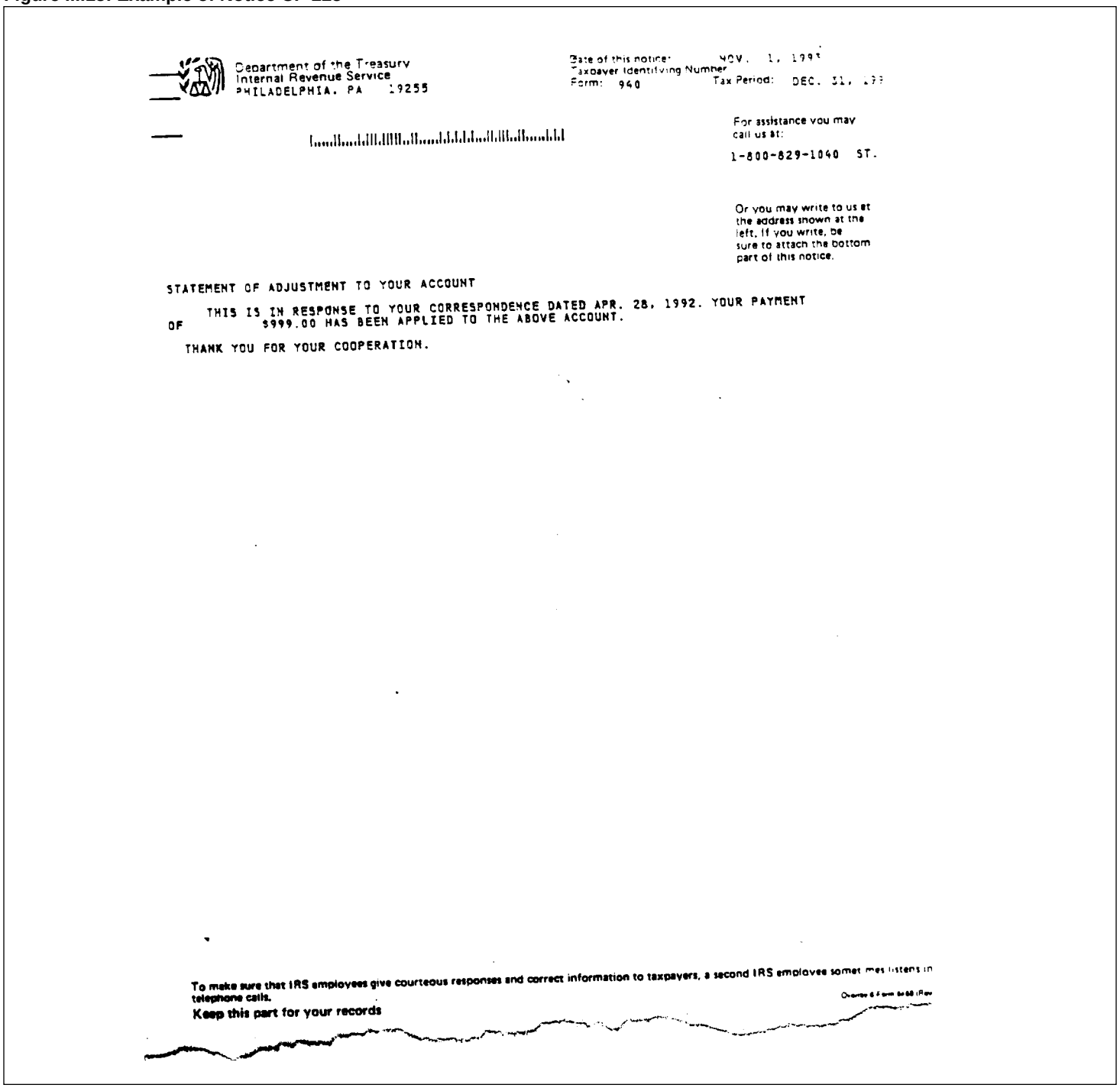
Keep this part for your records

Overlay 6 Form 6488 (Rev. 6

CP 225—Statement of Adjustment to Your Account

GAO Concern	Type of change: specific language. We suggested that the title of this notice be supplemented with "Statement of Your Account—Payment Applied". This change would alert the taxpayer and would also be consistent with other IRS notices.
IRS Response	IRS agreed to consider this suggestion.

Figure III.15: Example of Notice CP 225



Department of the Treasury
Internal Revenue Service
PHILADELPHIA, PA 19255

Date of this notice: NOV. 1, 1992
Taxpayer Identifying Number
Form: 940 Tax Period: DEC. 31, 19[illegible]

For assistance you may call us at:
1-800-829-1040 ST.

