

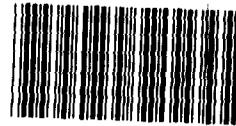
GAO

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

March 1993

SOCIAL SECURITY

IRS Tax Identity Data Can Help Improve SSA Earnings Records



148791





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

Human Resources Division

B-240818

March 29, 1993

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Each year, millions of workers pay social security taxes on earnings that cannot be credited to their social security accounts because the Social Security Administration (SSA) does not have sufficient information to identify the correct accounts for these earnings. As a result, the workers to whom these uncredited earnings belong may not receive the full social security benefits to which they are entitled. Despite SSA's efforts to address the problem of uncredited earnings, the number of reports and the amount of such earnings continues to grow.

You initially asked our office to determine whether the Internal Revenue Service (IRS) has information that would allow SSA to identify the owners of uncredited earnings. Specifically, you asked about an IRS process that collects additional taxpayer identification information as a condition for mailing out income tax refunds. After beginning work on your request, we also agreed to develop information on the possibility of SSA using IRS data files to help identify spouses who never reported surname changes to SSA.

Background

To effectively administer social security and federal income tax collection programs, SSA and IRS, respectively, need to be able to accurately identify individuals. SSA needs an accurate and up-to-date record of every worker's annual earnings because eligibility and benefits for the social security entitlement programs (Retirement, Survivors, and Disability Insurance) are based on the average lifetime earnings of each covered worker. IRS needs accurate records on individuals' earnings to assure that individuals properly pay federal income taxes owed. Both agencies use a person's surname combined with his or her unique social security number (SSN) to maintain individual records for program administration purposes.

SSA Credits Earnings to Individual Accounts

To be able to determine a worker's average lifetime earnings, SSA establishes an account that identifies the worker by name and SSN. Workers' earnings are reported annually to SSA so that it can update their accounts. SSA screens the surname and SSN on the earnings report against

its control file of names and assigned SSN's (known as the numident file) to validate that an account exists for the person identified on the report.

If a valid account is identified, the earnings are credited to it. If a reported SSN and name do not match exactly, SSA employs a series of computer edit routines to identify transposition errors in the SSN, minor differences in surname spelling, or unreported surname changes.

Errors in identification can occur for several reasons.

- Employees may report an incorrect SSN to an employer or the employer may incorrectly record an SSN on its payroll records. Sometimes employees do not have their own SSN and either provide their employer with a fictitious SSN or use another person's SSN.
- For work purposes, persons may begin to use a different name or spell their name differently than when they established their social security account. Often, women do not notify SSA of surname changes following marriage. Also, name construction rules used by various ethnic groups do not always conform to the traditional name construction pattern of first, middle, and last name.

Earnings reports that do not pass SSA validation routines are recorded in a "suspense file" of uncredited earnings. Each year, SSA places millions of earnings reports in its suspense file. Over the next several ensuing years, SSA undertakes various initiatives to identify the workers to whom the uncredited earnings belong. These include corresponding with the worker or employer, periodically checking the numident file for subsequent reports of name changes, and visually comparing names on the uncredited earnings reports with names on the numident file.

Eventually, any resolution of remaining reports becomes dependent on individuals initiating the correction of reporting problems. In all, since 1937, about 183 million earnings reports worth over \$165 billion have accumulated in the suspense file as of June 1992. Appendix I shows how this file has grown since 1987.

IRS Checks Taxpayer Identity

IRS needs the correct surname and SSN on annual individual income tax returns so that it can correctly process the return, collect any additional tax due, or refund any overpaid taxes. Before processing about 115 million individual income tax returns submitted annually, IRS compares the surname and SSN shown on the tax return with that shown on SSA's

numident file. If the surname and SSN of the first person shown on the tax return—the primary filer—agrees with SSA's record, IRS processes the tax return and records the return data to the primary taxpayer's account located on the valid segment of IRS's master file.

If the surname and SSN of the primary filer do not agree with the numident file, IRS determines whether an account with that same information has been established on the invalid segment of its master file. If it has, the processing of the return is completed. If it has not, IRS establishes one, withholds any refund due, and corresponds with the taxpayers in question. In this notice IRS requests the taxpayer to verify or correct the name and SSN used on the tax return. For tax year 1989, IRS established over 1 million new invalid accounts.

