

National Taxpayer Advocate 2009 Annual Report to Congress (ARC): The Most Serious Problems (MSPs) Encountered by Taxpayers

2009 ARC – MSP Topic #1 – IRS TOLL-FREE TELEPHONE SERVICE IS DECLINING AS TAXPAYER DEMAND FOR TELEPHONE SERVICE IS INCREASING

Problem

Over the last three years, taxpayers have found it increasingly difficult to reach an IRS employee by telephone. During the 2007 filing season, the IRS attained a Customer Service Representative Level of Service (CSR LOS) of 83 percent on its toll-free lines. (The CSR LOS measures the percentage of callers seeking to speak with an IRS employee that gets through to one.) During the 2008 filing season, the CSR LOS declined to 77 percent. During the 2009 filing season, the CSR LOS dropped further to 64 percent with a 519-second average speed of answer (ASA), which means that the average caller sat on hold for nearly nine minutes. These declining numbers indicate that, at least with respect to its toll-free telephone lines, the IRS is not achieving its goal of improving service to facilitate voluntary compliance.

In response to the declining levels of phone service, the IRS has set goals of 71.2 percent for CSR LOS and 698 seconds for ASA in fiscal year 2010. In other words, the IRS has set its priorities so that nearly three out of every ten callers seeking to reach an IRS telephone assistor will not get through, and those who do receive assistance will wait on hold for an average of nearly 12 minutes.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
1. The IRS should staff the toll-free lines sufficiently to achieve a CSR LOS of 85 percent and an ASA of 300 seconds.	The IRS agrees it should staff the toll-free lines sufficiently to provide a reasonable and cost-effective level of service. Resources available to deliver telephone services are finite and staffing allocations must be made in light of competing demands necessary to meet other customer needs and preferences. The IRS believes a	No	The National Taxpayer Advocate understands that the IRS has limited resources and competing priorities, however, taxpayers' ability to reach the IRS through its toll-free line is so essential to customer service that it is necessary to set reasonable benchmarks, such as an 85

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	<p>balanced delivery of services through telephone, internet, face-to-face, and correspondence ensures that our customers, regardless of the channel they choose, receive the best service possible. We anticipate exceeding our goal for CSR LOS in 2010 of 71.0%.</p>		<p>percent Customer Service Representative Level of Service and an Average Speed of Answer of 300 seconds.</p>
<p>2. The IRS should develop and staff a special phone unit to deal with tax issues relating to national disasters and late-year tax law changes.</p>	<p>The IRS is committed to meeting customer demands in the case of national disasters and late-year law changes. The IRS utilizes several options to handle the unexpected and extraordinary customer demand that occurs in contingency situations. The IRS meets these contingencies through deployment of additional phone lines, call routing changes, new automated applications, and effective staff management. For example, during 2010, the IRS has taken extraordinary steps in both preparation for and execution of the filing season, which resulted in delivery of better toll-free service to customers than last year, or planned, despite the significant challenges presented by recent legislation. Through April 17, 2010, the fiscal year cumulative Customer Service Representative Level of</p>	<p>No</p>	<p>The IRS's current approach to providing customer service on the toll-free lines regarding national disasters and last minute tax law changes leaves it scrambling to find coverage for the phones. This often means having to take employees from another function, such as working paper correspondence resulting in an increase in response time. In order to address this issue, the IRS then hires temporary employees to work paper correspondence. In addition, the IRS has to provide the new employees and the employees it moved to the toll-free lines training. Instead of all this juggling between functions, the National Taxpayer Advocate believes it would make more sense to</p>

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	<p>Service (CSR LOS) was 73.3%, compared to 66.6% for the same period last year and a plan of 71.7%. A sizeable share of telephone demand was successfully diverted to automated applications; automated calls completed were 27.4 million; an 18% increase over last year's 23.2 million. An Economic Recovery Line was created which allowed customers to choose from a menu of major provisions from the American Recovery and Reinvestment Act (ARRA) and the Worker, Homeownership, and Business Assistance Act (WHBAA), hear recorded highlights, and route to a Customer Service Representative only if needed. A new CP 12 M notice was developed to notify customers who failed to attach a Schedule M (Making Work Pay Credit) to their return that the IRS computed the credit for them, resulting in a refund. Because no further action was required on the customer's part, these notices carried a new toll-free number which provided a recorded explanation. Both strategic and tactical planning allowed us to increase staffing available to answer</p>		<p>allocate these resources to a group of employees devoted to working these types of issues, thereby avoiding the chain of events described above.</p>

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	<p>telephone calls, react to extant circumstances, and increase customer service levels during filing season peaks. Call routing changes were made to segment a portion of our Individual Account calls, allowing the hiring of additional staff who received reduced, targeted training. At passage of the WHBAA, AM initiated recruitment activity to address projected workload increases, hiring 375 additional staff to work correspondence on evening shifts, since all seats were already filled on day shifts. When telephone demand was higher than planned in late January, these evening shift new hires were quickly re-deployed to handle simple prior year AGI calls during the February and April peaks; many were temporarily moved to day shift and were "hot-seated" in any available vacant workstation. As a result of these efforts, AM staff on-rolls were 4.5% higher (17,784) in mid-February than the same time last year (17,026). When a national disaster occurs, Customer Service Representatives receive detailed instructions via SERP alerts. These instructions ensure the IRS</p>		

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	provides a consistent message to the taxpayer regarding any national disaster that may take place.		

2009 ARC – MSP Topic #2 – ONE-SIZE-FITS-ALL LIEN FILING POLICIES CIRCUMVENT THE SPIRIT OF THE LAW, FAIL TO PROMOTE FUTURE TAX COMPLIANCE, AND UNNECESSARILY HARM TAXPAYERS

Problem

The notice of federal tax lien (NFTL) can be an effective tool in tax collection when used properly. It gives the IRS a priority interest in the taxpayer’s property, such as a home or a car, and may enable the IRS to collect all or a portion of the tax debt if the taxpayer sells or refinances the property. If improperly applied, however, tax liens can needlessly harm taxpayers and undermine long-term tax collection. The filing of a tax lien can significantly affect the taxpayer’s credit and ability to obtain financing, find or retain a job, secure affordable housing or insurance, and ultimately pay the tax bill. For these reasons, the decision to impose a tax lien should be made on a case-by-case basis. Yet, the IRS files many liens systemically, pursuant to “business rules” that require automatic lien filing or a lack of substantive human review.

