

WRITTEN STATEMENT OF

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COMMITTEE ON APPROPRIATIONS

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HEARING ON

INTERNAL REVENUE SERVICE FY 2009 BUDGET REQUEST

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Mr. Chairman, Ranking Member Brownback, and distinguished Members of the Subcommittee:

Thank you for inviting me to submit this written statement regarding the proposed budget of the Internal Revenue Service for fiscal year (FY) 2009. I will address the overall level of funding I believe the IRS should receive, the allocation of that funding between enforcement and taxpayer service, and a number of important tax administration issues in which this Committee has expressed an interest. I approach these issues from my perspective as the National Taxpayer Advocate, the voice for taxpayers and taxpayer rights inside the IRS.¹

As a threshold matter, I want to acknowledge that the IRS is doing an excellent job with most of its core services, and it is seriously attempting to improve its operations in other areas. This filing season alone demonstrates that when the IRS devotes its full attention to a task, it performs it extraordinarily well. As I noted in my 2007 Annual Report, late-year tax-law changes impact both taxpayers and the IRS, and the uncertainty surrounding such changes increases the risk that problems will arise with basic service delivery and return processing.² These challenges increase when the IRS must devote substantial resources during the filing season to a major new initiative, such as preparing to issue the recently authorized economic stimulus payments. To deliver these payments, the IRS not only must process payments to the over 130 million taxpayers who currently file income tax returns, but it also must identify and process returns from and payments to more than 20.5 million persons who have no filing requirement.³ All of these exigencies divert the IRS from other important work, yet the fact that the IRS has managed to turn on a dime and deliver this filing season without significant glitches is a testament to the extraordinary people who work at the IRS.

There are always tasks the IRS could perform better – and I will address some of them below – but I think it is important to take a moment to reflect on the vast

¹ The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

² See National Taxpayer Advocate 2007 Annual Report to Congress 3-12 (Most Serious Problem: The Impact of Late-Year Tax-Law Changes on Taxpayers).

³ Approximately 20.5 million persons received Social Security or Veterans benefits and are therefore likely to qualify for stimulus payments but did not file tax returns in 2006. IRS News Release, *Special Economic Stimulus Payment Packages Go to Social Security, Veterans Recipients*, IRS-2008-37 (Mar. 10, 2008). There is also an unknown number of low income taxpayers who ordinarily would not have a filing requirement but will have to file this year to receive stimulus payments.

responsibilities the IRS must meet to collect the revenue our government requires to function and to acknowledge how much the IRS does very well.

I. To Increase Federal Revenue, Congress Should Provide Increases in IRS Personnel Funding at a Rate of About Two Percent to Three Percent a Year Above Inflation

In my 2006 Annual Report to Congress, I recommended that Congress provide the IRS with after-inflation increases of about two percent to three percent a year for the foreseeable future. Assuming the funds are wisely spent, I said that I believe increasing the IRS budget at this rate is an excellent financial investment. I continue to believe this is the case.

Most Federal expenditure programs are just that – expenditure programs. The funds are intended to be spent on worthwhile programs, but the expenditures generally do not directly generate more Federal revenue.

The IRS is different. The IRS is effectively the Accounts Receivable Department of the Federal government, and it collects about 96 percent of all Federal revenue.⁴ On a budget of about \$10.6 billion,⁵ the IRS collected about \$2.24 trillion in FY 2006.⁶ In other words, every \$1 spent on the IRS produced about \$210 in Federal revenue.⁷

If the Federal government were a private company, its management clearly would fund the Accounts Receivable Department at whatever level it believed would maximize the company's bottom line. Since the IRS is not a private company, maximizing the bottom line is not – in and of itself – an appropriate goal. But the public sector analogue should be to maximize tax compliance, especially voluntary compliance, with due regard for protecting taxpayer rights and minimizing taxpayer burden. Studies show that if the IRS were given more resources, it could collect substantially more revenue.

⁴ Government Accountability Office, GAO-07-136, *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements* 84 (Nov. 2006).

⁵ Department of the Treasury, *FY 2007 Budget in Brief* at 59.

⁶ Government Accountability Office, GAO-07-136, *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements* at 95 (Nov. 2006). The IRS actually collected \$2.51 trillion on a gross basis in FY 2006, but issued \$277 billion in tax refunds.

⁷ When collecting tax from the vast majority of taxpayers who file returns and pay all or substantially all of the tax they owe voluntarily, the cost the IRS incurs per taxpayer is very low. As the IRS attempts to collect tax from noncompliant taxpayers through broader outreach efforts or through examination and collection actions, the cost per taxpayer rises substantially. Therefore, the *marginal* ROI the IRS achieves as it attempts to collect unpaid taxes is likely to be considerably lower than the *average* ROI of 210:1 that the IRS achieves on taxes paid voluntarily. But if the IRS were given more resources, most data indicate that the IRS could generate a substantially positive marginal ROI.

In his final report to the IRS Oversight Board in 2002, former Commissioner Charles Rossotti presented a discussion titled “Winning the Battle but Losing the War” that detailed the consequences of the lack of adequate funding for the IRS. He identified 11 specific areas in which the IRS lacked resources to do its job, including taxpayer service, collection of known tax debts, identification and collection of tax from non-filers, identification and collection of tax from underreported income, and noncompliance in the tax-exempt sector.

Commissioner Rossotti provided estimates of the revenue cost in each of the 11 areas based on IRS research data. In the aggregate, the data indicated that the IRS lacked the resources to handle cases worth about \$29.9 billion each year. It placed the additional funding the agency would have needed to handle those cases at about \$2.2 billion.⁸

Significantly, this estimate reflected only the potential *direct* revenue gains. Economists have estimated that the indirect effects of an examination on voluntary compliance provide further revenue gains. While the indirect revenue effects cannot be precisely quantified, two of the more prominent studies in the area suggest the indirect revenue gains are between six and 12 times the amount of a proposed adjustment.⁹

I want to emphasize that the existing modeling in this area is not especially accurate, and estimates of both the direct and indirect effects of IRS programs vary considerably. As I will discuss below, the IRS needs to develop better modeling to produce more accurate return-on-investment estimates. But I also want to emphasize that almost all studies show that, within reasonable limits, each additional dollar appropriated to the IRS should generate substantially more than an additional dollar in Federal revenue, assuming the funding is wisely spent.

II. The IRS Currently Spends Only Six Percent of Its Budget on Taxpayer Assistance and Education; a More Equitable Balance Between Taxpayer Services and Enforcement Should Be Achieved

One of the most critical choices facing tax administration is how to allocate resources between taxpayer services and tax-law enforcement. While I believe that both categories would benefit from additional funding – and I do not believe the categories should be viewed as mutually exclusive – I am concerned that the IRS has been emphasizing enforcement at the expense of taxpayer service.

⁸ Commissioner Charles O. Rossotti, Report to the IRS Oversight Board: Assessment of the IRS and the Tax System 16 (Sept. 2002).

⁹ Alan H. Plumley, Pub. 1916, The Determinants of Individual Income Tax Compliance: Estimating The Impacts of Tax Policy, Enforcement, and IRS Responsiveness 35-36 (Oct. 1996); Jeffrey A. Dubin, Michael J. Graetz & Louis L. Wilde, The Effect of Audit Rates on the Federal Individual Income Tax, 1977-1986, 43 Nat. Tax J. 395, 396, 405 (1990).

After the Administration issued its FY 2008 budget proposal last year, the GAO analyzed recent IRS funding trends. Over the five-year period FY 2004 through FY 2008, it concluded that funding for enforcement has increased substantially while funding for taxpayer services has been reduced. Based on the Administration's proposal for FY 2008, it pointed out that funding over the FY 2004 through FY 2008 period would increase by 19.4 percent for enforcement while funding for taxpayer services would decline by 3.8 percent.¹⁰ The final appropriations bill for FY 2008 made a modest adjustment to the Administration's proposal, providing about \$46.9 million more for taxpayer service and \$145 million less for enforcement.¹¹

However, the proposal for FY 2009 would continue the trend of spending relatively more on enforcement. The pending budget proposal would increase enforcement spending by \$490 million (7.0 percent), while increasing spending for taxpayer services by only \$23 million (0.6 percent).¹² Thus, after inflation, the proposal would reduce taxpayer services spending still further.

Moreover, the budget categories of "Taxpayer Services" and "Enforcement" are misleading. Of the \$2.2 billion in the "Taxpayer Services" category, only \$645 million, or six percent of the IRS budget, is currently allocated for "Pre-filing Taxpayer Assistance and Education."¹³ A significant majority of funds under the "Taxpayer Services" category is allocated for "Filing and Account Services," which largely covers the processing of tax returns. Returns processing is hardly a pure service activity. While it does enable the IRS to issue tax refunds, it is an internal processing function that also constitutes the first step in screening returns for audit. In any event, it is far removed from the type of taxpayer service that informs taxpayers about their tax obligations and assists them in complying with the laws. The budget proposal would reduce funding for taxpayer assistance and education from \$645 million to \$617 million – a reduction of 4.34 percent in nominal terms and a larger reduction after taking into account inflation.¹⁴

I am deeply concerned about this long-term shift in the balance between taxpayer services and enforcement and the fact that only six percent of the IRS budget is devoted to pre-filing taxpayer assistance and education, which I view as core taxpayer service. There is no reliable data showing that more enforcement is more

¹⁰ Government Accountability Office, GAO-07-673, *Internal Revenue Service: Interim Results of the 2007 Tax Filing Season and the Fiscal Year 2008 Budget Request* 27 (April 2007). These numbers are apparently not adjusted for inflation. GAO reported that overall IRS funding would increase, on an inflation-adjusted basis, by a mere 0.5 percent from FY 2004 to FY 2008 under the Administration's proposal. *Id.* at 26.

