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REVIEW OF REPORTING OF TAXABLE INCOME AND TAX WITHHOLDINGS OF MILITARY PERSONNEL, DEPARTMENT OF THE ARMY

The General Accounting Office made a review of the reporting to the Internal Revenue Service of taxable income and tax withholdings of military personnel by the Department of the Army.

We found numerous clerical and arithmetical errors in the pay records and forms W-2 prepared by the Army, which demonstrated the need for more aggressive and effective supervision and internal controls. On the basis of the number of errors we found, we estimate that the Armywide errors amounted to about \$16,000,000 in the reported members' income subject to income tax and to about \$2,280,000 in the reported income taxes withheld from members. We further estimate that these errors, unless detected and corrected by the individual members in filing their returns, may have resulted in significant underpayments and overpayments of income taxes for the period reviewed. These errors were primarily the result of the failure of the clerical personnel to satisfactorily perform their assigned tasks. In addition, we found that the errors went undetected or, when detected, were not properly corrected although there are numerous regulations and review programs in existence to prevent this.

In advising the Secretary of Defense of our finding in the review of tax information reported by the Army for calendar year 1963, we proposed that the Secretary of the Army (1) delay the filing of Forms W-2 for 1964, by arrangement with the Internal Revenue Service, until sufficient review could be made to ensure the reliability of the reported information, (2) require a complete review of Forms W-2 for 1963 so that necessary corrections could be made within the statutory time limitations, (3) issue instructions designed to emphasize supervision of base-level activities in order to minimize errors, and (4) ensure that procedures established for future reconciliation reviews are effectively carried out as intended.

By letter of July 1, 1965, the Deputy Assistant Secretary of the Army (Financial Management) forwarded Department of the Army comments made on behalf of the Secretary of Defense. The Army concurred in general in our finding and proposals. He reported that actions were being taken regarding the last two proposals and informed us of the planned institution of the Centralized Automated Military Pay System by 1968. With respect to the first two proposals, however, the Army was unable to take action because the Forms W-2 were not available. The Internal Revenue Service advised the Army and our Office that filing of the 1964 Forms W-2 could not be deferred, because the initial processing of forms for all taxpayers must be completed at the same time in order for the enforcement program to be effectively carried out and that, once the Forms W-2 are made available for use in field offices, there is no practicable means of identifying and reassembling those submitted except on a case-by-case basis.

In our previous report on errors in the reporting of tax information by the Air Force (B-125036, December 20, 1963), we had suggested that special reviews be made of Army and Navy reporting of tax information to determine whether similar deficiencies existed in those departments. We were advised by the Department of Defense that