IRS also compares the second or spouse's name and SSN on the tax return against SSA's numident file. Detected errors in or omissions of the spouse's name or SSN reported on the tax return do not change how IRS processes the tax return. In these cases, IRS corresponds with the spouses requesting them to review their latest social security card and correct any errors in their name and SSN used on their tax return. IRS directs spouses who claim that the name and SSN on their return are correct to contact SSA to resolve any errors in SSA's official identity record.

Results in Brief

Through routine tax administration activities, IRS obtains taxpayer identity data that could help SSA resolve uncredited earnings recorded in its suspense file. In our opinion, this information, which is required by IRS as a condition for paying tax refunds, has the potential to greatly benefit SSA resolution efforts. IRS reports show that in 1989 over 776,000 taxpayers responded to its requests about the identity question to obtain a release of their tax refunds. IRS, however, does not retain the taxpayer responses, and we were unable to estimate the potential suspense file resolution value to SSA.

Spouse names from certain joint tax returns would also help SSA credit earnings to workers' accounts. IRS data could be helpful when SSA's crediting problems relate to unreported changes in surnames. With this data, we estimate that SSA could resolve about 79,000 uncredited earnings cases valued at \$556 million for tax year 1989 alone.

Scope and Methodology

To address your questions and explore additional ways SSA could use IRS taxpayer identification information, we interviewed IRS and SSA officials involved with resolving taxpayer identity problems. For tax year 1989, we selected a random sample of cases contained in SSA's suspense file where spouses' earnings were in question. We examined the names provided on tax returns, the numident file, and uncredited earnings reports, and made judgments about whether the tax return name could help to identify the owner of the uncredited earnings.

Our work was performed at SSA and IRS headquarters between August 1990 and November 1992. See appendix II for further information on the scope and methodology of our work.

Taxpayer Responses to Obtain Refunds Could Benefit SSA Efforts to Credit Earnings

Responses to IRS from primary filers about the accuracy of the name and SSN used on their tax returns could greatly benefit SSA efforts in resolving uncredited earnings. IRS sends more than 1 million notices each year to primary filers who use a name and SSN on their tax return that do not agree with SSA's numident file.

The notice advises taxpayers about the identification problem and asks them to compare the name and SSN on their social security card with those used on their tax return. Taxpayers, who find that the names do not agree because they have been changed, are told to notify SSA of the name change. Taxpayers who find that the names and SSNs on their tax return agree with their social security card are told to contact SSA so that it can make sure its records are correct.

The IRS notice contains a tear off stub that must be completed and returned to IRS. On the stub, a taxpayer indicates whether their name and number matched their social security card. If the name and SSN do not match, the taxpayer is asked to report the name and number as they appear on their social security card. Taxpayers are told that any tax refunds they are due will be sent about 8 weeks after IRS receives their responses and that failure to reply will cause indefinite delays.

The retention of refunds until identification problems are addressed appears to create a significant incentive for taxpayers to address the problems. Unfortunately, IRS keeps no record of the responses from these taxpayers. IRS has no detailed information on the taxpayers that reported changes in the names and SSNs on the stubs. As responses are received at its service centers, IRS staff take any action called for by the response,

release the refunds, and destroy the responses. IRS reports show that more than 776,000 taxpayers responded to obtain the release of their refunds in 1989.

Spouse Names Reported on Tax Returns Can Help SSA Resolve More Uncredited Earnings Cases

The spouse names reported to IRS on annual tax returns can also help SSA resolve some uncredited earnings cases. As previously noted, SSA computer systems compare the SSN and surname on the earnings reports they receive with information in the numident file before SSA credits earnings to a social security account. Among the alternative routines SSA uses to sort out identity problems are steps designed to resolve problems caused by unreported changes in surnames that can arise from changes in marital status.

For example, if SSA determines that the SSN on the problem earnings report is a valid number, its computers next check the numident file to determine whether the SSN was issued to a woman. If it was, SSA compares the first four letters of the first name and the middle initial on the earnings report with comparable information on the numident file. If the comparison produces an agreement, the earnings will be credited to the account indicated by the SSN despite the difference in surnames.

Another alternative routine exists to overcome the problem where the wage report belonging to a woman contains a surname, but only a first and middle initial. SSA compares these initials with comparable initials on the numident file. If a match can be found for both initials, the earnings will be recorded to the SSN.

Our review of earnings recorded in the suspense file shows that earnings reports often lack sufficient name data or have errors that defeat these alternative routines. For example, persons often provide derivatives of their formal first name to their employers like Dottie for Dorothy, or Liz for Elizabeth, which differ from the first name shown on their numident record. Often employers when preparing earnings reports use only one initial rather than the entire first name and middle initial. Many other people do not have or consistently use a middle name or middle initial. Unless sufficient name information appears on the earnings report, the alternative validation routines will not operate.

