



*Taxpayer Service Is Improving, but  
Challenges Continue in Meeting Expectations*

**February 2006**

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

February 17, 2006

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Taxpayer Service Is Improving, but Challenges  
Continue in Meeting Expectations (Audit # 200540007)

This report presents the results of our review of taxpayer service provided by the Internal Revenue Service (IRS). The overall objective of this review was to determine whether the IRS improved the quality of customer service to taxpayers when taxpayers obtained assistance filing their income tax returns and receiving their refunds. The basis for our assessment included results from Fiscal Years 2002 through 2005 Treasury Inspector General for Tax Administration Office of Audit reports.<sup>1</sup> We used Fiscal Year 2002 to baseline IRS customer service and compared it to Fiscal Years 2003 through 2005 results.

*Synopsis*

Providing quality customer service is the IRS' first step to achieving taxpayer compliance. One of Congress' principal objectives in enacting the IRS Restructuring and Reform Act of 1998<sup>2</sup> was to mandate that the IRS do a better job of meeting the needs of the taxpayers. Congress directed the IRS to achieve a better balance between its postfiling enforcement efforts and prefiling taxpayer assistance through education and service.

The IRS is making progress and is working toward its goals of improving customer service in the four key taxpayer service areas: face-to-face assistance; toll-free telephone assistance; tax return processing; and electronic services, including the IRS public Internet web site (IRS.gov). IRS assistors are courteous and professional. Some improvements have been made on the accuracy

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<sup>1</sup> Three reports were not issued until Fiscal Year 2006; however, the audit work was completed in Fiscal Year 2005. See Appendix IV for a list of all reports.

<sup>2</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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of answers assistants provide to taxpayers' tax law and account inquiries. Access to the toll-free telephone lines has been noteworthy, and tax returns are being processed on schedule and refunds issued more quickly. For the 2005 Filing Season,<sup>3</sup> electronically filed (*e-filed*)<sup>4</sup> tax returns exceeded paper-filed tax returns for the first time. In addition, electronic services are increasing, as is the growth in information provided on IRS.gov.

However, the IRS faces challenges in meeting several of its taxpayer service goals and expectations, as well as in determining and providing taxpayers the level and types of service they want or need. The IRS is reducing face-to-face services and encouraging taxpayers to use other, less costly services, such as the toll-free telephone lines and IRS.gov. With decreasing taxpayer service budgets, it is essential the IRS determine what the right mix of services might be (e.g., face-to-face or electronic, self-help or assisted).

The IRS has conducted only limited research on the impact of customer service on taxpayer compliance. Therefore, there are not sufficient data available to measure the effect on taxpayer compliance as services are reduced or redirected. Both the National Taxpayer Advocate and the Government Accountability Office have expressed concerns about this lack of data. As the IRS redirects taxpayers to electronic and self-help services, it needs to know what services taxpayers most need or want and if the anticipated cost savings and efficiencies will result in an increase in the taxpayers' burden as they try to remain or become compliant.

### *Recommendations*

We have made recommendations in prior reports; as a result, we are making no additional recommendations in this report.

### *Response*

IRS management reviewed our report and appreciates our recognition of the IRS' improved customer service in key areas. Despite the progress made, IRS management recognizes there is still room for improvement and will continue to focus their efforts on providing accurate, timely, and professional customer service.

While the IRS' focus on face-to-face service is changing, management agreed that further study is warranted regarding the impact on taxpayer compliance of any reduction in services. IRS management is awaiting the results of both our study and one they are conducting called the Taxpayer Assistance Blueprint (TAB) study. The TAB study will address customer tax assistance needs and preferences, current service capabilities, and opportunities to effectively

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<sup>3</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>4</sup> *E-file* is a way to electronically file a tax return with the IRS using an authorized IRS *e-file* provider or personal computer.



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balance service demands with available resources. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report results. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs) (Designee), at (202) 622-5916.



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## *Background*

### **Congress issued a mandate to the Internal Revenue Service to improve service to taxpayers**

Providing quality customer service is the Internal Revenue Service's (IRS) first step to achieving taxpayer compliance. One of Congress' principal objectives in enacting the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> was to mandate that the IRS do a better job of meeting the needs of the taxpayers. Congress directed the IRS to achieve a better balance between its postfiling enforcement efforts and prefiling taxpayer assistance through education and service.

***The RRA 98 states the IRS shall review and restate its mission to place a greater emphasis on serving the public and meeting taxpayers' needs.***

Congress believes that increasing electronic filing (*e-filing* or *e-file*)<sup>2</sup> and easier access to the services provided by the IRS would facilitate improvements in customer service. It determined that paperless filing should be the preferred and most convenient means of filing tax and information returns. As such, the RRA 98 specifies that the IRS should set goals to have at least 80 percent of all Federal tax and information returns filed electronically by 2007 and all returns that are prepared on a computer filed electronically for tax years beginning after 2001.

Also, to increase service to all taxpayers, the IRS was directed to expand the IRS telephone help line options. The IRS was required to provide all callers on the IRS telephone help lines with the option of having their questions answered in Spanish. During normal business hours, taxpayers also have the option to talk to a live person, in addition to hearing any applicable recorded messages.

Congress also wanted to make it easier for those taxpayers and their advisors needing face-to-face assistance from the IRS. They directed the IRS to list the telephone numbers and addresses of local IRS offices in local telephone books.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> *E-file* is a way to electronically file a tax return with the IRS using an authorized IRS *e-file* provider or personal computer.



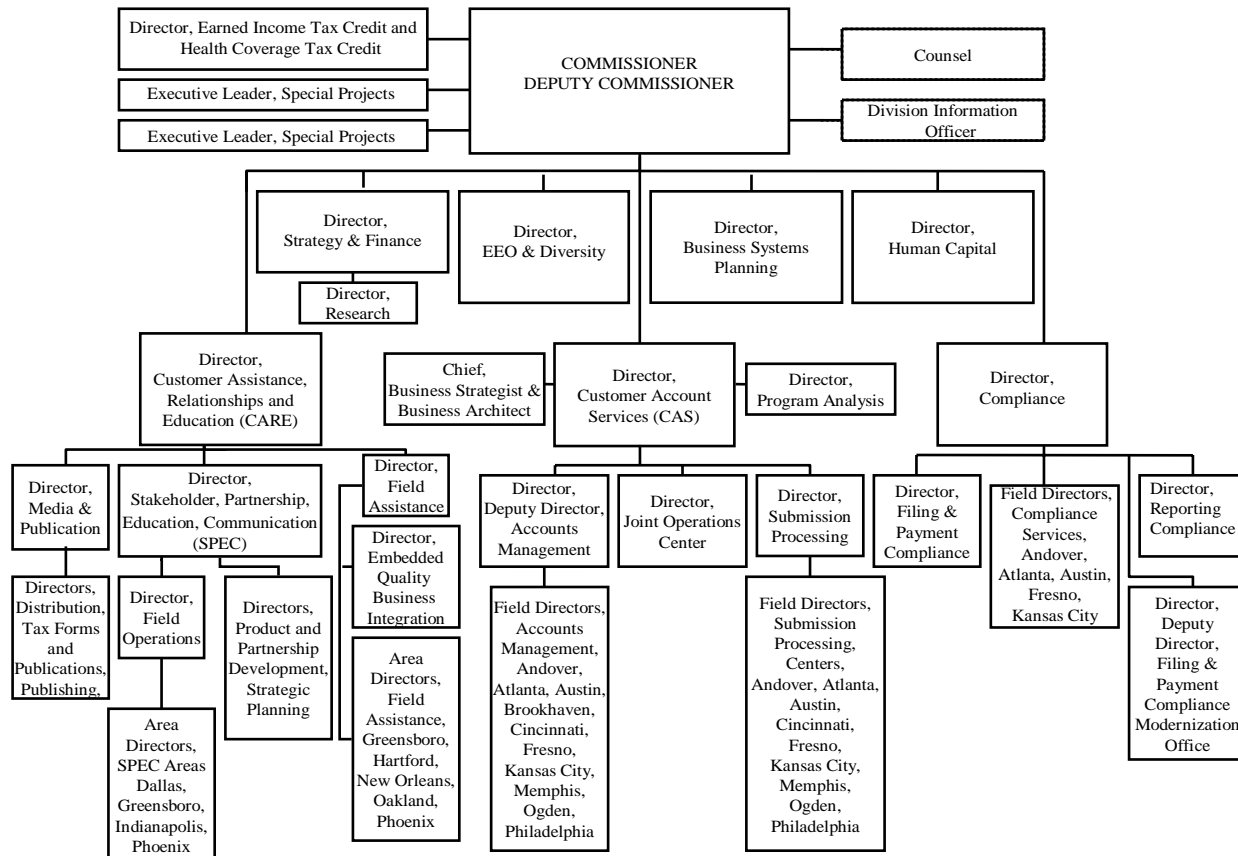
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**The IRS set goals for improving taxpayer service**

The IRS' mission is to provide America's taxpayers top-quality service by helping them understand and meet their responsibilities and by applying the tax law with integrity and fairness to all. As defined by the Treasury Inspector General for Tax Administration (TIGTA), providing quality taxpayer service operations remains among the major management challenges the IRS faces in Fiscal Year 2006. One of the three goals in the IRS Strategic Plan 2005–2009 is to improve taxpayer service. To help achieve this goal, the IRS plans to improve service options, facilitate participation in the tax system by all sectors of the public, and simplify the tax process.

The Wage and Investment (W&I) Division describes its customer base as being comprised of over 122 million taxpayers accounting for approximately 94 million tax returns. The W&I Division taxpayer service activity includes Electronic/Correspondence Assistance and Field Assistance; Media and Publications and Stakeholders Partnerships, Education, and Communication (SPEC); and Submission Processing.

**Figure 1: W&I Division Organization Chart**



Source: W&I Division Intranet web site as of July 2005. EEO = Equal Employment Opportunity.

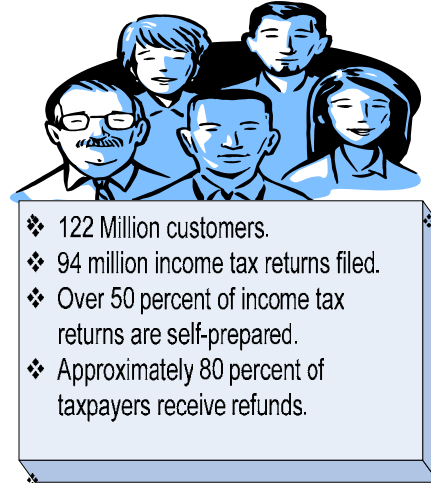


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W&I Division taxpayers earn wages and have investment income. Almost all of the income for this group is reported by third parties, and the vast majority of taxes are collected through third-party withholding. Most individual taxpayers deal with the IRS only when they file their tax returns, and approximately 80 percent receive refunds and are highly compliant. Over one-half of these taxpayers prepare their own tax returns, presenting a great opportunity for the W&I Division to provide top-quality service to a large number of taxpayers that otherwise would not receive assistance.

