

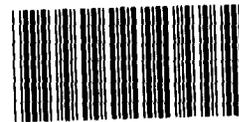
GAO

Report to the Assistant to the  
Commissioner (Taxpayer Ombudsman),  
Internal Revenue Service

September 1991

# TAX ADMINISTRATION

## Opportunities to Improve IRS Correspondence on Withholding Allowances



144938

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General Government Division

B-245387

September 27, 1991

Mr. Damon O. Holmes  
Assistant to the Commissioner (Taxpayer  
Ombudsman)  
Internal Revenue Service

Dear Mr. Holmes:

During the course of work we did on the 1991 tax return filing season, we obtained copies of some correspondence the Internal Revenue Service (IRS) sends taxpayers when it questions the number of withholding allowances being claimed on Form W-4 or the taxpayer's claim of exemption from withholding. After reviewing these copies, we had some ideas as to how this correspondence might be clarified. These ideas might be of interest as you seek to improve IRS' overall service to the public.

## Correspondence Requesting More Information to Justify Withholding Allowances

The first piece of correspondence is a standard letter that IRS uses to ask taxpayers for more information justifying their withholding allowances. (See app. I.) IRS sends such a letter in either of two circumstances: (1) to verify a taxpayer's claim of exemption from withholding or (2) to verify the number of withholding allowances claimed. In our opinion, the letter would be clearer if it were more specific as to which of the two situations applies. Also, the letter tells the taxpayer to complete Form 6450 (Questionnaire to Determine Exemption From Withholding) even if the taxpayer is not seeking an exemption from withholding. We believe taxpayer confusion and burden could be minimized if Form 6450 was required only when an exemption is being sought.

## Correspondence Notifying Taxpayer of Excessive Withholding Allowances

The second piece of correspondence is a sample of the type of letter IRS sends taxpayers when it determines that withholding allowances are excessive. (See app. II.) The letter notifies the taxpayer that the employer has been directed to withhold as if the taxpayer were single and claiming no allowances. The flow and message of the letter are disjointed and confusing. Following are problems we found with the letter and proposed solutions:

- The first sentence of the second paragraph suggests that details will follow on why the taxpayer's Form W-4 does not meet the requirements. However, the explanation—that the W-4 was disallowed because the taxpayer failed to respond to IRS' notice—does not appear until the

fourth paragraph. The letter would be clearer if this explanation directly followed or was part of the first paragraph and if the first sentence of the second paragraph was deleted.

- The rest of the second paragraph is very confusing. It says that IRS has told the employer to withhold as if the taxpayer had no withholding allowances until the employer receives a new W-4 from the taxpayer "claiming no more than that number." What would be the purpose of a taxpayer filing a new W-4 with the employer if the taxpayer could claim no more than the zero allowances that the employer is already using as a basis for withholding? Also, the taxpayer is told he/she can claim "less than this number," which is nonsensical if the taxpayer can claim no more than zero allowances.
- The last sentence in the third paragraph says that the employer has been told not to honor any new W-4 provided by the taxpayer but will instead send it to IRS. The taxpayer is left wondering, in our opinion, what will happen after the new W-4 is sent to IRS. We think that it would help if a sentence was added telling the taxpayer that if IRS decides the new W-4 is okay it will tell the employer to honor the new form.
- The fifth paragraph tells the taxpayer that IRS is going to assess a \$500 penalty unless the taxpayer provides a reasonable basis for statements made on the W-4. The paragraph says nothing, however, about any deadline for providing that information. We believe a deadline should be added to that paragraph.

## IRS Has Introduced New Technology for Composing Correspondence

In 1988, we reported on problems with correspondence being generated by the adjustments/correspondence branches in IRS' service centers.<sup>1</sup> One of the problems we noted in that report was that tax examiners in the adjustments/ correspondence branches composed letters by selecting paragraphs from an array of standard paragraphs and were not able to review completed letters to make sure they made sense. The letter in appendix II was generated by a service center collection branch. It is our understanding that employees in that branch use the same process described in our 1988 report to generate letters like the one in appendix II.

Since our 1988 report, technology has been introduced that helps tax examiners compose and review a complete letter, and IRS has expanded its monitoring of correspondence quality. We understand that the new

<sup>1</sup>Tax Administration: IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence (GAO/GGD-88-101, July 13, 1988).

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technology was recently authorized for use by all service center correspondence functions but that budget limitations have precluded all functions from obtaining it. We also understand that beginning September 1, 1991, IRS will begin testing a new quality measurement system for all service center correspondence, including that generated by the collection branches.

The new technology and expanded quality measurement are positive steps. However, until they are fully implemented, it is important that situations such as those described above are minimized.

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## Objective, Scope, and Methodology

Our objective was to identify ways IRS could improve its correspondence to taxpayers relating to Form W-4. Our views on the correspondence were based on a review of some form letters IRS sends taxpayers and discussions with IRS staff in the National Office on the status of changes to IRS' letter writing technology and its monitoring of correspondence quality.

We did our work from May to August 1991 in accordance with generally accepted government auditing standards. Cognizant IRS officials reviewed a draft of this report and said they agreed with its contents.

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We are sending copies of this report to various congressional committees, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix III. Please contact me on (202) 272-7904 if you have any questions.

