

4.2 USES

a. TAS USERS

ISSUE: HAVE THE ACTUAL AND POTENTIAL USERS OF TAS BEEN IDENTIFIED?

SUMMARY

In any large personal data system which is undergoing computerization or redesign in the climate of current public concerns, it may be important to establish at the outset the actual and potential users of the system in terms broader than the IRS has defined them for TAS. While offices and divisions of IRS have stated their needs as users of such a system, Congress may want to assure that IRS has addressed the uses which may be made of TAS by such users as taxpayers, the press, public interest groups, managers in other Treasury Department agencies, individual employees in the rest of the Federal Government; employees in State governments; managers in businesses corporations, and organizations; and individual employees of IRS. With such specific users established, Congress will be better able to ascertain 1) the extent to which administrative rules for TAS meet needs of the users and 2) the extent to which the technology will reflect and enforce those rules.

QUESTIONS

1. Have all of the actual and potential users of TAS been sufficiently identified to permit a review of the adequacy of applicable rules and the extent to which the technology may reflect them?

BACKGROUND

In the early years of automation of files in the Federal Government, agencies could describe the users of the system in terms of the general uses to be made Of the new equipment and the management goals of economy and efficiency to be achieved with it” In recent years, there has been greater public and Congressional concern for **accountability in the use** of governmental power as it affects individual rights and liberties. This has brought demands that the administration of agencies enable the pinpointing of the activities of those who exercise responsibilities in very narrow decision

areas. The reflection of these trends is most apparent in the field of information policy where the collection, management, and use of information is at stake. The interpretation of a “user” of a governmental information system has necessarily been expanded as 1) more public information rights are granted in data systems, 2) Congress and the public require more devices to assure that information power can be reviewed and audited, and 3) more people are potentially affected by the use of national data banks.

While the question of need of the TAS users has been addressed in hearings and reports of Appropriations Committees and in cost benefit studies, the question of actual use as the system is operated may be dealt with as a separate issue involving policy and TAS technology.

The IRS has briefly described in public documents and testimony some of its new program goals, and how the TAS will increase the efficiency of the internal offices and divisions which will use the TAS data base and its equipment. It is not at all clear from these descriptions who the “users” of the system are and the sense in which their needs have been met. Nevertheless, an internal Systems Description Book prepared for the IRS and made available to OTA states that “the approach taken to select the TAS design has produced a system that fully meets the expressed user needs. ” That document provides the following background information:

The stated primary users of TAS are personnel in the following divisions and offices of the IRS:

Auditing Collection }	Need immediate, on-line access and response capability for large volume work
Data Processing	Majority of workload requires immediate or same day response times, except for information document processing and some correspondence
Taxpayer Service	Needs immediate access availability to answer Taxpayer Service needs and system availability
Appellate Chief Counsel Intelligence Internal Audit Statistics and Technical	} Need for on-line, immediate capability is minimal. Most of workload items require a five day response time: but small percentage is needed immediately and some within 24 hours.

One panelist defined the difficulty in understanding the user-needs aspects of the proposal as “the fact that the perspective used in connection with TAS is one limited to subsystem concerns. ” It has been pointed out that in the broader sense, “users” of TAS may well include Members of Congress and the general public, as well as IRS employees. Concerns for individual privacy, surveillance and harassment as well as responsibility for dealing with these extends to these “users”. There is no indication, however of the details of the methods used to assess user needs not only currently but as they will be expressed in the redesigned system or who has been defined as a “user” under the new TAS.