In 2001, the IRS established a set of balanced performance measures: employee satisfaction, customer satisfaction, and business results. As part of its strategic planning and budgetary processes, the IRS uses these measures to establish performance goals each fiscal year. To measure its customer service, the IRS uses a quality measurement system called Embedded Quality, which links employee performance to organizational results related to the quality of customer service. The Embedded Quality system is used to measure customer accuracy for many IRS services, including the toll-free telephone lines and Taxpayer Assistance Center (TAC) assistance.

Taxpayers have several options to choose from when they need assistance from the IRS, including face-to-face assistance at the TACs, telephone assistance through the toll-free telephone lines, and Internet access and email through IRS.gov. Taxpayers can also get assistance through the IRS' Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Programs. Figure 2 shows the activity for taxpayer assistance reported by the IRS for Fiscal Year 2005.

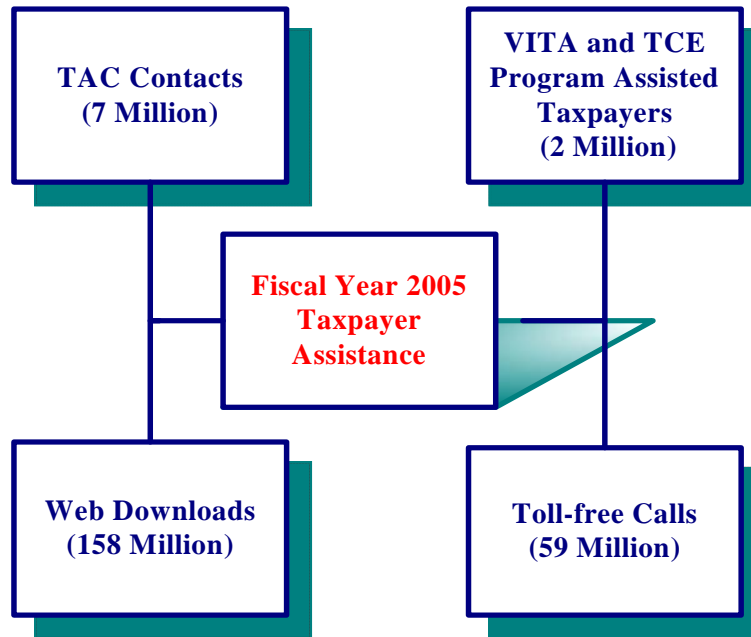






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**Figure 2: Fiscal Year 2005 IRS Taxpayer Assistance**



Source: IRS data sources.

The Field Assistance Office has overall responsibility for the TACs. It provides professional assistance, education, and compliance services to customers that desire face-to-face interaction. At the IRS' approximately 400 TACs, taxpayers are able to ask tax law questions, get account information, receive assistance with their accounts, and, if their income is less than a certain amount (\$36,000 for Calendar Year 2005), have tax returns prepared.

The SPEC Office has overall responsibility for the VITA and TCE Programs. During the 2005 Filing Season,<sup>3</sup> 5,019 VITA and 9,128 TCE sites were involved in the preparation of over 2 million tax returns. These Programs provide no-cost Federal tax return preparation and *e-filing* to underserved segments of individual taxpayers, including low-income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply the tax law.

The IRS Customer Account Services (CAS) Office has overall responsibility for the IRS Toll-Free Telephone Program. The IRS toll-free telephone system is a primary contact method that millions of taxpayers choose when seeking answers to tax law questions or trying to resolve account issues. Taxpayers who call the IRS can receive automated services (i.e., recorded

<sup>3</sup> The 2005 Filing Season relates to the processing of Tax Year 2004 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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information and interactive applications<sup>4</sup>) or choose to speak with a live assistor. During the 2005 Filing Season, the IRS staffed 10,614 assistors to answer the telephones at 26 call centers located throughout the United States and Puerto Rico. These assistors were trained to answer taxpayer questions involving tax law<sup>5</sup> and other related tax account conditions such as refunds, balance due billing activity, and changes to the amount of tax owed.

The IRS processes most individual income tax returns and issues most tax refunds during the filing season. The filing season presents many challenges to the IRS, including implementing new tax law changes, processing tax returns on schedule, and timely issuing tax refunds.

***“The IRS must find a way to digest and explain the tax laws in a way that taxpayers can understand, and enforce it.”***

***(National Taxpayer Advocate)***

The IRS processes individual income tax returns in seven Submission Processing sites located throughout the country. Tax returns and related schedules are processed through the IRS’ computer system and recorded on each individual’s tax account at these sites. The IRS’ computer system is made up of a complex series of processing subsystems that are nationally linked and programmed to check the validity and accuracy of the return data provided. If an error is found, the IRS sends the taxpayer a notice that requests additional information or explains any change(s) made to the amount of the tax due or the refund.

Seventy-five percent of all tax returns filed are for individuals. The IRS continues to process about one-half of these individual tax returns manually. This requires IRS employees to manually transcribe information into the IRS’ computer system. The IRS is encouraging taxpayers to *e-file* because it does not have to transcribe electronic tax return information and built-in *e-file* checks eliminate many errors the IRS has to deal with when processing paper tax returns, such as computational mistakes and incorrect Social Security Numbers.

IRS.gov is of growing importance to the IRS and its customers. The IRS is using the Internet to meet taxpayer demands for quick access, user-friendly tools, and better service. It allows taxpayers to instantly download hundreds of tax forms and publications, access current information on tax issues and *e-filing*, and ask tax law and IRS procedural questions. In addition, the IRS has provided and promoted free online tax preparation and *e-filing* through commercial tax return preparation companies located on IRS.gov. This program is called the Free File Program.

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<sup>4</sup> For callers using a touch-tone telephone, the Telephone Routing Interactive System can provide automated refund status information, permit callers to obtain a payoff amount for an outstanding balance due, or enable callers to set up an installment agreement to settle a delinquent tax debt.

<sup>5</sup> Only eight of the call centers handle tax law questions.



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The 2004 IRS Oversight Board Tax Compliance Study<sup>6</sup> reported that the most heavily relied upon sources of tax information and advice are IRS representatives (82 percent of those surveyed see them as very/somewhat valuable), IRS printed publications such as brochures (82 percent), and the IRS web site (77 percent). The IRS Oversight Board reported in its 2004 Taxpayer Attitude Survey that over one-half of the respondents view toll-free telephone service, face-to-face service, the web site, and email as customer services important to taxpayers. Ninety percent of those surveyed stated that visiting an office location where an IRS representative could answer a question was very important or somewhat important to them.

In addition to the importance taxpayers place on the services provided by the IRS, taxpayer satisfaction with those services has improved. In a survey conducted by the University of Michigan Business School's National Quality Research Center for the American Customer Satisfaction Index (ACSI),<sup>7</sup> the IRS shows continued improvement in its services. Overall, customer satisfaction for "All Individual Tax Filers" has remained stable at around 64 percent. "Individual Electronic Tax Filers" lead in customer satisfaction, with a 78 percent customer satisfaction rate.

Our assessment of customer service focused on individual taxpayers in the W&I Division in four key taxpayer service areas: face-to-face assistance; toll-free telephone assistance; tax return processing; and e-Services, including IRS.gov. This review was performed at the TIGTA office in Atlanta, Georgia, during the period January through November 2005.

Our assessment includes information derived from prior TIGTA Office of Audit reports issued in Fiscal Years 2002–2005.<sup>8</sup> Appendix IV provides a complete list of the reports analyzed. We used Fiscal Year 2002 to baseline customer service and compared it to Fiscal Years 2003–2005 results. Detailed information on our audit objective, scope, and methodology, is presented in Appendix I. Each of the audits was conducted in accordance with *Government Auditing Standards*. Major contributors to the report are listed in Appendix II.

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<sup>6</sup> The IRS Oversight Board is an independent body charged to provide the IRS with long-term guidance and direction.

<sup>7</sup> Established in 1994, the ACSI is a uniform and independent measure of household consumption experience. A powerful economic indicator, the ACSI tracks trends in customer satisfaction and provides valuable benchmarking insights of the consumer economy for companies, industry trade associations, and government agencies.

<sup>8</sup> Three reports were not issued until Fiscal Year 2006; however, the audit work was completed in Fiscal Year 2005.



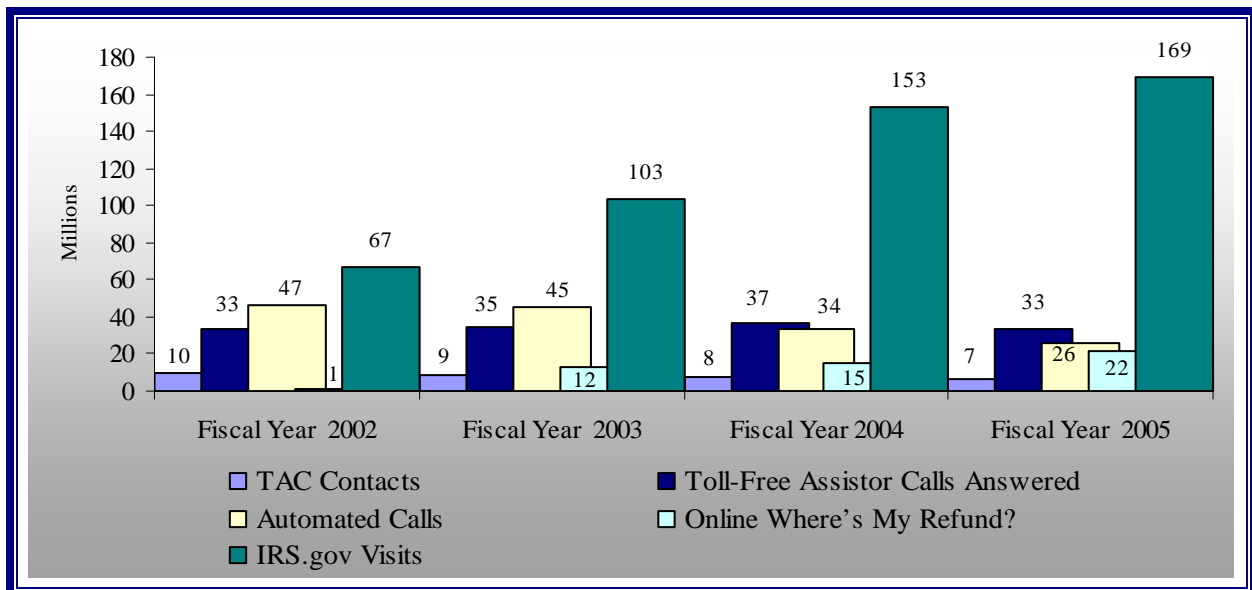
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*Results of Review*

The IRS is making progress in improving customer service in the four key areas of taxpayer service and is working toward its goals. Some improvements have been made on the accuracy of answers provided to taxpayers' tax law and account inquiries. Access to the toll-free telephone lines has been noteworthy, and tax returns are being processed on schedule and refunds issued more quickly. For the 2005 Filing Season, *e-filed* tax returns exceeded paper-filed tax returns for the first time. In addition, electronic services are increasing, as is the growth in information provided on IRS.gov.