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

STATEMENT OF ADJUSTMENT TO YOUR ACCOUNT

THIS IS IN RESPONSE TO YOUR CORRESPONDENCE DATED APR. 28, 1992. YOUR PAYMENT OF $999.00 HAS BEEN APPLIED TO THE ABOVE ACCOUNT.

THANK YOU FOR YOUR COOPERATION.

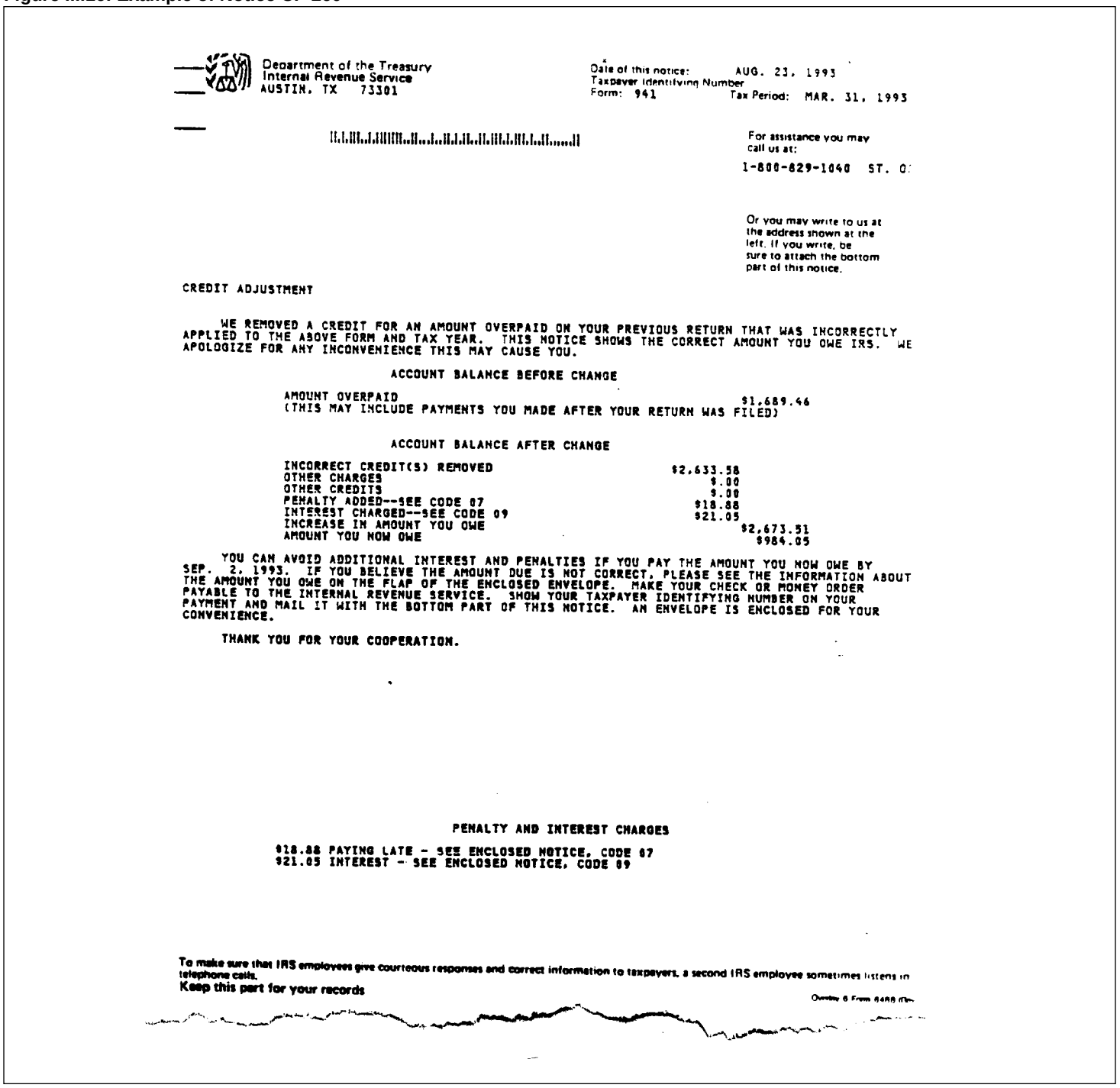
To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in telephone calls.

Keep this part for your records

CP 260—Credit Adjustment

GAO Concern	Type of change: appropriate terminology. We found the first sentence of this notice to be confusing. We suggested revising it to read: "We removed a credit for an amount that was incorrectly applied to your account for Form (xxxx) for Tax Year (xxxx)."
IRS Response	IRS said NCU had not performed an in-depth review of this notice and indicated they would consider this suggestion.