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<p>1. Immediately implement a quality review of Designated Payment Codes.</p>	<p>The IRS recognizes the need to ensure the consistent and appropriate use of Designated Payment Codes by employees. We will review our guidance in this context for clarity to ensure employees understand the need to properly code payments received and conduct a review to assess appropriate use of these codes.</p> <p>Collection Policy conducted a preliminary review to assess appropriate use of designated payment codes and reviewed the guidance for clarity. Based on the preliminary review, Collection Policy is gathering additional data for further analysis.</p>	<p>No</p>	<p>We commend the IRS for agreeing to review and clarify its guidance to ensure the proper use of DPCs. However, the implementation seems to be unreasonably delayed until at least FY 2012. As a result, the IRS would not be able to measure the costs and benefits of its various collection and enforcement efforts, which is necessary to target its available resources and develop effective, data-driven collection policies.</p>

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<p>2. Adopt two long-term effectiveness measures to ensure that employees file appropriate and productive NFTLs.</p> <p>a. First, the IRS should measure the total and average revenue (dollars collected) attributable to NFTL filings.</p> <p>b. Second, it should measure the long-term impact of the NFTL on the taxpayer's compliance behavior.</p>	<p>The IRS has initiated several research studies to determine the effectiveness of lien filing. We will continue to utilize the findings from these and future studies when considering IRM and policy changes to ensure employees are filing appropriate and productive NFTLs.</p>	<p>Partial</p>	<p>In its response, the IRS conceptually agreed to study the effectiveness and productiveness of liens. In addition, in response to this MSP recommendation and Taxpayer Advocate Directives 2010-1 and 2010-2 (Jan. 20, 2010), the IRS completed the Collection Process Study (CPS) on Sept. 30, 2010.</p>
<p>3. Abandon the policy of automatic NFTL filing on CNC hardship accounts with an unpaid balance of \$5,000 or more.</p>	<p>The W&I and SB/SE Divisions will work with Research, Analysis and Statistics to design and conduct a study to specifically determine the utility of filing NFTLs on CNC hardship accounts. The study will be undertaken with the input of TAS Research. Any actions to be taken will be made after completion of this study and after completion of and receipt of the recommendations from the Collection Process Study currently in progress.</p>	<p>No</p>	<p>We agree that the IRS needs to conduct additional study of all aspects of collection policy, including its inability to accurately measure the effectiveness of any of its collection actions because it cannot accurately track the source of collection payments. However, we respectfully disagree with the IRS position that it cannot consider recommended actions until after further study. TAS research studies have sufficiently demonstrated that current lien</p>

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			<p>filing policies and practices actively and unnecessarily harm taxpayers. Particularly in the area of Currently Not Collectible taxpayers, there is no sound policy or revenue basis for automatically filing liens. Although the IRS raised the dollar threshold that governs the issuance of most NFTLs from \$5,000 to \$10,000 (See IR-2011-20 (Feb. 24, 2011), this action did not address the NTA concern that the liens are automatically filed against the CNC taxpayers, harming low-income and minority taxpayers in the midst of the worst economy in generations.</p>

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<p>4. Implement the provisions of RRA 98 § 3421 by basing lien filing determinations for all IRS contact employees on a thorough review of all the taxpayer's circumstances (including the existence and the value of assets, the taxpayer's financial information, and the ramifications of the lien on the taxpayer's credit rating), after an in-person or telephone interview with the taxpayer and substantive consideration of the facts, which may include consultation with a manager.</p>	<p>The IRS will consider this recommendation after completion of and receipt of the recommendations from the Collection Process Study currently in progress.</p>	<p>No</p>	<p>The IRS completed the Collection Process Study on Sept. 18, 2010. However, it has not considered this recommendation. Because Congress specifically envisioned the managerial review to include the consideration of "value of the property or right to property," we strongly believe that the IRS should implement meaningful managerial review and approval for NFTL filings in all cases.</p>

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5. Require managerial approval for NFTL filings in all cases where the taxpayer has no assets, regardless of the employee's grade level.	During the lien study referred to in response to recommendation 2-3, the IRS will also examine the effect of lien filings on cases with no assets. Consideration of the recommendation will be made after completion of this study and after completion of and receipt of the recommendations from the Collection Process Study currently in progress.	No	The IRS completed the Collection Process Study on Sept. 18, 2010. However, it has not considered this recommendation. An NFTL protects the government's interests in a taxpayer's property against subsequent purchasers, secured creditors, and junior lien holders when past due taxes are owed. Automatic filing of NFTLs without verifying that the taxpayer has assets does not provide the government with the intended priority in the taxpayer's assets but it does impose immediate harm on the taxpayer and is likely to undermine future compliance. TAS research studies have sufficiently demonstrated that current lien filing policies and practices actively and unnecessarily harm taxpayers while failing to protect the government's interest in no asset cases.
6. Immediately issue interim guidance to allow, upon the request of a taxpayer, the withdrawal	The W&I and SB/SE Divisions will put into clearance guidance on when the withdrawal of an NFTL is appropriate in cases in which the lien has been	Yes	TAS is also working with the IRS on internal guidance to allow withdrawals of NFTLs after lien releases.