To test the value of IRS's name information to SSA's earnings resolution efforts, we compared names and SSNs in SSA's suspense file with spouses' names and SSNs on 1989 joint tax returns that were also invalid

combinations. We identified more than 162,000 uncredited earnings reports with the same SSN as reported by spouses on their 1989 tax returns. This indicated that some spouses potentially had 1989 earnings for which they had not received credit and not reported name changes to SSA.

From these matched cases, we selected a random statistical sample of 360 uncredited earnings reports for evaluation. For each case, we compared the names using the same SSN from three sources: the uncredited earnings report, the tax return, and the numident file. Using SSA's alternative edit routine criteria and the additional IRS name information to make a more informed judgment, we believe that SSA could resolve about 50 percent of these cases. Based on this sample, we estimate that the additional name data from the tax return would permit SSA to resolve about 79,000 additional earnings reports in the 1989 suspense file totaling more than \$556 million in earnings.¹

SSA's final wage report resolution effort, visually comparing the name on the uncredited wage report with the name on the numident file, could resolve an unknown number of these cases. In particular, SSA would likely resolve cases where the computer is unable to recognize the use of a derivative first name and some cases involving spelling and name construction problems. However, visually comparing the names cannot resolve cases where the earnings report shows only a surname plus one initial.

Essentially, the IRS data provides name information that can be used to resolve problems caused by (1) the use of derivative names on earnings reports; (2) nonreported names on earnings reports; (3) nontraditional names; and (4) transposition of first, middle and surnames. Table 1 provides examples of 1989 uncredited earnings reports that we believe could be resolved with the IRS tax return identity information.² In each of the case examples, all sources of identification have the same SSN.

¹The confidence intervals for these estimates at the 95-percent confidence level are 79,000 cases \pm 9,000, and \$556 million \pm \$132 million.

²The names and dollar values presented in the following sections are fictitious to protect the privacy of the individuals in our sample. The examples, however, closely reflect the circumstances in the actual cases we reviewed. Any resemblance to actual persons is purely coincidental.

Table 1: Examples Showing How the IRS Identification Information Can Help SSA Resolve Uncredited Earnings Cases

Case examples	Name on		
	Worker earnings record	IRS tax return	SSA numident file
Earnings report uses a derivative first name; \$20,200 in uncredited earnings ^a	Trish Lafair	Patricia G. Lafaireau	Patricia Grace Deangelo
Earnings report contains only first name initial; \$28,500 in uncredited earnings ^b	M. Plane	Mary Plane	Mary Alice White
Earnings report has no middle initial; \$3,700 in uncredited earnings ^c	Elizabeth German	Elizabeth L. German	Elizabeth Louise Wiley
Inconsistent name spelling; \$8,100 in uncredited earnings ^d	Misa T. Nen Chen	Win M. Chen	Whin Misa Rho
Transposition of names; \$6,600 in uncredited earnings ^e	Mugfo, J.	Jess A. Mugford	Jess Alva Henry

^aThis report failed SSA's alternative validation edit because the first four letters of the first name on the earnings report did not match the first four letters of the first name on numident.

^bThe alternative validation routine will not operate because the earnings report used only one initial for the first name.

^cThe alternative validation routine will not operate because the earnings report shows no middle initial.

^dSSA validation edits will not operate because of the different name construction and inconsistent spellings.

^eSSA validation edits do not recognize the apparent name transposition on the earnings report and do not operate.

Conclusion

Through routine tax administration activities, IRS obtains identification information that can assist SSA efforts to credit earnings to workers' accounts. By holding up tax refunds when it encounters taxpayer identification problems, IRS creates a strong incentive for persons to respond to its notices and correct identification problems. If IRS were to retain the responses from these taxpayers and provide them to SSA, SSA could use the information to correct its records. It would also facilitate assessment of the value of this process to SSA earnings crediting efforts.

Spouse names on joint tax returns can also help SSA efforts to correct identification problems in certain earnings reports. The additional name information from tax returns, already available to SSA, could supplement SSA's ongoing efforts to correct these types of problems.

Recommendations to the Commissioners of Social Security and Internal Revenue

We recommend that the Commissioners of Social Security and Internal Revenue work together to conduct a study evaluating the extent to which additional uncredited earnings reports can be resolved by using data taxpayers send to IRS to obtain the release of their tax refunds.