¹¹ Compare Department of the Treasury, *FY 2009 Budget in Brief* at 53 with Department of the Treasury, *FY 2008 Budget in Brief* at 55.

¹² Department of the Treasury, *FY 2009 Budget in Brief* at 54. These dollar amounts reflect the allocation of the Operations Support budget to the Taxpayer Services and Enforcement categories.

¹³ *Id.* at 53.

¹⁴ Department of the Treasury, *FY 2009 Budget in Brief* at 53.

effective than more taxpayer service in increasing compliance. I believe the IRS can produce a positive return on investment from more funding in both areas. But given limited resources, I think it is misguided to continue to ramp up enforcement at the expense of taxpayer service.

The concerns I am expressing about the relative shift in emphasis from taxpayer service to enforcement do not reflect simply the misgivings of a zealous taxpayer advocate. My concerns are shared by former IRS Commissioner Rossotti. In a memoir about his experience running the IRS from 1997 to 2002, Mr. Rossotti wrote:

Some critics argue that the IRS should solve its budget problem by reallocating resources from customer support to enforcement. In the IRS, customer support means answering letters, phone calls, and visits from taxpayers who are trying to pay the taxes they owe. Apart from the justifiable outrage it causes among honest taxpayers, I have never understood why anyone would think it is good business to fail to answer a phone call from someone who owed you money.¹⁵

At his confirmation hearing, Commissioner Shulman said that he believes the choice between service and enforcement is a “false choice” because the IRS must do both well.¹⁶ I agree completely. But the IRS needs adequate funding in both areas to do the job.

III. The IRS Has Improved Its Research in Recent Years, But Significant Improvements Are Still Needed

Research plays a vital role in helping the IRS make the major strategic and operational decisions needed to effectively administer the tax system. Just as R&D is critical to a technology company as it seeks to improve the products and services it provides to customers, tax administration-related research is critical to the IRS as it seeks to meet taxpayer service needs and improve tax compliance in a cost-effective manner. For that reason, I have consistently advocated for a more robust IRS research capability.

The IRS has more information available today than it did five years ago, particularly in the area of taxpayer service because of ongoing work in connection with the Taxpayer Assistance Blueprint. However, the IRS should continue to expand its available knowledge and should make research an integral part of its next strategic plan. In particular, the IRS should make it a priority to improve the accuracy of its return on investment (ROI) estimates for various categories of work, particularly taxpayer service and the indirect effect of enforcement actions. Improved methods

¹⁵ Charles O. Rossotti, *Many Unhappy Returns: One Man's Quest to Turn Around the Most Unpopular Organization in America* 285 (2005).

¹⁶ Hearing Before the S. Comm. on Finance, 110th Cong. (2008) (Jan. 29, 2008) (statement of Douglas H. Shulman).

should also be developed to verify, retrospectively, the marginal ROI that the IRS has achieved for major categories of its work. Such information would be extremely helpful in guiding future resource-allocation decisions.

Because of the value I place on research, TAS has initiated or worked with the IRS to conduct taxpayer-centric research on enforcement and service issues. Some of these projects have been undertaken in response to Appropriations directives. For example, TAS Research is currently working with the central IRS research function and the research functions in the IRS's Wage & Investment and Small Business/Self-Employed Divisions to develop and implement a five-year research plan to enhance taxpayer service in support of the Taxpayer Assistance Blueprint initiative. TAS Research is collaborating with the IRS research community to develop a five-year research plan directly supporting enterprise-wide strategic goals. TAS Research is working with the central IRS research function to identify and quantify the numerous factors that impact taxpayer compliance behavior. TAS Research is working with the Office of Electronic Tax Administration and Refundable Credits to study alternatives for increasing electronic filing, and will work with the IRS's National Research Program to conduct research into the causes of noncompliance (whether advertent or inadvertent).

In addition, TAS Research is involved in a number of other initiatives addressing significant tax administration issues, such as:

- A collaborative effort with the research function in the Wage & Investment Division to explore development of a filter for the Federal Payment Levy Program to protect low income taxpayers from systemic levies;
- A collaborative effort with the Office of Program Evaluation and Risk Analysis (OPERA) to explore new applications of "agent-based modeling," a technology that simulates taxpayer behavior in social networks, to tax administration issues;¹⁷
- A collaborative effort with the IRS research community to explore ways to positively influence the impact practitioners and preparers have on taxpayer compliance; and
- Ongoing research by an independent contractor into the impact preparers have on taxpayer compliance.¹⁸

In Volume 2 of the 2007 National Taxpayer Advocate's Annual Report to Congress, I published a comprehensive literature review of the cognitive and normative factors

¹⁷ National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2 (Research Study: Simulating EITC Filing Behaviors: Validating Agent Based Simulation for IRS Analyses: The 2004 Hartford Case Study).

¹⁸ National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2 (Research Study: Study of the Role of Preparers in Relation to Taxpayer Compliance with Internal Revenue Laws).

that influence taxpayer compliance behavior.¹⁹ In another section of the report, I adopt the central recommendation of the study – that the IRS should establish a cognitive learning and applied research laboratory to explore how taxpayer values, social norms, and cognitive processes influence taxpayers' compliance.²⁰

Toward that end, TAS Research is proposing a survey conducted as a component of the National Research Program (NRP), in which an independent firm surveys taxpayers who were subjects of NRP audits and explores the causes of any detected noncompliance and the factors influencing taxpayer compliance behavior. This information, combined with the compliance data from the NRP audits themselves and the observations of IRS auditors about the reasons for the detected noncompliance, should provide a rich resource for future studies and initiatives, and should improve the IRS's ability to improve taxpayer compliance.²¹

I cite these studies as important examples of research studies that I hope and expect will improve the IRS's ability to serve taxpayers and collect revenue. However, these studies are merely a starting point. If the IRS has better information, it can make more informed resource allocation decisions. Absent clear information, the IRS unavoidably bases its resource allocation decisions on intuition and bases its best guesses on incomplete data, and that is obviously not an ideal way to make decisions.

IV. The IRS Is Paying More Attention to Taxpayer Services, But Significant Challenges Remain

In 2006, Congress directed the IRS to prepare a Taxpayer Assistance Blueprint (TAB), which was released last April.²² The TAB was intended to serve as a

¹⁹ National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2 (Research Study: Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers).

²⁰ See National Taxpayer Advocate 2007 Annual Report to Congress 158 (Most Serious Problem: Taxpayer Service and Behavioral Research).

²¹ For an example of how one might conduct such a study and an interesting analysis of some of the attitudinal and knowledge factors that might impact taxpayer compliance in a self-assessment tax system, see Ern Chen Loo, Margaret McKerchar, & Ann Hansford, *An International Comparative Analysis of Self-Assessment: What Lessons are there for Tax Administrators?*, 20 Australian Tax Forum 667 (2005).

²² H. Rep. No. 109-307, at 209 (2005). The Senate Committee Report provides further detail on the content of the five-year plan, directing the IRS to:

... undertake a comprehensive review of its current portfolio of taxpayer services and develop a 5-year plan that outlines the services it should provide to improve services for taxpayers. This plan should detail how it [IRS] plans to meet the service needs on a geographic basis (by State and major metropolitan area), including any proposals to realign existing resources to improve taxpayer access to services, and address how the plan will improve taxpayer service based on reliable data on taxpayer service needs. As part of this review, the Committee strongly urges the IRS to use innovative approaches to taxpayer services, such as virtual technology and mobile units. The IRS also should

strategic plan for taxpayer service and lead to the development of taxpayer-centric, research-based models to help the IRS make decisions about taxpayer service and the delivery of face-to-face service. Because of the TAB and my own office's research, we know more than ever about taxpayers' needs and preferences, and their willingness to try new methods of service delivery.²³

Over the last two years, the IRS has begun to reverse its trend in recent years of limiting the types of services and methods of delivery. I applaud the IRS for creating a Services Committee – the counterpart to the Enforcement Committee – thereby enabling the entire IRS senior leadership to consider and coordinate taxpayer service initiatives. The IRS currently is undertaking many initiatives to assist taxpayers in claiming economic stimulus payments, including keeping the IRS's walk-in sites – known as Taxpayer Assistance Centers, or TACs – open on more Saturdays during the filing season. I am also pleased that IRS management has indicated a willingness to consider reinstating Problem Solving Days and taking a geographic approach to determining which topics to designate as “out-of-scope” (e.g., the IRS should not treat farm-related questions as “out-of-scope” in TACs located in areas where there is a significant amount of farming activity). The IRS has also recently relaxed its stringent rules that generally prevented taxpayers from obtaining copies of their tax return transcripts at the TACs.²⁴

It remains to be seen, however, whether the IRS will dedicate the resources – both in terms of personnel, dollars, and priorities – necessary to make the TAB a reality. I discuss a few of my concerns below.

