

**INTERNAL REVENUE SERVICE OVERSIGHT BOARD
PUBLIC MEETING**

**STRATEGIC PLANNING: WHERE IS THE IRS HEADED
OVER THE NEXT FIVE YEARS?**

January 26, 2004

The American Institute of Certified Public Accountants thanks the IRS Oversight Board for the opportunity to appear before you today. I am Mark VanDeveer, Chair of the AICPA's IRS Practice and Procedures Committee. The AICPA is the national, professional organization of certified public accountants comprised of more than 330,000 members. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. They provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. It is from this broad perspective that we offer our comments today.

At his Senate confirmation hearing on March 18, 2003, Mark Everson stressed three significant tasks that he would focus on as IRS Commissioner: (1) reinforcing and building upon the reorganization structure laid out by his predecessor Charles Rossotti; (2) supporting the Service's information technology modernization efforts; and (3) strengthening the tax system's integrity through enhanced enforcement activities.

We believe these three tasks, as highlighted by Commissioner Everson at his confirmation hearing in March 2003, should become the principal goals for the IRS strategic plan for fiscal years 2006-2010.

A. STRENGTHENING THE IRS'S REORGANIZATION EFFORTS

The central feature of the 2000-2005 Strategic Plan was successful implementation of the IRS restructuring plan into the four operating divisions -- the Large and Mid-Size Business (LMSB), the Small Business/Self-Employed (SB/SE), the Tax Exempt and Government Entities (TE/GE) Division, and the Wage and Investment (W&I) Divisions. The AICPA remains a strong supporter of the reorganization, and we believe any new strategic plan initiative must continue to build onto and strengthen this reorganization structure.

Since the four operating divisions "stood-up" a few years ago, the AICPA has witnessed many positive improvements in the tax administration process under the "new" IRS. Any new strategic plan must be geared towards spurring additional improvements in the reorganization; improvements that will result in an even higher level of service for America's taxpayers.

1. Improved Communications

Under the restructuring, the IRS has implemented many new initiatives that have greatly enhanced effective communications, resulting in a more positive practitioner and stakeholder attitude towards the Service. In specific, the Service's efforts to foster liaison activities that promote respect and understanding among tax professionals should become a central feature of the next five year strategic plan.

We believe close consultation with stakeholders is a critical element for developing and implementing additional improvements to the tax system. Stakeholder groups, like the AICPA, can often identify issues and help resolve problems in an effective and efficient manner. When given the opportunity to work cooperatively with the IRS on critical tax administration issues, stakeholders increase the Service's ability to implement and communicate new programs and processes.

While our members have observed a high level of IRS effort and effectiveness at the national level, their experience on the local IRS level has been less consistent. In many parts of the country, practitioner groups have experienced a decline in the amount of information and interaction compared to many of the outreach and advisory activities sponsored by the former district offices. This may be due in part to the division of local IRS staff responsibilities among the four new operational divisions. The next strategic plan should resolve to address these communications problems that have or may develop at the local IRS level. Most practitioners represent clients covered by more than one of the four operating divisions and, therefore, need communication vehicles that can keep them abreast of Service-wide issues that might affect their clients; communication vehicles that focus both on the Service's national and local offices.

2. Timely, Clear, and Effective Written Guidance

Effective communications is achieved by improving the Service's published guidance. The next strategic plan should mandate that future IRS guidance become clearer, more effective, and timely, such guidance should strive to promote a more uniform understanding and consistent application of the tax laws.

We support initiatives by the Service to increase the amount of published guidance, including more revenue rulings and revenue procedures. Integral to this quest is a move away from case-specific advice and toward more generally applicable advice. This type of objective should make the tax system more transparent. Because many revenue procedures and revenue rulings are significantly outdated, we recommend that the National Office make reviewing and updating these pronouncements a priority. The most effective guidance will be that which is not only formulated accurately and clearly, but also issued on a timely basis.