We also recommend that SSA use the spouse name information IRS currently provides to SSA to supplement ongoing efforts to resolve unidentified earnings cases.

Agency Comments

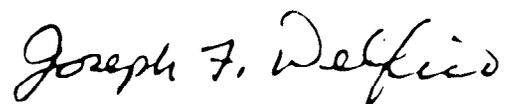
In commenting on a draft of this report, both SSA and IRS reacted favorably to our recommendations. Regarding our recommendation to conduct a joint study, SSA agreed that a study is needed. SSA said that a primary concern is whether IRS could electronically transmit to SSA the taxpayer responses about their identity. SSA believes that manually handling a workload of this size could be a substantial effort and impact heavily on administrative costs. IRS said that, if such a study is needed, it would cooperate with SSA in the evaluation.

In addition, SSA and IRS noted that there are legal restrictions on disclosing tax data that need to be addressed. We recognize that the Internal Revenue Code limits the disclosure of tax data. However, it also authorizes IRS to disclose information returns under certain conditions. One of these conditions is for the purpose of having an effective returns processing program. Thus, while the disclosure issue needs to be fully considered, the type of information discussed in this report has, historically, been considered disclosable.

With regard to the second recommendation in our draft report concerning the exchange and use of spousal names from tax returns, SSA said it will work with IRS to obtain spouse name information. According to IRS, SSA now has the ability to access spousal name information from the IRS Individual Master Ferret File. Thus, we have revised our recommendation to reflect that SSA should use this IRS data file to supplement its current resolution efforts. (See apps. III and IV for the full text of SSA and IRS comments.)

As agreed with your office, we are sending copies of this report to IRS, SSA, and other interested parties. We also will make copies available to others upon request. Please call me at (202) 512-7215 if you or your staff have any questions. Other major contributors to this report are listed in appendix IV.

Sincerely yours,



Joseph F. Delfico
Director, Income Security Issues

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Abbreviations

IRS	Internal Revenue Service
SSA	Social Security Administration
SSN	social security number

Statistics on SSA's Suspense File

Table I.1: Growth of SSA Suspense File (1987-92)

As of June	Size and value of suspense file			
	Individual earnings reports		Uncredited earnings	
	Number (millions)	Growth rate (percent)	Earnings value (millions)	Growth rate (percent)
1987	166.5		\$108,971	
1988	172.6	3.7	\$127,871	17.3
1989	178.1	3.2	\$138,435	8.3
1990	176.8	(0.7)	\$152,540	10.2
1991	179.6	1.6	\$160,410	5.2
1992	182.9	1.8	\$165,183	3.0

Source: SSA.

Scope and Methodology

To determine whether identification information on tax returns could help the Social Security Administration resolve uncredited earnings cases, we interviewed SSA and Internal Revenue Service officials. These interviews were to determine how invalid identities affect agency operations, the procedures followed by each agency to resolve problems with identity data, and the results of their efforts to resolve identity problems.

To examine the file of spouse identity data, we requested that IRS prepare a file containing all the spouse names and social security numbers on 1989 tax returns that did not agree with the names or social security numbers reflected on SSA's numident file. We matched the IRS prepared file (containing 4.5 million names) against SSA's 1989 suspense file (containing 3.9 million uncredited earnings reports) to identify the possible instances where spouses had uncredited earnings. We eliminated from further review all cases where the social security numbers were not legitimate.

We next constructed a record containing the name on the uncredited earnings report, the spouse name on the tax return, and the name or names on the SSA's official name record for each social security number where we found a match between SSA and IRS records. From this universe of more than 162,000 cases, we selected a random sample of 360 cases. We visually compared the names from the three records and made a judgment about whether the reported earnings did in fact belong to the spouse listed on the tax return.

To determine the growth of uncredited earnings in SSA's suspense file, we obtained SSA reports and calculated the yearly net increase in the number and dollar value of uncredited earnings reports submitted between June 1987 through June 1992.

We conducted our review between August 1990 and November 1992 primarily at SSA and IRS headquarters in accordance with generally accepted government auditing standards. The assignment was inactive from February 1991 through January 1992. During this period, we waited for IRS to prepare the requested data base and for the originally assigned staff to become available to reactivate the assignment.