Figure III.16: Example of Notice CP 260



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: 941 Tax Period: MAR. 31, 1993

For assistance you may call us at:
1-800-829-1040 ST. O

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

CREDIT ADJUSTMENT

WE REMOVED A CREDIT FOR AN AMOUNT OVERPAID ON YOUR PREVIOUS RETURN THAT WAS INCORRECTLY APPLIED TO THE ABOVE FORM AND TAX YEAR. THIS NOTICE SHOWS THE CORRECT AMOUNT YOU OWE IRS. WE APOLOGIZE FOR ANY INCONVENIENCE THIS MAY CAUSE YOU.

ACCOUNT BALANCE BEFORE CHANGE

AMOUNT OVERPAID (THIS MAY INCLUDE PAYMENTS YOU MADE AFTER YOUR RETURN WAS FILED)	$1,689.46

ACCOUNT BALANCE AFTER CHANGE

INCORRECT CREDIT(S) REMOVED	$2,633.58	
OTHER CHARGES	$.00	
OTHER CREDITS	$.00	
PENALTY ADDED--SEE CODE 07	$18.88	
INTEREST CHARGED--SEE CODE 09	$21.05	
INCREASE IN AMOUNT YOU OWE		$2,673.51
AMOUNT YOU NOW OWE		$984.05

YOU CAN AVOID ADDITIONAL INTEREST AND PENALTIES IF YOU PAY THE AMOUNT YOU NOW OWE BY SEP. 2, 1993. IF YOU BELIEVE THE AMOUNT DUE IS NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE FLAP OF THE ENCLOSED ENVELOPE. MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. SHOW YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

THANK YOU FOR YOUR COOPERATION.

PENALTY AND INTEREST CHARGES

$18.88 PAYING LATE - SEE ENCLOSED NOTICE, CODE 07
$21.05 INTEREST - SEE ENCLOSED NOTICE, CODE 09

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in telephone calls.

Keep this part for your records

CP 263—Acknowledgement of Receipt Form 2553 Election by a Small Business Corporation

GAO Concern

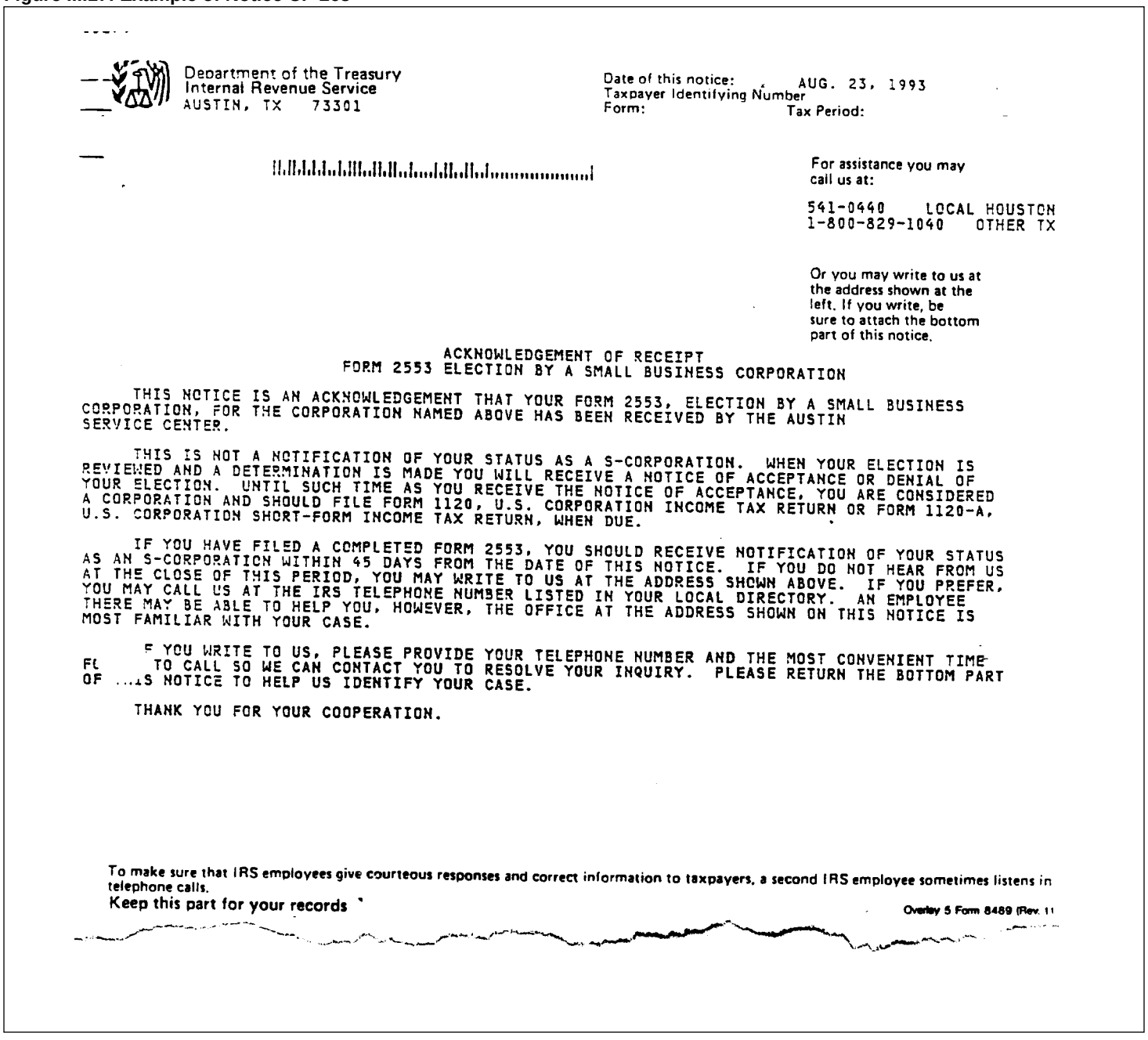
Type of change: sufficient information and detail.