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<p>of an NFTL where the statutory withdrawal criteria are satisfied, even if the underlying lien has been released. After consulting with the IRS Office of Chief Counsel on the interpretation of IRC § 6323(j) and, consistent with the counsel advice, revise the IRM to provide guidance on when withdrawal of an NFTL is appropriate in cases in which the lien has already been released.</p>	<p>released and one of the statutory withdrawal criteria are satisfied.</p> <p>The IRS issued a news release on February 24, 2011 (IR-2011-20) announcing important changes to Notice of Federal Tax Lien (NFTL) filing practices that will lessen the negative impact on taxpayers. Changes relative to lien withdrawal include:</p> <ol style="list-style-type: none"> 1. Making it easier for taxpayers to obtain lien withdrawals after paying a tax bill. Liens will now be withdrawn once full payment of taxes is made if the taxpayer requests it. To expedite the withdrawal process, internal procedures will be streamlined to allow collection personnel to withdraw the liens. 2. Withdrawing liens in most cases where a taxpayer enters into a Direct Debit Installment Agreement (DDIA). For taxpayers with unpaid assessments of \$25,000 or less, the IRS will now allow lien withdrawals under several scenarios: 		

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	<ul style="list-style-type: none"> • Lien withdrawals for taxpayers entering into a DDIA. • Lien withdrawals if a taxpayer on a regular installment agreement converts to a DDIA. • Lien withdrawals on existing DDIA agreements upon taxpayer request. Liens will be withdrawn after a probationary period demonstrating that direct debit payments will be honored. IRM 5.19.4.6.4 was updated on 04/13/2011 identifying IRC § 6323(j) as our authority for withdrawing a NTFL. It further references the IRS news release (IR-2011-20) and IRM 5.19.4.6.4.1 for specific guidance DDIA NTFL withdrawals. <p>Memorandum: Withdrawal of Notice of Federal Tax Lien Release was issued 6/10/2011.</p>		

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<p>7. Conduct annual training for collection employees and managers in exercising judgment and discretion before and after NFTL filing, and include the TAS training video, Taxpayer Rights: Collection Case Studies, as part of the training.</p>	<p>The SB/SE Division will begin conducting training in the Collection Field Function in group meeting settings using the TAS video in conjunction with guidance developed by the Director, Collection.</p> <p>Directions to access the TAS training video and acting Director, Collection opening and closing remarks on a video link were issued to Field Collection on 10/19/2011 with a completion date of 12/31/2011.</p>	<p>Yes</p>	<p>In its response to TAD 2010-2, the Deputy Commissioner for Services and Enforcement agreed to include complete (unmodified) TAS training video. In addition, the Deputy Commissioner agreed that W&I and SB/SE will develop a separate training video for ACS employees in consultation with the National Taxpayer Advocate for delivery in FY 2011.</p>

2009 ARC – MSP Topic #3 – THE IRS LACKS A SERVICEWIDE RETURN PREPARER STRATEGY

Problem

Return preparers play a critical role in the tax system. About 58 percent of individual taxpayers and 80 percent of small business taxpayers hire preparers to complete their returns for them. Return preparers therefore are largely responsible for the accuracy of most returns filed with the IRS, help to protect taxpayer rights, and play a significant role in ensuring tax compliance. Yet anyone can prepare a tax return for a fee – with no training, no licensing, and no oversight required.

Lack of preparer knowledge leads to significant errors in return preparation. The lack of oversight also enables unscrupulous preparers to operate with minimal risk of detection.

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1. Develop and implement a Servicewide Return Preparer Strategy.	The Return Preparer Implementation Project Office is developing and implementing a servicewide return preparer strategy that includes registration, testing, and continuing education in addition to a servicewide compliance/enforcement component. A high-level service wide strategy will be finalized by 9/30/10. The effort began in June 2009 when the Commissioner launched a comprehensive review of return preparers to help the IRS better leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax preparers.	Yes	

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	Development and implementation of a Servicewide Strategy continues. The Servicewide Strategy is being developed and estimated to be finalized by 1/1/2013 as we include all the BODs into the strategy. We will monitor our activities and make improvements where needed.		
2. Create an executive steering committee and a program office, preferably under the jurisdiction of the Deputy Commissioner (Services and Enforcement), to assume responsibility for development of policies and procedures as well as continual monitoring duties regarding administration and technical interpretation of the tax provisions under Title 26 relating to the return preparer strategy. The Taxpayer Advocate Service and the Office of Professional Responsibility (OPR)	<p>The Return Preparer Implementation Project Office is evaluating potential governance and organizational design structures for program oversight, including level of authority / organizational placement, operations control, and funding management. However, no final decision has been made with respect to creating an Executive Steering Committee and a Program Office reporting to the Deputy Commissioner, or having OPR oversee all registration, testing, CPE, and Circular 230 sanctions. Finalization of governance and organizational options is expected by 9/30/10. These options are still being considered for implementation purposes.</p> <p>In the current draft of our organizational structure, we have suggested the IRS</p>	Partial	While the IRS has created a program office, it has yet to create an executive steering committee.

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<p>should have representation on the cross-functional steering committee along with other affected business functions. OPR should have oversight responsibility for registration, testing, CPE, and Circular 230 sanctions, as it already does for enrolled agents.</p>	<p>Senior Leadership Oversight that will consist of the RPO and OPR Directors, the leaders of BODs and TAS. The current structure is still in the process of being negotiated with NTEU, and a final decision on an executive steering committee has not been made.</p>		
<p>3. Require all persons who prepare tax returns to obtain and use a unique preparer identifying number (PTIN).</p>	<p>Proposed regulations mandating a PTIN for all paid preparers were issued in March 2010. Final regulations will be issued by September 1, 2010.</p> <p>On September 30, 2010, the Treasury Department and the IRS published final regulations in the Federal Register, T.D. 9501, 75 FR 60309, requiring paid tax return preparers who prepare all or substantially all of a tax return or claim for refund to register with the IRS to obtain PTINs.</p>	<p>Yes</p>	
<p>4. Develop a system to systematically validate PTINs on all tax returns.</p>	<p>The IRS currently has the ability to store preparer names and PTIN data at the point of filing. The IRS is planning to investigate development of a system</p>	<p>Yes</p>	

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	<p>to validate PTIN's against established records. We expect to conclude planning development by September 30, 2011.</p> <p>The IRS has a validation process in place that uses queries of internal databases for processed returns, comparisons against the existing PTIN database, and the issuance of letters to those persons filing returns without a valid PTIN. Future revisions to this validation process will be considered as necessary. A process that validates the PTIN upon receipt of a return is not feasible at this time to the limited authority that the Service has to reject tax returns containing an invalid PTIN.</p>		
<p>5. Develop and implement a registration, examination, certification, and enforcement program for unenrolled preparers, including a periodic CPE requirement. Examinations should be offered at least at two levels: (1) basic Form</p>	<p>The IRS has developed and is working to implement a registration, examination, continuing education, and compliance/enforcement program for unenrolled return preparers. The IRS will offer two competency examinations. The first examination will cover wage and nonbusiness income Form 1040 series returns. The second examination will cover wage and small business income Form 1040 series</p>	<p>Partial</p>	<p>The IRS has developed one 1040-based examination but has not committed to a second business examination.</p>