One of the best ways for the IRS to disseminate guidance to taxpayers is by maintaining an effective website. The AICPA encourages the IRS to continually update its website and to develop better links and easier access to information on the site, such as a more effective search function and access to taxpayer account information through the Internet. Further, we have received complaints from practitioners that the IRS is frequently changing the Universal Routing

Language (URL) links for pertinent tax information on the Service's website. We believe the IRS website would be more user-friendly if the agency would implement procedures to keep the URL addresses the same or more consistent.

One significant resource for practitioners is the ever evolving Internal Revenue Manual (IRM), which allows them to better understand IRS procedures and methodologies. We encourage as a priority the continued development of a user-friendly, easy-to-access IRM; and as soon as IRM sections are completed or revised they should be published on the website in a timely manner. Another example of an effective use of the website is the LMSB's release of Industry Director Memoranda, which informs all interested parties of the directions given to field personnel in key areas.

3. Navigating the IRS at the Local Level -- By Telephone and In Person

Most taxpayers and practitioners deal with the IRS at the local level. Therefore, we recommend that the new strategic plan emphasize upgrading both the IRS's more than 400 walk-in sites and local-level telephone technology. Although providing an up-to-date telephone directory of local area IRS personnel may seem relatively mundane, the absence of this information creates a great deal of frustration within the practitioner community. No organization that aspires to serve its customers well can afford to make contacting the "right person" so difficult.

The AICPA strongly supports the IRS's "Problem Solving Days" program, an initiative that the Service introduced several years ago. This program, now effectively discontinued, was available throughout the year in a variety of locations across the United States. The program gave taxpayers an opportunity to resolve long-standing taxpayer issues at one time by utilizing a cross-functional approach in which the IRS made available employees from different functions (e.g., examination, collections, etc.). Unfortunately, the Service has "modified" the program by making this cross-functional approach available on an appointment basis only. The IRS's motto for the revamped program is that "every day should be problem solving day at the IRS, not just three or four times a year." The feedback we have received from CPAs is that the longer standing "Problem Solving Day" program had a better track record in resolving taxpayer problems than the newer program.

Practitioners have found that the Service's difficulties in replacing older, less reliable telephone technology has hampered local-level IRS employees' ability to respond to taxpayer problems. Practitioners often do not receive a timely response to telephone messages, which may also reflect the heavy workload burdens faced by IRS personnel.

IRS field employees are often away from their offices for extended periods because of special assignments, training sessions, and vacations. When the IRS employees are away, practitioners find it almost impossible to reach another Service employee at that particular IRS field location due to the poor quality of the agency's voicemail and messaging system.

The IRS telephone system does not appear to permit transferring calls to other employees who might be able to assist a practitioner. Often, field employees do not leave names and telephone numbers of other individuals to contact in the case of an emergency or urgent matter even though

the IRS employee being contacted is on an extended assignment elsewhere. The AICPA strongly supports increased funding to improve the Service's telephone system; and we recommend requiring IRS employees to provide a supervisor's name and telephone number as part of their voicemail messages.

Fostering electronic communications methods, such as bulletin boards and e-mail, would also improve communications, as long as they are properly staffed and result in timely and accurate information and responses. For example, immediately following September 11, 2001, LMSB launched a very effective bulletin board and encouraged taxpayers and practitioners to identify issues and concerns arising from the tragedy. The bulletin board both increased feedback and provided a vehicle to resolve individual questions that did not warrant formal rulemaking.

Practitioners remain confused about how to navigate the "new IRS" to resolve problems. Any new strategic plan should encourage publication by the Service of national and local directories on the Internet and for distribution to practitioners. The public must also have access to informative materials explaining the four operating divisions, including the names, titles, telephone numbers, and work addresses of "frontline" IRS employees. This would help the practitioner community -- and Service personnel -- better understand the professional responsibilities of IRS employees and more easily identify the "right" contact person.

4. Support for the Office of National Taxpayer Advocate

Any new strategic plan by the Service must continue to support the Office of the National Taxpayer Advocate to the greatest extent possible. The Taxpayer Advocate plays a critical and valuable role in identifying and addressing systemic problems in addition to resolving specific taxpayer issues. We strongly believe that continued support of the Advocate will reap a significant increase in taxpayer confidence, improved tax administration, and Congressional awareness. There are many ways in which the Advocate's office has and can continue to bridge gaps and overlaps in the Service's four-division structure. However, we urge you to use the Taxpayer Advocate's annual reports to inspire responsive change at the Service and not allow the report's many recommendations to languish as a pro forma exercise.

