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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable Thomas N. Kindness

Information Reporting Requirements For State And Local Income Tax Refunds

Section 6050E of the Internal Revenue Code requires that state and local governments provide written statements to taxpayers specifying the income tax refund amounts paid them in the prior year. The statements must be mailed to taxpayers during the month of January following the year the refunds were paid. Section 6050E was enacted in 1982 to increase taxpayer compliance with the requirement that certain state and local tax refunds be reported as income for federal tax purposes.

At the request of Congressman Thomas N Kindness, GAO compared the costs to the states to implement section 6050E to the federal revenues expected to be derived from improved compliance with the tax laws governing the reporting of state and local tax refunds. GAO found that states' costs to comply with the requirement may be as much as or more than the federal revenues gained from it. GAO also evaluated a proposed bill--H R 625--which would allow the states to include the written statements with refund checks in whatever month these checks were mailed. GAO found that H R 625 would further reduce states' costs without adversely affecting estimated federal revenues. GAO thus believes that, since the January mailing would produce only marginal estimated federal tax revenues, H R 625 is a reasonable alternative to present law.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-214133

The Honorable Thomas N. Kindness
United States House of Representatives

Dear Congressman Kindness:

This report responds to your August 12, 1983, request for an evaluation of the benefits to the federal government and the costs to the states of implementing the refund reporting requirements of section 6050E of the Internal Revenue Code versus the benefits and costs of implementing your bill, H.R. 625, which would amend that section.

Section 6050E was enacted in 1982 to help increase taxpayers' compliance with the requirement to report state and/or local income tax refunds on federal income tax returns. In this regard, taxpayers generally are required to report the amount of any state or local tax refund on federal tax returns if they deducted the tax on the prior year federal return. Section 6050E requires state and local governments to (1) furnish information returns to the Internal Revenue Service (IRS) on state and/or local income tax refunds (or credits and offsets to income taxes) of \$10 or more paid to refund recipients and (2) provide recipients a written statement specifying the refund amounts paid them. The written statements must be sent to recipients in January following the year the refunds were issued.

H.R. 625 would amend section 6050E to allow state and local governments to mail written statements along with refund checks, rather than specifically during the following January. H.R. 625 would not, however, change the requirement that state and local governments furnish IRS with information returns.

In our evaluation of the costs and benefits that would accrue under section 6050E and H.R. 625, we compared the states' estimates of what it would cost them to comply with the reporting requirements with the Department of the Treasury's estimates of the federal revenues expected to be generated from implementing the requirements. In making our comparison, we did not develop our own estimates of states' costs; we relied on the cost estimates developed by state tax administration officials.

We did, however, develop new estimates of federal revenues. In developing our revenue estimates, we used the same methodology and assumptions Treasury used but we substituted updated compliance data which was not available to Treasury at the time it made its estimates. The results of our evaluation are summarized below. The scope and methodology of our review, as well as the results of our evaluation, are discussed in more detail in the appendix.

Our analysis of Treasury's revenue estimates showed that the section 6050E reporting requirements may not produce the revenue amounts originally anticipated by the Treasury Department. This is because data which became available after Treasury made its estimates indicates that past refund reporting compliance rates were higher than Treasury originally estimated. Similarly, we also noted that states' costs to comply with the January reporting requirement will be less than the states originally anticipated. This is because IRS has proposed regulations which will allow states to mail statements in January only to those taxpayers who itemized state taxes on prior year federal tax returns. Still, even taking IRS' proposed regulations into account, it appears that the cost to the states to implement the refund reporting requirement may approach or exceed the federal tax revenue amounts to be derived from implementing the requirement.

Based on our analysis, it appears that the January mailing requirement would produce marginal increases in federal tax revenues. Furthermore, IRS plans to use state-provided information returns to set up a computer matching compliance program to detect taxpayers who fail to report their state income tax refunds. This compliance program should help maintain improved voluntary compliance rates concerning the proper reporting of state and local tax refunds for federal purposes regardless of when the statements are mailed to taxpayers. Accordingly, we believe that H.R. 625 is a reasonable alternative to section 6050E.

We did not ask for agency comments but did discuss the facts presented in this report with Treasury and IRS officials. They agree with the facts presented. As arranged with your office, we are sending copies of this report to interested parties and making copies available to others on request.