However, the IRS faces challenges in meeting several of its taxpayer service goals and expectations. The W&I Division's strategy is to improve quality, efficiency, and service delivery while reducing taxpayer burden and seeking to expand options for *e-filing*, paying, and communicating with the IRS. At the same time, the IRS is reducing face-to-face services and encouraging taxpayers to use other, less costly services, such as the toll-free telephone lines and IRS.gov. As shown in Figure 3, TAC contacts have decreased 30 percent, while electronic services, such as *Where's My Refund?*, have shown significant increases.

**Figure 3: Taxpayer Assistance Activity**



Source: IRS management information reports.

The W&I Division states it has committed a significant amount of resources to help improve service to taxpayers. Since Fiscal Year 2002, the W&I Division taxpayer service budget has increased 14 percent, from \$1.09 to \$1.24 billion, but the IRS is expecting a decrease in the



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taxpayer assistance budget for Fiscal Year 2006 as more funding is allocated to compliance activities. As America's population ages and becomes more diverse at the same time the environment is moving to more technology and electronic services, the IRS will be challenged to provide the right mix of services to meet taxpayer demands.

### ***Taxpayers Experience Mixed Service When Seeking Face-to-Face Assistance***

The TACs are the main method the IRS uses to provide taxpayers with face-to-face assistance on tax matters. The taxpayer experience has improved, and there has been some improvement in the accuracy of responses to taxpayers' tax law questions and in the preparation of tax returns. However, the variety of services is declining as the IRS is moving toward more compliance activities and self-help electronic services. Some of the decline in face-to-face services will be lessened through the coalitions made through the VITA and TCE Programs. Currently, however, the VITA and TCE Programs focus mostly on tax preparation assistance to low-income and elderly taxpayers during the filing seasons.

### ***The IRS has improved the quality of taxpayer service in the TACs***

Although the variety of services offered at the TACs is declining, the quality of taxpayers' experiences has improved. For example, taxpayers:

- Have several alternatives by which to obtain the telephone numbers and addresses for local IRS offices: the Toll-Free Customer Service telephone number (1-800-829-1040), IRS.gov, and various publications. The IRS has made significant progress in publishing the telephone numbers and addresses of its TACs in local area telephone books and ensuring the telephone numbers are accurate.
- Are provided professional, courteous assistance generally within fewer than 30 minutes of their visits.
- Can expect an increase in their privacy when visiting the TACs because many TACs have been remodeled, allowing taxpayers more privacy when speaking and sharing documents with assistors.
- Have over-the-telephone interpreter services for those with limited English proficiency or those who are non-English speaking. When visiting the TACs, taxpayers are provided with over-the-telephone interpreter services in over 150 languages.



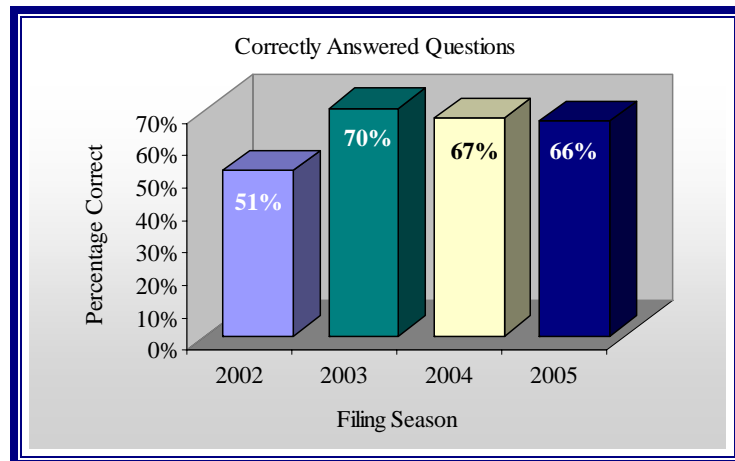
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**The IRS has made improvements in the accuracy of tax law responses and tax return preparation**

The IRS has increased the accuracy of responses to tax law questions by 29 percent (from 51 to 66 percent) based on the body of work the TIGTA completed during the period January 2002 through April 2005. However, the IRS did not meet its 80 percent accuracy goals for Fiscal Years 2003 and 2004 and experienced nominal improvement in decreasing the number of incorrect responses given. In addition, the Fiscal Year 2005 accuracy goal of 81 percent was not met. Figure 4 shows the results of the tax law reviews.

The Field Assistance Office has not established a baseline for measuring its tax preparation program; however, results from the 2003 through 2005 Filing Season reviews show improvement in the accuracy of tax return preparation. The 2005 Filing Season review<sup>9</sup> showed TAC assistors, as required, either helped taxpayers with the preparation or ensured that taxpayers prepared an IRS Return Preparation Checklist Sheet, reviewed completed tax returns with taxpayers, and provided taxpayers with completed copies of their tax returns. The accuracy rate of tax returns prepared improved, with 37 (79 percent) of 47 tax returns tested correctly prepared.

**Figure 4: Comparison of Tax Law Response Accuracy Rates for Filing Seasons 2002–2005**



Source: TIGTA audits.

**IRS assistors are provided tools to assist them when responding to taxpayer inquiries**

We believe accuracy rates will not improve if employees continue to answer tax law questions and prepare tax returns without using the tools provided by IRS management to address taxpayer questions and issues, and if the IRS does not implement an effective quality review program. IRS employees are required to use the Publication Method Guide or obtain the appropriate publication, discuss specific information related to the topic, ask appropriate questions to obtain facts when assisting a taxpayer, and then respond to the taxpayer's issue or question. Our

<sup>9</sup> *Coordination and Monitoring Are Needed for Continued Improvement in the Tax Return Preparation Process at the Taxpayer Assistance Centers* (Reference Number 2005-40-147, dated September 2005).



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reviews have shown that employees did not always use the tools provided or ask questions sufficient to answer the taxpayers' questions correctly. They also answered questions they were not trained to answer.

Assistors are trained and expected to be knowledgeable in 318 tax law topics with 395 subtopics. They are expected to respond to taxpayer issues for the current year and prior years. TAC assistors are required to use the Publication Method Guide or tax instructions, forms, and publications to provide the answers to tax law questions and to prepare tax returns. The Guide contains over 1,000 pages and covers approximately 77 tax law topics. Assistors are required to use the Guide as a tool to navigate through the complex maze of tax laws and computations. It is available either in paper or electronically. For each in-scope tax law topic, an assistor uses the Guide to ask a taxpayer approximately 9 to 37 conditional questions to determine the correct answer to the tax law questions or to help prepare a tax return. In addition, the Guide includes excerpts from tax publications assistors can use to "walk" the taxpayer through to provide an answer to the question.

**The IRS is implementing a quality review process to effectively measure the progress made to improve taxpayer service in the Field Assistance Office**

The IRS has not had a process in place to effectively measure the progress made to improve customer service. However, the IRS has taken several actions to implement a quality review program to identify ways to improve the accuracy and quality of services provided at the TACs. In October 2003, the Field Assistance Office began implementing the Embedded Quality system and began collecting data in April 2004. The Embedded Quality system requires group managers to observe assistors' contacts with taxpayers and to measure performance against predetermined standards.

However, the Embedded Quality data are inconsistent, contain errors, and are currently not statistically valid. Group managers did not follow the required sampling plan. In addition, managerial observations introduce bias, inhibiting the accurate assessment of employee performance. This is a new program, and sufficient internal controls had not been developed and implemented to ensure that the sampling plan is being followed and the results validated and monitored. Also, there are insufficient resources in the Quality Assurance function to assess the risks and effectiveness of controls.

The Field Assistance Office is moving in the right direction with the implementation of both short- and long-term strategies to improve the statistical validity and reliability of Embedded Quality data. In addition, the IRS is planning to replace managerial observations with Contact Recording, which captures the audio portion of the employee/customer interaction, synchronized with computer screen activity, for replay and quality review. Current projections call for Contact Recording to be fully implemented in Fiscal Year 2008. We believe the Embedded Quality system *with* Contact Recording, when appropriately working and managed, can provide a



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consistent methodology for all group managers to evaluate performance, establish baselines, and identify root causes of defects in employee interactions with taxpayers.

**The IRS is encouraging taxpayers to use alternative service methods that are more cost effective**

The IRS' focus on its face-to-face service is changing, and the Field Assistance Office is shifting from educating and assisting taxpayers in pre-filing activities to providing more post-filing activities. The IRS reports that there has been a decrease in overall TAC contacts. In addition, it is offering fewer services at the TACs. The TACs no longer offer taxpayer account transcripts to customers (except in hardship cases) and limit the preparation of tax returns to those under a certain income limit (\$36,000 for Calendar Year 2005). TAC assistors are not trained on all tax law topics, and, when taxpayers visit the TACs with questions that are not in the scope of the assistors' training, the assistors refer them to an IRS toll-free telephone number or submit the questions in writing to subject-matter experts via the Internet or through correspondence.

In response to the declining TAC contacts and decreasing funding, the IRS may permanently close a number of TACs. In May 2005, the IRS announced plans to close 68 TACs by the beginning of Fiscal Year 2006. In announcing the planned closures, the IRS stated that taxpayers will have continued access to tax forms, information, and tax preparation through IRS.gov, telephone assistance, and volunteer tax return preparation. In addition, the IRS stated that personal, face-to-face assistance will continue to be available in a number of TACs, although some taxpayers may need to travel a little farther.

