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STATEMENT OF  
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GENERAL GOVERNMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT OF  
GOVERNMENT MANAGEMENT  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ON  
THE STATUS OF IRS' TAXPAYER SERVICE PROGRAM



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the subcommittee in its inquiry into the impact of budget cuts on the Internal Revenue Service's (IRS') Taxpayer Service Program. Our testimony is based on past work we have done in the taxpayer service area and on the preliminary results of our current review of IRS' assistance to taxpayers over the telephone, at walk-in offices, and through correspondence.

Because the Internal Revenue Code has evolved into an extremely complicated array of deductions, credits, and exclusions, many taxpayers seek IRS' assistance in meeting their tax obligations and in resolving disputes. For over a decade, IRS has had

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a formal program for assisting taxpayers and, until recently, has sought to expand and/or improve the program. Recently, however, due to escalating Federal budget deficits and the Administration's efforts to reduce Federal spending, IRS decided to reduce its taxpayer service activities. Further reductions are contemplated for future years. As evidenced by this hearing, IRS' change in direction in this regard concerns the Congress.

Congressional concerns about funding levels for IRS' Taxpayer Service Program are understandable. Current IRS plans call for substantial reductions in taxpayer service activities in fiscal year 1983. These reductions may prove desirable, appropriate, and cost effective. Taxpayers may well be able to find other means through which to satisfy their needs for assistance. On the other hand, the reductions will apparently be made without the benefit of adequate data to identify who will be affected and what effects the reductions will have on voluntary compliance and postfiling return perfection and collection costs.

#### HOW IRS' TAXPAYER SERVICE PROGRAM DEVELOPED

IRS began providing assistance to taxpayers informally in the early 1940's through such practices as providing basic tax information over public address systems in Federal buildings. An expanded program was established in the early 1950's as part of IRS' audit and collection responsibilities. The program, which was offered primarily during the tax filing season, consisted of IRS auditors and clerks providing information to taxpayers so that they could prepare their own tax returns.

IRS' taxpayer service program continued to expand during the 1960's and 1970's, and as it did, the program was gradually separated from IRS' audit and collection activities and began to develop its own organizational identity. In 1963, taxpayer service was established as a branch of the Collection Division in IRS' national office. In 1971, IRS reorganized the taxpayer service function and, in so doing, upgraded it organizationally to reflect an increased emphasis on providing effective assistance to taxpayers. Specifically, IRS established a separate Taxpayer Service Division in its national office under an Assistant Commissioner for Accounts, Collection, and Taxpayer Service. However, in each district office, taxpayer service remained part of IRS' collection activity.

Even so, the reorganization brought with it full-time tax assistants and a year-round taxpayer service program in district offices. IRS also began to use seasonal employees during the tax-filing period to reduce program reliance on technical and semitechnical employees detailed from other activities. The seasonal employees received specialized training to help them assist taxpayers in preparing their returns.

In 1977 and 1978, however, in response to complaints from taxpayers and taxpayer groups, various congressional subcommittees and committees conducted evaluations of the effectiveness of IRS' Taxpayer Service Program. In 1978, the House Government Operations Committee concluded that IRS had substantially improved its Taxpayer Service Program, but the committee said that it was not

satisfied that IRS was providing the quality of assistance to which taxpayers are entitled. The committee recommended that IRS continue to upgrade its taxpayer assistance activities so taxpayers could meet their responsibilities under the Nation's self-assessment system. Concurrently, various members of the Congress contemplated establishing a legal requirement that IRS create and maintain in its national office a separate Assistant Commissioner position solely for taxpayer service.

In July 1978, however, as part of an overall reorganization, IRS established a separate Assistant Commissioner position for taxpayer service without the contemplated legislation being enacted. At that time, IRS officials stated that the change was needed in order to separate taxpayer service from collection, which is an enforcement function, and to provide for the first time a completely separate organizational and executive identity to taxpayer service. IRS further stated that the reorganization afforded taxpayer service a voice equal to that of enforcement activities in establishing national policy. By July 1978, IRS also had created separate taxpayer service divisions in 46 of its 58 districts. Separate divisions were created in the remaining 12 smaller districts 3 months later.

From July 1978 until March 1982, IRS' Taxpayer Service Program was afforded organizational visibility as a separate entity outside IRS' enforcement function. Now, a recently announced IRS

reorganization has reduced the visibility and organizational identity of this activity by incorporating taxpayer service into IRS' examination function.

BUDGET CONSTRAINTS HAVE FORCED  
IRS TO REEVALUATE ITS COMMITMENT  
TO TAXPAYER SERVICE

IRS' decision to deemphasize taxpayer service activities has been prompted by the budget cutbacks which affect the entire Federal Government. In recent years, as a result of the generally tight Federal budget situation, the trend toward increasing taxpayer service staff year budgets has not only stopped but has been reversed.