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<p>1040 issues and (2) more complex Form 1040 issues and business returns. The second-level exam should include business issues arising both on Form 1040 exams (e.g., Schedule C) and on other entity returns to address the high level of noncompliance on S corporation and other business returns. Both the exams and CPE courses should include ethics components.</p>	<p>returns. Both exams and CPE courses will include ethics components. The two tests are expected to be available by July 1, 2011.</p> <p>We have selected Prometric, Inc. as the vendor to administer a new competency examination and fingerprinting program for certain paid tax return preparers. We also selected a second fingerprint vendor, Daon Trusted Identity Services. Fingerprints collected by the vendors will be channeled to the FBI for comparison to fingerprints in their database to determine whether the preparer has a criminal record. Review of FBI records and determination of suitability will be made solely by the IRS. Starting October 1, 2011, fingerprinting and background investigations will commence. In addition, the competency testing program will commence on October 1. The testing and suitability checks are two components of the second phase of increased IRS oversight of federal tax return preparers, as outlined in the Return Preparer Review issued on Jan.</p>		

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	<p>4, 2010. In September 2010, we began our first phase with the Mandatory registration and issuance of Preparer Tax Identification Numbers (PTINs). Regulations have been established granting the Service the authority to implement all phases of this program.</p> <p>The testing vendor will administer the testing program. Prometric has begun conducting a job analysis using subject matter experts from both the IRS and preparer community to ascertain the capabilities and necessary knowledge for return preparers. Part of this job analysis entails a survey of the tax preparer community to determine the knowledge needed to be a return preparer. From the job analysis, a test plan (ie test blueprint) will be developed subject to our approval. We will make the test blueprint available to assist individuals in preparation for the examination. The Service will have final approval of all test questions. The fingerprinting vendors will assist us in evaluating the background and suitability of certain PTIN applicants by channeling the fingerprints to the FBI</p>		

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	<p>and by channeling the FBI results back to us. We will make all determinations regarding suitability issues. We are working out details for the rollout of the continuing education program for return preparers. We have developed a statement of objectives seeking a vendor for CE provider registration and collection of data from those CE providers of courses taken by each return preparer. With respect to competency testing, we changed it to a single competency test covering wage and nonbusiness income. The reason for this change is because we would like to evaluate the impact of a single examination on return preparation and base a determination for a need for a second examination on the results of this analysis.</p>		

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<p>6. Apply the registration, testing, and CPE requirements to any preparer who substantially interacts with a taxpayer and prepares the taxpayer's tax return. Limiting the requirements solely to preparers who sign returns would enable a significant (and growing) portion of the preparer population to prepare tax returns without registering, passing a test to demonstrate competence, or taking CPE courses to remain up-to-date on tax law changes.</p>	<p>The definition of a preparer subject to the PTIN and other regulations has been proposed as a person who is compensated for preparing, or assisting in the preparation of, all or substantially all of a federal tax return or claim for refund. Final PTIN and Circular 230 regulations will be issued before December 31, 2010.</p> <p>On September 30, 2010, the Treasury Department and the IRS published final regulations in the Federal Register, T.D. 9501, 75 FR 60309, requiring paid tax return preparers who prepare all or substantially all of a tax return or claim for refund to register with the IRS to obtain PTINs. The amendments to Circular 230 were issued on May 31, 2011.</p>	<p>Yes</p>	
<p>7. Conduct strategic research to determine the various types of noncompliance as well as the reasons and appropriate treatment for each type of noncompliance.</p>	<p>The IRS is developing a long-term research plan to capture and analyze specific types of return preparer noncompliance. These research recommendations will be finalized by 9/30/10.</p> <p>The FY 2011 Research System was</p>	<p>Yes</p>	

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	<p>developed as a result of a collaborative effort with individuals from W& I Research and Analysis (WIRA), SBSE Research, SBSE Exam Policy, EITC office, SBSE Exam, and RPO. As a result of this team, the FY 2011 Return Preparer Research System was developed. The FY 2011 System has the ability to select return practitioners based on specific return related compliance violations on client returns and/or using a composite risk score. The Research System is used to identify non-compliant Return Preparers in the various treatment streams of the Return Preparer Strategy. The Return Preparer Office is working with OPERA, SBSE Research and W&I Research on the following research projects to identify, analyze, and determine noncompliance of Return Preparers</p> <p>Determine Data Available to Return Preparer Coordinator (RPC) & Electronic Return Originator(ERO) Compliance Profile by Preparer Segment Number Preparer Returns by Type and Method Filed Registered</p>		

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	<p>Preparer Population Program Compliance Mystery Shopping Visits Return Compliance Mystery Shopping Visits Foreign Preparer Profile "Preparer Segment Passing Rates" Underground Preparer Population Trending Testing Influence on Accuracy Error Rates by Test Question PTINs with high numbers of returns to assess proper usage Ideal Preparer Database Reqs Additions to Testing Regime Preparer Segmentation based on PTIN info Expand Preparer Characteristics beyond PTIN info Preparer Role in S Corp Noncompliance Monitor Whether Regulation Shifts Simpler Returns to Self Prepared Additive Effects of PTIN Registration Fees on Preparation Fees Regulation & Burden Effects on Preparer Choice Taxpayer Attitudes toward Preparer Regulation Extent Preparer Errors Result from Bad Client Info Preparer Audit Trends as a Result of Preparer Regulation Cause/source of Noncompliance by Preparer & Return Type Alternatives to Penalties for Preparer Compliance Taxpayer Financial Literacy Influence on Paid</p>		