Sincerely yours,



Paul L. Posner  
Associate Director,  
Tax Policy and Administration  
Issues

# Sample IRS Letter Requesting More Information to Justify Withholding Allowances

05-20-91 07:33AM FROM IRS-COLLECTION BR.

PO4



Department of the Treasury  
Internal Revenue Service

M

DATE OF THIS LETTER: 01/22/91

SOCIAL SECURITY NUMBER:

EMPLOYER:

FORM W-4 DATED: 06/27/90

FORM W-4 CLAIMED: EXEMPT

DEAR [REDACTED]

WE ARE REVIEWING YOUR FORM W-4, EMPLOYEE'S WITHHOLDING ALLOWANCE CERTIFICATE, THAT YOUR EMPLOYER SENT US AND WE NEED MORE INFORMATION TO VERIFY IT.

PLEASE COMPLETE THE ENCLOSED FORMS 6450 AND W-4, INCLUDING THE WORKSHEET, AND RETURN THEM TO US WITHIN 15 DAYS OF THE DATE OF THIS LETTER. IF YOU DO NOT RESPOND, WE MUST ADVISE YOUR EMPLOYER TO DISREGARD YOUR FORM W-4 AND WITHHOLD TAX AS IF YOU WERE SINGLE, CLAIMING ZERO WITHHOLDING ALLOWANCES. THIS WILL INCREASE THE AMOUNT OF FEDERAL INCOME TAX WITHHELD FROM YOUR PAYCHECK.

INTERNAL REVENUE CODE PROVIDES A \$500 CIVIL PENALTY FOR MAKING FALSE STATEMENTS ABOUT WITHHOLDING. IT ALSO PROVIDES ADDITIONAL PENALTIES FOR WILLFULLY FILING A FALSE FORM W-4 OR FAILING TO SUPPLY INFORMATION THAT WOULD RESULT IN MORE TAX WITHHELD.

IF YOU HAVE QUESTIONS, YOU MAY WRITE, OR CALL US WEEKDAYS BETWEEN 9:00 AM AND 3:30 PM AT (606) 292-5617.

PLEASE NOTE THAT THIS IS NOT AN EXAMINATION OF YOUR FEDERAL INCOME TAX RETURN.

THANK YOU FOR YOUR COOPERATION.

- ENCLOSURES:
- FORM W-4
  - FORM 6450
  - ENVELOPE
  - NOTICE 853
  - PUBLICATION 1

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DETACH HERE

# Sample IRS Letter Notifying Taxpayer of Excessive Withholding Allowances

 Department of the Treasury  
Internal Revenue Service

In reply refer to: 1771509000  
Apr. 12, 1991 LTR 1385C  
0000 00 000  
INPUT Op 05321

Form W-4 Dated: Oct. 13, 1989  
Form W-4 Claimed: 11  
Employer: [REDACTED]

Dear Taxpayer:

We have completed our review of your Form W-4, Employee's Withholding Allowance Certificate, that your employer sent us according to section 31.3402(f)(2)-1(g) of the Employment Tax Regulations.

Your Form W-4 does not meet the requirements of section 3402 of the Internal Revenue Code and the related Employment Tax Regulations for the reason(s) given below. Therefore, we have directed your employer to disregard (or continue to disregard) your Form W-4 and withhold as if you were Single and claiming 0 withholding allowance(s) until he or she receives a new Form W-4 from you claiming no more than that number of withholding allowances. If you choose to claim less than this number, you may do so.

To file a new form claiming more than that number of withholding allowances, or claiming exemption from withholding, you must furnish a written statement explaining your change in circumstances or any other reasons justifying the change. Send your new Form W-4 and your supporting statements directly to our office or give it to your employer. If you send the Form W-4 to us, attach it to a copy of this letter. If you give it to your employer, he or she has been instructed not to honor it, but will immediately send us a copy of your new Form W-4 and supporting statement.

Your Form W-4 is not acceptable because you did not reply to our request for information dated Dec. 28, 1990 and we could not verify the information on your form.

Internal Revenue Code section 6682 allows assessment of a \$500 civil penalty for false information with respect to withholding. Based on the information available to us we will assess the \$500 penalty, unless you provide a reasonable basis for the statements made on your Form W-4.

If you agree with our determination, you do not need to take any further action. However, if you have any questions, you may call us weekdays between 6:00 a.m. and 3:30 p.m. at [REDACTED] This is not a toll free number so you may prefer to write us.

Appendix II  
Sample IRS Letter Notifying Taxpayer of  
Excessive Withholding Allowances



Department of the Treasury  
Internal Revenue Service

Apr. 12. 1991 LTR 1385C 1771509000  
0000 00 000  
input of [redacted] 05322

Attach a copy of this letter to your reply. Also, please provide your current address, telephone number, and best time to call in case we need more information.

Thank you for your cooperation.

Sincerely yours,

[redacted]  
Chief, Collection Branch

Enclosures:  
Copy of this letter  
Envelope

In reply refer to: INTERNAL REVENUE SERVICE

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# Major Contributors to This Report

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General Government  
Division, Washington,  
D.C.

David Attianese, Assistant Director, Tax Policy and Administration  
Issues

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Cincinnati Regional  
Office

Robert Lidman, Issue Area Manager



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