Plans to close any TACs were suspended in July 2005 when anticipated language in the Fiscal Year 2006 Appropriations Bill<sup>10</sup> stated that none of the Fiscal Year 2006 funding could be used to close, consolidate, or reduce the levels of taxpayer service until the TIGTA completes a study of such taxpayer service reductions. The TIGTA study will give consideration to the effects of the proposed reductions on taxpayer service and compliance, and the report from the study will be submitted to the Committees on Appropriations of the House of Representatives and the Senate.

The Field Assistance Office Concept of Operations provides the vision for "Helping Taxpayers Help Themselves" and supports E-government.<sup>11</sup> The Concept of Operations outlines plans to offer self-help mechanisms and technology-driven services, including kiosks and virtual TACs.<sup>12</sup> It calls for converting the current TACs with one or two employees into Virtual TACs. In the

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<sup>10</sup> On October 20, 2005, the Senate requested a conference to resolve differences in the Fiscal Year 2006 Appropriations Bill; however, both the House and Senate versions of the Bill include provisions that would stop the IRS from moving ahead with the closures pending further study.

<sup>11</sup> E-government is one of the five Government-wide initiatives of the President's Management Agenda.

<sup>12</sup> A virtual TAC provides all services electronically; is self-help; and has a computer, telephone, and/or kiosk so taxpayers can help themselves.

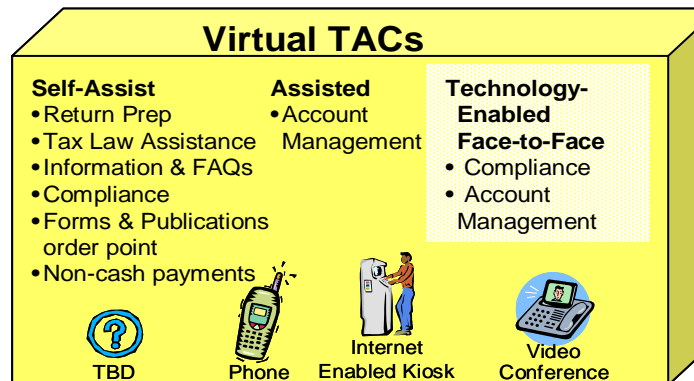




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Virtual TACs, taxpayers will be provided self-services for making noncash payments, ordering publications and forms, and obtaining tax law assistance. Most of the self-service can be performed through Internet-connected kiosks. The Virtual TACs will also have available technology-enabled face-to-face assistance to help taxpayers with their compliance and accounts management needs; this will be accomplished through video conferencing.

**Figure 5: Virtual TACs**



*Source: Field Assistance Office CARE Concept of Operations.*

**The IRS is improving its VITA Program and received an award for its community-based partnerships**

The Tax Reform Act of 1969<sup>13</sup> resulted in the formation of the VITA Program. Emphasis has continually focused on expanding the VITA Program through increased recruitment of social service, nonprofit, corporate, financial, educational, and government organizations; involvement of the military on a national level; and expansion of assistance provided to the limited-English-proficient community. VITA sites are often located at neighborhood centers, libraries, schools, churches, and shopping malls. During the 2004 Filing Season, the TIGTA identified that VITA volunteers did not always correctly prepare tax returns and taxpayers did not always receive accurate information about VITA site locations, hours of operation, and scope of services from the IRS.

IRS management committed to improving the VITA Program through an improved quality program. Results of our work conducted in the 2005 Filing Season show the IRS established and implemented a number of initiatives and processes that have resulted in improvements to the VITA Program, including the SPEC Office's increased ability to oversee and monitor the Program. The SPEC Office is requiring all VITA volunteers, regardless of their professional background and experience, to pass<sup>14</sup> a tax law examination and sign a Volunteer Agreement (Standards of Conduct - Volunteer Return Preparation Program) (Form 13615); enhancing training and tax reference materials; developing a multiyear quality business plan; and upgrading the management information system.

<sup>13</sup> Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).

<sup>14</sup> To "pass" an examination, the VITA Program volunteer must earn a score of 70 percent or better.



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In addition, the SPEC Office began issuing Quality Alerts to proactively address emerging issues affecting the quality of tax return preparation. The extent to which the Quality Alerts are reaching the frontline VITA volunteers remains somewhat unanswered because there is no system in place to ensure all VITA sites and VITA volunteers receive the Quality Alerts.

Challenges remain for an effective quality assurance process. Key controls implemented by the SPEC Office to help ensure the accuracy of tax returns prepared by VITA volunteers were not consistently followed. As a result, 23 (66 percent) of the 35 tax returns prepared during our 2005 Filing Season review were incorrect. Reviews of the selected VITA sites showed VITA volunteers did not always use or refer to intake sheets or resource guides when preparing tax returns and did not always perform a quality review of the completed tax returns. In addition, controls developed to ensure VITA site information provided by the IRS is accurate were not always followed. Furthermore, although a comprehensive quality assurance process was proposed in response to the prior TIGTA review, a number of obstacles, including stakeholder concerns about the intrusiveness of an observation process and data collection restrictions, have prevented the implementation of an effective process.

The IRS, through the SPEC Office, has developed a Community-Based Partnership model that links Earned Income Tax Credit (EITC) outreach and free tax preparation to asset-building strategies for low-income families. To date, over 290 local EITC partnerships or coalitions have been developed. These efforts have provided millions of low-income families with valuable information on refundable credits available to them through the tax code and have linked thousands of families to asset-building opportunities.

***In recognition of its efforts, the IRS was presented the Connect America 2005 Partner of the Year Award***

The Connect America Partner of the Year Award is presented each year at the National Conference on Community Volunteering and National Service. An initiative of the Points of Light Foundation and Volunteer Center National Network, Connect America is a network of diverse organizations working together to leverage volunteering and other resources to have a positive impact in communities. The IRS is the first Federal Government agency to receive the award. The IRS was recognized for its community-based partnerships that link low-income taxpayers with organizations that prepare tax returns for free, ensure they properly receive tax credits, and assist them with ways to build a financial savings. A Connect America partner since 2002, the SPEC Office now joins past Connect America Partner of the Year Award winners – The Salvation Army, Mothers Against Drunk Driving, and the March of Dimes Birth Defects Foundation.





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## **Taxpayers Experience Improved Service When Calling the Toll-Free Telephone Lines**

Since Fiscal Year 2002, the IRS has improved access to its toll-free telephone system and realized productivity and efficiency gains. In addition, assistors continue to provide courteous and professional service and have improved the accuracy of responses to tax law and tax account inquiries.

### **The IRS has improved access to the toll-free telephone lines**

The Assistor Level of Service, the relative success rate of taxpayers calling for assistance and seeking services from an assistor, has improved almost 23 percent since the 2002 Filing Season.<sup>15</sup> The IRS' Assistor Level of Service goal for the 2005 Filing Season was 82 percent. Figure 6 presents a comparison of the Assistor Level of Service for the last four filing seasons.

**Figure 6: Comparison of the Assistor Level of Service for the 2002–2005 Filing Seasons**

<b>CAS Office Toll-Free</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Level of Service</b>	66.6%	82.4%	84.7%	81.7%
<b>Goal</b>	-- <sup>16</sup>	66%	79%	82%

*Source: IRS Enterprise Telephone Data Warehouse.*

While the IRS basically achieved its Assistor Level of Service goal in the 2005 Filing Season, the percentage of taxpayers who received services within 30 seconds (Assistor Response Level) declined, and the average number of seconds taxpayers waited in the queue before receiving services (Average Speed of Answer) increased. In addition, the rate at which the taxpayer navigated the automated menu and then disconnected while waiting to speak to an assistor (Secondary Abandon Rate) increased from the 2004 Filing Season. However, the Transfer Rate<sup>17</sup> has remained fairly constant over the last three filing seasons. Figure 7 shows a comparison of these measures for the last four filing seasons.

<sup>15</sup> Part of the calculation for the Assistor Level of Service includes the percentage of call attempts made by taxpayers compared to the number of calls answered by the IRS.

<sup>16</sup> The IRS did not have a Level of Service goal for the 2002 Filing Season.

<sup>17</sup> The Transfer Rate compares the number of calls transferred by assistors to the number of calls handled.



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**Figure 7: Comparison of Various Performance Measures  
for the 2002–2005 Filing Seasons<sup>18</sup>**

CAS Office Toll-Free	Tax Law Calls				Account Calls			
	2002	2003	2004	2005	2002	2003	2004	2005
<b>Average Speed of Answer (seconds)</b>	160	196	165	190	293	138	206	301
<b>Assistor Response Level</b>	70.1%	56.9%	63.9%	50.9%	43.8%	56.9%	44.1%	21.4%
<b>Secondary Abandons</b>	11.1%	10.3%	7.0%	8.5%	15.6%	6.7%	10.4%	13.9%
<b>Transfer Rate</b>	38.9%	30.0%	25.5%	25.5%	12.4%	11.1%	10.2%	10.8%

Source: IRS Enterprise Telephone Data Warehouse.

In comparison with prior years, the data in Figure 7 show:

- In the 2005 Filing Season, taxpayers with tax law questions had a slightly longer average wait time (25 seconds) before reaching an assistor for service than those in the 2004 Filing Season. However, taxpayers with account questions had to wait an average of 301 seconds (over 5 minutes) before they received service by assistors. This was 1 minute and 35 seconds (46 percent increase) longer in the 2005 Filing Season than in the 2004 Filing Season. This is the longest period during the last four filing seasons that taxpayers had to wait to speak to an assistor for service with their accounts. Nevertheless, per the IRS Oversight Board 2004 Taxpayer Attitude Survey, individuals surveyed were willing to wait an average of 8 minutes to speak to an assistor.
- In the 2005 Filing Season, over one-half of the taxpayers with tax law questions received assistor service within 30 seconds of waiting. However, for taxpayers with account questions, only 21 percent received assistor service within 30 seconds. The percentage of taxpayers receiving service within 30 seconds has declined over the last two filing seasons.
- The percentage of taxpayers with tax law and account questions that hung up while waiting for assistor service has increased to 8.5 percent from 7.0 percent (21 percent) and to 13.9 percent from 10.4 percent (34 percent), respectively. This means that, during the 2005 Filing Season, more taxpayers became tired of waiting and hung up.

<sup>18</sup> Due to changes in the methodology the IRS used to capture toll-free data, the totals for previous filing seasons in this chart may not equal the totals presented in previous TIGTA reports.