Sincerely yours,



William J. Anderson
Director

INFORMATION REPORTING REQUIREMENTS FOR STATE
AND LOCAL INCOME TAX REFUNDS

In response to Congressman Thomas N. Kindness' request of August 12, 1983, we evaluated the benefits to the federal government and the costs to the states of implementing section 6050E of the Internal Revenue Code versus the benefits and costs of implementing a proposed bill, H.R. 625, which would amend that section.

BACKGROUND

Taxpayers are required to include the amount of any state or local income tax refund on their federal tax returns if the tax was deducted on a prior year return and the deduction gave rise to a tax benefit. Thus, only those taxpayers who itemized deductions on their federal tax returns must report state and local income tax refunds on the following year's federal tax return--and then only if the deduction produced a tax benefit.

For example, a taxpayer who had \$500 in state income tax withheld during calendar year 1982 could legally claim that amount as an itemized deduction when filing a tax year 1982 federal tax return. Subsequently, however, if the taxpayer determined that the state income tax payable totaled only \$400 and that a \$100 state income tax refund would be forthcoming, the \$100 refund would constitute income to the taxpayer for tax year 1983. That \$100 amount would then have to be reported to IRS as income on the taxpayer's 1983 federal tax return. On the other hand, if the same taxpayer had not itemized deductions on the 1982 federal tax return, there would be no need to report the \$100 state income tax refund on the 1983 federal tax return.

Because the Congress believed that many taxpayers fail to report their state and local income tax refunds, it enacted refund reporting requirements as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248, Sept. 3, 1982). The act added section 6050E to the Internal Revenue Code. Section 6050E requires the appropriate governmental entities to provide recipients of state and local income tax refunds, credits, or offsets to income taxes (of \$10 or more) with a written statement showing the amount of the refund paid, or the amount of the credit or offset allowed the previous year. The statements are to be sent to recipients during January following the year the refunds were issued. Section 6050E also requires state and local governments to provide this information to IRS. These information returns are to be sent to IRS by February 28 following

the year the refunds were paid. Congress believed that requiring information reporting on state and local income tax refunds, including reporting to individual taxpayers during the month of January, would remind taxpayers of the proper treatment of refunds and provide them with helpful information during the tax filing season. These new reporting requirements apply to refunds paid after December 31, 1982.

H.R. 625 would amend section 6050E by allowing state and local governments to send the statements to recipients along with refund checks, which are sent throughout the year, instead of mailing all the statements in January. H.R. 625 would not, however, change the requirement to report information to IRS.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to evaluate the costs to the states and the benefits to the federal government that would accrue under section 6050E and H.R. 625. We compared (1) the estimates developed by the states of their costs of complying with the reporting requirements to (2) the estimates developed by the Department of the Treasury of the federal revenues expected to be generated from implementation of the requirements. The states' direct costs consisted of postage and processing costs. Some states also developed estimates of potential declines in state tax revenue collections that could occur if the states had to fund the postage and processing costs from their existing compliance budgets. Because of time constraints, we did not develop our own estimates of state costs or potential declines in state revenue collections. We relied instead on the estimates developed by state tax administration officials. Treasury's revenue estimates were based, in part, on estimates of compliance levels for reporting state refunds. We did develop another set of revenue estimates using Treasury's methodology and assumptions. However, in making our revenue estimates, we used compliance rate data that was not available to Treasury at the time it made its estimates.

In our evaluation, we (1) discussed, with state tax agency officials in 40 states and the District of Columbia, their estimates of what it would cost the states to comply with section 6050E versus the costs of complying if the section were amended by H.R. 625; (2) reviewed the states' responses to a question-

naire that the National Association of Tax Administrators¹ developed to obtain information on the impact of section 6050E on state tax administration and enforcement; (3) discussed the methodology used to determine the revenue impact of section 6050E with Treasury officials; (4) discussed IRS' efforts to detect unreported state refunds with IRS officials; and (5) reviewed the legislative history of section 6050E. We performed our review from August 1983 to December 1983 in accordance with generally accepted government audit standards.