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	Preparer Use Increase or Decrease in Usage of Paid Preparers		
8. Conduct a public awareness campaign over a period of years to inform taxpayers of preparer signature, PTIN and registration requirements, as well as procedures to file complaints against preparers.	<p>The IRS is developing a multi-year public awareness campaign to educate taxpayers about the new requirements for return preparers. The initial campaign design will be complete by December 31, 2010.</p> <p>We expect the initial campaign design will be complete by December 31, 2014. As the program continues to evolve, we feel that 2014 would be the earliest time the campaign would be available. We want to ensure that we allow enough time for the return preparers to pass the competency test and suitability checks, before we begin marketing registered return preparers.</p>	Partial	The IRS has initially focused targeted communications to preparers to bring them into the system. While it has not focused significantly on taxpayer communications, it has committed to do so.
9. Issue a certificate to each certified preparer and create a searchable online database of all certified preparers to enable taxpayers (and potential employers) to readily identify them. The database should also include the preparer's	<p>Proposed regulations are in development to allow the IRS to issue a card or certificate to all registered tax return preparers. The IRS is also exploring the options surrounding a searchable database.</p> <p>Certificate to all registered tax return preparers is scheduled for implementation early 2012. The</p>	Yes	

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status (e.g., attorney, CPA, Enrolled Agent, or unenrolled preparer).	Specific data elements to be included on public database not yet fully identified, scheduled for release early 2014.		
10. Implement a large-scale program of preparer visits, using scenarios carefully designed to determine the treatment of areas that typically result in high noncompliance rates.	<p>The IRS is evaluating the most effective methods of detecting and investigating noncompliance among return preparers. One method under examination is the continued use of preparer visits targeted towards high-risk Return Preparers. The recommendations for these methods will be included in the service-wide compliance strategy, which will be finalized by 9/30/10.</p> <p>The Return Preparer Strategy combined W&I and SB/SE expertise from a number of areas to improve the current preparer activities. It provides a transition to a more focused approach necessary to improve compliance in preparer activities. The scope is an integrated EITC, ERO and ITIN-CAA, Return Preparer Visitation, Ghost Preparer Visitation and PAC program, incorporating treatment options and a risk based scoring and selection process to meet the needs of each</p>	Partial	It is our understanding that the IRS has not conducted shopping visits.

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	<p>program. This effort begins with accessing the potential non-compliant/questionable preparer population for the EITC, ERO and ITIN-CAA, Return Preparer Visitation, Ghost Preparer Visitation and PAC programs to size the potential body of work. Next, identify the proper resources to do this work. The strategy determined the time period in which this work should be done and the geographical location of the work. This effort required Research to work closely with multiple databases to identify preparers. Training documentation has been revised and delivery of this training is scheduled. This integrated strategy allows for a more consistent application of resources, and provides for consistent implementation of the program and assessment of sanctions and or penalties. Through this strategy we will create a more knowledgeable resource that is better equipped to make a thorough investigation leading to correct decisions based on information received during the visitation. It will eliminate multiple visits to the same location.</p>		

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<p>11. Impose due diligence requirements on preparers relating to identified areas of significant noncompliance. Such requirements should require preparers to sign due diligence statements and attach the statements to the taxpayers' returns, including e-filed returns.</p>	<p>The IRS is examining due diligence requirements for return preparers. The recommendations for any potential due diligence requirements will be included in the service-wide compliance strategy, which will be finalized by 9/30/10.</p> <p>During 2010 filing season, we sent out more than 10,000 letters to tax return preparers to remind them of their obligation to prepare accurate tax returns on behalf of their clients. In the letter, we incorporated examining due diligence requirements for return preparers. We will include the same in our service-wide compliance strategy.</p>	<p>No</p>	<p>After review, it is our opinion that this action is not fully completed since the IRS is in the process of drafting a proposed regulation and revising the checklist form to require the preparers to sign and submit with the taxpayers' returns. The mailing of 10,000 letters reminding return preparers of due diligence requirements and consequences of filing incorrect returns does not have the same effect, as signing a statement. We request RPO revise the due date for this action until the proposed regulation and revised checklist can be addressed.</p> <p>The IRS closing status response still does not address the recommendation. RPO has definitely done a lot to ensure that the preparers are aware and comply with current EITC due diligence requirements. However, our ARC recommendation is saying the IRS should expand the due diligence requirements to other areas of the law that the IRS</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
			<p>finds to be subject to high levels of noncompliance (for example, schedule C items). In addition, the preparer should sign the due diligence statement and submit it with the return. This is not currently the requirement, so RPO cannot send out letters and visit preparers reminding them of the proposed due diligence requirements. TAS was not asking the IRS to improve enforcement of current due diligence requirements. TAS was asking the IRS to expand the requirements.</p>

2009 ARC – MSP Topic #4 – APPEALS’ EFFICIENCY INITIATIVES HAVE NOT IMPROVED TAXPAYER SATISFACTION OR CONFIDENCE IN APPEALS