Without such specific background information, it will be difficult to determine the adequacy of present administrative rules and the extent to which the plans for the technology have allowed for their enforcement. In particular, it will be difficult to determine answers to such questions as (1) who has a “need to know” various classes of information, (2) how is an invasion of information privacy to be defined? That is, who does *not* “need to know” various categories of information, and who does; or (3) the reasons, or value premises, which state that a “need” is a “need” and an authorized person is an authorized person. The need for such an analysis may extend in detail within the organization and beyond it, and include such concerns as are raised in the following chapter on “Boundaries and Interface. ”

b. BOUNDARIES AND INTERFACE

ISSUE: DOES THE REPORT ON TAS SUFFICIENTLY IDENTIFY THE PROPOSED AND POTENTIAL BOUNDARIES OF THE SYSTEM, ITS INTERFACE CAPACITY AND ITS RELATIONSHIP TO OTHER PUBLIC AND PRIVATE DATA SYSTEMS, SO THAT A JUDGMENT COULD BE MADE CONCERNING ITS POSSIBLE IMPACT ON CIVIL LIBERTIES, ON EFFECTIVE CONGRESSIONAL OVERSIGHT, ON THE OPPORTUNITY OF THE TAXPAYER TO EXERCISE INFORMATION RIGHTS AND TO DETERMINE STATUS WITHIN DATA SYSTEMS OF IRS AND OTHER AGENCIES?

SUMMARY

If Congress does not know the limits of the information programs served by the mechanics of TAS, it cannot monitor programs, or trace their effects in other data systems to protect civil rights and liberties of people and businesses. Nor can the individual taxpayer know of IRS relationships to other governmental programs or exercise rights within information systems serving those programs. Therefore a need exists for more information about the intended or potential boundaries of TAS and their technical, administrative and legal features.

QUESTIONS

1. Could the TAS, on its face, constitute the essential segment of a future de facto national or international data bank, evolving without specific Congressional authorization and guidelines?
2. What statutory, administrative and technical safeguards are needed to define the boundaries of the TAS and to assure they can be enforced and monitored?
3. What relationships, for instance, would or could the TAS have with other Treasury Department and IRS computer systems?
4. How does the TAS relate to other federal, state, and local governmental data banks and computerized information systems legally, administratively, and technically?

5. Could legislative and administrative changes in rules governing formal and informal relationships between the information systems of IRS and those of other departments and agencies and “outsiders” require at least some measure of reevaluation of software and hardware needs for the proposed decentralized computerized system, and possible new procurement standards governing access, security, transmission, systems linkage, storage capacity, retrieval, and other features?
6. With technological progress under the TAS, what would it take to interface with large private systems or to interconnect for some purposes? For example, how might TAS relate to the trends in promoting use of universal identifiers in encouraging employers to supply withholding information on tapes, and reports that IRS rents private computerized mailing lists in order to check for non-filers?
7. How might the TAS relate to trends in use of electronic funds transfer systems in banks and businesses?
8. What are the possible vulnerabilities of the TAS to illegal access to its files resulting from any relationships with private systems?
9. How does the TAS relate to computerized data banks and information systems abroad which may receive, store, use, or disseminate information on American citizens traveling or living abroad? What is its actual or potential interface or linkage by telecommunications means with information systems of foreign governments?
10. What kinds of consultations have been or will be conducted by IRS or Treasury officials with data processing or management officials of any of those governments with regard to hardware or software features of their respective data systems? To what extent would or should these include concerns for protecting the due process on privacy rights of American taxpayers and the confidentiality of their financial information?
11. How does the TAS relate to **international programs underway by IRS to** standardize reporting forms to make them machine readable and easily processed by ADP equipment in the U.S. and abroad?
12. will the linkage potential be enhanced by the IRS **proposal to** supply other countries an identifier number (the Social Security number?) to promote ease in reporting on financial transactions of Americans abroad?

BACKGROUND

The IRS states in the TAS proposal that “none of the proposed changes in the Tax Administration System will affect the existing interagency or intergovernmental information relationships. ” Those boundaries and relationships however, have recently been under intensive study, challenge, and legislative change. It is not clear from the TAS public documents whether or not the TAS software and hardware can or will reflect those concerns, or respond to those changes. There is not enough information in those documents to determine the need, if any, for redefining the boundaries and relationships in light of the TAS technology. To suggest that there is a paucity of information about TAS boundaries and interface capacities in no way should be interpreted as a value judgment that there would be any detrimental effect on constitutional rights from TAS technology either on the basis of available facts or any acquired in the future. On the contrary, additional investigation might reveal the absence of any threat in this respect.

