APPENDIXES

APPENDIX 1
OTA QUESTIONNAIRE ON TAS AND IRS RESPONSE

July *13, 1976*

Mr. Patrick Ruttle
Acting Assistant Commissioner
Accounts Collection and Taxpayer Service
internal Revenue Service
1111 Constitution Avenue, N. W.
Washington, D. C.   20224

Dear Mr. Ruttle:

In your discussion on June 28 with members of the OTA panel to consider
a request by the House Ways and Means Committee to evaluate certain
aspects of the proposed Tax Administration system YOU indicated you
Would send a copy of a tax account Which Would illustrate what items of
information would be entered on the computer for an individual taxpayer.
1t would be helpful to receive this.

In addition, several members of the panel find that they need to resolve
certain questions of fact, either with additional facts or by clarification,
before they decide what, if any, major value issues are presented by the
TAS technology which merit study. We should therefore appreciate your
assistance in providing information Which Would respond as far as possible
to their concerns about the following matters of fact.

1. As precisely as possible, under the new expanded TAS, what
    items of information will be placed in the taxpayer's file
    and thereby linked to the taxpayer's narne~ beyond the standard
    identifying items of address and social security number?

2. What data items might <u>possibly</u> be entered in a TAS file under
    the expanded system?

3. What data elements in matching or interlocking files will be
    automated?

4. Will information on exempt organizations, ir.cludin~ contributors,
    be automated and available for audit?

5. Will private rulings go on the TAS computers?

6. what will be the turn-around time on the Master File under the new system (a) in the National Communications Center? (b) in the Service Centers?

7. what will be the estimated difference between the present system and the new one in the time for transfer of, and accessibility to a taxpayer file from one Service Center to another? For example, from San Francisco, California to Washington, D. C. and from Atlanta, Georgia to Detroit, Michigan.

8. What will be the anticipated difference in the speed in making refunds? In rendering first billings? In determining delinquencies? In getting an account to the collection stage?

9. What are the categories of users who are expected to have access (read and/or w-rite) to TAS files under the new system?

10. How many employees is it estimated there will be in each category?

11. What will be the user profile for each user category, specifically in terms of the data items accessible?

12. What will be the purpose of each access granted by each user profile?

13. For which groups or classes of taxpayers is access granted in the user profiles? (e.g., "only those taxpayers assigned to this user or linked directly to such a taxpayer.")

14. Which access under which routines will be logged, and how will the logs be reviewed?

15. What are the other data files that will be kept by IRS or that will be accessible by IRS in which personal data will exist? What kinds of data will they contain? How will these files be used in conjunction with TAS?

16. What consideration has been given to administrative and technical security features to guard against improper use of data by authorized users of the system for purposes other than those necessary for their assigned functions?

17. Precisely which IRS functions will achieve net benefits from real-time access and why? Which function may not?

18. What is the current pattern of access via batch requests?

19. How many personnel have access to what *kinds* of data in how many files? Kindly provide what statistics are already collected which break down personnel and data.

20. What is the volume of inquiries per employee per day?

21. What are realistic estimates for these same quantities in a real time environment?

Your assistance and cooperation in our effort is appreciated.

Sincerely yours,

Marcia MacNaughton

Internal Revenue Service

Department of the Treasury

Assistant
Commissioner
(ACTS)

Washington DC 20224

SEP 2 1976

Ms. Marcia MacNaughton
Congress of the United States
Office of Technology Assessment
Washing-ton, D.C.   20510

Dear Ms. MacNaughton:

A number of questions regarding TAS related concerns are raised in your letter of July 13. Our answers to these are enclosed.

In addition~ you requested a copy of an illustrative tax accounting transcript and a set of the reports prepared by the Pl.itie Corporation.   The sample transcript is also enclosed. The Plitre material was sent to you earlier under separate cover.

We are glad to have the Opportunity to explain the Tax Adininistration System. to the OTA panel. If any further assistanc? can be proticled, we would be pleased to help.

Sincerely,

Patrick. $! Ruttle
Acting   Deputy   Commissioner (ACTS)

Enclosure

QUESTION 1:   As precisely as possible, under the new expanded TAS, what items of information will be placed in the taxpayer's file and thereby linked to the taxpayer's name, beyond the standard identifying items of address and social security number?