A. Sustained Funding for Taxpayer Services Is Crucial to Meeting Taxpayer Needs

Any reduction in the IRS's taxpayer service budget presents a significant challenge to implementation of the TAB. In fact, taxpayer service funding should be increased so that, while the IRS continues to deliver its traditional services, programs developed by the TAB team are not just piloted but are instead fully implemented. For example, this filing season the IRS is piloting an approach in the TACs called “Facilitated Self Assistance.” Under this model, taxpayers who come to certain TACs for assistance may carry out designated service tasks on IRS.gov or the IRS

expand efforts to partner with State and local governments and private entities to improve taxpayer services.

S. Rep. No. 109-109, at 134 (2005).

²³ See National Taxpayer Advocate 2006 Report to Congress, vol. 2 (Research Study: Study of Taxpayer Needs, Preferences, and Willingness to Use IRS Services).

²⁴ Previously the IRS required taxpayers to obtain transcripts of their accounts through the toll-free service, which would mail a transcript within seven to ten days. Taxpayers could only obtain transcripts at TACs in “emergency” situations. It was TAS's experience that the TACs almost never acknowledged an emergency situation. In fact, since that policy was in place, TAS transcript cases have increased sharply. The IRS's more flexible transcript policy should result in fewer TAS cases in this area.

phone system with the help of a live IRS assistor. Preliminary feedback from the 15 TACs offering Facilitated Self-Assistance has been positive. Without sufficient funding, however, the IRS will be unable to expand the pilot testing, let alone fully implement the program, no matter how successful it might be. If the financial support for taxpayer service is not sufficient, the TAB process will have been for naught – having produced many interesting ideas and important research that simply cannot be implemented or applied.

B. Internet Services Are Important, But They Cannot Be the Only Game in Town

Insufficient funding increases the temptation for the IRS to put all its eggs in one basket when it comes to taxpayer service – namely, self-assisted Internet services. The Internet may be adequate for taxpayers who are comfortable handling financial transactions online, but the TAB's research studies showed that a certain percentage of taxpayers, and particular types of tax issues, require personal interaction – by telephone, face-to-face, or both.

For example, we now know that nearly 25 percent of taxpayers do not have Internet access.²⁵ Additionally, more than 25 percent of taxpayers stated that they are unwilling to use the IRS website for any service activities in the future.²⁶ Among taxpayers who used IRS services between mid-2004 and mid-2006, about 45 percent of those who called the IRS and more than 75 percent of those who visited the IRS stated they would not use the IRS website. When probed further as to why they would not use the website, more than half gave a reason that suggests they could not use the website due to lack of computer equipment, Internet access or computer savvy.²⁷ Approximately 75 percent of taxpayers stated they do not feel comfortable sharing personal information via the Internet.²⁸ Approximately 12

²⁵ W&I Research, *Opinion Survey of Taxpayer Resources and Services*, 2006 – Question 7 – 22.5%-24.6%.

²⁶ W&I Research, *Opinion Survey of Taxpayer Resources and Services*, 2006 – Question 8 – 25.3%-27.4%.

²⁷ IRS Oversight Board, *2006 Service Channels Survey*, Questions 17, 19 & 20: About 50% (42.5%-57.5%) of taxpayers who called or visited the IRS are unwilling to use IRS.gov (*i.e.*, 37.2%-52.7% of those who called and 60.5%-92.7% of those who visited the IRS stated they would not use the IRS Internet site). More than 23% of taxpayers called or visited the IRS between mid-2004 and mid-2006, which translates to roughly 32 million taxpayers (based on a filing population of slightly less than 135 million). About half of taxpayers who use IRS phone or TAC services, approximately 16 million taxpayers, are unable or unwilling to use the Internet. IRS, *2006 Filing Season Statistics, Cumulative Through 10/27/06*, Individual Income Tax Returns total receipts = 134,919,000.

²⁸ IRS Oversight Board, *2006 Service Channels Survey*, Question 11: 70.2%-76.2% do not feel comfortable sharing personal information over the Internet. Reasons include privacy concerns (33.4%-40.8%) and Internet security issues (41.9%-49.6%).

percent of taxpayers have some type of disability,²⁹ and about six percent of taxpayers speak a language other than English at home.³⁰

The IRS has an obligation to provide services through methods that will assist all taxpayers. The IRS must therefore maintain and improve its telephone and face-to-face services for as long as there is a segment of the population that needs it – which, given the complexity of the tax law and IRS procedures, will be as far into the future as I can see.

C. The IRS Should Expand and Improve the Services Provided by Taxpayer Assistance Centers

For several years I have highlighted problems with the IRS's delivery of face-to-face taxpayer services in the TACs.³¹ In my 2007 Annual Report to Congress, I identified several problems that limit the usefulness of the TACs, including the insufficient number and staffing of TACs and the significant conditions for obtaining return preparation assistance that have the effect of deterring taxpayers from seeking service.

1. The Location and Number of TACs May Not Be Adequate

In 2001, the IRS committed to opening *118 new TACs* in the following seven to eight years.³² Unfortunately, none of these new TACs was opened, and the IRS even initiated an unsuccessful effort to close 68 TACs.³³ The TAB concluded that TAC offices were adequately serving only 60 percent of the United States population.³⁴ In order to make better decisions about the location, number, and staffing of TACs, the IRS developed a decision tool about TAC operations. However, that tool only includes the present TAC locations. It is not clear whether the IRS will use this program to consider adding TAC locations, even though TAB research demonstrates that TAC coverage across the United States is insufficient. Thus, we recommend that the IRS conduct additional research of population

²⁹ W&I Research, *Opinion Survey of Taxpayer Resources and Services*, 2006, Question 19: 87.2%-88.7% of taxpayers do not have a disability.

³⁰ W&I Research, *Opinion Survey of Taxpayer Resources and Services*, 2006, Question 20: 5.4%-6.8% of taxpayers speak a language other than English.

³¹ See National Taxpayer Advocate 2007 Annual Report to Congress 162-182 (Most Serious Problem: Service at Taxpayer Assistance Centers), see also National Taxpayer Advocate 2006 Annual Report to Congress xi-xiv (Taxpayer Assistance Blueprint: The National Taxpayer Advocate's Perspective); National Taxpayer Advocate 2005 Annual Report to Congress 2-24 (Most Serious Problem: Trends in Taxpayer Service); National Taxpayer Advocate 2004 Annual Report to Congress 8-66 (Most Serious Problem: Customer Service in a Complex and Changing Tax Environment).

³² National Taxpayer Advocate 2001 Annual Report to Congress 49.

³³ IRS News Release, *IRS to Create Efficiencies with Taxpayer Assistance Centers*, IR-2005-63 (June 27, 2005).

³⁴ Internal Revenue Service, *Taxpayer Assistance Blueprint: Phase 2*, at 116 (Apr. 17, 2007).

segments to determine the volume, scope, and type of services that taxpayers require by geographical location, and utilize its TAC decision tool to identify the most appropriate number and placement of TACs.

2. TAC Staffing and the Availability of Services Are Inadequate to Meet Taxpayer Needs

Only 55 percent of TACs are open for 36 to 40 hours per week, and during the last three years, the IRS reduced TAC staffing by nine percent, leaving most TAC offices with staffing shortages.³⁵ Although the IRS is now hiring seasonal workers to ease the staffing crunch, I believe the IRS should make a firm commitment to providing TACs with the level of staffing necessary to meet taxpayer needs.

3. The IRS Should Meet its Fundamental Tax Administration Responsibility to Provide Tax Return Preparation Assistance for Low Income Taxpayers

I am concerned that the IRS imposes too many barriers and limitations on tax preparation. I am pleased that the IRS heeded our earlier criticism and has changed its position on requiring taxpayers to visit a TAC twice in order to obtain return preparation services – once to make the appointment and once to have the return prepared. However, the IRS continues to downplay its own role in tax preparation.

To my mind, tax preparation is a core service for the tax administrator. The tax administrator cannot look to the nonprofit sector alone to meet the needs of the millions of low income taxpayers, including many elderly taxpayers, who cannot afford to pay a return preparer. Yet the IRS continues to straddle the line – it prepares enough returns to allow it to claim it is providing the service but makes it very difficult in some cases for taxpayers to obtain assistance. For example, the IRS has declared returns involving cancellation of debt income “out of scope” both for the TACs *and* for volunteer preparation sites,³⁶ even though those subjects are highly likely to impact the very taxpayers who are eligible for TAC services (whether because of credit card debt forgiveness or home foreclosures). Thus, these low income taxpayers have no alternative but to pay for return preparation, something they generally cannot afford to do.

It is not just individual taxpayers who suffer from this restriction on preparation services in the TACs. Today, organizations exempt from tax under IRC § 501(c)(3) are generally required to file an e-postcard annually if their gross receipts are normally \$25,000 or less, providing the IRS with basic contact information and

³⁵ Information obtained from IRS Wage & Investment Division (Field Assistance function) (September 2007).

³⁶ IRS Small Business/Self-Employed Division, Response to TAS Information Request (Oct. 30, 2007).

informing the IRS whether the organization is still a going concern.³⁷ Failure to file for three consecutive years will result in automatic revocation of the organization's exempt status.³⁸

Approximately half of exempt organizations have all-volunteer staffs and another third have fewer than ten employees.³⁹ These smaller nonprofits frequently lack professional tax guidance and rely on their volunteers to deal with the IRS.⁴⁰ Yet the TACs have agreed to assist exempt organizations with filing the e-postcard on the condition that the IRS not publicize the availability of this assistance. Thus, the only way a small exempt organization will know whether the IRS will help it is if it happens to visit a TAC on its own initiative. This "we will provide you service but we won't tell you about it" approach falls well short of the level of service the public has a right to expect from its government.