Problem

The Office of Appeals (Appeals) provides a vital service to taxpayers. However, the overall customer satisfaction rate for Appeals is low (65 percent), and satisfaction with campus Appeals operations was lower than for its field offices in FYs 2007 and 2008. Among unrepresented taxpayers, the customer satisfaction rate was only 53 percent in FY 2008. Moreover, Appeals has not conducted a taxpayer-based assessment to consider the taxpayers’ conference needs or preferences. The National Taxpayer Advocate is concerned that Appeals’ efficiency initiatives undermine its effectiveness and diminish its unique ability to listen to taxpayers and settle their cases.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Allocate resources and revise procedural manuals to require that Appeals account resolution specialists, or any other employees responsible for a case, contact the taxpayer routinely while his or her appeal is pending.</p>	<p>Appeals agrees that continued contact with taxpayers while their cases are in Appeals should take place. Internal guidelines mandate common customer service practices such as providing case status updates to customers on a regular basis. Appeals employees will be reminded at CPEs of the importance of keeping taxpayers well informed of the status of their cases in Appeals.</p> <p>During the FY 2010 Campus and Field Technical Employees Continuing Professional Education sessions, the importance of keeping taxpayers well informed of the status of their cases from date of assignment until Appeals completed the processing of the case</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>was reinforced. In addition, this particular Appeals Quality Measurement System (AQMS) Standard 1.A.4 was included as a topic at Lead Functional Training for new Appeals Managers in 2010 and 2011. This Standard 1.A.4 measures whether Appeals technical employees appropriately communicate the status of the case with the taxpayer from the date of assignment until processing of the case is completed.</p>		
<p>2. Revise all uniform acknowledgment letters to include information on alternative representation, such as LITCs and TAS.</p>	<p>The Operating Divisions provide information of TAS and LITCs to taxpayers before their appeal rights are exercised.</p>	<p>No</p>	<p>The IRS response does not address our underlying concern that unrepresented taxpayers are not given every opportunity to obtain representation before participating in an Appeals hearing. Customer satisfaction data indicates that represented taxpayers have higher satisfaction with Appeals. It seems to be in the best interests of taxpayers and Appeals to have a higher level of taxpayer representation in Appeals hearings.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>3. Revamp databases and quality measurement to track and compile data in all categories, including transfers, defaults and no response cases, and workstreams between campus and field offices, and between represented and unrepresented taxpayers.</p>	<p>Appeals has enhanced its ability to monitor case activity and quality across all operations and geographic areas, including taxpayer conferences and transfers. We conduct quality reviews, using statistically valid samples, for all of our Field and Campus operations and routinely analyze data on closed cases from each of the workstreams. Appeals now has the ability to report on quality by workstream at a national level to supplement the reporting by Area/Campus locations.</p>	<p>Partial</p>	<p>We are pleased that Appeals has the capability to report quality on Field and Campus operations, and by workstream. However, we are concerned that the response does not fully address our recommendation. For example, the response does not address whether Appeals will compile data in categories of cases, such as transferred, default, and no response cases. We are concerned that Appeals may hinder taxpayer rights if it is not tracking the quality and satisfaction with these unique categories.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>4. Conduct a TAB-like survey to determine allocation of resources between campus and field Appeals by gathering data concerning the differences of these offices; as well as information from taxpayers, representatives, and other stakeholders concerning their satisfaction, needs, preferences and experiences with Appeals.</p>	<p>The Office of Appeals conducts an annual customer satisfaction survey. The survey covers all workstreams, Appeals organizational areas, specialized programs such as ADR, and various other categorizations of work, providing in-depth customer satisfaction data for each segment. Survey results are used in conjunction with other studies and our annual workload planning process to make key decisions about staffing as well as resource and casework allocations.</p>	<p>Partial</p>	<p>We are pleased that Appeals conducts a detailed annual satisfaction survey. However, the IRS response does not address whether the survey is providing specific information to Appeals on the preferences of taxpayers regarding experiences and the handling of Appeals hearings. Customer satisfaction surveys and statistical information on the types of hearings being held are inadequate to determine what taxpayers prefer. For example, statistical information will show that more hearings are held by telephone and correspondence, but customer satisfaction surveys show that taxpayers are more satisfied with Field, rather than Campus, hearings. It does not appear that Appeals is following the data to make workload decisions as it has recently increased its staffing in Campus locations at a higher rate than the Field.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>5. Increase local office staffing so that at least one appeals officer and one settlement officer sit in each office.</p>	<p>Appeals is committed to having an Appeals Officer or Settlement Officer with the specialized technical expertise necessary to address the case at hand available for face-to-face meetings in every state. For 9 states without permanent appeals presence, Appeals employees circuit ride at least quarterly to meet the needs of each and every taxpayer.</p>	<p>No</p>	<p>The IRS response does not address our underlying concern that circuit riding is insufficient to give taxpayers in states without appeals and settlement officers the opportunity for a meaningful hearing. It would appear that office locations may exist in the federal government and the ability to transship cases may provide an opportunity to provide this staffing as intended by Congress without substantial allocation of resources. Ideally, taxpayers should have access, in most areas, to appeals officers who are knowledgeable about local conditions that may affect taxpayers, regardless of whether the hearing is face-to-face, by telephone, or by correspondence. We recommend that the IRS reconsider this proposal and actually study the cost of complying before dismissing the proposition.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>6. Implement a pilot to hold closed circuit videoconferencing between remote areas and Appeals offices.</p>	<p>Technology resources need to be balanced IRS-wide. This requires advanced technical equipment to be available at both the Appeals Office and the remote location. In addition, issues relating to disclosure and security need to be considered and addressed. The Appeals circuit-riding process provides a solution until these issues are considered and addressed.</p>	<p>No</p>	<p>The IRS response does not address our underlying concern that circuit riding is insufficient to give taxpayers in states without appeals and settlement officers the opportunity for a meaningful hearing. It would appear that office locations may exist in the federal government and the ability to transship cases may provide an opportunity to provide this staffing as intended by Congress without substantial allocation of resources. Ideally, taxpayers should have access, in most areas, to appeals officers who are knowledgeable about local conditions that may affect taxpayers, regardless of whether the hearing is face-to-face, by telephone, or by correspondence. We recommend that the IRS reconsider this proposal and actually study the cost of complying before dismissing the proposition.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
7. Require management to conduct non-evaluative early intervention and 100-day case reviews.	Appeals Organizational Priority Letter requires us to minimize the number of cases that have been assigned in Appeals for more than 100 days without a conference. These particular cases are addressed during regular workload and operational reviews.	Partial	We are pleased that Appeals is looking to minimize a number of its cases that have been assigned for more than 100 days without a conference. However, we also recommended that Appeals do early intervention case reviews to identify cases that can be resolved quickly. Early intervention reviews could provide an opportunity for Appeals to eliminate these cases early in the process to focus on more difficult cases.