In light of public experience with information systems, and public concerns over abuses in those systems, the creation of a large computerized personal data system like TAS raises the issue of whether the system has legally and technically definable limits, or “boundaries.”

Under the provisions of the Privacy Act, a taxpayer ought to be able to go to an agency or agencies and find out his information rights in the information systems of each agency. The Tax Reform Act of 1976 established stricter confidentiality rules for sharing or disseminating data in IRS files. However, from the public documents it is not clear whether these laws will be sufficient to inform Congress or the public of the boundaries of the new system. For instance, in the proposed TAS, it is not clear how the individual will be able to determine or to exercise his rights when new information is created from incoming sources or when data from an outside source is matched with existing data, thereby generating new data or data which identifies him.¹⁴ The existence of such new information can tend to blur the established boundaries.

Congress in recent years has had some difficulty investigating Executive Branch programs in the face of trends to centralize Presidential management and control and to promote a systems

14. A possible scenario: Information about an individual may exist in two different places. One file might be by geographical area where the individual made purchases, and the other file might be data from a checking account. This information might be combined to derive information from already identified sources about what the individual did in those places. This is a different problem from that where one file is unidentified and the other is not.

approach to decisions affecting several agencies. There has been public and Congressional concern that the information flow prompted by automated data processing and telecommunications technology would tend to break down functional, administrative, and perhaps constitutional barriers which help define responsibilities. Under some circumstances if this occurs it can be more difficult for Congress to conduct oversight of the separate decision-making arenas, and for public interest groups to monitor an Agency's use of data and its treatment of privacy and information rights. This has been a fear expressed whenever Congress has considered Executive Branch proposals for centralization by electronic means or for pooling of automated information resources for dealing with personal records.

Whatever the obvious benefits of these PIWM, the possible side effects which might accrue from the ease of management, manipulation, access and dissemination of personal files have always tended to prompt some public complaints and some fears of invasion of privacy, violation of confidentiality and other possible abuses of records. Consequently, there has always been some practical or philosophical concern in Congress that without sufficient congressional consideration, a de facto national data bank, or the network potential for one, would be created, with all that it implies for surveillance of minority and dissident groups, or for governmental control of the population for certain programmatic purposes.

Serious questions have been raised when the attention of committees or individual members has been called to a new data system with potential for being part of an electronic or telecommunications network or for interfacing with other large data systems such as those for law enforcement or intelligence purposes, or with private systems which might extend beyond the oversight capacities of Congress. Examples are seen in the controversy over creation of an FBI-sponsored network for sharing information on criminals, fugitives, and arrested persons, and the "Fed-Net." In addition to its experiences with these new plans, Congress has had recent experience in attempting to investigate the interconnection of Executive Branch information Programs for investigating and monitoring the political activities and personal lives of members of certain groups.

Techniques of information technology and processing were highlighted in the resulting studies reporting the computerization and microfilming of information for easy storage and analysis, and for the sharing of the tapes or printouts among many Federal and State agencies for use in their own computerized programs. One of several examples of this "information-buddy" system was the recent

Army program for surveillance of civilians, with a large-scale collection plan assigning responsibility among Federal agencies for gathering personal and political information and then centralizing and aggregating it for dissemination and possible use.

The fact that large amounts of Government-acquired information in some of these programs concerned financial resources, transactions, and activities of people makes it reasonable to expect that public and Congressional questions might be raised about the possible interconnection or interfacing of the 10 sensitive TAS data banks with other governmental computers.

Congressional reports attest to the difficulty of oversight investigations into such security-oriented programs, of tracing the lines of responsibility in an ever-changing military or civil service bureaucracy, and of tracking the flow of sensitive personal information into data banks throughout the country, even after the specific Federal programs have been discontinued. There has been the problem of delays and long negotiations with Executive Branch officials to obtain the release of classified memoranda which would identify the interagency relationships and uses of the shared data.

