



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 15, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Further Improvements to the Tax Form
Development Process for Individual Taxpayers Are Needed

Thank you for responding to the subject draft report issued on February 15, 2000. Since we did not receive your comments within 30 calendar days of the draft report issuance, we released the final report on March 31, 2000. However, we would like to take this opportunity to provide feedback on your June 23, 2000, response to the report's nine recommendations.

Recommendation #1

The Assistant Commissioner (Forms and Submission Processing) should develop and/or improve procedures that provide individual taxpayers with a convenient method to provide tax form comments to the Internal Revenue Service (such as a toll-free telephone number). These procedures should be clearly detailed on the tax forms.

Management's Response

We agree the IRS needs to expand its ways of collecting data from individual taxpayers about the tax forms. Listed below are some initiatives that are already underway:

- We are working with a contractor to develop a long-term strategy for gathering data about tax forms. This strategy will include the use of surveys to gauge the effectiveness of our products.
- With the explosive use of the Internet, we anticipate taxpayers will make more frequent use of e-mail to provide us with comments and suggestions.

- Our Small Business Lab in Seattle is experimenting with an artificial intelligence process that will enable the IRS to scan volumes of e-mail and quickly identify issue trends.

Office of Audit Comment

The long-term strategy developed through the use of a contractor may ultimately fulfill the intent of our recommendation. However, the other items mentioned rely on using Internet “e-mail” as the primary source of taxpayer comment. Our understanding is that currently the medium for taxpayer Internet comments to the IRS is via the IRS Digital Daily Internet site. While many taxpayers assume the comments they place in the Digital Daily are in e-mail, they are not. Our understanding is that taxpayer comments placed in the IRS' Digital Daily are just text, which does not have the functionality of e-mail. The response does not show specific plans that would provide the e-mail capability mentioned in the corrective action.

In addition, the IRS data has shown that almost 30 percent of Wage & Investment taxpayers earn less than \$10,000. Therefore, Internet-based data collection will likely exclude a large population of Wage & Investment taxpayers.

The Treasury Inspector General for Tax Administration (TIGTA) continues to believe the long-term investment in providing taxpayers a forum to express their suggestions for improving individual tax forms, especially if followed up by legislative proposals backed up by the taxpayer opinion, would provide a real opportunity for substantive tax burden relief for the population of Wage and Investment taxpayers. This large group of U.S. citizens has historically had the most limited chance for dialogue with the IRS forms designers.

In addition to our recommended approach there may be more creative, less labor intensive methods of accumulating product information. An example of this would be a targeted delivery of self-addressed postcards (such as those used by New York State) or a voice response system that automatically tabulates specific taxpayer concerns.

Please provide specific plans as to how e-mail capability will be added to the IRS' Digital Daily site for taxpayers to provide comments regarding tax forms. Our understanding is that taxpayer comments placed in the IRS' Digital Daily are just text, which does not have the functionality of e-mail.

Recommendation #2

The Assistant Commissioner (Forms and Submission Processing) should enhance its process to compile and use the tax forms information provided by individual taxpayers

to support business decisions regarding tax form development and possible legislative proposals for tax form simplification.

Management's Response

We do not agree we should expend the resources that would be needed to establish a formal process to compile comments regarding individual taxpayers. Given the large number of comments and suggestions we receive formally and informally, the resource demands to accomplish this would be prohibitive.

Office of Audit Comment

TIGTA's point still remains: if the complexity of individual tax returns cannot be resolved without legislative change, the compilation of actual customer (taxpayer) comments about the most troublesome and complex portions of the tax forms would help provide a convincing argument for the legislative revisions needed. While compiling the data would indeed require resources, the IRS already has to commit considerable returns processing and customer service resources to resolving problems caused by form complexity. In addition, as mentioned in our comment to response #1, there may be other, more creative, and less labor intensive means of gathering individual taxpayer views.

Please advise us as to whether you continue to disagree with the recommendation.

Recommendation #3

The Assistant Commissioner (Forms and Submission Processing) should improve future tax form redesign efforts by addressing known tax form preparation errors during the redesign process. Specifically, the IRS should correct the problems associated with the child tax credit and dependent social security numbers.