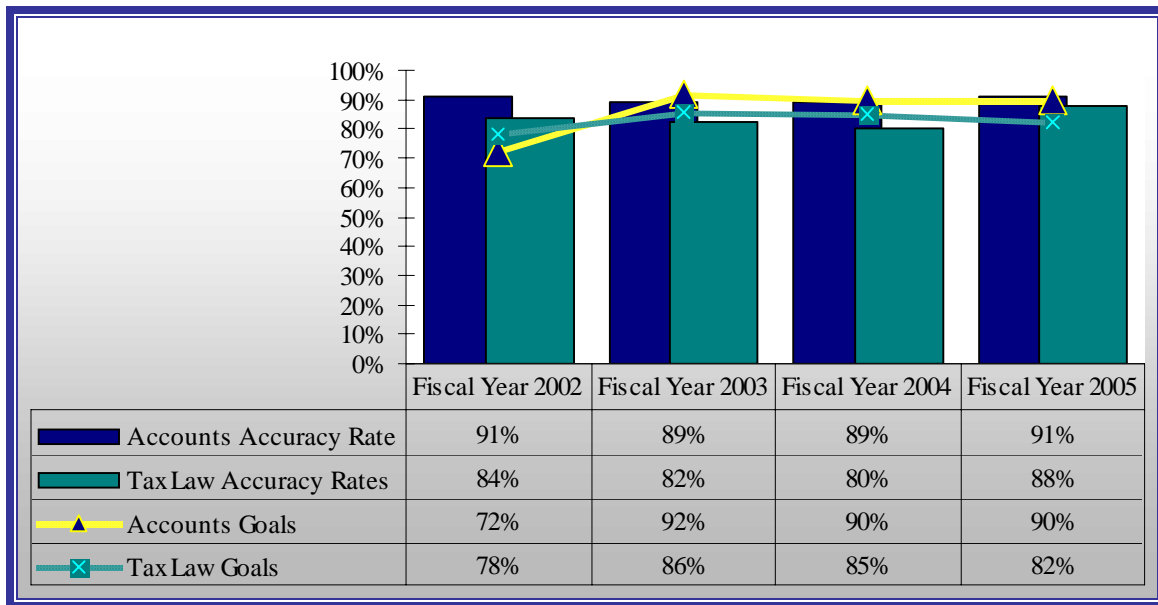


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**The IRS has improved the accuracy of responses to toll-free telephone system inquiries**

The accuracy rate of responses to toll-free tax law calls has improved, while the accuracy of responses to toll-free account calls has remained stable over the last 4 years. The IRS accuracy rates for both exceeded the IRS goals for Fiscal Year 2005. The IRS accuracy rates and goals for toll-free telephone system tax law and account calls for Fiscal Years 2002–2005 are illustrated in Figure 8. Fiscal Year 2005 accuracy rates are through April 2005.

**Figure 8: IRS Toll-Free Telephone System Accuracy Rates**



Source: IRS management information reports.

The IRS implemented the Embedded Quality system on its toll-free telephone operations beginning with the 2003 Filing Season. The IRS Centralized Quality Review Site measures the service provided by toll-free telephone assistors by listening to a statistically valid sample of live taxpayer calls from among the various Applications.<sup>19</sup>

Although the IRS reached its accuracy goals for Fiscal Year 2005, it still recognizes that the complexity of the tax law presents challenges. The IRS has provided numerous tools to help assistors accurately answer taxpayer tax law inquiries. One tool assistors use is the Probe and

<sup>19</sup> To ensure quality service, the IRS groups or categorizes calls by topics called Applications and by W&I Division and Small Business/Self-Employed Division taxpayers. There are a total of nine Applications for the General Account Calls Product Line.



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Response Guide, which is designed to give assistors scripts to follow to ensure they address all issues related to a taxpayer's particular question.

The IRS considers a response "complete and correct" when the assistor obtains sufficient information to answer the question *and* gives a correct and complete answer. To be rated as providing a complete and correct answer for tax law questions, assistors must use all applicable elements of the Probe and Response Guide to respond to the questions or must interpret the tax law correctly for those questions without an applicable Probe and Response Guide script.

In our most recent review of the IRS' Toll-Free Tax Law Telephone Product Line (the 2004 Filing Season review), assistors did not provide taxpayers with correct or complete answers to their tax law questions for 122 (38 percent) of 322 calls monitored.<sup>20</sup> Of these 122 calls, it is probable that 97 (80 percent) taxpayers would have received a correct and complete answer if the assistor had thoroughly used the Probe and Response Guide and obtained sufficient information from the taxpayers.

**The IRS has opportunities to enhance the taxpayer experience**

Although taxpayer access to its toll-free telephone services improved, the IRS has opportunities to further enhance the taxpayer experience and reduce the costs of providing toll-free telephone services. A major improvement opportunity involves the continuing difficulties with the menu. For example, when calling 1-800-829-1040 with a tax law or account-related question, the taxpayer is provided, in English or Spanish, four touchtone main automated menu options with secondary options:

1. Preparing or filing individual income tax returns. This option provides the taxpayer with a second automated menu from which to choose the following options: (a) ordering tax forms or publications, (b) finding IRS addresses to which to mail tax returns or payments, or (c) getting help with other tax questions.
2. Requesting information on a tax refund or personal tax account. This option provides the taxpayer with a second automated menu from which to choose the following options: (a) questions concerning a refund or (b) questions concerning a personal account.
3. Using the business and specialty tax line or obtaining the address for the IRS Internet web site.
4. Repeating the above options.

If the taxpayer chooses option # 1 and (c), getting help with other tax questions, the taxpayer first speaks to a screener before the call is transferred to an assistor to answer the tax law question. If the taxpayer has questions that cover more than one tax topic, the taxpayer may be transferred

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<sup>20</sup> *Additional Effort Answering Tax Law Questions Would Improve Customer Service* (Reference Number 2004-40-150, dated August 2004).



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multiple times before obtaining answers to all of his or her questions. This happens because assistors specialize and are trained only in specific topics. Each transfer could require the taxpayer to wait for the next available assistor.

In addition, the IRS still does not have a financial system that will accurately track its cost-per-call of providing various toll-free telephone services. While some efforts have been made in this direction, none have been finalized. Without accurate cost-per-call measurements for each of the various toll-free telephone services the IRS provides, management and key stakeholders do not have sufficient information with which to evaluate the efficiency of toll-free telephone system operations, the return on investment in technology and human capital, and the costs and benefits of key program decisions.

The IRS had planned to reduce toll-free telephone hours of operation in Fiscal Year 2006. The Customer Account Services function will have about 400 fewer Full-Time Equivalents<sup>21</sup> for toll-free telephone operations than it had in Fiscal Year 2005, due to plans to reduce operating hours from 15 to 12 hours per day. However, the IRS is determining if it will reduce the toll-free hours of operation and when the new hours would take effect.

### ***Taxpayers Experience Faster and More Accurate Tax Return Processing Through Internal Revenue Service Modernization Efforts***

For the last four filing seasons, the IRS has done a good job of timely and accurately processing tax returns. Each filing season, the IRS is confronted with the challenge of processing tax returns while implementing any new tax law changes. Changes to the tax law can have a major effect on how the IRS conducts its activities, how many resources are required, and how much progress can be made on strategic goals. Generally, Congress makes changes to the tax law each year, so some level of change is a normal part of the IRS environment. However, certain kinds of changes can have significant effects on the IRS in terms of the quality and effectiveness of service and how taxpayers perceive the IRS. The IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram its computer system to ensure returns are accurately processed.

Overall, the IRS has:

- Processed tax returns on schedule.
- Issued refunds within the required 45 days of the return due date.
- Correctly implemented most of the key tax law changes that affect individual income tax returns.

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<sup>21</sup> A measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2005, 1 Full-Time Equivalent is equal to 2,088 hours.



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The IRS issued over 94 million refunds totaling over \$199 billion during the 2005 Filing Season. In addition, each year more taxpayers are taking advantage of the benefits of IRS *e-file*. During Fiscal Year 2005, for example:

- More than one-half of all taxpayers—over 68 million individual income tax returns, an increase of 11 percent—*e-filed* their tax returns. As a result, the IRS met its Fiscal Year 2005 goals for the number and percentage of individual tax returns *e-filed*.
- Forty-eight million returns—an increase of 11 percent—were filed through an authorized *e-file* provider.
- Seventeen million taxpayers—an increase of almost 18 percent—filed their returns online from home.
- Five million taxpayers—an increase of 47 percent—filed for free using the Free File Program. The Free File Program happens through a partnership agreement between the IRS and the Free File Alliance, LLC.
- Three million people used the TeleFile Program—a decrease of almost 13 percent. The TeleFile Program allowed taxpayers to file simple tax returns by telephone.

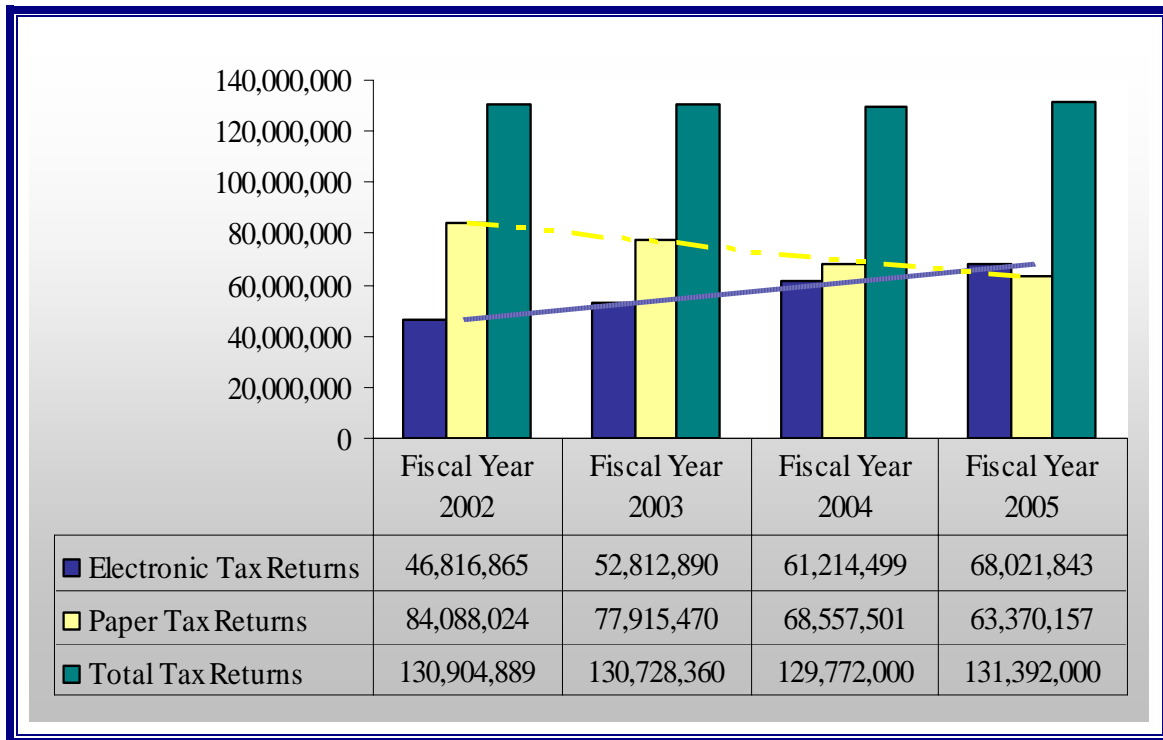
Figure 9 on page 20 shows the statistics for the last 4 fiscal years.