ANSWER 1 :   The Tax Administration System will enable the Service to computerize in one system data which presently exists in microfilm records and various other manual files, the Master File System, and the Integrated Data Retrieval System. The vast majority of taxpayers' accounts will contain a very small portion of the data elements possible in the TAS file (See sample transcript). For example, only those individual accounts audited (about 2%) would contain audit history data, and those with collection histories would approximate 3% of which almost half would involve business accounts.

The following is a listing and brief description of the possible types and elements of data:

- *Identification Data* – Account number, spouse's social security number and marital status, current name and home address, including county; business address, and prior names and addresses, if any; the type of tax, tax period or accounting year; data account established; date of death (establishes filing date for estate tax returns); business activity code and cross-references to tax related taxpayers (includes spouses, principal officers in a corporation, and partners in a partnership). For exempt organizations, data concerning: date exemption ruling was issued, issting office, and applicable IR code section; group exemption number and number of locals; activity code and latest year return filed.

- *Accounting Data* — Account balances, transaction codes and document locator numbers; posting dates and amount of assessment, credit, payment, refund or balance due. If balance due: amount of tax, penalty and interest, date bills were issued, issuing office, date next bill should be issued or referred to field collection office if account is not satisfied.

- *Delinquent Collection Data* – If installment agreement made: amount and frequency of payments due and paid; phone number of delinquent taxpayer; the name and number of attorney and accountant; occupation of primary taxpayer and spouse, assets from financial statement submitted with agreement; date of Certificate of Non-attachment of Lien; delinquency prevention information (e.g., Federal Tax Deposit Alerts and Mr. Businessman's Kit).

If service of levy becomes necessary to enforce collection of unpaid tax: institution or person served (bank, employer, etc.), and date served; how served (in person or by mail); and proceeds of levy.

If service of lien becomes **necessary: date send date** recorded, released, modified, refiled or subordinated; county or office of recordation; lien serial number.

If sale of property becomes necessary: date of saJe; **type** property sold; amount of redemption, proceeds of sale and amount released; minimum bid; and costs of sale.

- *Return and Audit Data* – Line items from tax returns needed to math verify and match entries, and those used in the identification of tax returns having a high probability of omissions or errors; prior year issues examined for tax years open under the statute of limitations; amount of change; type of examination (i.e., field, office, correspondence); level of closing (i.e., agreed, unagreed); transactions or adjustments affecting subsequent year returns (e.g., net operating loss carryover or adjustments to basis of depreciable assets); special situations encountered in audit (e.g., taxpayer records in machine sensible form or inadequate records notice issued); name of examiner, examining district, and taxpayer representative, if any.

- *Investigation Data* – Indicators to other IRS functions that an investigation has been initiated; aliases or other names used; business names and addresses; home addresses; financial institution; occupation; industry; tax years of investigation; taxes per original returns; agent assigned, location, and grade; disposition of case; years and statute sections recommended; deficiencies and penalties; reason closed; method of evasions; disposition by Regional Counsel, Justice Department, and U.S. Attorney; trial results; sentence; and judicial district.

- *Statistical Data* — The "Taxpayer Compliance Measurement Program" requires indepth evaluations of a random sample of specific types of returns filed. This section contains line item totals from the sample returns that are not recorded elsewhere. After examination, items adjusted and other compliance characteristics are tabulated and analyzed to determine voluntary compliance levels. The analysis is based on summary data obtained from examinations and it cannot be related to specific taxpayers whose returns were in the sample. Statistics of Income data consists of selected line items from randomly selected tax returns which is required for compilation of Statistics of Income Reports.

- *Assignment and Control Data* — Type of assignment; employee making assignment; employee to whom case assigned; date assigned; code to identify action being taken; date correspondence received from taxpayer; status code (i.e., open, closed, in suspense). When data is removed: type of tax, tax period, date data removed from computer processing system, and location of hard copy.

- *Miscellaneous Data* – County and state of residence and amount for revenue sharing purposes; and indication that election was made for presidential election campaign fund.