Management's Response

We agree we should continue to take known tax preparation errors into account during the tax forms development process. Our specific actions are shown below:

- We have completely redesigned the tax year 1999 child tax credit materials to address our concerns about the high error rate. This effort made extensive use of taxpayer error and compliance research data to address known areas of concern.
- We will add the suggested text about SSNs to the tax year 2000 instructions.

Office of Audit Comment

Although we agree that the IRS has redesigned the tax year 1999 child tax credit materials, this redesign did not address the problem of the child tax credit check box being separated from the actual credit line. This design created a significant number of taxpayer preparation errors.

Please advise us as to any further action to be taken on the redesign of the tax forms to address the problem of the child tax credit check box being separated from the actual credit line, or if you continue to disagree with this recommendation.

Recommendation #4

The Assistant Commissioner (Forms and Submission Processing) and the Chief Communications and Liaison should develop and implement a strategy to review the tax law to propose legislative changes that could result in the simplification of tax forms.

Management's Response

We do not agree we should take additional steps to identify areas that could be simplified at this time. We do, however, anticipate that the Simplifying Filing Research Strategy mentioned above and our future organization structure will help identify areas that could be improved through legislative changes.

Office of Audit Comment

The IRS response states that the IRS does not agree to “take additional steps to identify areas that could be simplified at this time.” We believe our recommendation was misinterpreted. The recommendation was to develop and implement a strategy to review the tax law to propose legislative changes which could result in simplification of the tax forms.

TIGTA auditors suggested that the IRS recommend a legislative change which would simplify the differing dependent qualification requirements in the law for Earned Income Credit, dependent exemptions, and other credits. The auditors made this suggestion to the IRS forms design executives on August 31, 1999. However, they did not pursue the TIGTA suggestion. As stated in the report, IRS management advised TIGTA at that time that for several years, for various reasons, the IRS tax forms experts had been reluctant to make legislative proposals.

Nonetheless, on Thursday, June 27, 2000, Commissioner Rossotti made three legislative proposals to the Congress. One of the three dealt with suggesting legislation to simplify the “Numerous definitions [that] are used to determine a taxpayer's filing

status and eligibility to claim the dependency exemptions and credits for qualifying individuals.”

This matches the TIGTA recommendation that was not pursued by the IRS in August 1999. TIGTA continues to believe taxpayers would benefit from a strategy to review the tax law affecting individual taxpayers for other legislative changes that could result in simplification of tax forms.

The intent of the recommendation was for the IRS to develop and implement a strategy that proactively identifies legislative changes that could be made to reduce tax form complexity. Please advise us as to whether you continue to disagree with the recommendation.

Recommendation #5

The Chief Information Officer and the Chief Operations Officer should ensure that adequate resources are available to implement tax form improvement suggestions and legislatively required changes that can reduce complexity and taxpayer burden.

Management's Response

While we are committed to doing everything we can to make filing as simple as possible, we must prioritize our work. Although Year 2000 (Y2K) is successfully behind us, we are still facing extensive changes related to our organizational and technical modernization efforts. Given sufficient lead-time for analysis, design, programming, and testing we will continue to devote resources to implement tax form improvements and legislative changes that can reduce complexity and taxpayer burden.

Office of Audit Comment

We understand that the IRS must undergo extensive changes related to its organizational and technical modernization and that Y2K consumed major computer programming resources. However, a critical information systems problem in the IRS, which was cited by information systems managers as a reason for not making programming-based improvements, has almost always existed. That is why we recommend a conscious management commitment to allocate or otherwise provide programming resources supporting improvements that benefit taxpayers, such as the tax forms changes cited in the TIGTA report, or other incremental improvements, such as in compliance. If the resources cannot be obtained internally, perhaps the IRS should turn to external programming support.

Please advise us as to whether you agree or disagree with the recommendation.

Recommendations #6 - 9

No comments.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.

cc: Deputy Commissioner Operations C:DO
Chief Information Officer IS
Chief Operations Officer OP
Chief Communications and Liaison CL
Assistant Commissioner (Forms and Submission Processing) OP:FS
Assistant Commissioner (Submission Processing Division) IS :S:SP
National Director, Multimedia Production OP :FS:M
National Director, Submission Processing OP :FS:S
National Director, Tax Forms and Publications Division OP:FS:FP
National Director for Legislative Affairs CL:LA
National Taxpayer Advocate C:TA
Director, Office of Program Evaluation and Risk Analysis M:O
Office of Management Controls M:CFO:A:M
Office of Chief Counsel CC