STATES' COSTS OF COMPLYING WITH THE JANUARY REPORTING REQUIREMENT MAY BE AS MUCH AS OR MORE THAN THE FEDERAL REVENUE GENERATED BY THE REQUIREMENT

Our analysis of Treasury's revenue estimates showed that the January reporting requirement may not produce as much federal revenue as Treasury had estimated. This is because data that was not developed until after the reporting requirements were enacted shows that past compliance rates for reporting income tax refunds were higher than Treasury had estimated. If this recent data accurately reflects current refund reporting compliance levels, the estimated federal revenues to be derived from the January mailing requirement will be substantially less than Treasury's estimates. On the other hand, we noted that the costs states would incur in complying with the January reporting requirement will be less than the states had estimated. This is because IRS will allow the states to mail the statements in January to only those taxpayers who itemize their state taxes on their federal tax returns instead of mailing the statements to all refund recipients. Still, the states' costs would be reduced even further if section 6050E is amended to allow the states to mail the statements along with the refund checks.

States' costs of complying with the January reporting requirement could be less than originally estimated

To determine the costs to the states of sending written statements to taxpayers in January, we reviewed state tax administrators' responses to a questionnaire sent to them in October

¹An organization, representing tax agencies of each of the 50 states, whose purpose is to advance the standards of and improve the methods for tax administration.

1982 by the National Association of Tax Administrators. The questionnaire was developed and distributed by this association to obtain information on the impact of the January reporting requirement on state tax administration and enforcement.

The questionnaire asked states to estimate the costs of complying with the January reporting requirement and to compare them with the costs of sending the statements along with refund checks. Since many of the states had not budgeted for the cost of complying with the January reporting requirement, the questionnaire also asked whether state tax revenues would decrease if the states had to redirect funds from their compliance activities to fund the January mailing. Responses were received from each of the 40 states having an individual income tax and from the District of Columbia. In September 1983, we contacted state tax agency officials in the 40 states and the District of Columbia and asked them to update the states' estimates. We also obtained information on whether state legislatures had appropriated additional funds to cover the costs of mailing the statements in January, or if the tax agencies had been required to absorb these costs from their existing budgets.

The states collectively estimated that the separate January mailing would cost about \$12.8 million annually. About \$9.9 million of the \$12.8 million was for postage, and the remaining \$2.9 million was for related processing and administrative costs. Furthermore, 30 of the 40 states indicated that, unless they received special appropriations from their state legislatures, their ability to produce revenue would be reduced because funds for covering these added costs would have to be diverted from compliance activities. Eighteen of the 30 states did not, however, specifically estimate how their ability to produce revenue would be affected. The remaining 12 states estimated that, in total, they would be unable to collect nearly \$50 million in state tax revenues if funding for the January mailing had to come from their existing compliance resources. As of September 1983, two of the 12 states told us that they had received partial funding from their state legislatures for the January mailing, while another state informed us it had received full funding for its postage and processing costs. The remaining nine states had received no special funding for the January mailing.

The states' estimates of their postage and related processing costs for the January mailing appear reasonable to us based on the number of refunds the states say they issue annu-

ally. The states told us that they sent out about 45 million refunds in 1982 which, at a cost of \$.20 in postage for each statement, is \$9 million. We were not able to verify the states' estimates of their inability to produce revenue if the funding for the January mailing were to come from existing compliance resources. However, it seems reasonable to expect that the states' ability to produce revenue would be reduced if they had to cut back their compliance activities.

We noted that states' costs could be lower than they estimated because IRS has proposed regulations that would allow the states to mail information statements only to those taxpayers who itemized their state income taxes on their federal returns. This is a practical way to implement the January reporting requirement because taxpayers who do not itemize their state taxes are not required to report their state refunds as income on their federal tax returns. Therefore, mailing such taxpayers a written statement would not generate any additional federal tax revenues. In addition, such statements could confuse taxpayers who are not required to report their refunds as income, causing some to inadvertently overpay their federal taxes. In this regard, IRS estimates that about 5 percent of the taxpayers who do report their state refunds overreport the refund amount.