QUESTION 2: What data items might possibly be entered in a TAS file under the expanded system?

ANSWER 2: The Tax Administration System has been designed to accommodate *only* the data described above. In order to add data beyond that prescribed, an evaluation of the users' need for data must be made; the capacity of the equipment to handle any proposed items of data must be determined; an analysis of overall costs must be considered; and, if the proposal is feasible, the necessary equipment, software and procedural changes instituted. It is estimated that the cost for each additional character of data transcribed from all the individual income

tax returns and entered into the system is $60,000; thus, for this reason among others, we strive to capture the minimum amount of data consistent with effective tax administration. Of course, data requirements created by new legislation are added of necessity.

QUESTION 3:   What data elements in matching or interlocking files will be automated?

ANSWER 3:   Under the Tax Administration System, we do not anticipate automating matching or interlocking files beyond those existing in the present system. Data elements planned for all the TAS files are described in Answer 1 above.

QUESTION 4:   Will information on exempt organizations, including *contributors, be* automated and available for audit?

ANSWER 4:   Exempt Organizations data will be part of the TAS files as described in the answer to Question 1. Information on specific contributors will not be input nor will it be automated in any other way.

QUESTION 5:   Will private rulings go on the TAS computers?

ANSWER 5:   Although the text of the ruling will not be in the Tax Administration System, the Service may input *identifying and control data to monitor* the status of cases for management purposes.

QUESTION 6:   What will be the turn-around time on the *Master File under the* new system (a) in the National Communications Center? (b) in the service Centers?

ANSWER 6:   Under TAS, posting will be daily to the master *file and tax account* data *will be available to most field offices within 2.5 weeks* from receipt of return.

All activity requiring data from other than the originating center will be channeled through the National Communications Center (NCC). These inter-center inquiries will be placed on magnetic tape with other data messages for *dairy transmission to NCC over dedicated, encrypted lines. The NCC* must then transmit the inquiry to the proper center Which will process it and send the response back to NCC for forwarding to the requesting center. Inter-center data transmissions will be a tape-to-tape process requiring *five days* from *inquiry* to *availability* of the data in the inquiring center.

QUESTION 7:   What will be the estimated difference between the present system and the new one in the time for transfer of, and accessibility to a taxpayer file from one service center to another? for example, *from*   San Francisco, California tO Washington, D.C. and from Atlanta, Georgia to Detroit, Michigan.

ANSWER 7:		*TAS*	*Present System*
	San Francisco, California to Washington, D.C.	5 days	10-15 days*
	Atlanta, Georgia to Detroit, Michigan	5 days	10-15 days*

QUESTION 8: What will be the anticipated difference in the speed of making refunds? In rendering first billings? In determining delinquencies? In getting an account to the collection stage?

ANSWER 8: The returns processing cycle is five to six weeks under the present system and would be two to three weeks under TAS; thus, first billings take place five to six weeks after receipt of return under the former and would be two to three weeks under the latter. The time difference in determining delinquencies would be similar. The collection process begins with the first billing for a balance due.

QUESTION 9: What are the categories of users who are expected to have access (read and/or write) to TAS files under the new system?

ANSWER 9: Employees with access to TAS tax account data include personnel from the following functions or organizations: Collection, Taxpayer Service, Audit (including Employee Plans and Exempt Organizations), Intelligence, Inspection, and Service Centers. The only users permitted to change, add or delete data are specified service center and district office clerical terminal operators.

QUESTION 10: How many employees is it estimated there will be in each category?

ANSWER 10: Most IRS employees in our service centers and district offices are either involved in processing tax returns or need access to returns or other taxpayer data in order to perform their duties. It is estimated that under full TAS implementation approximately 5,400 terminals will be required in the ten service centers and 2,900 terminals in the major field offices.** Estimates of the approximate numbers of employees to be trained to use the TAS are:***

Data Processing	10,000
Audit	20,000
Collection	10,000
Taxpayer Service	4,000
Intelligence	3,500
Inspection	800

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*under the present system, taxpayer account information is maintained at the National computer Center in a centralized master file. The transfer of data using the Integrated Data Retrieval System (IDRS) requires two to three weeks from date of request to its availability through the IDRS terminal. If a transcript of the account is requested, four to six weeks is required.