IRS' Taxpayer Service Program budget, which provides for taxpayer assistance, tax privacy enforcement, tax forms distribution, document matching, and the problem resolution program has been declining since fiscal year 1980. In 1980, the Congress authorized 5,591 staff years for all IRS taxpayer service program activities compared to 4,818 staff years for fiscal year 1982, a decrease of 14 percent. The taxpayer assistance portion of the budget, which represents the bulk of the total program budget and includes walk-in, telephone, and correspondence assistance and taxpayer information and education activities, declined from 4,953 staff years in 1980 to 4,080 in 1982, a decrease of 18 percent.

In formulating its fiscal year 1982 budget request, IRS decided to eliminate direct return preparation and return review assistance at walk-in offices. Direct return preparation

assistance involved having IRS personnel actually fill out parts or all of a return for an individual taxpayer. Return review assistance consisted of having IRS personnel check individual taxpayers' returns for mathematical accuracy and completeness before the return was filed. Exceptions were made for physically handicapped taxpayers and for taxpayers who demonstrated an inability to use self-help return preparation assistance. In addition, IRS also significantly reduced the number of walk-in offices in operation. In fiscal year 1982, IRS had 615 walk-in offices in operation compared to the 829 offices it operated in fiscal year 1981, a 26 percent reduction.

IRS also projects a decrease in the number of taxpayer contacts it will handle in fiscal year 1982. In fiscal year 1981, IRS handled 44.8 million contacts while a total of 41.4 million are expected to be handled during fiscal year 1982, a decrease of about 7.6 percent.

While this reduced level of assistance to taxpayers is significant, IRS' fiscal year 1983 budget proposes even more drastic reductions in the levels of assistance to be provided to taxpayers. IRS' proposed fiscal year 1983 budget for the taxpayer assistance portion of its program calls for 2,394 staff years, a decrease of 1,686 staff years, or 41 percent, from the 1982 budget. And, with 2,394 staff years, IRS expects to be able to handle only 17.9 million taxpayer contacts, which represents a 57 percent decrease from the estimated 41.4 million contacts it expects to handle in fiscal year 1982.

In addition to reducing the program in fiscal year 1983, IRS is also proposing to change its focus. During testimony before the House Subcommittee on Commerce, Consumer, and Monetary Affairs on March 17, 1982, the Commissioner said that IRS' toll-free telephone assistance will be limited to responding to specific questions taxpayers have about their accounts; IRS will no longer respond over the telephone to taxpayer questions pertaining to tax law interpretation or return preparation. On the other hand, the Commissioner indicated that IRS does not plan any further reductions in walk-in service other than to deemphasize the handling of specific tax law and return preparation questions.

Such a refocusing of IRS' Taxpayer Service Program may have some effects on voluntary compliance. Voluntary compliance involves both the willingness and the ability of taxpayers to fulfill their tax obligations. In an October 29, 1981, memorandum to the Deputy Secretary of the Treasury, the Commissioner discussed the probable effects of eliminating telephone assistance for taxpayers with tax law questions. Among other things, the Commissioner noted the following.

- Over 27 million taxpayers will have to look elsewhere for tax law assistance.
- IRS can expect a large increase in demand for correspondence assistance on tax law questions.
- Absent IRS answers to tax law questions, large numbers of taxpayers can be expected to interpret the law in a way favorable to themselves, with little likelihood of detection.
- A significant decline in voluntary compliance and a concurrent decline in revenues may result.

While the impact of eliminating telephone assistance for tax questions is unknown, the probable consequences suggested by the Commissioner merit consideration. That taxpayers want answers to questions is evidenced by the fact that, in 1982, IRS expects to receive a total of 33.9 million calls of which an estimated 27 million will involve tax law questions. Given that level of demand, the accuracy, timeliness, and availability of IRS' assistance also merits consideration.

THE ACCURACY, TIMELINESS, AND  
AVAILABILITY OF TELEPHONE  
ASSISTANCE HAS DECLINED

Historically, IRS has considered telephone assistance to be the most efficient method of helping taxpayers with their tax questions and has encouraged taxpayers to use the telephone when seeking assistance. The toll-free telephone system is operated from 52 answering locations and includes all of the United States and Puerto Rico. IRS estimates that approximately 82 percent of its fiscal year 1982 taxpayer assistance workload will be handled via telephone.

In recent years, IRS has attempted to handle an increasing demand for telephone assistance with fewer personnel. For example, between fiscal years 1979 and 1981, telephone activity increased from 32.6 million to 36 million calls, or 10 percent, while direct staff hours applied to telephone assistance decreased from 2.0 million to 1.8 million, or 10 percent. IRS attributes its increase in productivity to improved telephone equipment and consolidations of telephone sites.