To assist the states, IRS can provide magnetic tapes which can be used with state records to identify taxpayers who itemize state taxes on their federal returns. Since only 33 percent of all individual taxpayers itemize deductions on their federal returns, states may be able to reduce their costs of complying with the January reporting requirement by about 67 percent under the proposed regulations and through use of the magnetic tapes. Accordingly, the states' postage and related processing costs could decrease from \$12.8 million annually to about \$4.2 million. States that need to fund these costs from previously budgeted compliance resources, however, could still experience reductions in expected state tax revenues.

The intent of H.R. 625 is to reduce the costs to state and local governments of complying with the January reporting requirement by allowing written statements to be mailed along with refund checks, regardless of the month in which the checks are mailed. The states estimate that mailing the statements along with refund checks would reduce their annual costs from \$12.8 million (or \$4.2 million if all states were to take full advantage of IRS' proposed regulations and magnetic tapes) to about \$2 million.

Treasury's revenue estimates may overstate the federal revenues that can be reasonably expected from the reporting requirements

In August 1982, the Congress was considering the amendment which led to the section 6050E reporting requirements; at that time, the Department of the Treasury estimated that, because of the requirements, federal revenues from taxation of state and local refunds would grow from about \$65 million in fiscal year 1983 to about \$393 million in fiscal year 1987. These estimates took into account the increase in voluntary compliance expected to result from both the January mailing and the compliance program IRS will establish with the information returns it receives from the states. Treasury estimated that the increase in federal revenues associated with just the January mailing would range from \$9 million to \$51 million annually. Treasury's August 1982 estimates of the revenue effects of the section 6050E reporting requirements are shown below.

	Estimated Effects of the Refund Reporting Requirements on Fiscal Year Receipts				
	-----(\$ million)-----				
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Additional revenues anticipated from implementation of section 6050E	\$ 65	\$ 174	\$ 273	\$ 358	\$ 393
Anticipated revenues if information statements are not sent in January	<u>56</u>	<u>134</u>	<u>222</u>	<u>309</u>	<u>353</u>
Revenue effect of the January mailing	\$ <u>9</u>	\$ <u>40</u>	\$ <u>51</u>	\$ <u>49</u>	\$ <u>40</u>

Since the refund reporting requirements were passed into law, new information on the refund compliance rate has become available which shows that the original Treasury revenue estimates may be overstated.

In August 1982, when Treasury prepared its estimates for the Congress, the only IRS compliance data available was

Taxpayer Compliance Measurement Program (TCMP)² data for tax years 1973 and 1976. This data showed state refund voluntary reporting compliance rates of 75.1 percent and 79.7 percent for tax years 1973 and 1976, respectively. Because more current compliance data was not available, Treasury made certain assumptions about current compliance levels. Based on these assumptions, Treasury believed that compliance was declining and that current compliance rates, therefore, would be less than the 79.7 percent rate for 1976. Specifically, Treasury assumed that the compliance rate was 76 percent in tax year 1981--the base year used to estimate the revenues for fiscal years 1983 through 1987.

In November 1982, IRS released TCMP data showing that, for tax year 1979, the rate of voluntary compliance in reporting state and local income tax refunds was about 90.9 percent. A comparison of this rate with the rates for 1973 and 1976 shows that voluntary reporting of state refunds had increased substantially. This indicates that a compliance rate higher than 76 percent should be used for the base year to estimate the amount of unreported state income tax refunds and the federal tax revenues associated with that income. The base year compliance rate is important because a high compliance rate in the base year translates into lower estimates of unreported refunds and lower than anticipated future tax revenue increases.

Treasury calculated the dollar amount of unreported state and/or local tax refunds by dividing the 76 percent compliance rate into an estimated universe of \$4.047 billion in reported state and local refunds for tax year 1981--the base year. Using this method, the refunds that should have been reported totaled \$5.325 billion, and the amount of refunds that should have been, but were not, reported was calculated to be \$1.278 billion for 1981 (\$5.325 billion - \$4.047 billion). Treasury used the \$1.278 billion figure to project the amount of unreported refunds for later years and to determine the revenue receipts expected to be generated from the section 6050E reporting requirements.