Comments From the Social Security Administration



THE COMMISSIONER OF SOCIAL SECURITY
BALTIMORE MARYLAND 21235

MAR 1 1993

Mr. Joseph F. Delfico
Director, Income Security
Issues
General Accounting Office
Washington, D.C. 20548

Dear Mr. Delfico:

Enclosed are two copies of the Social Security Administration's comments on the U.S. General Accounting Office's Draft Report, "Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings Records," dated January 5, 1993.

We appreciate the opportunity to comment. Please let us know if we may be of further assistance.

Sincerely,


Louis D. Enoff
Acting Commissioner
of Social Security

Enclosures 2

CC:
Honorable Dan Rostenkowski
Bryan B. Mitchell

**Appendix III
Comments From the Social Security
Administration**

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION ON THE GENERAL
ACCOUNTING OFFICE DRAFT REPORT, "SOCIAL SECURITY: IRS TAX
IDENTITY DATA CAN HELP IMPROVE SSA EARNINGS RECORDS"

General Comments

We appreciate the efforts of the General Accounting Office (GAO) in determining whether information received by the Internal Revenue Service (IRS) from taxpayers with whom it corresponds could be helpful in resolving uncredited earnings reports in SSA's suspense file. SSA is unable to credit the earnings from the reports because it does not have sufficient information to identify the correct accounts.

Entitlement to Social Security benefits and the amount of benefits paid are based on lifetime earnings. Uncredited earnings, which can adversely affect entitlement and benefits, are a major concern to SSA. The Agency has many ongoing efforts to increase public awareness of the importance of accurate reporting. In addition, SSA is currently involved in a major national public education campaign to promote accurate wage reporting. Some recent initiatives include:

- o Annual Employer Payroll Reporting Conferences, a joint Federal/private sector forum to share reporting information;
- o Pamphlets for employers and employees to promote accurate reporting, for use in conferences, seminars, and workshops;
- o Working directly with labor unions that represent industries and professional groups where specific wage reporting problems have been identified;
- o Establishing a "help desk," served by a single purpose telephone number, to specifically assist the business community with payroll issues and wage reporting requirements;
- o Encouraging the public to check the accuracy of their reported annual earnings by using SSA's Personal Earnings and Benefit Estimate Statement; and
- o Making software standards available earlier, in both hardcopy and online format, so that earnings reporters have more leadtime to make software modifications.

Initiatives specifically focusing on reporting married name changes, an issue highlighted in GAO's review, include:

- o Distributing to county clerk offices and vital statistics offices nationwide poster materials which emphasize reporting name changes due to marriage; and

**Appendix III
Comments From the Social Security
Administration**

- o Using the services of an advertising agency to target national women's magazines and trade papers with large scale pictorials and accompanying articles.

Following are specific comments on the report recommendations.

GAO Recommendation

SSA and IRS should conduct a joint study to evaluate to what extent additional uncredited earnings reports can be resolved if IRS shared with SSA the information taxpayers provide to IRS when verifying their identity on tax returns.

SSA Comment

We agree that further information is needed to determine whether the data provided by taxpayers would be useful to SSA and will consider conducting a joint study with IRS. A primary concern is whether IRS could transmit the information to SSA electronically, since a manual workload could be substantial and impact heavily on administrative costs. Also, the issue of tax file confidentiality would need to be addressed.

GAO Recommendation

SSA and IRS should amend their existing agreement governing the exchange and use of tax information between the two agencies to provide for the routine sharing of spouse names on joint tax returns.

SSA Comment

We agree. SSA will work with IRS to amend the agreement to include the routine sharing of spouse names on joint tax returns.

Technical Comments

Page 2, second paragraph

In the last sentence, "surname" would be more appropriate than "name" since the initial matching effort made to SSA's records is by surname and Social Security number.

Page 2, last paragraph, and Page 3, first paragraph

"Surname" in both places should be changed to "name." The former is restrictive in describing the Numident file data, which includes such identifying information as date of birth, parents' names, etc.

Now on p. 1.

Now on pp. 1 and 2.

**Appendix III
Comments From the Social Security
Administration**

Now on p. 2.

Page 4, second paragraph

We believe the second sentence should be clarified as follows (revised language underlined): "Since 1937, about 183 million earnings reports worth over \$165 billion have accumulated in the suspense file as of June 1992.

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

MAR 01 1993

Mr. Joseph F. Delfico
Director, Income Security Issues
Human Resources Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Delfico:

Thank you for the opportunity to review your recent draft report entitled, "Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings Records." The report recommends that the Social Security Administration (SSA) and the Internal Revenue Service conduct a joint study to evaluate whether additional SSA records can be resolved through the use of IRS records.