2009 ARC – MSP Topic #5 – THE IRS LACKS A SERVICEWIDE E-SERVICES STRATEGY

Problem

The IRS faces many challenges in meeting the technological preferences of taxpayers and practitioners in their interactions with the agency. While the IRS has developed a significant number of online tools, it appears to have no overarching strategy for developing, implementing, and improving its electronic services. The IRS should regularly monitor taxpayer and practitioner preferences for service delivery and build upon the findings of the Taxpayer Assistance Blueprint (TAB) Strategic Plan and the Advancing e-File Study to develop a servicewide electronic services strategy. Such a strategy should address online account management, a direct filing option, 2-D barcode technology, and faster refund turnaround times.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>1. Create a cross-functional e-services governance body which will review and evaluate e-product proposals to ensure alignment with the IRS Strategic Plan. Such body will consider the experiences of other governmental authorities and private industry.</p>	<p>IRS is establishing a cross-functional e-services governance body to review and approve future e-products proposals. The new governance body will review and evaluate proposals to ensure alignment with the IRS Strategic Plan and for business value. As part of its deliberations, the e-services governance body will take into consideration the experiences of other governmental authorities and private industry. The IRS has already completed a short-term research study and identified several quick-hits pertaining to existing electronic services that offer opportunities to enhance our e-services portfolio. Longer-term internet strategy key</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	initiatives are underway for completion March 15, 2014.		
2. Conduct a study similar to the TAB for both Small Business/Self-Employed (SB/SE) taxpayers and exempt organizations.	The IRS agrees in principle with the recommendation to conduct a study similar to the TAB for both SB/SE taxpayers and exempt organizations to determine needs of these taxpayer populations, including their e-service needs and preferences. The strategy development team will determine what research is necessary. All operating divisions including SB/SE and TE/GE will be included. The longer-term internet strategy key initiatives will be completed January 15, 2014.	Yes	
3. Implement 2-D barcoding or similar technology to process paper returns.	The IRS has considered and proposed several approaches to 2D barcoding and/or optical character recognition. In general, the options considered have been part of larger initiatives which were delayed because of lack of funding. The recent enactment of an e-file mandate for most return preparers has now caused the IRS to reconsider the approach to "residual paper" returns. 2D barcoding, or some similar technology, may be part of the ultimate solution.	Yes	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
4. Develop servicewide e-authentication and portal strategies to securely and successfully implement proposed electronic services.	Portal Strategy – 2009. e-Authentication Strategy – February 18, 2010.	Yes	
5. Improve the filing template and develop a direct filing portal to provide a free government-sponsored method to electronically file returns and store such returns on the taxpayers' own computers.	The IRS has already incorporated significant improvements to the filing template – improvements consistent with the NTA recommendations. In addition, the IRS already provides a free, government-sponsored method to electronically file returns through Free File. A direct filing portal is not necessary to support this approach and is not essential to increasing electronic filing.	No	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>6. Reduce the refund turnaround time to the shortest length possible. In conjunction with this initiative, the IRS should publicize the actual range of refund delivery times.</p>	<p>The IRS is already working to shorten the amount of time it takes to process a return and deliver a refund. The Customer Account Data Engine (CADE) – an ongoing technology investment project -- is enabling the IRS to significantly increase the speed with which returns are processed and refunds are issued. Further, the IRS does publicize estimates of refund turnaround times. In fact, the IRS has used the difference between electronic and paper filing times to help drive e-file take up. However, recent research conducted for the Advancing E-File study suggests those marketing and communications efforts have run their course – meaning refund timeliness no longer appears to be a significant driver in the taxpayer use of e-file.</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>7. Include a Revenue Protection Indicator in the acknowledgement file, which would require the IRS to run additional compliance screens, such as the Dependent Database and Criminal Investigation screens, before releasing the acknowledgement file.</p>	<p>The IRS does not concur with the recommendation to provide a Revenue Protection Indicator (RPI) in the acknowledgement file. Unlike the debt indicator, which identifies outstanding financial obligations that will affect taxpayers' refunds, an RPI would indicate a potential, unexplained problem the IRS may or may not subsequently choose to pursue. Because IRS systems cannot, at the time of initial returns processing, determine with certainty whether a taxpayer's return will be examined or otherwise questioned, an RPI is not feasible. IRS also has significant concerns about the potential such an indicator would have for providing a roadmap to IRS enforcement selection criteria. Electronic interactions afford users with greater potential to test IRS systems and to extract patterns from data, with attendant risks to IRS compliance programs.</p>	<p>No</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
8. Create a Treasury stored value card and immediately publicize the ability of taxpayers to use their existing stored value cards to receive refunds.	While there are no plans for IRS to create a Treasury-stored value card, currently several of IRS external partner organizations that provide free tax return preparation provide a stored-value card as an option for underserved taxpayers that receive tax refunds.	No	
9. Develop an online account management program to enable taxpayers to monitor their tax accounts and resolve account issues securely over the Internet. The IRS should conduct research to determine taxpayer preferences and willingness (or obstacles) to use the program while it is developing its portal and e-authentication solutions.	An online account management program to enable taxpayers to monitor their accounts and resolve account issues securely over the Internet requires e-authentication and requires sufficient budget. The current plan for the Internet Strategy includes e-Transcripts as one of the key initiatives. E-Transcripts would be the first step toward online account management. E-Transcripts is scheduled for delivery September 15, 2013, subject to e-authentication implementation and sufficient budget availability. Additionally, Internet Strategy products have e-Authentication and Budget dependencies.	No	While e-transcripts are an important first step, this is still not sufficient to satisfy the need for online account management.