With such activities in recent memory, many committees and members of Congress are more aware than ever of the importance of guarding against the Executive Branch creation of a potential for a central data bank through the discretionary case-by-case installation of separate data banks which interface or which could be electronically linked. For this reason there is a consensus forming for the need to define as a matter of public policy the administrative and technical boundaries of new information systems.

Legislative proposals have also been considered to prevent the interconnection of any personal data system without specific Congressional approval.

It was for these reasons that Congress sought in the Privacy Act of 1974 to strengthen its own oversight capacities for monitoring the boundaries of federal information systems and their interfacing, and to enhance the power of the individual to know and exercise rights within these systems. This statute installed in the management process a reporting system to alert the President, the Congress, and the public to plans for interconnection Of data banks, pooling Of information resources and cooperative ADP efforts among agencies involving records on individuals.

It is this report requirement to which the IRS responded in the TAS proposal document given to the House Ways and Means Committee's Subcommittee on Oversight and to other interested Committees.

Other Computerized Systems

It is not particularly fruitful in reviewing TAS to examine the role of the technology only within the processes it is designed to serve. This view is bound to produce feed-back which merely incorporates the store of knowledge and underlying assumptions on which the TAS was based. In order to examine the potential of an information system like the TAS for use for improper or illegal surveillance or for harassment or political manipulation, it is vital to know (1) what other systems the new one is related to; (2) how firmly the technical and administrative boundaries have been drawn, how easily they can be altered to establish a network or interface with another system; and [3] who in the system, agency, Executive branch or Congress must know, and who must approve technical, administrative or legal changes in those boundaries. For such purposes, the matter of boundaries should not be treated solely as a technical issue where audit trails¹⁵ or other technical devices are seen as the only means of control. Nor should it be treated solely as a public policy issue where a statutory limit on the legal transfer of information is deemed sufficient to guard against over-spill from the system. Rather, a perspective useful to apply in reviewing such a data system as TAS is one which attempts to look at the total environment of the system.

Materials supplied on TAS and response to inquiries about boundaries suggest that a “closed system” approach may be governing the adequacy of TAS information provided by the IRS; that is, the answers may be valid as far as they apply, but they do not extend far enough to respond to Congressional apprehension about the boundaries of computerized government systems and about those of the Internal Revenue Service in particular.

Treasury Data Systems and TAS

Any TAS relationships with or impact on existing Treasury information systems ought to be fully identified. A particularly hard look should be taken at the features of existing computerized systems within IRS as they related to TAS or as its operations may affect theirs. To the extent that any technical or administrative weaknesses or vulnerabilities are incorporated into the TAS system or affect the TAS operating environment, the protections for tax information and the rights of taxpayers may be threatened.

A factual review of the uses of these smaller systems and their role in IRS programs can shed some light on what the possible effects might be on TAS operations when and if their attributes are imported into TAS on a much larger scale. Some examples of these systems are included below.

15. A record of accesses and uses of a file.

DDES

As described in the IRS ADP Personnel Training Manual, the Direct Data Entry System (DDES) will be incorporated into the new TAS during the first phase of its installation. The DDES is a new system for taking information from tax returns and documents and preparing it for computer processing. The system was installed in the Southwest Service Center in 1969. This process of original transcription of tax returns afforded by the DDES is maintained under TAS, but the TAS design accommodates the direct integration of this process at a later time.