5. IRS Employee Training

The next strategic plan must emphasize the need for training, retention, and hiring of IRS employees. A strong and vigorous commitment to an investment in people resources is vital to a positive, and forward looking agency.

Some of the most frustrating experiences realized by taxpayers and tax practitioners in dealing with the IRS occur because of a lack of training on the part of the IRS employees. It is much easier to work out a solution that is fair to both the tax system and the taxpayer if the individuals resolving the issue are knowledgeable and well trained.

The IRS needs to target meaningful resources toward the training of Service employees, particularly with the need to overcome any cultural inertia of mid-level and rank-and-file personnel toward the reorganization overall. The AICPA strongly supports such efforts. IRS

executives must continue their resolve to hire and train new employees and replace its aging workforce.

We believe we can be of immense help to the Service with the training of its employees. First, whenever the IRS seeks to implement a new program, we suggest that the Service seek input from key stakeholders on the details and development of any new program. Second, the Service could benefit from the constructive suggestions of the AICPA and other stakeholders regarding materials that will be used in the training program for the new IRS initiative. Third, we recommend that the IRS utilize CPAs and other stakeholders in teaching part of the training curriculum for IRS personnel involved with any new program.

An excellent example of how this process can work and benefit the overall tax administration process is the IRS's roll-out of the National Research Program. In fact, the IRS did share the initial NRP program details and the training materials with critical stakeholders. Also, the IRS successfully utilized CPAs in the training of IRS personnel for the NRP program. We firmly believe private sector involvement in the training process helps sensitize IRS employees to the need to conduct new programs in a way that proves effective for the tax administration process, but which remains non-intrusive and minimizes taxpayer burden. By including taxpayer representatives in the training of IRS personnel, the Service will help the public learn about a new compliance program, thereby potentially mitigating the emotional, and sometimes political, reactions of the public to a new IRS program.

6. The IRS's Aging Workforce

The recruitment, development and retention of a quality workforce is essential for the IRS, and we commend the Service for its recruitment in recent years of senior executives from outside the agency. In our experience, when these new executives are partnered with internally developed executives who have critical institutional knowledge, effective leadership results. We are also encouraged by the quality of the outside technical experts who were brought into the four operating divisions. We encourage continued recruiting from outside the Service.

The IRS is experiencing a higher than normal attrition rate among its mid-level and rank-and-file employees, primarily through retirements. These retirements are clearly having an impact on the Service's ability to implement the reorganization, including the ability to increase productivity among its employees overall. Replacing these retirees with qualified staff and the resulting loss of "institutional memory" will be a major challenge for the IRS.

We support full funding for the Staffing Tax Administration for Balance and Equity program (STABLE), the initiative to restore IRS staffing to mid-1990s levels and strengthen the Service's tax compliance and customer service functions. We continue to applaud the STABLE initiative as a means to achieve the balance between taxpayer service and the enforcement necessary for effective tax administration.

The new strategic plan should recommend that a study take place of the Service's current salary/grade level structure, by taking into account the salaries for comparable employees in other federal agencies and in comparable private sector positions. The IRS should consider

increasing its recruiting on college campuses, and possibly introducing an advertising campaign regarding agency job openings.

7. Coordination Between Divisions

One of the greatest challenges for any new strategic plan involves the IRS implementation of procedures promoting positive communications and coordination between the four operating divisions. Such coordination is necessary to avoid confusion among the public regarding how to respond to an inquiry from one of the four operating divisions. Some early commentators on the reorganization were concerned that instead of one IRS, taxpayers might now face responding to four IRS' as represented by the operating divisions. During the last several years, IRS senior executives have done an excellent job of setting the tone for the overall organization, and the tone for proper coordination and cooperation among the operating divisions. At this juncture the IRS national office has successfully steered the organization in the direction of a united structure, overseeing its critical (but integral) components.