In contrast, using Treasury's methodology, but substituting the more current 90.9 percent voluntary compliance rate for the 76 percent rate, we calculated the amount of unreported state

²TCMP is a program that measures taxpayer compliance through specialized examinations of randomly selected returns.

refunds for base year 1981 to be about \$405 million instead of the \$1.278 billion estimated by Treasury. Projections based on the \$405 million in unreported state refunds would substantially reduce the federal revenue gains expected from implementing section 6050E--from \$65 million to \$6 million in fiscal year 1983, and from \$393 million to \$41 million for fiscal year 1987. The revenues expected to be generated from January mailings would decline annually, from the \$9 million to \$51 million estimated by Treasury to \$4 million to \$5 million. The table below shows the revenue effects of the reporting requirements on fiscal year receipts when calculated using a compliance rate of 90.9 percent in the 1981 base year.

	<u>Fiscal Year Receipts</u>				
	-----(\$ million)-----				
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Additional revenues anticipated from implementation of section 6050E	\$ 6	\$17	\$28	\$37	\$41
Anticipated revenues if information statements are not sent in January	<u>6</u>	<u>12</u>	<u>23</u>	<u>32</u>	<u>37</u>
Revenue effect of the January mailing	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 4</u>

In making the above calculations, we used the same methodology and assumptions as Treasury except for the compliance rate for 1981. Treasury, in making its estimates, assumed that the compliance rate would increase from 76 percent in 1981 to 93 percent in 1985 and would stay at that rate for 1986 and 1987. In making our estimates, we also held the compliance rate at 93 percent for 1985, 1986, and 1987 but started with a compliance rate of 90.9 percent in 1981. We started with the 90.9 percent compliance rate because it was the most current compliance rate available. Unlike Treasury, we did not assume that compliance was declining because the 1973 to 1979 TCMP data showed an increasing compliance trend.

Actual revenues could be more or less than the above estimates, depending on actual taxpayer compliance rates. If taxpayer compliance rates exceed those projected, overall federal revenues would increase because more of the unreported refunds

would be voluntarily reported. If compliance drops below the levels projected, the inverse would be true.

IMPROVED TAX FORMS AND INSTRUCTIONS
TOGETHER WITH IRS' PLANNED REFUND
COMPLIANCE PROGRAM SHOULD HELP MAIN-
TAIN IMPROVED COMPLIANCE LEVELS

Although it is difficult to predict future compliance rates for reporting state and local income tax refunds, it seems reasonable to assume that the rate will not decrease from the 90.9 percent level achieved in 1979. This assumption is based on two factors: (1) IRS has changed the tax forms and instructions to clarify the refund reporting requirements and (2) IRS plans to establish an automated compliance program with the information returns it will receive under section 6050E.

Changes in tax forms and instructions
may account for past increases in
compliance levels

Because there was such a dramatic increase in voluntary reporting compliance levels for state and local income tax refunds, from 75.1 percent in 1973 to 90.9 percent in 1979, we sought to determine what caused the increase. We could not find any evidence that would specifically explain the increase. However, we noted that, during that period, IRS revised the tax form 1040 and its associated instructions to clarify the refund reporting requirements. These improvements may account for some of the increase in compliance which already has occurred and should help maintain improved compliance levels in future years.

There were some marked changes in the tax forms and instructions between 1973 and 1979. For example, the line item for reporting state and local income tax refunds on the tax year 1973 form 1040 was not as prominently placed on the tax form as it was in 1979. In 1973, the item was on line 35 which was on the back of the form 1040; in 1979, the item was moved to line 11 on the front of the form. Also, the wording of the line item was different on the 1979 form 1040 than it was in 1973. In 1973, the line item stated:

"State income tax refunds (does not apply if refund is for year in which you took the standard deduction --others see instructions on page 8)."

In 1979, the line item stated:

"State and local income tax refunds (does not apply unless refund is for year you itemized deductions-- see page 10 of instructions)"

In our view, the line item description on the 1979 form helps clarify the point that taxpayers who itemized deductions may have to report refunds as income. Moreover, it refers all taxpayers to the instructions whereas the 1973 line item only refers certain taxpayers to the instructions. The instructions for completing the state and local income tax refund line item, as shown below, were further clarified in the 1979 form.

1973
"line 35-State Income Tax Refunds--Show only that part of refund of State income tax attributable to itemized deductions taken in a prior year that resulted in a Federal tax benefit."

1979
"Line 11 State and Local Income Tax Refunds.