According to the Training Manual, "This System enables an operator to transcribe information directly from the documents onto magnetic tape without going through the intermediate step of putting the data onto punch cards. The equipment also performs certain arithmetic and validity checks as the data are transcribed. It can also signal the operator when an error is discovered. The operator can see on a video tube the data transcribed so that if a mistake is made it can be corrected immediately. The system has now been installed in all service centers nationwide. "

IDRS

A private cost-benefit analysis prepared for IRS for in-house use describes this system as follows: "The Integrated Data Retrieval System (IDRS), beginning with pilot installation in 1969 and since implemented in all centers, now provides direct access to certain account data of taxpayers (approximately 10 percent) likely to require the greatest Service attention. It is in some ways a preview of TAS, with terminal inquiry support that significantly advanced the Service's ability to provide quick response to taxpayer inquiry, as well as to monitor and follow up delinquent accounts and related activities. IDRS is, however, fundamentally incompatible with the tape oriented Master File Processing System, and thus requires considerable redundant operations by the MFPS to support its data base needs. "

A careful description ought to be obtained of the programmatic uses and operations of IDRS since they will be continued or extended under TAS.

According to the IRS Training Manual "this system also offers definite advantages to law enforcement efforts. Originally planned as a vehicle for providing immediate availability of information needed to respond to taxpayer requests concerning their accounts or returns status, the system is also used to deter delinquency in several ways:

- (1) having IDRS, rather than enforcement personnel, monitor and follow-up delinquent accounts whose collection is in a suspended status for any number of reasons, such as adjustments, court actions and military deferment;
- (2) entering current information in the files at service centers and district offices, thereby crediting a payment to the taxpayer's account the day it is received. This will also conserve enforcement time now spent on following-up an account that has already been satisfied;
- (3) having immediate, direct accessibility of information on the status of a taxpayer's account, thereby reducing differences to be resolved;
- (4) providing a whole spectrum of management information on the nature and characteristics of delinquent taxpayers never available under manual operations. ”

IGRS

The Information Gathering and Retrieval System (IGRS) was discontinued after extensive investigations by a number of Congressional committees.¹⁶ IGRS had computerized indexes of files on 465,442 individuals and other entities when it was suspended in 1975. Under this system the IRS established separate units of Special Agents in its District Offices who collected generalized background information on people relating to organized crime and political corruption. IRS employees then entered references to the material in computers located in 45 of the 58 District Offices. These activities often involved “fishing” expeditions, and were not necessarily aimed at specific cases nor at directly tax-related cases. Besides organized crime. IGRS was a tool to fight ‘subversive and radical elements,’ which, according to a 1969 IRS Task Force Report, used organized crime to “break down the basic fibers of society. ”

In June, 1975 the IRS abolished the IGRS Information Gathering Units while retaining the computers. However, information gathering activities have been resumed under new and stricter guidelines. In light of these new rules, an effort might be made to define whatever administrative and technical relationships might exist or should exist between the TAS data base and (1) any remaining IGRS information, or (2) the information systems, manual or computerized, which

16. The management, information technology and invasion of privacy and due process rights involved in this system are described at length in the *Final Report* of the Select Committee to Study Governmental Operations with respect to Intelligence Activities, Book III, “The Internal Revenue Service: An Intelligence Resource and Collector, ” Senate Report No. 94-755.

succeeded IGRS. For instance, will the existence of intelligence information be coded in the TAS files? What should be the terms for authorizing access to the TAS database for intelligence purposes? What actual or potential opportunity exists for interconnection of the computers?

Information Index System

Although IGRS was discontinued, a need exists, according to IRS officials, to gather and index tax-related information on taxpayers under criminal investigation. Procedures for such a new system have therefore been stipulated in an IRS guideline of June 23, 1975, which states that, "The Intelligence Information Gathering and Retrieval System is discontinued. All Districts will utilize the Information Index System, which will be described in a separate Manual Transmittal, to file and index directly tax-related information. Such tax-related information now in the discontinued Information Gathering and Retrieval System may be retained in district files and indexed only if it relates to a taxpayer included in an authorized project or for whom the Chief, Intelligence Division, has authorized information gathering. "

The regulation stipulates that, "All districts must use the computer index for indexing the original authorization for information gathering on individuals or projects. All documents must be indexed, but each district may decide if they want to maintain a computer or manual index. " This may depend on whether it is practical to keep data on massive or complex projects in such a computer. If a district initially wants to maintain a manual document index, it may change to the computer index at a later date.