The AICPA encourages the IRS reiterate its commitment to "stay the course" with respect to the reorganization. Although we recognize that the reorganization effort remains in transition, with further work to be done, we believe that the general rationale underlying the formation of the four operating divisions -- focusing on specific taxpayers and their needs -- is the right one. Furthermore, we believe that any more significant changes to the IRS's organizational structure would only serve to confuse taxpayers and practitioners who only now are beginning to become comfortable with the new organization.

B. SUPPORT FOR THE SERVICE'S INFORMATION TECHNOLOGY MODERNIZATION EFFORTS

1. Achieving the Goals for E-Filed Returns

The AICPA strongly supports the inclusion of positive long-range goals in the next strategic plan regarding the IRS's commitment to electronic tax administration in general, and electronic filing (ELF) in particular. We applaud the Service's success in getting 53 million Americans to utilize e-file options in 2003, and the agency's phase-in of electronic filing of business returns. In addition, we are encouraged by the IRS's recent rollout of the "Electronic Services" section on the IRS website, which includes a suite of web-based products for practitioners to do business with the IRS electronically.

With respect to the Form 1040 e-file program, the IRS has implemented a number of improvements to the program in recent years that should prove positive for practitioners who file returns electronically. We especially appreciate that (1) nearly all Form 1040 forms and schedules have been made available to electronic filers; (2) electronic filers are no longer required to use a paper signature document; and (3) the electronic payment options have been expanded.

Electronic filing is not an option for many low income taxpayers who don't own a computer. These taxpayers routinely find that they must rely on commercial preparers who often charge

disproportionately large fees and foist high-interest refund anticipation loans onto taxpayers who can least afford such loans by an appeal of immediate cash. As an alternative, they can go to a limited number of low-income taxpayer clinics. Unfortunately, funding for these clinics was curtailed last year due to an IRS Chief Counsel interpretation that IRS “matching” funds should only be available to controversy clinics that don’t prepare returns. National Taxpayer Advocate Nina Olson has recommended that the IRS support separate funding for low-income return preparation clinics, a recommendation that should encourage e-filing and improve compliance by low-income taxpayers generally. Senator Jeff Bingaman has introduced legislation that includes a provision supporting funding for low-income return preparation clinics.

The IRS has taken some positive steps during the last year to listen to the practitioner community about the myriad of problems tax professionals still face when contemplating conversion of their firm to a practice offering e-file services to their clients. For a long time the AICPA had been frustrated by the Service’s response to our attempts both to partner with the IRS in promoting ELF to our membership and in explaining the effects of the current e-file programs’ limitations on our constituency. As the IRS shifts its electronic filing focus from individual returns to business returns, the importance of involving, listening to, and responding to the various stakeholder groups will become all the more critical.

We appreciate the many hurdles on the road to achieving the goals established for the electronic filing program by Congress. And to this end, we look forward to being a positive partner in the ELF system.

2. Business Systems Modernization

We are well aware of the conclusions on Business Systems Modernization (BSM) contained in the December 2003 report by the IRS Oversight Board, and of the Service’s recent announcement about further delays in implementation of BSM. The announcement detailed the continuing delays involving the Service’s implementation of the customer account data engine (CADE), the system designed to replace the agency’s master file of taxpayer records.

Despite the problems the IRS has experienced with Business Systems Modernization, we strongly urge the IRS Oversight Board and Congress to stay the course in terms of their support for appropriate funding for the modernization effort. This is an issue that must remain a central feature of the Service’s strategic plan for the next five years.

The BSM goals are critical to the future successes of the Service. The program is designed to change the entire way the IRS conducts business with taxpayers and stakeholders, by (1) implementing systems to improve IRS effectiveness in receiving, routing, and responding to millions of taxpayer telephone calls; (2) supplying Revenue Agents with software capable of accurately assessing a taxpayer's liability when faced with a complex tax matter or calculation; (3) establishing a modern, reliable data base; and (4) implementing a nationwide e-mail and voice-mail messaging system for Service employees.