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**Figure 9: Paper Versus E-Filed Tax Returns**



Source: IRS management information reports.

**IRS modernization will allow for faster refunds and improved taxpayer service**

The IRS is working toward replacing its antiquated computer system (the Master File<sup>22</sup>) that came into use four decades ago. The age and complexity of the Master File system cause delays and inaccuracies in providing service to taxpayers. Updates to taxpayers' account information on the Master File system occur on a weekly basis, and some updates require multiple weekly cycles to complete. Because current data are not available to IRS employees, taxpayers may be given incorrect information about their accounts. The Master File system will be replaced with the Customer Account Data Engine (CADE).

The CADE is the foundation for managing taxpayer accounts in the IRS' modernization plan. It consists of current and planned databases and related applications that will eventually replace the existing IRS Master File system. When fully operational, the CADE will house tax information for more than 200 million individual and business taxpayers. The CADE is designed to post information to taxpayers' accounts on a daily rather than weekly basis. Taxpayers should

<sup>22</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organization data.



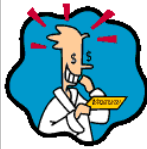



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receive refunds faster, and IRS employees should be able to provide improved service to taxpayers by having up-to-date, accurate account information available.

As paper and electronic tax returns are received by the IRS at various Submission Processing sites across the country, the return information is input to the IRS return processing computer system. This system validates certain taxpayer identifying information and checks the returns for mathematical errors. After the return information has been validated and errors have been corrected, the sites send the information to the IRS Computing Centers<sup>23</sup> to be posted to taxpayers' accounts. In the past, this account information was all posted to the Master File database, the repository for all tax accounts. The CADE is gradually replacing this database.

The first phase of the CADE, for individual taxpayer accounts, is to be implemented in a series of releases over several years. The first CADE release, Release 1.1, began posting the simplest individual tax return information in July 2004. Release 1.2 was delivered in January 2005. Figure 10 provides the results of the TIGTA review of CADE Release 1.2. It shows paper check refunds for those tax returns posted to the CADE were issued 8 days faster than for those tax returns posted to the Master File. Direct deposit refunds for returns posted to the CADE were issued 4 days faster than for those tax returns posted to the Master File. Figure 10 also shows the average calendar days to receive a refund based on whether the taxpayer received the refund by direct deposit, a paper check, or a combination.

**Figure 10: Average Calendar Days to Refund<sup>24</sup>**

 Refund Type	 Master File	 CADE	 CADE = Faster Refunds
Paper Check	18 Days	10 Days	8 Days Faster
Direct Deposit	11 Days	7 Days	4 Days Faster
Combined	15 Days	9 Days	6 Days Faster

Source: TIGTA review of sample tax returns.

<sup>23</sup> The IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.

<sup>24</sup> We determined the number of calendar days from the date the Submission Processing site sent the return information for posting to the date the refund was issued. These are the average days for our judgmental sample of cases, which may not reflect the overall Master File or CADE population.



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## **Taxpayers Experience More Electronic Service Options**

The IRS has established the IRS E-Strategy for Growth, and each year more taxpayers take advantage of electronic services offered by the IRS. The Strategy focuses on electronic initiatives for external customers and states:

*The future vision of IRS electronic tax administration is one in which any exchange or transaction that currently occurs in person, over the [tele]phone, or in writing can be accomplished electronically.*

The IRS is striving to implement and enhance the services offered to taxpayers and practitioners who wish to do business with the IRS by electronic means. Since 2002, the IRS has developed and implemented:

- A suite of e-Services<sup>25</sup> in an attempt to “make taxes easier” by providing taxpayers and their representatives increased options for electronic transactions and communications with the IRS to file returns, make payments, and receive tax assistance. The IRS now provides practitioners with online tools to provide better service to their customers, such as electronic account resolution, transcript delivery, and disclosure authorization.
- The Free File Program, which provides and promotes free online tax preparation and *e-filing* through commercial tax return preparation companies accessed through a link on IRS.gov. For Fiscal Year 2005, the IRS had accepted 5 million Free File Program returns, an increase of 47 percent from last year.
- The interactive application, *Where’s My Refund*, on IRS.gov that allows taxpayers to determine if their refunds have been processed and, if processed, approximately when to expect the refund. In Fiscal Year 2005, over 22 million taxpayers successfully received their refund information, an increase of almost 50 percent for the same period in Fiscal Year 2004.
- The application, *Remember Your Advance Child Tax Credit*, on IRS.gov that allows taxpayers to check the amount of their child tax credit. Approximately 149,000 taxpayers used this application during Fiscal Year 2005.
- Interactive applications on IRS.gov that help taxpayers calculate taxes and credits. For example, taxpayers can calculate withholding credits or determine eligibility for and the amount of the EITC.

IRS.gov continues to be one of the most visited web sites in the world, especially during filing seasons. For example, taxpayers downloaded over 94 million forms in the 2005 Filing Season. Figure 11 shows the IRS.gov visits and page views over the last four filing seasons.

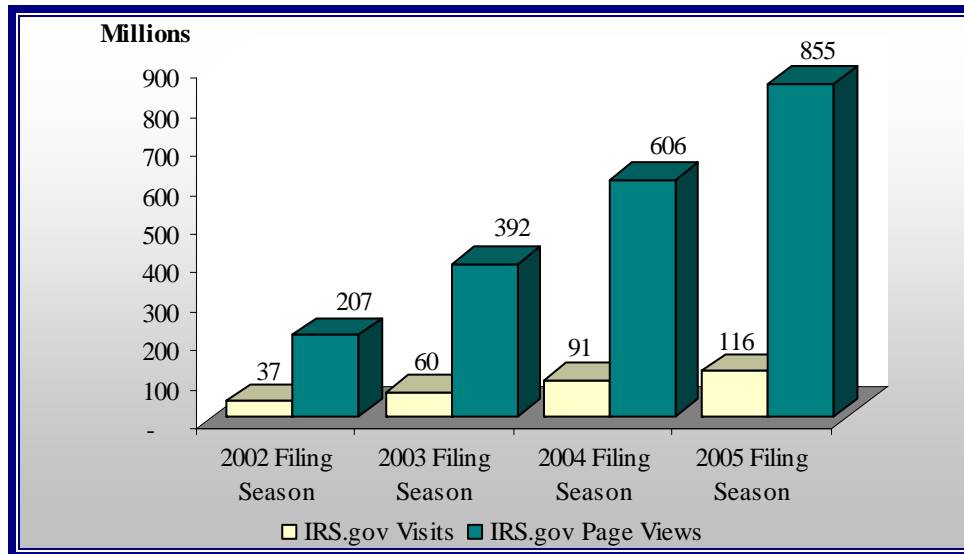
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<sup>25</sup> E-Services is a suite of web-based products that allow tax professionals and payers, as well as States and other partners, to do business with the IRS electronically 24 hours a day, 7 days a week, via the Internet.



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**Figure 11: IRS.gov Activity**



Source: IRS management information reports.

These services support the e-Government goal to champion citizen-centered electronic government that will result in a major improvement in the Federal Government’s value to the citizens. Expanded Electronic Government is one of initiatives in the President’s Management Agenda.

***Two IRS electronic programs were finalists for the 2005 Excellence.Gov Award***

The IRS had two of its electronic programs selected as 2005 Excellence.Gov Award finalists. On February 9, 2005, IRS.gov and the Modernized e-File Project were honored as two of the “Top 25” Excellence.Gov Award Finalists for 2005. These two IRS programs were selected, in part, because of their impact on the agency’s ability to deliver on its mission; an effective adoption strategy demonstrated by measurable results; and evidence of excellent satisfaction among stakeholders, participants, and end users. The 2 projects were selected from over 80 entries.



**Challenges remain for the IRS**

The following challenges remain for the IRS:

- Strengthen enforcement programs while continuing to provide a high level of taxpayer service.
- Obtain the e-file goal by 2007.



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- Provide the right mix of customer service.
- Measure the effect on taxpayer compliance as services are reduced or redirected.

By continuing to improve *e-filing*, payment and communication services via the Internet, the IRS envisions the public will be able to conduct the vast majority of tax interactions electronically. The IRS reports that processing *e-filed* tax returns costs significantly less than processing paper-filed tax returns, services provided by telephone cost less than face-to-face services, and self-help electronic services cost less than those provided by assistants over the telephones. The IRS hopes that any cost savings resulting from taxpayers switching to electronic services can be refocused on compliance activities.

However, although *e-filing* and e-Services have grown, the IRS recognizes that it will not achieve the goal of having 80 percent of all individual income tax returns filed electronically by 2007. In addition, the growth of *e-file* is decreasing. It increased 16 percent in 2004 but only 11 percent in Fiscal Year 2005.

Although the IRS has made great strides with IRS.gov and e-Services, it is still working toward the right mix of services and has to determine what mix is most cost effective and will reach the most taxpayers. The IRS has over 13,000 pages of information on IRS.gov, including tax education, tax law guidance, and tax law application. It offers taxpayers several methods to *e-file* their tax returns. Nevertheless, the IRS is reducing or eliminating some electronic services. For example, the IRS has eliminated the TeleFile Program.

The TeleFile Program allowed taxpayers to file certain forms by telephone. The IRS ended the TeleFile Program on August 16, 2005, citing a decline in use of the Program for most forms, increasing costs to maintain the system, and the growth of other *e-filing* options. The IRS initiated the TeleFile Program on a limited basis in 1992. During the 1996 Filing Season, the TeleFile Program was offered on a nationwide basis to taxpayers who filed their tax returns using the Single filing status. During the 1997 Filing Season, the Program was further expanded to include those taxpayers who filed their tax returns with the Married Filing Jointly status. At the time of its discontinuance, the TeleFile Program had been expanded to support the telephone filing of selected United States Individual Income Tax Returns for Single and Joint Filers With No Dependents (Form 1040EZ) and State individual tax returns, Employer's Quarterly Federal Tax Returns (Form 941), and Applications for Automatic Extension of Time to File U.S. Individual Income Tax Return (Form 4868).