D. The IRS Should Explore Alternative Methods of Delivering Face-to-Face Services

In 2003, the IRS committed to providing alternative methods of service to taxpayers.⁴¹ Among the ideas proposed were alternative locations to brick-and-mortar TACs and mobile units specifically tailored to the needs of the communities they serve.⁴² I support these ideas, and I strongly encourage the IRS to pursue them and to explore other service methods as well. For example, the IRS should partner with state tax agencies, or other service-oriented government agencies such as the Social Security Administration, to provide one-stop shopping for taxpayers. Additionally, the IRS could co-locate with other agencies, both state and federal, to offer services targeting a specific taxpaying population (e.g., co-locate with Departments of Motor Vehicles to offer excise fuel tax assistance to truck drivers).

I commend the IRS's recent coordination of "Super Saturday" to assist taxpayers in filing economic stimulus payment returns. The IRS should replicate that approach in similar efforts targeted at other groups of taxpayers. The IRS previously sponsored "Problem Solving Days," where taxpayers could receive assistance on any tax issue and potentially have their problems resolved with one contact. The IRS should bring back Problem Solving Days using Super Saturday as a model and aggressively market the effort to taxpayers. Other initiatives could include National Filing Days, which I recommended in my 2007 Annual Report to Congress, where

³⁷ IRC § 6033(i); IRC § 6033(a)(3)(B); Announcement 82-88, 1982-25 I.R.B. 23.

³⁸ IRC § 6033(j).

³⁹ IRS, TE/GE FY 2005 Strategic Assessment 3 (Feb. 2, 2005).

⁴⁰ *Id.*

⁴¹ National Taxpayer Advocate 2003 Annual Report to Congress 149.

⁴² *Id.*

taxpayers who are currently not in compliance with their tax obligations could come to the IRS and be brought into compliance.⁴³

E. The IRS Should Expand Outreach and Education in the Exempt Organization Sector

If the IRS is to increase compliance by exempt organizations (EOs), more resources must be devoted to outreach to, and education of, these organizations. I commend the Tax Exempt and Government Entities (TE/GE) Division's Customer Education and Outreach (CE&O) office for its existing efforts to address the needs of EOs. CE&O has done much with few resources, but it cannot adequately carry out its mission without better funding. TE/GE allocated only approximately \$1.2 million or 1.4 percent of its \$85.4 million FY 2007 EO budget to education and outreach.⁴⁴ The number of EO education and outreach full-time equivalents (FTEs) has stagnated at approximately 12 for the last three fiscal years⁴⁵ while the number of EOs has grown by more than 70,000 per year.⁴⁶ Twelve FTEs are simply not enough to carry on the important work of EO education and outreach, regardless of how cost-effective and innovative the IRS's outreach methods may be.

TE/GE has leveraged its limited EO education and outreach resources through increased use of electronic means. Electronic education and outreach is an excellent tool that should be used in conjunction with, but not supplant, face-to-face and non-electronic outreach. For example, the Charities and Non-Profits page of the IRS website contains many useful materials, but the IRS needs to proactively distribute hard copies of those materials through partners and outreach sessions rather than wait for EOs to find and view them online. Moreover, the IRS must obtain better data on EOs' access to the Internet, how EOs use the Internet, and EOs' willingness and ability to change how they use the Internet before investing further in electronic education and outreach.

IRS Daily Delinquency Penalty (DDP) abatement rates reveal that there is great potential to reduce noncompliance with more education and outreach. The IRS may assess a DDP when an EO files an information return with missing or incorrect information⁴⁷ but will abate the DDP if the penalized organization later supplies the missing information or corrects the error and shows reasonable cause for the mistake.⁴⁸ Between 2000 and 2005, the IRS abated almost 62 percent of all assessed DDPs and nearly 68 percent of all assessed DDP dollars (nearly \$857

⁴³ National Taxpayer Advocate 2007 Annual Report to Congress 257.

⁴⁴ Information received from Tax Exempt/Government Entities Division (Nov. 7, 2007).

⁴⁵ Information received from Tax Exempt/Government Entities Division (Nov. 6, 2007); IRS, *Tax Exempt and Government Entities Business Performance Review* 21 (May 9, 2007).

⁴⁶ Remarks of Steven T. Miller, Commissioner, IRS Tax Exempt and Government Entities Division, before the Philanthropy Roundtable (Dec. 10, 2007).

⁴⁷ IRC § 6652(c)(1)(A).

⁴⁸ IRC § 6652(c)(4).

million).⁴⁹ A study conducted by the IRS in 2003 found that most assessed DDPs were attributable to organizations' failure to include Schedules A and B with their returns.⁵⁰

The annual cycle of DDP assessment and abatement is not good for anyone. EOs that receive DDP assessments due to curable errors must use their resources to get the IRS to abate the penalty. Alternatively, they may simply pay the penalties to avoid dealing with the IRS but are likely to be penalized again if they do not work with the IRS to find out why the penalties were assessed. The DDP assessment/abatement cycle also wastes IRS resources. When more than 60 percent of all assessed DDP penalties are abated, IRS employees are spending significant time determining whether the mistakes that gave rise to the assessments were attributable to reasonable cause.

V. To Reduce the Tax Gap, the IRS Should Place More Emphasis on Combating Noncompliance in the Cash Economy

As you know, the gross "tax gap" – the amount of tax that is not voluntarily and timely reported and paid – stood at an estimated \$345 billion in 2001 and remains a serious problem.⁵¹ As a result, households that comply with their tax obligations effectively pay a "surtax" averaging about \$2,680 per year to subsidize noncompliance by others.⁵² Where taxable payments are reported to the IRS by third parties, taxpayers generally report well over 90 percent of their income.⁵³ By contrast, where taxable payments are not reported to the IRS by third parties, reporting compliance drops below 50 percent.⁵⁴ Therefore, it should come as no surprise that underreported income from the "cash economy" – which, for tax administration purposes, we define as taxable income from legal activities that is not

⁴⁹ IRS Enforcement Revenue Information System (ERIS) and Statistics of Income (SOI) for EO Returns, 2000-2005 DDP assessments and abatements. See also National Taxpayer Advocate 2006 Annual Report to Congress 491 (Legislative Recommendation: Increase the Exempt Organization Information Return Filing Threshold).

⁵⁰ Ogden Form 990 Study, Attachment to Memorandum for Director, Exempt Organization SE:T:EO, *EO Correspondence Review and Timeframes* (Oct. 2003).

⁵¹ The gross tax gap is the amount of tax that is imposed by law for a given tax year, but not voluntarily and timely paid. The net tax gap is the portion of the gross tax gap that remains uncollected after taking into account late payments and IRS enforcement actions for a given tax year. The 2004 IRS National Research Program study estimated the 2001 gross tax gap at \$345 billion and the net tax gap at \$290 billion. IRS, *Tax Gap Map for Year 2001* (Feb. 2007), available at http://www.irs.gov/pub/irs-utl/tax_gap_update_070212.pdf. These figures do not include unpaid tax on income from illegal activities.

⁵² If we divide the estimated 2001 net tax gap of \$290 billion by the estimated 108,209,000 U.S. households in 2001, we see that each household was effectively assessed an average "surtax" of about \$2,680 to subsidize noncompliance. See U.S. Census Bureau, Population Division (data as of Mar. 2001).

⁵³ See IRS News Release, *IRS Updates Tax Gap Estimates*, IR-2006-28 (Feb. 14, 2006) (accompanying charts), available at <http://www.irs.gov/newsroom/article/0,,id=154496,00.html>.

⁵⁴ *Id.*

subject to information reporting or withholding – is probably the single largest component of the tax gap, likely accounting for over \$100 billion per year.⁵⁵

Noncompliance in the cash economy merits special attention because the IRS's traditional enforcement tools such as document matching and audits are less effective when there is no third party reporting, and also because it is growing. According to one study, the percentage of all income subject to third party information reporting fell from 91.3 percent in 1980 to 81.6 percent in 2000.⁵⁶ The IRS's filing projections suggest that the cash economy and the amount of unreported income may continue to grow.⁵⁷

A. The IRS Should Establish a Cash Economy Program Office to Increase the Effectiveness of its Efforts

In my 2007 Annual Report to Congress, I proposed a comprehensive strategy to address the cash economy portion of the tax gap that consisted of 15 administrative recommendations and seven legislative recommendations.⁵⁸ As a threshold matter, I believe the IRS should establish a Cash Economy Program Office. The office would have responsibility for coordinating efforts to improve compliance in the cash economy. At present, there is no single unit or executive within the IRS with responsibility for ensuring that enforcement, research, and educational activities aimed at the cash economy are implemented in a coordinated fashion. The IRS uses a coordinated approach to address certain other issues – an example being the EITC Program Office – and I believe a program office would help the IRS address the cash economy as well. Such an office would bring accountability to the effort because it could measure its success based on the impact of IRS initiatives on compliance by cash economy participants.⁵⁹ Absent a strategic, coordinated

⁵⁵ *Id.* Underreporting makes up about 83 percent of the tax gap (\$285 billion of the \$345 billion gap). Underreporting of business income by individuals – from sole proprietors, rents and royalties, and pass-through entities – accounted for about \$109 billion. Associated underreporting of self-employment taxes by unincorporated businesses accounts for another \$39 billion. *Id.*

⁵⁶ Kim Bloomquist, *Trends as Changes in Variance: The Case of Tax Noncompliance*, presented at the 2003 IRS Research Conference (June 2003) (citing growth in capital gains, partnership, and small business income).