Despite the problems with BSM, we strongly urge the Oversight Board and Congress to continue to support and fund this modernization effort. This update must remain a central feature of the Service's next strategic plan.

3. When Do We Get One-Stop Shopping?

Despite the difficulties the IRS has faced in modernizing its business systems and computers, modernization must be one of the Service's highest priorities. The ultimate goal of modernization should be to provide "one-stop shopping" for taxpayers and practitioners, by enabling them to resolve all their problems through a single IRS representative.

One of the more pressing problems facing taxpayers and practitioners is the Service's inability to access information about estimated tax payments. This stands in stark contrast to the ability of private financial institutions to access up-to-the-minute customer financial transactions immediately and allow customers to access their own account information using secure, privacy-protected Internet connections. At a minimum, the IRS should develop ways for its employees to electronically access taxpayer information in a timely, efficient manner. Ideally, taxpayers and practitioners should be able to access estimated tax payments, as well as other account information, using similar secure, privacy-protected Internet connections. In the same vein, the AICPA fully supports making electronic communication between the IRS, taxpayers and tax practitioners available, whether administratively or legislatively.

4. Service Center Processing Issues

The next IRS strategic plan must also focus on how the reorganization affects Service Center workflow. We believe the Service must work harder to avoid the confusion taxpayers are experiencing in dealing with the day-to-day ramifications of the Service Center reorganization. For example, there are still numerous practical questions arising with respect to whom taxpayers should approach for specific types of interactions that previously would have been handled by a District Director, District Counsel, or Service Center Director responsible within a specific geographical area. Taxpayers appear continually confused as to which address to use for sending in estimated tax payments or for the filing of tax returns. The constant change in addresses, such as where to file, has resulted in confusion and inefficiencies for the IRS, taxpayers, and practitioners. Taxpayers are equally confused and frustrated when they receive IRS correspondence from multiple locations. In other words, the problems caused by these constant changes are exacerbated by the fact that a taxpayer can frequently file at one Service Center, be sent a notice by a second center, and perhaps ultimately resolve the matter in still a third center. Thought should be given to freezing the changes at the Service Center level for a period of one to two years to better enable the public to "digest" the changes in the center's responsibilities.

Service Center specialization holds the potential for significant improvements. The centers primarily responsible for business filings are able to concentrate on the issues prevalent with their constituents. The capabilities of the specialized Service Centers can be strengthened by facilitating direct communication between the centers and the organizations whose members routinely interact with those centers. Before the reorganization, many Service Centers sponsored

very well received practitioner forums. Ogden, in particular, was renowned by the care it took to cultivate the knowledge and awareness of its practitioner base. As a “national center” neither Ogden nor any other specialized center can use the same techniques that might have worked when their customer base was more geographically localized, but they could easily extend the outreach to the national practitioner organizations through already established liaison mechanisms.

C. ENHANCING ENFORCEMENT

There has been a substantial decline in the number of income tax examinations conducted by the Service in recent years. Much of this decline can be attributed to fewer IRS compliance personnel and the increased workload resulting from the enactment of the IRS Restructuring and Reform Act of 1998. The IRS has begun reversing this trend by: (1) hiring new Revenue Agents; (2) better identifying and focusing on key compliance problem areas; (3) reengineering the examination and collections processes; and (4) utilizing a greater reliance on taxpayer education, published guidance, and pre-filing agreements.

1. Key Compliance Areas

Commissioner Everson continues to stress the need to strengthen the integrity of the tax system through enhanced enforcements efforts. This includes a clear focus on deterring persons from evading their legal tax obligations and a fostering of a close working relationship with practitioners. To the extent there has been an erosion in practitioner standards by some practitioners, Commissioner Everson has provided more resources and staffing for the Office of Professional Responsibility.

Since the reorganization began, the IRS has targeted certain areas as major compliance initiatives; and we at the AICPA supports these initiatives. The LMSB's major compliance focus has been tax shelters. In 2002, SB/SE began a high level focus on (1) offshore credit card users; (2) high risk, high- income taxpayers; (3) abusive schemes and promoter investigations; (4) high-income non-filers; (5) unreported income; and (6) the National Research Program.