Information might be acquired on what physical, technical or administrative relationships will exist in the IRS districts between the data bases, computers, and personnel, of the IIS and those of TAS.

TECS

The Treasury Enforcement Communications System (TECS) is another computerized system which IRS uses. It links field terminals of various Treasury Department agencies with their national offices. Although some TECS terminals have been located at District and Regional Offices in the past, they were moved last year into the ¹⁹Service terminals in the IRS National Office through which IRS can send information to the FBI's computerized criminal record system (NCIC) and to the National Law Enforcement Telecommunication System which links federal, state and local law enforcement agencies.

At present, IRS allows entries to TECS only at the National Office level, and these entries are limited to information about fugitives. There is nothing to prevent future change in the policy, and the regulations governing TECS are broadly worded as to content, purpose and data exchange.

Customs Bureau

It is not clear from the TAS documents to what extent the Customs Bureau might have a low volume usage of TAS and under what administrative and technical conditions.

Other Governmental Data Systems and TAS

It is not clear what legal, administrative and technical relationship TAS might have to other federal, state and local governmental data banks and computerized information systems.

Legislative changes may alter existing relationships for information exchange and for actual and potential linkage between IRS systems and those of other Federal departments and agencies and state and local governments. In addition, they may well affect many phases of the management technology involved in information collection, storage, maintenance, retrieval, use and dissemination. They may require at least some measure of reevaluation of the software and hardware needs for the proposed decentralized computerized system, and possible new procurement standards governing features for controlling access, security, transmission, systems linkage, storage capacity, retrieval, and other matters.

For example, an IRS official testified that a new wage reporting law contemplates cooperative efforts between IRS and the Social Security Administration in processing W-2 forms beginning in FY 1979.¹⁷ IRS, he said, will be studying the alternative methods of joint document processing with SSA "for whatever cost advantages may be found in that regard."¹⁸

The social and political implications of this pooling of resources by the two departments with the most extensive information on the average law-abiding citizen have neither been explored nor have Congress and the public been involved in determining the conditions of the sharing in light of the ADP and telecommunications technology which is involved.

17. P.L. 94-202, Sec. 8.

18. *Hearings*. U.S. House of Representatives Government Operations Committee Subcommittee on Commerce, Consumer, and Monetary Affairs, Ap. 12, 1976, p. 66, Testimony of the Commissioner of the IRS.

Similar situations exist in other IRS data-sharing relationships which may need reexamining on the basis of the confidentiality provisions of the Tax Reform Act of 1976. For instance, the law authorizes release of tax information on a general basis to HEW, the Railroad Retirement Board, the Department of Labor, the Pension Guaranty Corporation, and the Renegotiation Board when the return information is directly related to agency programs.

Private Systems

It is important to consider what might be required, with technological progress under TAS, to interface with large private systems or to interconnect for some purposes. Employers are already supplying withholding information to IRS on tapes. There are reports that IRS rents private computerized mailing lists to match against computerized lists of taxpayers to check for non-filers. National and international efforts are being made to encourage the use of "standard identifiers" to promote interfacing and linkage of systems. It might be a matter for speculation, furthermore, how the TAS might relate to trends in use of electronic funds transfer systems in banks and businesses.

Overall, however, technological advances make it imperative to consider the possible vulnerabilities of the TAS to illegal access to its files resulting from any relationships with private systems.

International Data Systems

TAS is expected to provide IRS means to store, use and analyze documents and information about the financial activities of Americans abroad. This could help meet Congressional and public concerns about such people who do not file or who underfile, and about reports of underutilization by the IRS of documents filed by foreign governments on the financial activities of these people. There is an increasing exchange of data between governments and international organizations for many purposes, with all that trend implies for extended use of a universal identifier and for development of standards of interfacing and compatibility of systems. It may therefore be important to establish the actual and potential linkage or interfacing of TAS with international information systems and data banks. This is particularly true in view of the new tax law provisions affecting Americans abroad which may create the need for new rules under TAS governing the collection, use, maintenance and dissemination of information from and about these people. It may call for

special rules governing such matters as (1) the way TAS relates to international computerized information systems, (2) how it uses information from those systems, (3) what controls it places on information it supplies to those systems, and (4) what cooperative research and statistical programs it might be involved in which may require unique ways of sanitizing the data to prevent derived data problems leading to invasions of privacy.