* *Number of terminals based on volume of transactions.

*** Includes most of the employees in these functions.

Approximately the same number of employees in the above functions have been trained in the use of the present system's Integrated Data Retrieval System (IDRS) or have access to needed data via the other available sources in the present system such as microfilm research and hard copy transcripts.

QUESTION 11: What will be the user profile for each user category, specifically in terms of the data items accessible?

ANSWER 11: Details of the user profiles under the TAS have not yet been formulated. However, we anticipate that the profiles will be similar to those used in the Integrated Data Retrieval System of today. Under IDRS, user employees are authorized only those command codes required to perform their specific duties (e.g., only personnel with the responsibility for the refund review function in the service center will have that command code in their profile). Authority to use a command code other than those designated, requires supervisory approval, and such requests are controlled by the Systems Security Administrator. A listing of the command codes and the guidelines for assigning these in the profiles are provided in IRS security manuals which have limited distribution within the Service and are not available outside of the Service for security reasons.

QUESTION 12: What will be the purpose of each access granted by each user profile?

ANSWER 12: The command codes assigned to individual user employees are based solely on the tasks which must be performed in their jobs.

QUESTION 13: For which groups or classes of taxpayers is access granted in the user profiles? (e.g., "Only those taxpayers assigned to this user or linked directly to such a taxpayer.")

ANSWER 13: Taxpayer accounts will not be restricted to one user. However, we are studying the feasibility of various controls on user access to taxpayer accounts in geographical areas outside of their own.

QUESTION 14: Which access under which routines will be logged, and how will the logs be reviewed?

ANSWER 14: All accesses will be logged; however, details of the methods of review have not been formulated. At a minimum, employee identification, time, date, terminal of input, and access code will be retained. Each service center area will have a designated Security Administrator who will have the ability to monitor terminal activity and who will be alerted if terminal entry requirements are violated.

Under today's IDRS, audit trails are also maintained and daily security reports printed for the Service Center Security Administrator. On the report, circumstances warranting further investigation are indicated.

QUESTION 15:   What are the other data files that will be kept by IRS or that will be accessible by IRS in which personal data will exist? What kinds of data will they contain? How will these files be used in conjunction with TAS?

ANSWER 15:   A comprehensive listing of all IRS files containing personal data is shown in the Federal Register (Vol. 40, No. 166, pp. 37681-37768) as required by the Privacy Act of 1974. The only computerized files contemplated for use under TAS are those which will contain the data described in the answer to Question 1.

QUESTION 16:   What consideration has been given to administrative and technical security features to guard against improper use of data by authorized users of the system for purposes other than those necessary for their assigned functions?

ANSWER 16:   A summary of major security and privacy features in the present system and the proposed Tax Administration System (TAS) is attached.

QUESTION 17:   Precisely which IRS functions will achieve net benefits from real-time access and why? Which function may not?

ANSWER 17:   By and large, the real-time use of TAS will be an extension of the capabilities provided today by the Integrated Data Retrieval System. The following is a brief description of these benefits:

Audit

Real-time access through TAS will provide the Revenue Agents with rapid retrieval of information concerning accounts or tax base data related to the cases assigned. Rather than requisitioning returns as under the present system, the Agent can quickly verify data or resolve questions by using the TAS terminal. Examples of questions requiring inquiry are: Have both spouses filing separate returns claimed the same dependents or estimated tax credits? What alimony or partnership losses have been claimed?

In addition, the Audit function gains the capability to more readily input information (audit adjustments, history data, and program management data). Such timely inputs are helpful to other functions as well as future audits.   For example, information concerning an undisclosed bank account discovered by the Revenue Agent during the course of an audit may provide a levy source for the collection function if, at a later date, the taxpayer fails to pay the deficiency assessment. On the other hand, recordation of the resolution of an unusual item in favor of the taxpayer may avoid future audits concerning the same issue.

During an audit, the capability to make complex and repetitive calculations which could take several hours or days (and are subject to high error rates) will produce significant savings in staff time, along with greater accuracy.