IRS senior executives are very aware that these LMSB and SB/SE compliance initiatives are resource intensive and will affect the amount of resources allocated to examination and collection cases involving traditional or mainstream taxpayers. This forces the IRS to better focus scarce resources available for mainstream taxpayers by focusing on the more material issues under investigation. This focus on materiality is the underlying premise of IRS efforts to reengineer its examination and collection efforts.

2. Reengineering of Examination

The next strategic plan should continue to emphasize the goals involved with reengineering the examination function, including: (1) streamlining the examination process by reducing taxpayer time and expense needed to respond to an IRS examination; (2) increasing SB/SE's effectiveness and timeliness in examining returns; and (3) enabling the IRS to reduce examination expenditures and redirect Service resources to major compliance initiatives.

We are supportive of the direction the Service is taking with respect to a “reengineered examination” audit. At the beginning of these audits, the examiner and taxpayer will conduct an audit engagement meeting, at which they will discuss the audit issues, the information needed for resolution of the examination, and the time estimated to complete the audit. The IRS expects to establish materiality guidelines for examining the critical issues for the audit, and for manager involvement in the early stages of the audit to facilitate resolution of problems quickly and effectively. The critical features of these reengineered examination audits are illustrated by the procedures laid out in LMSB’s “Joint Audit Plan.”

Like SB/SE's examination reengineering initiative, LMSB has implemented its Limited Issue Focus Examination (LIFE) program, described as the Service's “gold-card” treatment for taxpayers “who want to be cooperative and professional in sharing documents.” LMSB has also announced meritorious initiatives focused on (1) “cycle time,” a strategy designed to reduce the length of time involved with examination of a business return and (2) “currency,” a positive endeavor designed to complete the examination of older returns, thereby enabling the Service to examine returns of current tax years.

The AICPA remains interested in providing the IRS with additional input on its reengineering efforts as the program continues to develop and evolve. Practitioners appreciate constructive ways to better target the overall scope of an examination, because it will reduce taxpayers' burden in terms of the time and cost of an examination.

3. Schedule K-1 Matching Program

The AICPA supports the IRS’s Schedule K-1 matching program and thus, we recommend its inclusion as an important enforcement technique as part of the next strategic plan. However, further reliance or enhancement of the program can only be achieved if the Service continues to consult on a regular basis with the practitioner community about any potential or unresolved implementation issues.

The Service learned the value of stakeholder consultation when it attempted to rollout the Schedule K-1 matching program during Summer 2002, only to be forced to suspend the program several weeks after its rollout. This action was taken in response to the high error rate the IRS was experiencing with notices which suggested that a “mismatch” existed between a Schedule K-1 and an individual's 2000 tax return. Out of the 65,000 notices mailed to taxpayers last summer, the "no change rate" involving those notices exceeded 50 percent. This means that over half the taxpayers who received notices ultimately did not have any increase in their tax liability.

Announcing the suspension, the IRS indicated that it would work “closely with external stakeholders” to develop the future policy and procedures for K-1 matching. As the IRS moves to re-start the K-1 matching program, we continue to recommend that the Service (1) reduce the agency’s short-term goals for the program, and instead phasing-in implementation of a broader, more ambitious program over an extended period of time; (2) actively seek input from key practitioner and stakeholder groups; (3) improve the training of employees involved with the K-1 program; (4) develop new outreach programs and education materials to better inform taxpayers

and practitioners about IRS expectations for the program; and (5) design improvements in forms, like Schedule K-1 and Schedule E. We are pleased the IRS has taken steps to implement many of these recommendations, including redesigns of Schedules K-1 and E.

4. The Pre-Filing Phase and Taxpayer Education

A focus on increased enforcement must be coupled with efforts to foster taxpayer service. In this regard, we strongly support the IRS's efforts under the reorganization to place a greater emphasis on the pre-filing phase within all four operating divisions. By shifting the emphasis "from addressing taxpayer problems well after returns are filed to addressing them earlier in the process," then-Commissioner Rossotti stated in testimony before a House Appropriations Subcommittee hearing in May 2001, problems can be prevented by a more cost-effective approach that improves the Service's compliance, filing and account assistance services.