There may, for instance, be a need to define how TAS operations may relate to international programs in which IRS may be cooperating to standardize reporting forms to make them machine-readable and easily processed by ADP equipment in the U.S. and abroad. How, for instance, does TAS policy on using standard identifiers and the social security number relate to an IRS proposal to supply other countries a number to promote ease in reporting on financial transactions of Americans abroad?

It may be important to assure that no adverse side effects result from IRS efforts to promote equity in administering the tax laws respecting Americans living, traveling, or working abroad. Further, it is important that the possible impact of the TAS technology and the organizational forces it may set in motion do not have an adverse side effect on the privacy and due process rights of those Americans while they are abroad and after they return home.

c. FEDERALISM

ISSUE: WHAT IMPACT MIGHT THE TAS HAVE ON INFORMATION POLICIES, PRACTICES AND TECHNOLOGIES OF STATE AND LOCAL GOVERNMENTS WHICH USE OR FEED THE TAS DATA BASE FOR REVENUE OR OTHER PURPOSES?

SUMMARY

To determine in full the impact of TAS policies on taxpayers rights, it may be important to consider the system's possible effect on the information policies, practices and technology of State and local governments who would use the TAS data base or contribute data to it for tax or other purposes.

QUESTIONS

1. How might the TAS affect State and local data banks and computerized information systems for tax or other purposes?
2. To what extent will the TAS technology and its safeguards interface or be compatible with technology of State computerized systems which receive, maintain, use, or disseminate Federal tax returns and information?
3. To what extent might the threats to TAS or its vulnerabilities be extended into State information systems? To what extent might theirs be extended into TAS operations?
4. To what extent may the TAS be interconnected electronically with those of the States? Under what conditions?
5. What impact might the policies governing TAS on such matters as retention, use, consolidation, and taxpayer identification numbers, including the social security number, have on the information policies of the States?
6. How can the new confidentiality law governing dissemination of IRS data to State and local governments be enforced under TAS?

BACKGROUND

More information is needed in order to evaluate whatever formal assessment, if any, IRS has made, of the possible impact of TAS on information technologies of the states.

Historically, the Federal Government has shared Federal tax return and tax information by tape or other means with the States and sometimes with local government, in customary, informal or authorized relationships, subject to few, if any, controls by Congress. Numerous Congressional hearings, a comprehensive study with recommendations by the privacy production Study Commission and studies in the IRS and the Domestic Council Committee on privacy all examined these relationships.

Growing public concern for privacy and informational due process and the increasing use of ADP and telecommunications technology **for records systems is causing** reexamination of social policies and rules governing many customary Federal-State relationships for sharing and using personal information in citizens.

One indication of Congressional concern for this was the provision in the privacy Act of 1974 requiring agencies to give advance notice to Congress and the Office of Management and Budget of a proposal to establish or alter records systems "in order to permit an evaluation of the probable or potential effect on privacy and other personal or property rights of individuals," or the disclosure of information relating to them, and its effect on the preservation of principles of federalism. In response to this provision, the IRS has stated in the report filed under the Privacy Act: "None of the proposed changes in the Tax Administration System will affect the existing. . . intergovernmental informational relationships, nor are they expected to impact on the observance of the principles of. . . federalism, including the powers and authority of State and local governments."

Some elaboration or documentation of this conclusion and how it was reached, and who participated in it would help to determine the relevance of the intergovernmental issue in TAS.