If you received a refund or credit in 1979 for State or local income taxes you paid in 1978 or a prior year, you may have to report the refund as income on your Federal income tax return.

Do not report the refund as income if it was for a tax you paid in a year for which you did not itemize deductions on Schedule A (Form 1040).

If the refund was for a tax you paid in a year for which you itemized deductions on Schedule A (Form 1040), report the entire refund as income if the entire deduction in the year of payment resulted in a Federal income tax savings.

If only part of the deduction resulted in a Federal income tax savings, report only that part of the refund that resulted in the savings. (If

you need help in figuring this amount, please contact an Internal Revenue office.)

If you itemized deductions for 1979, do not reduce the deduction for taxes by any refund of those taxes for an earlier year."

Thus, the 1979 instructions for the line item are substantially more detailed and provide a clearer description of when state and local income tax refunds are taxable and how they should be reported. And, in our view, the changes IRS made to the tax form and instructions may have been instrumental in enhancing taxpayer compliance with the refund reporting requirements. Those changes also should help maintain improved compliance levels.

IRS refund compliance programs should help maintain taxpayer compliance levels

IRS plans to establish an automated refund underreporter program with the information returns it receives from the states under section 6050E. IRS is also planning to establish an automated compliance program to identify taxpayers who overreport their state and local refunds on their federal tax returns. Both programs should help maintain improved taxpayer compliance because the programs will help educate taxpayers on the proper federal tax treatment of state and local refunds.

IRS plans to establish the automated refund underreporter program in late 1984 for tax year 1982 returns. In 1985, IRS plans to merge the refund underreporter program with IRS' Information Returns Processing Program, which currently identifies nonfilers and individuals who underreport their wages, interest, and/or dividends.

IRS also plans to establish its automated refund overreporter compliance program in 1984. As opposed to the underreporter program, IRS does not need refund data from the states to operate the overreporter program. IRS can identify overreporters by using its internal records to determine if taxpayers reported a state income tax refund on their tax returns in one year, but did not itemize their state taxes on the previous year's tax return.

IRS estimates that about five percent of the taxpayers who report state refunds did not itemize state taxes in the prior year. H.R. 625 could increase the number of taxpayers who over-report state income tax refunds on their federal returns. This could occur if taxpayers believe that receiving the written statements along with their refund checks automatically means that their refunds are taxable. If the number of overreporters increases then the cost of IRS' overreporter program will also increase to some extent. But that additional cost will be directed at ensuring that taxpayers pay only their fair share of taxes.

CONCLUSIONS

The costs that states will incur in complying with the January mailing requirement will be less than the states originally estimated, because IRS' proposed regulations will allow the states to mail the information statements to only those refund recipients who itemized their state income taxes on their federal tax returns. Under the proposed regulations, the states' postage and processing costs could be about \$4.2 million annually. In addition to assuming these costs, the states could experience declines in state tax revenue collections if they have to reduce their compliance activities to fund the January mailing.

Based, in part, on the most recent data on refund reporting compliance, the states' costs for the January mailing could be as much as the federal revenues that will be gained from the January mailing. IRS' TCMP data for tax year 1979 shows the refund reporting compliance rate to be about 90.9 percent. This data was developed after Treasury made its revenue estimates and after section 6050E was enacted in 1982. If this recent data accurately reflects current levels of refund reporting compliance, then the estimated federal revenues to be derived from the January mailing would range from about \$4 million to \$5 million annually. Actual revenues could be more or less than these amounts depending on taxpayer compliance rates. If taxpayer compliance rates exceed those used in developing the federal revenue estimates, then overall revenues would increase because more of the unreported refunds would be voluntarily paid.

Comparing the (1) federal revenue estimates we developed using recent compliance data which was not available at the time

Treasury did its work with (2) cost estimates developed by the states shows little difference between the amount of federal revenues expected to result from the January mailing relative to the costs to the states to mail the statements in January. The improvements IRS has made in the forms and instructions, as well as the automated compliance program it plans to establish as a result of receiving information return data from the states, should help maintain improved taxpayer compliance with requirements to report state income tax refunds. Therefore, we believe H.R. 625, which would allow the states to mail information statements along with the refund checks, is a reasonable alternative to the current January reporting requirements.



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