We first tested the adequacy of IRS' telephone assistance to taxpayers in 1978. That test, conducted over a 3-day period during the tax filing season, involved making 873 telephone calls at randomly selected times to 20 of the then-existing 70 IRS answering sites. We developed and asked 14 tax-related questions for use in making the sample telephone calls.

We are conducting a similar test during the 1982 tax filing period as part of our current review. For the current test, covering the period January 25 through March 31, 1982, we developed 20 tax-related questions. Ten of these questions were also used in our 1978 test while the remaining 10 are newly developed questions. Of the new questions, 7 relate to tax changes contained in the Economic Recovery Tax Act of 1981. IRS emphasized these changes when it trained tax assistants for the 1982 filing period. In our current test, we are making calls to 49 of IRS' 52 answering sites.

As of March 10, 1982, we had made 746, or 68 percent, of our planned 1,100 telephone calls. Although our sample is not complete, the initial results provide insights into the current status of the program.

Concerning the accuracy of IRS' responses, we found that:

--Overall, IRS was accurate 85 percent of the time in responding to taxpayers' questions. In 1978, we found that IRS responses were accurate 87 percent of the time.

--With respect to the 10 questions which we used during both our 1982 and 1978 tests, IRS' accuracy rate remained steady at 87 percent.

--For the seven new questions related to the Economic Recovery Tax Act of 1981, IRS responses were accurate 79 percent of the time.

--And, for the three new questions we developed which were not related to the Economic Recovery Tax Act, IRS responses were accurate 94 percent of the time.

With respect to the timeliness of telephone assistance, we found that there had been a slight decline in service levels. For example, we estimate that:

--Each time a taxpayer calls IRS in 1982, there is a 45 percent probability of being placed on hold before reaching an assistor. In 1978, we found that 42 percent of callers were placed on hold.

--It takes a taxpayer an average of 45 seconds to reach an IRS assistor in 1982. IRS records indicate that, during fiscal years 1979 through 1981, the majority of taxpayers reached an IRS assistor within 20 to 40 seconds.

Concerning the availability of telephone assistance, we estimate that:

--Taxpayers can expect to reach an IRS assistor on their first call only 61 percent of the time in 1982 compared to 78 percent of the time in 1978.

--Taxpayers who are willing to make multiple calls to IRS have an 86 percent chance of reaching an assistor within a total of five calls. In 1978, taxpayers could expect to reach an assistor 96 percent of the time within five calls.

While IRS has encouraged taxpayers to use the telephone when seeking assistance, our preliminary review results indicate that the overall adequacy of telephone assistance has declined. Taken together, the decline in accuracy, timeliness, and availability means that for each 100 telephone calls made to IRS, only 72 result in contact with an IRS assistor who correctly answers a question. The remaining 28 calls either do not get answered, get cut off, or result in assistors providing erroneous answers.

IRS' statistics also confirm a decline in its ability to meet the continuing demand for telephone assistance. Whereas in 1979, IRS estimated that 81 percent of the taxpayers who sought assistance actually reached an assistor, that percentage declined to an estimated 70 percent in 1981. Thus, IRS also has found that taxpayers are finding it increasingly difficult to get through to an IRS assistor.

On the other hand, IRS statistics do not confirm a decline in response accuracy. According to IRS, its accuracy rate during 1979 through 1981 held steady at 97 percent. The differences between our statistics on accuracy and IRS' statistics may be explained in part by the fact that our test relates only to specific tax questions. IRS' statistics include calls made by taxpayers to obtain forms and publications.

In sum, the overall adequacy of IRS' telephone assistance program has, in our view, declined somewhat in recent years. And, the significance of this decline is heightened by a reduction in the availability of an alternative form of assistance--walk-in service.

THE AVAILABILITY OF IRS WALK-IN ASSISTANCE HAS DECLINED

During much of the past decade, IRS walk-in offices provided assistance such as answering taxpayers' tax law questions, helping taxpayers prepare their own tax returns, (self-help return preparation), preparing tax returns for taxpayers (direct return preparation), reviewing returns prepared by taxpayers (return review), and clarifying correspondence sent by IRS to taxpayers.

In fiscal year 1979, however, IRS began discouraging direct return preparation by its personnel. IRS records show that, as a result, the number of returns prepared by IRS personnel declined from 608,000 in 1979 to 175,000 in 1981, a decrease of 71 percent.

As a substitute for direct return preparation, IRS encouraged taxpayers to use self-help and/or return review assistance. From 1979 to 1981, the number of returns IRS personnel helped taxpayers prepare increased by 22 percent from 1.7 million to 2.1 million and the number of taxpayer-prepared returns reviewed by IRS personnel increased 26 percent from 272,000 to 344,000.