⁵⁷ The IRS expects the number of individual returns from small business or self-employed taxpayers to grow by about 33 percent between 2006 and 2014, while the number of individual returns from other taxpayers is expected to decline by about two percent over the same period. IRS Office of Research, Research, Analysis and Statistics, Document 6292, *Fiscal Year Return Projections for the United States, 2007-2014* (Sept. 2007), available at <http://www.irs.gov/pub/irs-soi/d6292.pdf>.

⁵⁸ See National Taxpayer Advocate 2007 Annual Report to Congress 35-65 (Most Serious Problem: The Cash Economy), 490-502 (Legislative Recommendation: Measures to Address Noncompliance in the Cash Economy), and vol. 2, at 1-43 (Research Study: A Comprehensive Strategy for Addressing the Cash Economy).

⁵⁹ The Treasury Inspector General for Tax Administration and the Government Accountability Office both generally agree that measures that promote accountability would help the IRS reduce the tax gap. See, e.g., Government Accountability Office, GAO-06-208T, *Multiple Strategies, Better Compliance Data, and Long-Term Goals Are Needed to Improve Taxpayer Compliance* (Oct. 26, 2005); Written Statement of Russell George, Treasury Inspector General for Tax Administration,

approach, the IRS is less likely to make progress in reducing noncompliance in the cash economy.

B. The IRS Should Research the Most Effective Use of its Audit Resources

In addressing the cash economy, the IRS should also leverage its limited audit resources by investing in research to identify the most effective uses of these resources after taking into account the direct and indirect effects of IRS activities on tax revenue. In addition to the direct revenue that audits generate from the taxpayer for the period(s) under audit, as discussed above, economists estimate the indirect effects or “ripple effects” of an audit on voluntary compliance by other taxpayers or by the same taxpayer in future periods provide even greater revenue gains.⁶⁰ The IRS needs more and better research on how best to use limited audit resources to improve compliance in the cash economy. For example:

- Should the IRS use more correspondence examinations or face-to-face examinations in cash economy industries? Does the answer depend on the industry?
- To achieve the greatest impact, should audits be clustered either geographically or within industries, so as to generate maximum publicity and possibly change local or industry norms, or should audits be more spread out in a dispersed pattern of “touches”?
- Do audits have an even greater “ripple” effect on compliance when coupled with outreach and education targeted at unaudited members of the same community?

My other recommendations fall into four broad categories: (1) making compliance easier, (2) increasing income visibility and the productivity of audits, (3) increasing the focus on preparers, and (4) identifying areas where additional research is needed to help the IRS understand how it can efficiently improve voluntary compliance.⁶¹

Hearing Before the Senate Committee on Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies on the Internal Revenue Service's Fiscal Year 2006 Budget Request (Apr. 7, 2005).

⁶⁰ See, e.g., Alan H. Plumley, Pub. 1916, *The Determinants of Individual Income Tax Compliance: Estimating The Impacts of Tax Policy, Enforcement, and IRS Responsiveness* 35-36 (Oct. 1996).

⁶¹ See National Taxpayer Advocate 2007 Annual Report to Congress 35-65 (Most Serious Problem: The Cash Economy), 490-502 (Legislative Recommendation: Measures to Address Noncompliance in the Cash Economy), and vol. 2, at 1-43 (Research Study: A Comprehensive Strategy for Addressing the Cash Economy).

VI. The Private Debt Collection Initiative Will Cost the Federal Government at Least \$81 Million in Foregone Revenue Annually and Should Be Terminated

In my Annual Reports to Congress and in prior testimony, I have expressed serious concerns about many aspects of the private debt collection (PDC) initiative, including the potential for violations of taxpayer rights, the fact that private collection agency (PCA) procedures are less transparent to the public – and to congressional oversight – than IRS procedures, and the evidence that the so-called “simple” cases on which the program was initially promoted do not exist in significant numbers.⁶²

I now add to these concerns the issue of foregone revenue. Very simply, the PDC initiative will cost the government more than \$81 million in foregone revenue this year, and the cost is likely to reach nearly a half billion dollars over the next six years. I explain below how I arrive at this conclusion.

The IRS projects that it will use \$7.65 million in appropriated funds in FY 2008 to administer the PDC program, and it anticipates relatively steady costs in future years.⁶³ At the same time, the IRS estimates that the program will generate gross revenue averaging about \$23 million this year and next,⁶⁴ and it is unlikely that gross revenue will increase in future years unless the nature of the program changes significantly. By these calculations and after subtracting the direct costs of the program (\$7.65 million) and commissions payable to the PCAs (about \$4.60 million), the program can be expected to yield annual net revenue of about \$11 million. Thus, an annual IRS expenditure of \$7.65 million will produce annual net revenue of about \$11 million, which translates to about a 1.45:1 net return on investment (ROI).⁶⁵

If the PDC program did not exist and the IRS instead allocated \$7.65 million in appropriated funds to its Automated Collection System (ACS) function, the ROI would be substantially higher. IRS data shows that the average ROI for the ACS program is about 20:1, which means an expenditure of \$7.65 million would generate

⁶² See National Taxpayer Advocate 2007 Annual Report to Congress 411-431 (Status Update: Private Debt Collection); National Taxpayer Advocate 2006 Annual Report to Congress 34-61 (Most Serious Problem: True Costs and Benefits of Private Debt Collection) and 458-462 (Legislative Recommendation: Repeal Private Debt Collection Provisions); *IRS Private Debt Collection: Hearing Before the H. Comm. on Ways and Means*, 110th Cong. (May 23, 2007) (statement of Nina E. Olson, National Taxpayer Advocate).

⁶³ E-mail from Director, PDC Program Office, to TAS Attorney Advisor (Feb. 29, 2008).

⁶⁴ *Id.*

⁶⁵ As discussed in the text below, the data I have cited actually overstate the likely ROI because the IRS's cost estimates are not comprehensive (e.g., they do not include the time that Taxpayer Advocate Service case advocates spend assisting taxpayers who request our help with PDC cases or the time senior IRS executives must devote to studying, monitoring, and answering continual questions about the program) and the IRS's revenue estimates include funds that the IRS collects on the basis of its initial letter – before the PCAs make any contact with the taxpayers.

annual revenue of \$153 million.⁶⁶ In testimony before the House Ways and Means Committee last May, Acting Commissioner Kevin Brown placed the ACS ROI somewhat lower, at about 13:1.⁶⁷ Even accepting the lower figure, a 13:1 ROI on an expenditure of \$7.65 million would produce gross revenue of \$99.45 million and net revenue (after subtracting the \$7.65 million expenditure) of \$91.8 million.

Thus, the IRS's expenditure of \$7.65 million in appropriated funds is generating about \$11 million in net revenue when applied to the PDC program but should generate at least \$91.8 million if applied to its ACS collection function. In other words, the opportunity cost of spending \$7.65 million of appropriated funds on the PDC program each year is \$81 million, and possibly much more.

Since the purpose of private debt collection is to raise revenue, the fact that it is costing the government \$81 million or more each year destroys whatever thin rationale might remain for its existence.

A. The \$7.65 Million Cost Estimate for the PDC Program Fails to Capture Significant Costs

In addition to consuming \$7.65 million in annual operating costs, the PDC program required \$70 million in start-up costs. The IRS previously estimated that it would recoup these "sunk" costs in FY 2008 but now acknowledges that FY 2010 is the earliest point at which the initiative is likely to "break even."⁶⁸ Moreover, as of September 2007, the IRS had 54 employees (and this total does not include Modernization & Information Technology Services (MITS) infrastructure or TAS case working employees) working on the initiative and overseeing 62 employees from the PCAs.⁶⁹

The annual expenditure of \$7.65 million is significant for an initiative that is failing in most respects. Additionally, we have learned that the \$7.65 million cost estimate provided by the IRS does not include numerous expenses. The \$7.65 million cost estimate includes PDC-related costs incurred by the IRS referral unit and most IRS headquarters staff as well as costs incurred by MITS for support and by TAS to cover the cost of one employee assigned to work with the PDC Project Office. However, the \$7.65 million cost estimate does not include the PDC-related costs incurred by the IRS Office of Chief Counsel, which is periodically consulted for legal advice; the IRS Office of Legislative Affairs, which has spent considerable time

⁶⁶ We have computed the full cost of an average ACS employee at slightly less than \$75,000 (assuming GS-8, step 5). The current average amount collected by an ACS employee per year is about \$1.53 million. That volume of collection translates to a return-on investment on the average ACS employee of about 20:1.

⁶⁷ *IRS Private Debt Collection: Hearing Before the H. Comm. on Ways and Means*, 110th Cong. (May 23, 2007) (testimony of Kevin M. Brown, Acting Commissioner of Internal Revenue).

⁶⁸ *The 2008 Filing Season: Hearing Before the H. Comm. on Ways and Means*, 110th Cong. (Mar. 13, 2008) (testimony of Linda E. Stiff, Acting Commissioner of Internal Revenue).

⁶⁹ IRS Response to Information Request on PDC Initiative (Sept. 2007).

presenting the program to Members and Committees of the Congress and responding to inquiries; by TAS for working with more than 1,500 taxpayers who have sought our assistance on PCA-related cases; or by other IRS functions that have helped to support the program.⁷⁰ We have been unable to obtain a complete estimate of the costs of the program.