We have also reported that another electronic program, the Kiosk Program, is not appropriately managed, resulting in inoperable and inefficient kiosks. Kiosks consist of a computer processing unit, touch-screen monitor, and printer. As an alternative method of obtaining Federal and State tax forms and answers to frequently asked tax questions in English and Spanish, the IRS currently offers taxpayers 38 kiosks in 20 States. However, we reported in 2004 that the IRS cannot determine whether the Kiosk Program provides effective customer service or is cost effective because of insufficient internal controls and management oversight. In addition, the



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kiosks stand alone and are not networked or connected to the Internet, thus limiting their functionality and appeal to taxpayers. However, the IRS' vision for the future of the Kiosk Program is to provide taxpayers with the ability to self-sufficiently resolve their own tax needs and decrease the need for taxpayers to seek live assistance from the IRS.

Executive Order 12862,<sup>26</sup> "Setting Customer Service Standard," sets requirements for each Federal Government agency to identify and survey its customers, post service standards and measure results against them, and benchmark customer service against the best in the business. However, the IRS faces significant challenges in determining and providing taxpayers with the level and types of service they want or require. With decreasing taxpayer service budgets, it is essential that the IRS determine what the right mix of services might be (e.g., face-to-face or electronic, self-help or assisted).

The IRS has conducted only limited research on the impact of customer service on taxpayer compliance. Therefore, there are not sufficient data available to measure the effect on taxpayer compliance as services are reduced or redirected. Both the National Taxpayer Advocate and the Government Accountability Office have expressed concerns about this lack of data. As the IRS redirects taxpayers to electronic and self-help services, it needs to know what services taxpayers most need or want and if the anticipated cost savings and efficiencies will result in an increase in the taxpayers' burden as they try to remain or become compliant.

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<sup>26</sup> Executive Order No. 12862, 58 Fed. Reg. 48,257 (September 14, 1993).



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) improved the quality of customer service to taxpayers when taxpayers obtained assistance filing their income tax returns and receiving their refunds. The basis for our assessment included results from Fiscal Years 2002–2005 Treasury Inspector General for Tax Administration (TIGTA) Office of Audit reports (see Appendix IV). We used Fiscal Year 2002 to baseline IRS customer service and compared it to Fiscal Years 2003–2005 results. To accomplish our objective, we:

- I. Determined if the Wage and Investment (W&I) Division met Congressional and taxpayer expectations to minimize the burden to taxpayers in satisfying their tax obligations by providing the right services at the right location at the right time.
  - A. Researched the IRS Restructuring and Reform Act of 1998<sup>1</sup> and determined if the W&I Division took steps to address Congressional concerns related to the quality of customer service provided in its programs.
  - B. Reviewed the IRS Strategic Plan 2005–2009 and the W&I Division’s 2004–2005 Strategy and Program Plan to determine current strategies, goals, and objectives.
  - C. Reviewed the Concept of Operations for customer service.
  - D. Researched reports issued in Fiscal Years 2002–2005 on IRS customer service by the National Taxpayer Advocate, the IRS Oversight Board, the Government Accountability Office, and Congress.
- II. Followed up on the IRS’ corrective actions taken based on the results and recommendations made in previously issued Fiscal Years 2002–2005 TIGTA Office of Audit reports.
  - A. Determined if corrective actions were implemented.
  - B. Determined if implemented actions improved the quality of service provided in the Taxpayer Assistance Centers; over the toll-free telephone line and on the Internet web site, *IRS.gov*, as well as in the areas of income tax return and tax refund processing and electronic filing.
  - C. Determined the effect or impact of corrective actions that were not implemented.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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- III. Analyzed data gathered from Fiscal Years 2002–2005 TIGTA Office of Audit reports to determine if the IRS made progress in improving the quality of customer service provided to individual taxpayers when obtaining assistance with filing their income tax returns and receiving their tax refunds.





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## **Appendix II**

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## **Appendix III**

### *Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Account Services SE:W:CAS  
Director, Customer Assistance, Relationships, and Education SE:W:CAR  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Director, Field Assistance SE:W:CAR:FA  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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*Taxpayer Service Is Improving,  
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## **Appendix IV**

### *Treasury Inspector General for Tax Administration Office of Audit Reports Analyzed (Fiscal Years 2002–2005)*

*Letter Report: The Internal Revenue Service Is Contributing to the Decline in TeleFile Volumes* (Reference Number 2002-40-003, dated October 2001).

*While Most Taxpayers Received Accurate and Timely Notification of Their Advance Refunds, Millions Did Not* (Reference Number 2002-40-016, dated October 2001).

*The Internal Revenue Service Could Improve Its Process to More Reliably Measure the Accuracy of Its Toll-Free Tax Law Assistance* (Reference Number 2002-40-051, dated February 2002).

*The Wage and Investment Division Properly Planned for the 2002 Toll-Free Telephone Operation* (Reference Number 2002-40-058, dated March 2002).

*Improvements Need to Be Made to Publications and Instructions to Assist Taxpayers in Successfully Signing Their Tax Returns Electronically* (Reference Number 2002-40-046, dated March 2002).

*Management Advisory Report: Numerous Efforts Are Taken to Educate Taxpayers on Innocent Spouse Eligibility Requirements* (Reference Number 2002-40-067, dated March 2002).

*Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions* (Reference Number 2002-40-086, dated April 2002).

*Telephone Numbers and Addresses for Local Internal Revenue Service Offices Have Not Been Published in Telephone Books* (Reference Number 2002-40-087, dated May 2002).

*Appropriate Changes Were Made to Tax Products; However, Improvements Are Needed for Tracking the Changes* (Reference Number 2002-40-090, dated May 2002).

*Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions* (Reference Number 2002-40-113, dated June 2002).

*Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed* (Reference Number 2002-40-116, dated June 2002).



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*Despite Some Problems, the Internal Revenue Service Properly Identified Returns With Rate Reduction Credit Errors During the 2002 Filing Season* (Reference Number 2002-40-142, dated August 2002).

*The Quality of Toll-Free Tax Law Assistance During the 2002 Filing Season Improved; However, More Can Be Done to Improve Quality and Enhance Service* (Reference Number 2002-40-137, dated August 2002).

*Management Advisory Report: Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions* (Reference Number 2002-40-161, dated August 2002).

*The Internal Revenue Service Needs to Improve the Pre-Filing Tax Services Provided to Taxpayers* (Reference Number 2002-40-174, dated September 2002).

*Management Advisory Report: The Internal Revenue Service Has Made Progress to Address Tax Law Complexity and to Control New Tax Law Implementation* (Reference Number 2002-40-188, dated September 2002).

*Although the 2002 Filing Season Was Completed Timely, Customer Service Can Be Improved During Error Processing* (Reference Number 2002-40-200, dated September 2002).

*The Internal Revenue Service Continues to Pay Tax Refunds on E-Filed Tax Returns Prior to Ensuring a Signature Document Is Processed* (Reference Number 2002-40-202, dated September 2002).

*Significant Efforts Have Been Made to Provide Taxpayers Better Access to the Toll-Free Telephone System, but Additional Improvements Are Needed* (Reference Number 2003-30-001, dated October 2002).

*Response Accuracy Is Higher for the Internet Program Than for Other Options Available to Taxpayers Needing Assistance With Tax Law Questions* (Reference Number 2003-40-014, dated October 2002).

*Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions* (Reference Number 2003-40-023, dated November 2002).

*Taxpayers That Visited Taxpayer Assistance Centers in July and August 2002 Received Incorrect Answers to Some Tax Law Questions* (Reference Number 2003-40-024, dated November 2002).

*Taxpayers That Visited Taxpayer Assistance Centers During September and October 2002 Received More Correct Answers to Tax Law Questions Than in Prior Months* (Reference Number 2003-40-040, dated December 2002).

*Significant Progress Has Been Made to Provide Interpreter Services to Non-English Speaking Taxpayers in the Taxpayer Assistance Centers, but Improvements Are Needed* (Reference Number 2003-40-045, dated January 2003).



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*The Internal Revenue Service Has Procedures to Ensure There Is Sufficient Trained Staff to Process Individual Income Tax Returns in 2003* (Reference Number 2003-40-055, dated February 2003).

*Taxpayers That Visited Taxpayer Assistance Centers in November and December 2002 Received Incorrect Answers to Some Tax Law Questions* (Reference Number 2003-40-072, dated March 2003).

*Pre-Filing Season Activities to Address Specific Individual Electronic Filing Issues Were Adequately Conducted* (Reference Number 2003-40-073, dated March 2003).

*Terrorist Victims' Tax Relief Refunds Were Accurate, but Some Were Delayed* (Reference Number 2003-40-080, dated March 2003).

*Opportunities Exist to Expand the TeleFile Program* (Reference Number 2003-40-092, dated March 2003).

*Forms and Publications for the New Education and Retirement Tax Provisions Were Addressed for the 2003 Filing Season* (Reference Number 2003-40-105, dated April 2003).

*Controls Need to Be Improved to Ensure Accurate Direct Deposit of Tax Refunds* (Reference Number 2003-40-108, dated May 2003).

*Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions, but Improvements Are Needed to Ensure Referral Procedures Are Followed* (Reference Number 2003-40-120, dated May 2003).

*The Internal Revenue Service Has Opportunities to Provide Hearing- and Speech-Impaired Taxpayers With Easier Access to Toll-Free Telephone Services* (Reference Number 2003-30-111, dated May 2003).

*Additional Effort Is Needed to Prevent Taxpayers' Personal Exemptions and Tax Credits From Being Erroneously Denied* (Reference Number 2003-40-124, dated May 2003).

*Improvements Are Needed to Ensure Innocent Spouse Claims Are Accurately and Timely Processed* (Reference Number 2003-40-136, dated June 2003).

*Taxpayer Assistance Center Employees Improved the Accuracy of Answers to Tax Law Questions but Answered Some Questions Beyond Their Level of Training* (Reference Number 2003-40-157, dated July 2003).

*Trends in Customer Service in the Taxpayer Assistance Centers Continue to Show Procedural Causes for Inaccurate Answers to Tax Law Questions* (Reference Number 2003-40-158, dated August 2003).

*The Internal Revenue Service Should Expand the Successful Automation of Payment Processing to Include Additional Documents* (Reference Number 2003-40-159, dated August 2003).



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*Limited English Proficient Taxpayers Need Improved Written Products to Help Them Understand and Comply With Tax Laws* (Reference Number 2003-40-163, dated August 2003).