Despite the continuing high demand for assistance at walk-in offices, however, IRS considered discontinuing all forms of return preparation assistance at walk-in offices for the 1982 filing period. That possibility evoked criticism from various members of the Congress and, on December 21, 1981, IRS headquarters instructed district offices to continue self-help assistance. Still, IRS did eliminate direct return preparation and return review assistance. Exceptions were made for physically handicapped taxpayers and for taxpayers who demonstrate an inability to use the self-help concept.

To its credit, IRS has sought to make the most effective use of its declining taxpayer assistance resources by adjusting the number of walk-in offices maintained and the types of assistance offered. By so doing, IRS actually was able to handle more taxpayer contacts at walk-in offices in 1981--8.7

million--than it did in 1979--8.3 million. On the other hand, what these statistics do not show, and what IRS does not know, is how many more taxpayers would have visited walk-in offices had the number of offices and the types of assistance provided not been reduced. Neither does IRS know what these taxpayers did nor where they went to obtain needed assistance.

POTENTIAL EFFECTS OF IRS'  
DECISION TO REDUCE TAXPAYER  
SERVICE ARE UNKNOWN

We recognize that the Administration wants to cut the Federal budget deficit through decreased Federal spending. One means for IRS to do so is to decrease its taxpayer service budget. In lieu of services traditionally offered by the Government, IRS believes that taxpayers will turn to commercial preparers, friends or relatives, or volunteers for assistance. Further, IRS believes that taxpayers can find answers to most of their tax law and return preparation questions in the Service's various forms, instructions, and publications. These assumptions may prove accurate. But it is also possible that some taxpayers may not file returns or may file returns containing inadvertent errors or errors resulting from personally favorable tax law interpretations. IRS, therefore, could conceivably face a situation where return perfection and collection costs exceed comparable prefiling assistance costs.

Various studies conducted in past years lend credence to the latter possibility. IRS decided to reduce the number of

walk-in offices and to eliminate direct return preparation and return review assistance in fiscal year 1982. Yet an IRS study of the return preparation and review program, initiated in 1974, found that, in comparison to all returns filed, tax returns prepared or reviewed by IRS had

- fewer math errors,
- fewer unallowable items,
- fewer defects requiring service center resolution, and
- less likelihood of being selected for audit and to change as a result of an audit.

The study also found that the taxpayers using IRS' return preparation and review assistance most often were the elderly and/or those with low incomes. The study concluded that without IRS' assistance, many of these taxpayers would not or could not comply with the law.

For fiscal year 1983, IRS has also decided to stop answering tax law questions over the telephone. IRS believes that taxpayers can get answers to a majority of their tax questions through a review of the Service's many publications. Yet a 1977 study by the Roper Organization, Inc., found that taxpayers have serious problems in understanding IRS' forms and instructions.

The opinion polling firm interviewed a nationwide cross section of adults about their understanding of the Federal income tax system and their attitude toward it. Of the 1,656 adults interviewed who filed a tax return, 54 percent said they went to a professional preparer. Of these, about half said they did so because IRS' forms and instructions were too difficult to understand.

Further, in a July 5, 1978, report entitled "Further Simplification of Income Tax Forms and Instructions is Needed and Possible," we concluded that form 1040 packages were written at a reading level beyond that of many taxpayers. We also noted that educational data on the elderly and on disadvantaged minorities indicates that they may have more severe problems in reading and understanding the 1040 instructions than taxpayers in general.

Since we issued our report in July 1978, IRS has initiated actions to make forms and instructions easier to read and understand. This year, for example, IRS is testing a simplified version of the form 1040A and accompanying instructions. These actions could facilitate a transition from IRS-provided telephone assistance to greater reliance on forms, instructions, and publications. Nevertheless, while IRS has done much to make its forms, instructions, and publications easier to read and understand, much remains to be done.

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Although cutbacks in taxpayer assistance may be feasible, there is also a possibility that the cutbacks will prove self-defeating. Without better data than is presently available, we think it will be difficult for anyone to make an informed decision on this issue. Accordingly, we are taking steps to develop some of the information needed.

Besides evaluating the accuracy, timeliness, and availability of IRS assistance, we also plan, as part of our current review, to obtain extensive information on two population groups.

First, we plan to identify the characteristics of taxpayers who use IRS' various assistance programs, and determine whether IRS is meeting their assistance needs. Second, we will obtain information on taxpayers in general, their needs, and how those needs are met. By comparing these two groups, we will be able to determine whether and how IRS is serving the needs of specific taxpayer subgroups in the population. Once this has been done, it should be possible to better predict the effects of the cut-backs and to identify changes which would improve the taxpayer assistance program by making it more responsive to taxpayers most in need of assistance.

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Mr. Chairman, this concludes my prepared statement. We would be pleased to answer any questions which you may have.