B. The IRS's Own Collection Actions Account for a Significant Portion of the PDC Program's Full-Paid Accounts

Almost half – specifically, 46 percent – of the fully paid liabilities included in PDC gross revenue has been collected through offsets or direct payments made by the taxpayer after receiving a letter from the IRS informing the taxpayer that his or her account would be placed with a PCA but before the PCA made contact with the taxpayer.⁷¹ These fully paid liabilities are a direct result of IRS action – not action taken by a PCA.

Moreover, more than half of the payments received by the PDC initiative are fully paid liabilities.⁷² In many of these cases, the IRS had taken no action on the accounts after its standard “notice stream” had run its course. However, these data seem to indicate that if the IRS were to spend 41 cents on a letter to taxpayers sometime after the end of the standard notice stream to say, in effect, “Hello, we’re back,” the IRS could obtain a meaningful return.

⁷⁰ IRS Response to TAS Request for Information (April 10, 2008).

⁷¹ The 46 percent of fully paid liabilities includes payments received by the IRS through the following means: (a) dollars received by the government ten calendar days or less after the IRS transferred the account to the contractor; (b) unidentified payments (*i.e.*, payments that cannot be matched and posted to a debtor's account within the contractor's inventory of accounts); (c) dollars collected in excess of an individual's balance, resulting in overpayment by the debtor; (d) dollars received on any account eleven calendar days or more after the account was returned to the IRS except as specifically described by contract; and (e) dollars received through Federal, State or local administrative, tax refund, salary, Treasury offset, Federal Levy payment or other type of offset or other administrative action which results in the reduction or elimination of the debt in a manner beyond the scope of the contractor's performance. IRS, Request for Quotation, Request No. TIRNO-05-Q-00187, at 22 (¶ A.4.1). The National Taxpayer Advocate's 2006 Annual Report to Congress reported that, while the IRS would not send accounts to private collectors that were already subject to levy under the Federal Payment Levy Program (FPLP), the IRS would not recall accounts already assigned to a PCA if the account becomes subject to an FPLP levy after assignment. National Taxpayer Advocate 2006 Annual Report to Congress 43. When the IRS first described its vision of the PDC program to Congress, the IRS maintained that cases under enforcement action were not the types of cases that would be referred to private collectors. *Private Debt Collection: Hearing Before the Subcomm. on Oversight of the House Comm. on Ways and Means*, 108th Cong. (May 13, 2003) (testimony of Commissioner Mark W. Everson). As a consequence of the IRS's decision to leave FPLP cases with private collectors, private collectors are contacting taxpayers whose Social Security payments are already under active FPLP levies and are demanding full payment of the tax liability.

⁷² IRS, *Filing Payment Compliance Advisory Council* (April. 14, 2008) at 3.

C. The Inventory of “Easy” Cases for PCAs to Work Has Largely Dried Up

The PDC initiative has taken several steps to address the lower than expected revenue, which are deviations from the original intent of the initiative.⁷³ Because the number of “easy” cases was also smaller than expected, the IRS began to include older inventory which is more difficult to resolve.⁷⁴ The IRS is still searching for other types of cases to hand over to the PCAs, many of which are complex, require discretion, and are already being worked by the IRS’s own collection function. For example, the IRS is studying the feasibility of assigning cases in which the taxpayer has not agreed to the entire outstanding tax liability.⁷⁵ The IRS is also considering placing with the PCAs cases that ACS is currently working, and it is studying 1,500 modules to identify cases that it can move from actual IRS ACS inventory to the PCAs.⁷⁶ Thus, the IRS is now proposing to give the PCAs the types of cases that the IRS itself is already working and could continue to work at a greater rate in the future. Placing these types of cases with the PCAs is precisely the opposite of the premise on which the program was sold – namely, giving PCAs only the easy cases the IRS itself otherwise would not work.⁷⁷

D. The IRS Has Left Cases in the Control of PCAs for Much Longer Than It Originally Intended

The IRS’s concern about the PDC initiative’s low revenue might have influenced the IRS decision to extend the timeframe for which unresolved cases from the initial stage of the PDC program (known as Release 1.1) will remain with the PCAs.⁷⁸

⁷³ Former Commissioner Mark Everson testified: “Private collectors will work the easy cases, thereby ensuring that they will not engage in ‘inherently governmental’ activities and that the IRS will be able to focus on more complex work.” *Private Debt Collection: Hearing Before the Subcomm. on Oversight of the H. Comm. on Ways and Means*, 108th Cong. (May 13, 2003) (statement of Commissioner Mark W. Everson). I also testified to that point: “The IRS has stated that it will only send to PCAs those cases that meet the following criteria: (1) the taxpayer has either agreed to the tax debt and/or has made three or more payments toward that debt; and (2) the taxpayer appears to have the ability to pay this debt in full immediately or within 36 months. It is vital to the success of this proposal that only those cases that fit these parameters are selected and referred to the PCAs.” *IRS Use of Private Debt Collection Agencies by the IRS: Hearing Before the Subcomm. on Oversight of the H. Comm. Ways and Means*, 108th Cong. (May 13, 2003) (statement of Nina E. Olson, National Taxpayer Advocate).

⁷⁴ The IRS had to remove 15,500 cases from the initial inventory of 42,800 cases that would possibly have been assigned to private collectors. These cases were removed because the taxpayer had previously shelved delinquencies. IRS, *Filing & Payment Compliance Advisory Council Presentation 9* (July 31, 2006).

⁷⁵ IRS, *Filing and Payment Compliance Advisory Council* (Jan. 14, 2008) at 7.

⁷⁶ IRS, *Filing and Payment Compliance Advisory Council* (Feb. 11, 2008) at 10.

⁷⁷ *Private Debt Collection: Hearing Before the Subcomm. on Oversight of the H. Comm. on Ways and Means*, 108th Cong. (May 13, 2003) (testimony of Commissioner Mark W. Everson).

⁷⁸ IRS, *Filing and Payment Compliance Advisory Council* (Mar. 10, 2008) at 12.

Initially, the IRS planned to recall taxpayer accounts after 12 months.⁷⁹ However, the IRS extended the recall to 18 months and now has extended it until the collection curve on these cases declines, but it is not clear how significant the decline must be for the recall to begin.⁸⁰ Nor is it clear how frequently the PCAs attempt to collect on these cases or whether the taxpayers would be better off if their cases were sent back to the IRS.

E. To Evaluate the Cost Effectiveness of the PDC Program, an “Apples-to-Apples” Comparison Between IRS Employees and PCA Employees Is Needed

As I have recommended in my reports to Congress, to determine the true efficiency and effectiveness of PCAs to the IRS collection function, I believe the IRS should design and implement a true apples-to-apples comparison of IRS and PCA collection.⁸¹ The version of the IRS FY 2008 funding bill reported by this Committee last year directed the IRS to conduct a test to make such a comparison.⁸² Although this mandate was not contained in the final funding legislation, the IRS has taken steps toward implementing an apples-to-apples test. In January of 2008, the IRS created a team, which included TAS, to design such a test. The test would use IRS employees with similar skill sets as the PCA employees and limit IRS enforcement powers so their authority to take action on a case would mirror that of the PCAs, thereby creating an apples-to-apples comparison. In addition, it would create an entry-level bridge position for IRS employees who would like to obtain collection experience. These employees could work these easy cases that only require a phone call or could help locate taxpayers. This would be an opportunity for the IRS to train new collection employees and address the IRS’s challenge to fill behind an aging workforce. Now that the test has been designed, it is time to put it into action so the IRS can honestly evaluate who can do this work better.

⁷⁹ IRS, Request for Quotation, Request No. TIRNO-05-Q-00187, at 22 (¶ A.4.5). Taxpayer accounts will be automatically recalled after 12 months unless the account condition warrants continued work efforts by the Contractor assigned the case. Conditions that would warrant an extension of the placement period may include acceptable payment within 60 calendar days prior to recall date or approval from the Contracting Officer’s Technical Representative (COTR). The IRS can request the return of a case at any time upon notice to the PCA.

⁸⁰ IRS, Filing and Payment Compliance Advisory Council (Mar. 10, 2008) at 12.

⁸¹ See National Taxpayer Advocate 2007 Annual Report to Congress 416-418, and National Taxpayer Advocate 2006 Annual Report to Congress 34-61.

⁸² Financial Services and General Government Appropriations Act, 2008, H.R. 2829, 110th Cong. § 113 (as reported by S. Comm. on Appropriations, July 13, 2007).

VII. The IRS Should Reassess Its Approach to e-filing to Ensure That the Needs of All Taxpayers Are Addressed and that All Taxpayers May Prepare Their Returns and File Directly with the IRS Without Charge

While the IRS has made impressive progress in increasing the rate of electronic filing, it is still far from reaching the congressionally mandated goal of 80 percent.⁸³ During the 2007 filing season, almost 57 percent of all individual returns were filed electronically.⁸⁴ As the tax administrator, the IRS has the authority to determine the policies and criteria that entities must meet to participate in the e-file program. In important respects, however, it appears that the IRS has historically relinquished control of the electronic filing program to private industry and faces difficulty in re-asserting ownership of the program. Considering the significant benefits e-filing affords to both the IRS and taxpayers, we are pleased that the IRS is currently evaluating its role in the e-file program in order to increase the rate of e-file and to properly align its policies and procedures to meet the best interests of taxpayers and the agency itself. We encourage the IRS to consult with the Office of the Taxpayer Advocate on this important matter, and we look forward to lending support in any manner possible.