Collection

The Revenue Officer will also have the capability to rapidly retrieve pertinent data on assigned cases. Under the present system, return information concerning income and assets must often be requisitioned (taking five to six weeks)

and much information which could be useful (e.g., data gained by a Revenue Agent during Audit) is not available to Collection personnel. Under TAS, the Revenue Officer's query over the terminal will provide most of the needed data in a timely manner, thereby eliminating a great deal of the paper preparation by technical personnel delays, and clerical research which must presently be performed.

Intelligence

The rapid retrieval of current information will assist Special Agents in their investigations. For example, data from the Audit and Collection histories may provide valuable leads. The capability for complex calculations will also be useful.

Taxpayer Service

Real-time access through TAS will provide for the rapid retrieval of more information to answer taxpayer inquiries. Currently, account data for less than ten percent of the accounts is available through IDRS (those with bills or recent notices). Inquiries about other accounts require microfilm research at the service centers or transcripts obtained from the NCC.

In contrast to today's partially automated processes, more data will be on-line about all accounts under TAS. Thus, the taxpayer will receive information to answer his or her questions in a more timely manner (in most instances during the initial visit to an IRS office). TAS inquiries to accounts maintained in another service center will require directory assistance and control through the NCC (as described in the response to Question 6).

Inspection

The Internal Audit and Internal Security functions will benefit from the capability to monitor the activities of other terminals in the system. Thus, investigations for security purposes will be facilitated.

Data Processing

The primary benefits of real-time access to this user will be faster unpostable resolution and error correction. Under the present system, unpostables are only apparent after the tax return or related transaction fails to post to the account maintained on magnetic tape at the National Computer Center. Since the master files are not visible at service centers, determination of the reason for the failure of an account to post requires reference to such sources as the original documents, microfilm, IDRS, and punched card transcripts from the master file. Eight to nine weeks are `required to reinput and settle` unpostable conditions today. Under TAS, the master file is decentralized to the service centers and the reason for failure to post is more readily available and correctable.

The error correction process will also be faster under TAS. After returns are transcribed, math verification will the place stiultaneomly with the process of posting. This permits most errors to be detected and corrected during the initial inputting processes via terminals thereby assuring that most tax accounts are settled within a few hours after mathematical verification. Currently, error registers are printed daily; correcting entries are noted on them; and re-entry of taxpayer identification data and corrections are required.

Other IRS Functions

The other IRS functions have minimal or no requirement for real-time access as their applications are not time-sensitive.

QUESTION 18:   What is the current pattern of access via batch requests?

ANSWER 18:   Access to tax account information via batch requires manual preparation of a request for the transcript; supervisory review and approval of the request; transmittal of the request by mail to the service center; batch transcription on a cyclical basis (weekly) at the service center through the Direct Data Entry System (DDES); shipment of the resulting magnetic tape to the master file maintained at the National Computer Center; batch processing on a cyclical basis (weekly) at the National Computer Center (NCC); shipment of the resulting NCC tape to the service center; service center printing of the transcript; transmittal of the transcript from the service center to the requestor. At best, the request for tax account information via batch requires five to six weeks.

QUESTION 19:   How many personnel have access to what kinds of data in how many files? Kindly provide what statistics are already collected which breakdown personnel and data.

ANSWER 19:   The Federal Register lists the numerous files and kinds of data maintained by the Internal Revenue Service (See Question 15 above). A compilation of the number of personnel using these files has never been made.

QUESTION 20:   What is the volume of inquiries per employee per day?

ANSWER 20:   This information is unknown as indicated in the response to the previous question.

QUESTION 21:   What are realistic estimates for these same quantities in a real-time environment?

ANSWER 21:   Based on the IRS workload (number of audits, delinquent accounts, current IDRS usage, etc.) and considering normal growth, the Service forecasts on a peak day in one service center under full TAS implementation (1985) that up to 272 thousand requests for information will be made. This estimate approximates the number of inquiries directed to the IDRS and other sources in today's system such as microfilm research and Master File transcripts, plus the normal growth increases which can be expected by 1985.