Positive examples of the increased emphasis on the pre-filing phase is the establishment of offices like the Stakeholder, Partnership, Education, and Communication Office (SPEC) in W&I and the Taxpayer, Education, and Communication Office (TEC) at SB/SE, and their broad commitment to improving communications through the use of websites, conferences, and newsletters. Another critical component is taxpayer education about recordkeeping responsibilities and major substantive areas of noncompliance.

These positive initiatives should allow the IRS to focus its post-filing and compliance processes within the four operating divisions on the most critical noncompliance issues. Therefore, we support appropriation of the funds necessary to enable the IRS to fully staff these pre-filing taxpayer assistance programs.

Another significant benefit of this focus on pre-filing and taxpayer education is the increased likelihood that taxpayers will be able to identify the need to come forward voluntarily and correct some past issues. The reorganization appears to have made it more difficult, albeit unintentionally, for taxpayers to resolve these sorts of matters. If delinquent returns or underpayments are involved and a taxpayer has reasonable cause for some aspect of the delinquency, most taxpayers would like to be able to come forward and resolve the entire matter in one place with one set of IRS personnel. This has been difficult to accomplish under the current structure. Unless a field person has already been assigned the affected tax period, there appears to be no incentive (and perhaps no delegated authority) for anyone to accept ownership for resolving these issues.

5. Tax Practitioners and Professional Responsibility

The AICPA commends the IRS and Treasury for its efforts to address the professional responsibility standards of tax professionals in general, and particularly with respect to the eradication of abusive tax transactions. As we stated above, we are encouraged by Commissioner Everson's commitment to upgrade the Office of Professional Responsibility. At this time, one of our committees is actively drafting comments on proposed amendments to Circular 230 involving tax opinion standards, and we anticipate filing these comments with the government within the next few weeks.

We have a longstanding track record of establishing professional standards for our CPA members. The AICPA has adopted and has in place a Code of Professional Conduct, as well as enforceable *Statements on Standards for Tax Services* (SSTs). Both the Code of Professional Conduct and the SSTs provide meaningful guidance to CPA members in the performance of their professional responsibilities. We believe compliance with professional standards also confirms the public awareness of the professionalism that is associated with CPAs as well as the AICPA.

The AICPA has a clear position on abusive tax transactions – they should be eradicated. We have consistently supported the protection of the public interest and prohibitions on the misuse of our tax system. Our enforceable SSTs are a clear example of this. We continue to be actively engaged in proposing and evaluating various legislative and regulatory measures that are designed to identify and prevent taxpayers from undertaking, and tax advisers from rendering advice on, transactions having no purpose other than the reduction of federal income taxes in an abusive manner.

Through our Tax Executive Committee, over the last several years, we have shared with Congress and relevant regulatory bodies our recommendations to help them deal with misuse of the tax code through inappropriate tax avoidance transactions. The conceptual framework of our solution is built on our belief that the most effective way to combat abusive tax shelters, without interfering with a taxpayer's right to legally minimize taxes, is through disclosure.

We support the objectives of the (final) tax shelter/reportable transaction regulations issued by the Treasury Department on February 28, 2003, regulations that have existed in various forms (Proposed, Temporary) for several years. In specific, these regulations strive to (1) identify and shut down abusive tax avoidance transactions and (2) provide greater clarity; which, if met, will trigger enhanced taxpayer and promoter responsibilities and obligations -- accomplished principally through disclosure.

In addition to any governmental sanctions under the February 2003 reportable transaction regulations, our own disciplinary process will be (and has been) invoked where our rules of professional conduct, including the enforceable *Statements on Standards for Tax Services*, are violated. Tax practice by AICPA members has always been subject to the Institute's Code of Professional Conduct. Most recently, the AICPA adopted an Interpretation to SSTS No. 1, which discusses a member's ethical obligations and responsibilities in connection with *tax planning*. The Interpretation clarifies how the standards would apply across the tax practice spectrum, including situations involving tax shelters (regardless of how that term is defined).