The Senate Finance Committee Report on the Tax Reform Act of 1975 further describes these data sharing programs as follows:

"By far the largest IRS/State information exchange program, in terms of amounts of information transferred, is the **furnishing** of Federal **tax** information on magnetic tape. In 1975, 48 States (plus the District of Columbia, **American Samoa**, Guam, and Puerto Rico) participated in this program. Under **the 1975 Individual Master File (IMF) program**, information on nearly 66 million taxpayers was provided to the States. (This covers approximately 80 percent of individual taxpayer records.) IMF tax data available to the

States include: name, address, social security number, filing status, tax period, exemptions claimed, wages and salaries, adjusted gross income, interest income, taxable dividends, total tax, and audit adjustment amount. A Business Master File (BMF) program is also available to the States to aid them in establishing their own business master files. Information from the Exempt Organization Master File is also available to the States, as is gift tax data. Under the cooperative audit program, copies of examination reports are furnished the States. In 1974, nearly 700,000 abstracts of these reports were furnished the States. Also, the IRS furnishes the States information on returns that appear to have good audit potential but will not be audited by IRS because of manpower restrictions. In 1974, information was furnished on more than 70,000 returns under this program.”

Public concern resulted in a provision in the Tax Reform Act of 1976 stating strict conditions by which Federal tax returns and return information may be disclosed to State tax officials for use in administering the State’s tax laws. The tax information would not be available to the State governor or any other non-tax personnel, or to local governments.

Shared computers and other data processing techniques used in the States are described in the Conference Report on the 1976 Act:

“In order to protect the confidentiality of returns which the states receive from the IRS under the present exchange programs, the returns are, in most States, processed on computers used solely by the State tax authorities. In certain States, however, the requirements of the tax authorities are not sufficient to justify a separate computer, and, accordingly, the tax authorities have the Federal tax returns processed on central computers shared by several State agencies which are operated by State employees who are not in the tax department. In such situations, the IRS requires that tax department personnel be present at all times when the Federal tax returns are being processed.”

The 1976 tax law would permit those States currently timesharing with other State agencies to continue to do so to the extent authorized and under the conditions specified in Treasury regulations. In reviewing the possible impact of TAS, it would be helpful to compare the standards of these Treasury regulations with the policies and safeguards planned for TAS.

Inquiry might be made as to what extent, if any, TAS may be viewed as a model for State tax information systems. Will TAS encourage a tendency toward interfacing of the federal and State systems? Will the expandable data base, integration of data, longer retention policies, capacity for complex tasks, surveillance capacities, and other features of TAS bring related changes in State information management policies, the programming of data, and in the amount of tax-related information which is kept and used by the States? Could they affect the information demands placed on citizens by State governments through income tax return forms and other investigations?

There is another dimension to the Federal-State information relationship which may affect the TAS and the kinds of safeguards which may surround it. By statute, the IRS is authorized, upon

certain conditions and the State's request, to collect State taxes. This could, according to one IRS official, mean the assumption of compliance investigations, audits, and law enforcement activities. TAS documents state that TAS was not designed to meet demands of this program. Although there is still reluctance to utilize this Federal service for a number of reasons, conditions for State participation in this program were recently eased by Congress. Under existing statutes, the potential could be easily realized for the placing of new information and technical burdens upon the TAS, and for extending its technical and administrative boundaries when technology and economic opportunity permit.

Social Security Number

The promotion of the use of the Social Security number as a universal identifier could receive more impetus by the policies governing use of the number in TAS. Use of the number in personal data systems brings to information technology an ease of managing, accessing, retrieving, correlating, and sharing data which can have long-range impact on social policy for gathering and using personal information. Congress expressed concern over the privacy implications of the growing use of the number and limited its use in the Privacy Act of 1974, pending a study of the matter by the Privacy Commission.

However, the 1976 Tax Act now allows use of the Social Security number by the States for identifying persons affected by administration of any tax, general public assistance, drivers license, or motor vehicle registration laws. Interest groups have pointed to this new law and to the Federal-State relationship for sharing tax data and the ease of retrieval and linkage of data promoted by the use of the number as raising possible civil liberties issues which may need examination under TAS.