We would be happy to cooperate with SSA in a study if such a study is necessary. We are willing to share any data that SSA is legally entitled to receive in order to fulfill its responsibilities and to meet our obligations under the IRS/SSA Memorandum of Understanding on Combined Annual Wage Reporting.

In addition, we would like to note that SSA now has the ability to access IRS' Individual Master Ferret File (IMFF) which includes name and social security number information that can be useful in validating SSNs and verifying the identity of taxpayers for whom SSA has received wage reports.

We hope you find these comments useful.

Best regards.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael P. Dolan".

Michael P. Dolan
Acting Commissioner

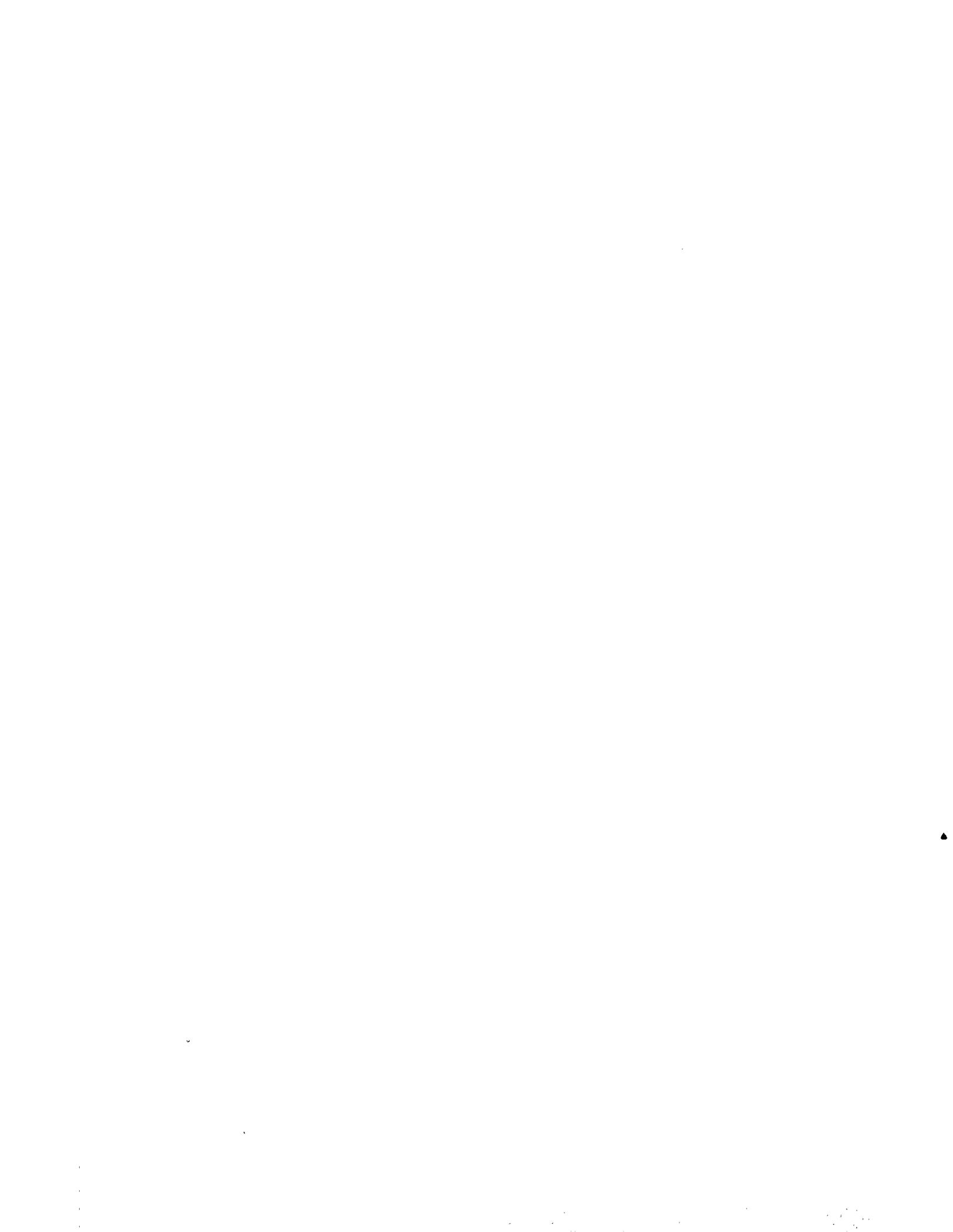
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