We questioned why this notice suggests that the taxpayer call the IRS number in their local directory rather than provide a number for the office that is most familiar with the taxpayer's case.

IRS Response

IRS said they are required to put both a local and toll-free number on notices. However, they acknowledged that including both the local and toll-free numbers may be confusing, as the "local" number may actually be a long-distance call. IRS hopes to clarify that local numbers may be long distance but that taxpayers are more likely to reach a representative familiar with their case than those calling the toll-free number.

Figure III.17: Example of Notice CP 263



Department of the Treasury
Internal Revenue Service
AUSTIN, TX 73301

Date of this notice: AUG. 23, 1993
Taxpayer Identifying Number
Form: Tax Period:

For assistance you may call us at:

541-0440 LOCAL HOUSTON
1-800-829-1040 OTHER TX

Or you may write to us at the address shown at the left. If you write, be sure to attach the bottom part of this notice.

ACKNOWLEDGEMENT OF RECEIPT
FORM 2553 ELECTION BY A SMALL BUSINESS CORPORATION

THIS NOTICE IS AN ACKNOWLEDGEMENT THAT YOUR FORM 2553, ELECTION BY A SMALL BUSINESS CORPORATION, FOR THE CORPORATION NAMED ABOVE HAS BEEN RECEIVED BY THE AUSTIN SERVICE CENTER.

THIS IS NOT A NOTIFICATION OF YOUR STATUS AS A S-CORPORATION. WHEN YOUR ELECTION IS REVIEWED AND A DETERMINATION IS MADE YOU WILL RECEIVE A NOTICE OF ACCEPTANCE OR DENIAL OF YOUR ELECTION. UNTIL SUCH TIME AS YOU RECEIVE THE NOTICE OF ACCEPTANCE, YOU ARE CONSIDERED A CORPORATION AND SHOULD FILE FORM 1120, U.S. CORPORATION INCOME TAX RETURN OR FORM 1120-A, U.S. CORPORATION SHORT-FORM INCOME TAX RETURN, WHEN DUE.

IF YOU HAVE FILED A COMPLETED FORM 2553, YOU SHOULD RECEIVE NOTIFICATION OF YOUR STATUS AS AN S-CORPORATION WITHIN 45 DAYS FROM THE DATE OF THIS NOTICE. IF YOU DO NOT HEAR FROM US AT THE CLOSE OF THIS PERIOD, YOU MAY WRITE TO US AT THE ADDRESS SHOWN ABOVE. IF YOU PREFER, YOU MAY CALL US AT THE IRS TELEPHONE NUMBER LISTED IN YOUR LOCAL DIRECTORY. AN EMPLOYEE THERE MAY BE ABLE TO HELP YOU, HOWEVER, THE OFFICE AT THE ADDRESS SHOWN ON THIS NOTICE IS MOST FAMILIAR WITH YOUR CASE.

IF YOU WRITE TO US, PLEASE PROVIDE YOUR TELEPHONE NUMBER AND THE MOST CONVENIENT TIME TO CALL SO WE CAN CONTACT YOU TO RESOLVE YOUR INQUIRY. PLEASE RETURN THE BOTTOM PART OF THIS NOTICE TO HELP US IDENTIFY YOUR CASE.

THANK YOU FOR YOUR COOPERATION.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in telephone calls.

Keep this part for your records

Overlay 5 Form 8489 (Rev. 11

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