*Improvements Are Needed to Ensure Individual Taxpayers Have an Easy, No-Cost Option to e-File Their Tax Returns* (Reference Number 2003-40-165, dated August 2003).

*Taxpayer Assistance Center Employees Continued to Improve the Accuracy of Answers to Tax Law Questions During May and June 2003* (Reference Number 2003-40-198, dated September 2003).

*Toll-Free Tax Law Assistance to Taxpayers Is Professional and Timely, but Improvement Is Needed in the Information Provided* (Reference Number 2003-40-216, dated September 2003).

*The 2003 Filing Season Was Completed Timely and Accurately, but Some New Tax Law Changes Were Not Effectively Implemented* (Reference Number 2004-40-003, dated October 2003).

*Increased Taxpayer Awareness and Improved Guidance Are Needed to Ensure Accurate Direct Deposit of Tax Refunds Claimed on E-Filed Tax Returns (Limited Official Use)* (Reference Number 2004-40-016, dated October 2003).

*Improvements Are Needed in the Screening and Monitoring of E-File Providers to Protect Against Filing Fraud* (Reference Number 2004-40-013, dated November 2003).

*Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During July and August 2003 Than Compared to One Year Ago* (Reference Number 2004-40-024, dated December 2003).

*Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers* (Reference Number 2004-40-025, dated December 2003).

*Improvement Is Needed in E-Mail Responses to Complex Tax Questions Submitted Through Toll-Free Telephone Help Lines* (Reference Number 2004-40-029, dated December 2003).

*Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During September and October 2003 Than Compared to One Year Ago* (Reference Number 2004-40-037, dated January 2004).

*Access to the Toll-Free Telephone System Was Significantly Improved in 2003, but Additional Enhancements Are Needed* (Reference Number 2004-30-038, dated January 2004).

*The Child Tax Credit Advance Payment Was Effectively Planned and Implemented, but a Programming Discrepancy Caused Some Overpayments* (Reference Number 2004-40-042, dated January 2004).

*Toll-Free Account Assistance to Taxpayers Is Professional and Timely, but Improvement Is Needed in the Information Provided* (Reference Number 2004-40-057, dated February 2004).



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*Taxpayer Service Is Improving,  
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*Accuracy Rates Have Increased at Taxpayer Assistance Centers, but Improvement Is Needed to Provide Taxpayers Top-Quality Customer Service* (Reference Number 2004-40-065, dated February 2004).

*Forms and Publications for Tax Year 2003 Properly Explain Specific Tax Law Changes Affecting Individual Taxpayers* (Reference Number 2004-40-069, dated March 2004).

*More Could Be Done to Make It Easier for Taxpayers to Locate Taxpayer Assistance Centers* (Reference Number 2004-40-075, dated March 2004).

*Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During November and December 2003 Than Compared to One Year Ago* (Reference Number 2004-40-090, dated April 2004).

*Taxpayers Experienced Improved Access to Toll-Free Telephone Services During the 2004 Filing Season* (Reference Number 2004-30-144, dated August 2004).

*Additional Effort Answering Tax Law Questions Would Improve Customer Service* (Reference Number 2004-40-150, dated August 2004).

*The Effectiveness of the Kiosk Program Cannot Be Determined* (Reference Number 2004-40-151, dated August 2004).

*Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites* (Reference Number 2004-40-154, dated August 2004).

*Taxpayer Experience at the Taxpayer Assistance Centers Could Be Improved* (Reference Number 2004-40-152, dated September 2004).

*Most Attachments Submitted With Individual Taxpayers' Tax Returns Are Identified and Processed* (Reference Number 2004-40-153, dated September 2004).

*Injured Spouse Guidance Is Not Consistent* (Reference Number 2005-40-001, dated October 2004).

*The Health Coverage Tax Credit Was Accurately Processed During the 2004 Filing Season* (Reference Number 2005-40-017, dated December 2004).

*Toll-Free Account Assistance to Taxpayers Is Professional and Timely, and the Quality of Information Provided Has Improved* (Reference Number 2005-40-018, dated December 2004).

*The 2004 Filing Season Was Completed Timely and Accurately, but Some Tax Law Changes Have Not Been Effectively Implemented* (Reference Number 2005-40-016, dated December 2004).

*Customer Service at the Taxpayer Assistance Centers Is Improving but Is Still Not Meeting Expectations* (Reference Number 2005-40-021, dated December 2004).



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*Opportunities Exist to Improve Tax Software Packages* (Reference Number 2005-40-025, dated January 2005).

*Processes Used to Ensure the Accuracy of Information for Individual Taxpayers on IRS.gov Need Improvement* (Reference Number 2005-40-026, dated February 2005).

*Taxpayers Identified As Serving in Combat Zones Were Properly Afforded Tax Benefits, but Account Identification and Maintenance Processes Need Improvement* (Reference Number 2005-40-077, dated April 2005).

*The Accounts Management Program Has Annual Performance Goals but Should Develop Long-Term Performance Goals* (Reference Number 2005-40-079, dated May 2005).

*Taxpayer Remittances Were Generally Safeguarded Within the Ogden Submission Processing Site; However, Some Security Vulnerabilities Exist (Limited Official Use)* (Reference Number 2005-30-086, dated May 2005).

*The Earned Income Tax Credit Income Verification Test Was Properly Conducted* (Reference Number 2005-40-093, dated May 2005).

*Forms, Publications, and Computer Programming Were Adequately Addressed and Updated in Most Instances for the 2005 Filing Season* (Reference Number 2005-40-094, dated June 2005).

*Individual Income Tax Return Information Was Accurately and Timely Posted to the Customer Account Data Engine* (Reference Number 2005-40-109, dated July 2005).

*The Effectiveness of the Taxpayer Assistance Center Program Cannot Be Measured* (Reference Number 2005-40-110, dated July 2005).

*Processing Changes Would Improve Service and Reduce Unnecessary Interest Paid on Refunds to Taxpayers That File Amended Individual Income Tax Returns* (Reference Number 2005-40-111, dated July 2005).

*Controls Over the Processing of the Mortgage Interest Credit Need to Be Improved (Limited Official Use)* (Reference Number 2005-40-137, dated September 2005).

*Customer Accuracy at Taxpayer Assistance Centers Showed Little Improvement During the 2005 Filing Season* (Reference Number 2005-40-146, dated September 2005).

*Coordination and Monitoring Are Needed for Continued Improvement in the Tax Return Preparation Process at the Taxpayer Assistance Centers* (Reference Number 2005-40-147, dated September 2005).

*Electronic Tax Law Assistance Program Responses Are Timely and Generally Accurate* (Reference Number 2005-40-152, dated September 2005).

*Taxpayers Continued to Experience Improved Access to Toll-Free Telephone Service During the 2005 Filing Season* (Reference Number 2005-40-155, dated September 2005).





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*Payments Made at the Taxpayer Assistance Centers Are Generally Timely and Accurately Processed* (Reference Number 2005-40-148, dated September 2005).

*Significant Improvements Have Been Made in the Oversight of the Volunteer Income Tax Assistance Program, but Continued Effort Is Needed to Ensure the Accuracy of Services Provided* (Reference Number 2006-40-004, dated November 2005).

*Improved Internal Controls and Contact Recording Are Needed to Ensure the Accuracy and Reliability of the Taxpayer Assistance Centers Quality Measurement System* (Reference Number 2006-40-022, dated December 2005).

*Individual Income Tax Returns Were Timely Processed in 2005; However, Implementation of Tax Law Changes Could Be Improved* (Reference Number 2006-40-024, dated December 2005).



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**Appendix V**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

RECEIVED  
JAN 27 2006

JAN 26 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Taxpayer Service Is Improving, but  
Challenges Continue in Meeting Expectations  
(Audit # 200540007)

I have reviewed your report entitled, "Taxpayer Service Is Improving, but Challenges Continue in Meeting Expectations", and I appreciate your recognition of our improved customer service in the key taxpayer service areas of face-to-face assistance, toll-free telephone assistance, tax return processing, and electronic services. Notwithstanding the progress we have made in these areas during the past three years, we recognize there is still room for improvement, and we will continue to focus our efforts on providing accurate, timely, and professional customer service.

As noted in your report, since the 2002 Filing Season IRS efforts have resulted in an almost 23 percent improvement in access to our toll-free telephone lines. Likewise, we have also improved the accuracy of responses to calls received on our toll-free telephone lines.

The IRS continues to meet or exceed performance goals for returns processing activities, as we have done each year since 2001. A significant milestone was passed this year when, for the first time, more than half of all individual tax returns IRS received were filed electronically. We also achieved a major modernization milestone with the initial roll-out of the Customer Account Data Engine in 2005, which significantly reduced the timeframes for issuing refunds.

The IRS also continues to see extensive acceptance and use of our website IRS.gov where, among other things, taxpayers are able to view and download forms and publications, research tax topics, electronically file their individual tax returns, and use the "Where's My Refund?" feature to check on the status of their refunds.



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I am pleased your report recognizes the improvements IRS has made in the overall taxpayer experience, as well as the accuracy of tax law responses and tax return preparation provided during face-to-face assistance in our Taxpayer Assistance Centers (TAC). Your report notes the IRS increased the accuracy rate for responses to tax law questions by 29 percent during the period of January 2002 through April 2005, but we did not achieve our accuracy goals during recent fiscal years. While I agree we did not achieve our accuracy goals during this time, I am compelled to point out that during this same timeframe we have focused our efforts on designing an Embedded Quality (EQ) system that incorporates technology and business processes to deliver statistically reliable data and standardized procedures through which we will be able to further improve accuracy and taxpayer service.

I appreciate your recognition that the IRS is moving in the right direction with the implementation of short and long-term strategies to improve the statistical validity and reliability of EQ data. We are optimistic that EQ, with full implementation of Contact Recording, will provide a consistent methodology for managers to evaluate employees' performance, as well as ensure the accuracy and reliability of the TAC quality measurement system.

As you note in your report, the IRS' focus on face-to-face service is changing. We agree that further study is warranted regarding the impact on taxpayer compliance of any reduction in services, and we are awaiting the results of your study as well as those of the Taxpayer Assistance Blueprint (TAB) study that we are conducting. The TAB study will address customer tax assistance needs and preferences, current service capabilities, and opportunities to effectively balance service demands with available resources. The information garnered through both studies should be of substantial value to the IRS as we continue our efforts to provide the right services at the right times and in the right manner that best meets taxpayers' needs.

If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Julie Rushin, Director, Strategy and Finance, at (404) 338-8800.