The IRS has an incentive to increase the rate of electronic filing to the highest level possible. Electronic filing of tax returns brings benefits to both taxpayers and the IRS.⁸⁵ From a taxpayer perspective, e-filing improves accuracy by eliminating the risk of IRS transcription errors, pre-screens returns to ensure that certain common errors are fixed before returns are accepted, and speeds the delivery of refunds. From an IRS perspective, e-filing eliminates the need for data transcribers to input return data manually (which permits the IRS to shift resources to other areas), allows the IRS to capture return data electronically, and enables the IRS to process and review returns more quickly.⁸⁶

Nearly one-third of all individual returns processed by the IRS through October 2007 – or 43 million returns – were prepared using software yet mailed rather than submitted electronically.⁸⁷ These taxpayers could have e-filed their returns once they were prepared using computer software, but for some reason, the taxpayers chose to file paper returns. If the IRS successfully converts a significant

⁸³ The IRS Restructuring and Reform Act of 1998 directed the IRS to set a goal of having 80 percent of all returns filed electronically by 2007. See Internal Revenue Service Restructuring and Reform Act, Pub. L. No. 105-206, § 2001(a)(2), 112 Stat. 685 (1998). The 80 percent e-filing goal was not achieved by 2007. However, we believe Congress should reiterate its commitment to requiring the IRS increase the e-filing rate as quickly as possible.

⁸⁴ IRS News Release, IRS E-File Opens for 2008 Filing Season for Most Taxpayers, IR-2008-5 (Jan. 10, 2008).

⁸⁵ See S. Rep. No. 105-174, at 39-40 (1998).

⁸⁶ See IRS Fact Sheet, *2008 IRS E-File*, FS-2008-4 (Jan. 2008).

⁸⁷ IRS Tax Year 2006 Taxpayer Usage Study (through Oct. 26, 2007).

portion of these taxpayers to electronic filing, it would approach, and perhaps surpass, the 80 percent e-filing goal.

I have advocated for years for the IRS to place a basic, fill-in template on its website to permit taxpayers to self-prepare their tax returns and file directly with the IRS for free.⁸⁸ There is no reason why taxpayers should be required to pay transaction fees to file their returns electronically. A free template and direct filing portal would address some taxpayers' cost and security concerns and would result in a greater number of e-filed tax returns. For those taxpayers who are comfortable preparing their returns without assistance, the government should provide the means for them to do so without charge. For those taxpayers who do not find a basic template sufficient and would prefer to avail themselves of the additional benefits of a sophisticated software program, they would remain free to purchase one.

During a visit to the Australian Taxation Office (ATO) last month, I had the opportunity to learn first-hand about Australia's e-file program. The ATO built e-tax, a direct filing program, completely in-house and officially launched the program in 1999. The resulting e-file (e-tax) rates are impressive.⁸⁹ For the 2005-2006 tax period, approximately 49 percent of all individuals who self-prepared filed their returns through e-tax, while only 7.5 percent of U.S. taxpayers who self-prepared their returns used Free File for tax year 2006 (and only 2.9 percent of all individual income tax returns filed in tax year 2006 were prepared using Free File).⁹⁰ Further, only tax agents (the Australian equivalent to tax return preparers) use commercial software to prepare and file returns.⁹¹ It is our understanding that the IRS is

⁸⁸ See, e.g., National Taxpayer Advocate 2004 Annual Report to Congress 471-477. We have proposed that the IRS create an electronic tax return that is analogous to the paper environment, but that also incorporates the benefits of electronic technology. Specifically, the return should be fill-in, with math checking and number-transfer capability. The fill-in return should link to line-by-line IRS instructions for each form, and where the IRS instructions reference a publication, there should be active links to specific sections of the forms. Where the instructions or publications have worksheets embedded in them, these worksheets should be fill-in, with math-checking and number-transfer capability. These capabilities are important, since they will substantially reduce the number of "math error" notices the IRS must issue each year.

⁸⁹ Unlike Free File, e-tax is available to taxpayers at all income levels. For information on e-tax, see <http://www.ato.gov.au/corporate/content.asp?doc=/content/83847.htm&pc=001/001/001/005&mnu=&mfp=&st=&cy=1> (last visited April 7, 2008).

⁹⁰ Australian Taxation Office, Taxation Statistics 2005-06, available at http://www.ato.gov.au/content/downloads/00117625_2006CH2PER.pdf (last visited April 7, 2008); E-Gov, *IRS Free File Performance Measures - Summary View*, available at <http://www.whitehouse.gov/omb/egov/c-7-3-irs.html> (last visited April 7, 2008). Specifically, 1,521,780 individual self-preparers filed through Australia's e-tax program in tax year 2005/2006 out of a total of 3,132,230 self-preparers. The remaining 8,378,729 individual taxpayers used tax agents (return preparers). In the United States, 3.9 million individual taxpayers self-prepared for tax year 2006 on Free File out of 49 million total self-preparers. Approximately 135 million U.S. individual returns were filed for tax year 2006. IRS Document 6149, *Calendar Year Return Projections by State, CY 2007-2014* (Rev. 12.2007), Table 1.

⁹¹ Tax agents are regulated by the statutorily created Tax Agent Boards located in every state. For more information on the relationship between tax agents and tax administration in Australia, see <http://www.ato.gov.au/corporate/content.asp?doc=/content/66215.htm> (last visited March 27, 2008).

currently evaluating the Australian taxation system. We hope the IRS can apply lessons learned from Australia's experience to our own e-file program, especially with regard to ATO's direct filing program, e-tax.

Recent, highly publicized phishing schemes confirm the need for the IRS to develop a free fill-in template and direct filing portal. During the 2007 filing season, for example, an Internet tax scam lured taxpayers into entering confidential tax return information on sites masquerading as Free File sites, and these taxpayers became victims of identity theft.⁹² It is understandable that some potential Free File users fall victim to scams, especially when taxpayers wishing to prepare their returns pursuant to an IRS sanctioned program visit the official IRS website only to be directed to one of 19 potentially unfamiliar commercial websites. *All taxpayers* should have the option to prepare and file their federal income tax returns *on* the IRS's own website.⁹³ Although Free File is accessible *through* the official IRS website, not all taxpayers are eligible to use the program. Approximately 30 percent of individual taxpayers – which amounts to more than 40 million taxpayers – are ineligible for IRS Free File.⁹⁴ Moreover, the IRS exerts little control over the content of each Free File program. As a consequence, each of the programs has its own eligibility requirements, capabilities and limitations, and the complexity is confusing to taxpayers.

Despite the IRS's best efforts, some paper filers will refuse to convert to e-file. For those cases, the IRS should develop 2-D bar code technology, which would provide taxpayers and the IRS with many of the same benefits as electronic filing.⁹⁵ It is my understanding that the IRS has already incorporated this technology into other functions.

⁹² See IRS News Release, *Late Tax Scam Discovered; Free File Users Reminded to Use IRS.gov*, IR-2007-87 (April 13, 2007). The IRS is also aware of several phishing schemes during the 2008 filing season. See IRS News Release, *IRS Warns of New E-Mail and Telephone Scams Using the IRS Name; Advance Payment Scams Starting*, IR-2008-11 (Jan. 30, 2008).

⁹³ Congress contemplated the IRS developing a basic electronic template in the IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (1998). The RRA 98 conference report states that "the conferees also intend that the IRS should continue to offer and improve its Telefile program and make available a comparable program on the Internet." H.R. Rep. No. 105-599, at 235 (1998) (Conf. Rep.).

⁹⁴ Taxpayers must have adjusted gross income of \$54,000 or less to be eligible. See IRS Fact Sheet, *2008 IRS E-File*, FS-2008-4 (Jan. 2008); Free Online Electronic Tax Filing Agreement Amendment (2005), available at http://www.irs.gov/pub/irs-efile/free_file_agreement.pdf (last visited on April 7, 2008). Ironically, some members of the Free File Alliance provided free services to 100% of taxpayers under the initial term of the Free File Agreement and wanted to continue to do so, but the Treasury Department agreed with the Free File Alliance to place a cap on the number of taxpayers who would qualify for free tax preparation and filing services. As a consequence, Free File members are now *restricted* in the number of taxpayers to whom they may offer their services.

⁹⁵ To utilize 2-D bar code technology, a taxpayer or preparer uses software to complete the return. Once printed, the return has a horizontal and vertical bar code containing tax return information. The IRS scans the return, captures the data, decodes it, and processes the return as if it had been sent electronically.

Pursuant to an Appropriations directive, the IRS Office of Electronic Tax Administration and Refundable Credits (ETA) is developing a comprehensive strategic plan to meet the 80 percent e-file goal.⁹⁶ ETA has commissioned MITRE to conduct the Advancing E-File Study, and we are pleased that the study will determine or review the following items:

- The characteristics of paper and e-filers as well as potential barriers to e-file;
- The current third-party model of tax administration and current trends in state and foreign governments; and
- Potential strategies to increase the rate of e-file or any other means to receive return information electronically. This will entail a review of direct filing with the IRS, 2-D bar coding, and Telefile.⁹⁷

I believe this study represents an important first step in the government's fulfilling its core responsibility to taxpayers in a secure and straightforward fashion, without competing with the private sector. The Appropriations directive states that this strategic plan should be developed in consultation with me and other stakeholders, and I look forward to continuing to work with the IRS on this study.

Finally, I believe that the IRS should take a more proactive role in the electronic filing arena by setting the policies and standards for participation in the IRS e-file program. Such policies and procedures should align with the needs of both taxpayers and tax administration. All high quality return preparation and filing products should have equal access to the market, reflect the latest tax law changes, and be compatible with filing season peaks in demand as well as IRS's computer and processing needs. Moreover, all programs should meet IRS established minimum standards for data and identity security, and these standards should apply to both for-profit and free tax preparation offerings.⁹⁸ Unless the IRS takes corrective action, the IRS remains in a reactive position at the whim of private industry and is forced to devote scarce resources to address the downstream consequences of potentially avoidable problems. We are encouraged that the IRS is currently evaluating its role in the e-file program as part of the Advancing E-File

⁹⁶ Staff of H. Comm. on Appropriations, 110th Cong., H.R. 2764, Consolidated Appropriations Act, 2008, Pub. L. 110-161, Explanatory Statement at 871 (Comm. Print 2007); Staff of H. Comm. on Appropriations, 110th Cong., Financial Services and Government Appropriations Bill, 2008, at 28 (Comm. Print July 2007). Although the deadline for submission of the study was March 1, 2008, the IRS Office of Electronic Tax Administration and Refundable Credits has faced considerable challenges during the current filing season, and it is planning to complete the study later this year.

⁹⁷ Information Provided by Electronic Tax Administration (Jan. 30, 2008); Diane Freda, *IRS to Study Direct Filing Portal, 2-D Bar Coding to Boost E-Filing*, BNA Daily Tax Report (Jan. 29, 2008); MITRE IRS FFRDC, Center for Enterprise Modernization, *IRS Advancing E-File Study: Draft Overview of Findings to Date* (Jan. 31, 2008) (on file with the Office of the Taxpayer Advocate).

⁹⁸ At the time of this writing, it is not clear how many of the programs listed on the IRS e-file partner webpage would meet IRS-developed data or identity security specifications.

Study and look forward to lending support to the study as well as to receiving periodic briefings of research findings as the study progresses.

VIII. Taxpayer Advocate Service Case Receipts Have Risen by 47 Percent Since FY 2004 While the Number of Case Advocates Available to Work Taxpayer Cases Has Declined by 13 Percent

I will close with a brief report on my own organization, the Taxpayer Advocate Service (TAS), and its role in identifying and mitigating the downstream consequences of IRS actions and programs, and improving taxpayers' attitudes toward the tax system. Since I became the National Taxpayer Advocate in 2001, I am pleased to say that TAS has grown up as an organization and substantially improved its ability to assist taxpayers. In FY 2001, our quality measures showed a performance level of 71.6 percent. In FY 2007, TAS's talented and dedicated employees managed to achieve a quality rating of 90.5 percent. The performance of TAS employees since FY 2004 has been particularly commendable – TAS case receipts *rose* an overwhelming 47 percent from FY 2004 to FY 2007,⁹⁹ while the number of case advocates available to work those cases *declined* by 13 percent over the same period. Yet we have managed to handle this increased workload while maintaining consistent case quality over these three years.

The increase in TAS cases is not surprising. The IRS has substantially increased the number of its compliance actions in recent years,¹⁰⁰ and about 65 percent of TAS's cases are classified as "compliance" related.¹⁰¹ Increasing the number of compliance cases inevitably produces a corresponding increase in TAS cases. Thus, the greater IRS emphasis on enforcement has resulted in a greater need for TAS services. Economic downturns also contribute to increases in TAS inventory, as taxpayers who lose their jobs and become unable to pay their tax bills get into trouble with the IRS and seek assistance.¹⁰²

TAS is able to assist most taxpayers who seek our help. Overall, TAS was able to obtain full relief for the taxpayer in 69 percent of the cases we closed in FY 2007 and partial relief in an additional four percent of our cases.

⁹⁹ In FY 2007, TAS received a total of 247,839 cases. In FY 2004, TAS received a total of 168,856 cases.

¹⁰⁰ On the Examination side, the number of individual return closures increased by 37 percent and the number of business return closures increased by 102 percent from FY 2004 to FY 2007. On the Collection side, the number of levies increased by 85 percent, the number of liens increased by 28 percent, and the number of seizures increased by 54 percent over the same period. See Internal Revenue Service, Fiscal Year 2007 Enforcement and Services Results (Jan. 17, 2008) (accompanying FY 2007 Enforcement and Services Tables), available at http://www.irs.gov/pub/irs-news/irs_enforcement_and_service_tables_fy_2007.pdf.

¹⁰¹ In FY 2007, TAS classified 160,131 case receipts as compliance-related and 87,708 as service-related, for a total of 247,839 case receipts.

¹⁰² TAS received 86,261 economic burden case receipts in FY 2007 compared with 34,653 in FY 2004 – a 149 percent increase.

TAS Customer Satisfaction surveys provide some evidence that the quality and nature of taxpayer service has an impact on taxpayer attitudes toward the tax system. When a taxpayer brings an eligible case to TAS, he is assigned a case advocate who works with him throughout the pendency of the case. Taxpayers have a toll-free number direct to that case advocate, and each TAS office has a toll-free fax number. TAS employees are required to spot and address all related issues and to educate the taxpayer about how to avoid the problem from occurring again, if possible. This level and quality of service drives TAS's high taxpayer satisfaction scores, as evidenced by the results for the last two years. In FY 2006 and FY 2007, the percentage score for overall satisfaction of the taxpayers who came to TAS was 85 percent and 83 percent, respectively. Equally important, 50 percent of taxpayers stated that they felt better about the IRS as a whole after coming to TAS. Even among taxpayers who did not obtain the result they sought, an impressive 34 percent reported that they had a more positive opinion of the IRS because of their experience with TAS.¹⁰³

However, I am concerned that with the increasing volume, complexity, and urgency of TAS's caseload, the cycle time for our cases has begun to increase. Closed case cycle time was 71.1 days in FY 2004 but has risen to 80.6 days in FY 2008.¹⁰⁴ These results are hardly surprising. If you increase the workload of a customer service organization by 47 percent and reduce the number of employees available to assist customers by 13 percent, you are essentially increasing the average workload of each employee by nearly 70 percent. And because TAS generally assists taxpayers only where they face an imminent economic burden because of an IRS collection action or where normal IRS procedures have failed, TAS does not have much flexibility to turn away cases. Indeed, TAS expects to receive more than 250,000 cases in FY 2008, and our case inventory continues to rise. If the balance between TAS staffing and the number of cases we handle does not improve, I am concerned that TAS is in jeopardy of becoming part of the IRS problem rather than the advocate for the solution, as Congress intended.

Lastly, I provide a brief report on the Low Income Taxpayer Clinic (LITC) program, which is administered by my office. For FY 2008, the IRS's Taxpayer Services appropriation included \$9 million for LITC grants. This appropriation represented an increase of \$1 million compared with the 2007 grant cycle.¹⁰⁵ The LITC program currently funds 154 clinics in all 50 states, the District of Columbia, Puerto Rico, and Guam, thus meeting my goal of having at least one LITC in each state. The increased appropriation allows us to provide funding for new clinics as well as to provide increased funding for existing clinics that have expanded or plan to expand

¹⁰³ For FY 2006, the Gallup Organization collected the customer satisfaction data for the Taxpayer Advocate Service. In FY 2007, TAS began using a new vendor, Macro International, to conduct its surveys.

¹⁰⁴ FY 2008 data reflects case closures from October 1, 2007 through March 31, 2008 (six months).

¹⁰⁵ Although appropriations are made on a fiscal-year basis, grants for the LITC program are awarded on a calendar-year basis (which we refer to as the "grant cycle").

their services to underserved areas and populations. This additional funding also has enabled the LITC Program to work toward its goal of funding at least one controversy and at least one English as a Second Language (ESL) clinic in every state. The LITC Program Office, in conjunction with TAS Research, has identified locations where there are significant populations of low income and ESL taxpayers who are not currently served by a clinic. Recently, we announced a supplemental grant period to solicit qualified organizations willing to address the needs of these identified areas.¹⁰⁶

IX. Conclusion

Compared to the IRS of ten years ago, the IRS of today is a more responsive and effective organization. On the customer service side, the IRS Restructuring and Reform Act of 1998 and the IRS response have brought about fairly dramatic improvements, and the Taxpayer Assistance Blueprint, created in response to an Appropriations directive, provides a useful roadmap to maintain and improve the delivery of taxpayer services. On the enforcement side, the IRS has been ramping up its enforcement of the tax laws, particularly with regard to corporate tax shelters and high-income individuals, and the results have generally been positive.

But the IRS can, and should, do better. To increase voluntary compliance, the IRS should incorporate an ongoing taxpayer-centric assessment of taxpayer service needs into its strategic plans. It should consider whether it can meet taxpayer service needs adequately when it devotes only six percent of its budget to taxpayer assistance and education. It should conduct research (including applied research) into the causes of noncompliance and apply the resulting knowledge to IRS enforcement strategies, including those pertaining to the cash economy. Finally, the IRS must have sufficient resources to move forward with its technological improvements, which are critical to its ability to improve both its Taxpayer Services and Enforcement functions.

¹⁰⁶ Low Income Taxpayer Clinic Grant Program; Availability of 2008 Supplemental Grant Application Period, 73 Fed. Reg. 15,841-42 (Mar. 25, 2008).