2009 ARC – MSP Topic #6 – BEYOND EITC: THE NEEDS OF LOW INCOME TAXPAYERS ARE NOT BEING ADEQUATELY MET

Problem

Individuals with incomes below the poverty level make up 12.5 percent of the United States population, or 37 million people. These taxpayers often face issues that impact their interaction with the IRS and thus require customized service solutions, particularly in the audit and collection context. The IRS lacks a comprehensive low income taxpayer strategy, instead relying on a piecemeal approach to serving this taxpayer population that does not incorporate into enforcement activities and training what it has learned through Taxpayer Assistance Blueprint and Earned Income Tax Credit (EITC) research. Additionally, the IRS often fails to involve TAS and the Low Income Taxpayer Clinics in projects where it does not consider the *specific* impact on low income taxpayers, resulting in the need to rework projects when the impact becomes obvious. A “one size fits all” approach does not meet the needs of the low income taxpayer population.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
1. Test programs and products that affect low income taxpayers in the Cognitive Research Lab.	The IRS has done extensive research in this area. At this point, the IRS believes a cognitive learning lab would be premature and possibly redundant in light of the research efforts already underway.	No	The IRS response does not address the fact that regardless of the research completed around the needs of low income taxpayers, the programs aimed at these taxpayers are not tested on taxpayers before they are released. Upon releasing a new program, the IRS continues to take corrective actions after the fact, rather than attempting to meet the usability needs of low income taxpayers prior to releasing a program.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
2. Partner with TAS to complete a post filing needs assessment of low income taxpayers, which would encompass issues other than EITC.	SB/SE Research and TAS have agreed to develop a profile of SB/SE low income taxpayers as a first step to completing a post-filing needs assessment of those low income taxpayers. Information gained from profiling will inform and support an assessment of post-filing needs. Final research project profiling SB/SE low income taxpayers and performing a post-filing needs assessment completion date is 4/15/12.	Yes	TAS is pleased to partner with the IRS on this effort.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
3. Partner with TAS to create training videos on working with taxpayers with special needs.	IRS remains committed to provide all taxpayers a quality experience. We have consulted with our employees and functions on the need for special materials and the delivery methods and have learned that training videos are not the best choice for those who work directly with the taxpayer. Training that can be delivered directly at workstations at the most appropriate time is the preferred choice. Training needs of employees working with taxpayers with special needs are already being met via numerous, effective delivery methods.	No	The IRS does not seem to understand that the training proposed by TAS would be filling a training gap that TAS believes is crucial; that is, understanding the situations of low income and disabled taxpayers from their perspectives. Faced with IRS systems that are one size fits all, taxpayers with special needs may find it more difficult to accomplish necessary tasks. By presenting video training with actual taxpayers and their representatives, IRS employees would be able to see how these taxpayers approach the IRS and the treatments that are most effective for them.
4. Create business measures that assess the impact of IRS programs on low income taxpayers.	Existing business measures for programs that serve primarily low income taxpayers show that the IRS serves these taxpayers well. IRS does not agree there is a need to create additional, potentially redundant measures in this regard.	No	The IRS fails to understand that low income taxpayers interact with many IRS programs in addition to the ones aimed particularly at this demographic. The National Taxpayer Advocate is concerned about all programs that impact low income taxpayers and how they are meeting the specific needs of those taxpayers.

2009 ARC – MSP Topic #7 – U.S. TAXPAYERS LOCATED OR CONDUCTING BUSINESS ABROAD FACE COMPLIANCE CHALLENGES

Problem

U.S. taxpayers living or conducting business abroad face serious challenges in understanding and meeting their federal tax obligations. These taxpayers may be confused by the complexity of international tax law or overwhelmed by the prospect of figuring out what the IRS requires. Many taxpayers also remain unclear about mandatory self-reporting on foreign financial accounts, which is required even if no tax is due. The IRS does not provide adequate service or sufficiently consider these taxpayers’ needs and preferences. This lack of service creates an unfair burden on these taxpayers to independently meet their obligations, and places them at risk of additional penalties if they fail to do so.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Develop a method to identify U.S. taxpayers located or conducting business abroad and assess their filing compliance rate.</p>	<p>State Department provides to the IRS passport renewal data for passports renewed overseas. We are in the process of developing a system to cross-check the information with MF to estimate the filing compliance rate and help identify non-filer US taxpayers located or conducting business overseas. We will use this information to develop outreach and enforcement strategies to increase filing compliance.</p> <p>We are finalizing a new agreement with the State Department relative to the exchange of Passport Data. Once the agreement is signed, the State Department will forward information for</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>the last 3 years which they have not previously provided. Once the information is provided, it will have to be perfected and added to the passport data we have for prior year.</p> <p>We are still waiting for the MOU between the IRS and the State Department to be signed. At present, the State Dept has signed it and it is being reviewed by IRS counsel to see if it is acceptable. Once the MOU is in place, the State Department will again start to forward passport information to the IRS. At that time, we should be able to get information for the current year and the past two years which was held up pending the agreement between the agencies on the MOU.</p>		
<p>2. Develop a comprehensive strategy and outreach materials, including a dedicated web page for small businesses, specifically targeting tax problems facing this taxpayer population based on the</p>	<p>This strategy is already underway. The IRS completed a comprehensive research study to help develop a data-driven approach for addressing issue.</p> <p>Focus group sessions on the needs and preferences of international taxpayers at the Nationwide Tax Forums were held.</p>	<p>Partial</p>	<p>We are both appreciative of and pleased with the initiatives to understand the needs and preferences of U.S. taxpayers abroad, especially the survey of international customers the IRS conducted to determine the type of tax information they need and the best channels for delivering</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>results of the survey of needs and preferences of U.S. taxpayers abroad.</p>	<p>The IRS revised the web page on U.S. Citizens and Resident Aliens Abroad to include comprehensive tax information for Americans overseas, including links to more detailed topics such as the foreign tax credit, foreign earned income exclusion, etc. and a wealth of information for small businesses. The page on "Tax Information for International Businesses" includes information on tax withholding, transfer pricing, tax treaties, essential concepts of international taxation, and competent authority assistance.</p> <p>The IRS W&I Strategy and Finance function coordinated with the LMSB Deputy Commissioner (International) to ensure integration of the Taxpayer Service Blueprint and LMSB International service objectives in the approved Servicewide Approach to International Tax Administration, which includes a number of initiatives to improve taxpayer service to international customers (such as phone forums, webinars, and partnering with other agencies to deliver international</p>		<p>that information. TAS is looking forward to reviewing the results of this survey. However, we are concerned that the IRS does not have a comprehensive strategy or a dedicated web page for U.S. small businesses conducting business abroad. By the IRS's own admission in its response to the 2009 MSP, "there are also a myriad of pages" dealing with specific industries and international activities. Small business taxpayers should not have to search hither and yon to obtain this information. SB/SE should take the lead in specifically targeting this taxpayer population comprising 96 percent of U.S. exporters.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>3. Devote more tax attaché posts to taxpayer service, including reinstatement of in person taxpayer service to U.S. taxpayers residing in Mexico.</p>	<p>tax information).</p> <p>New criteria is being developed for determining the appropriate level of overseas presence, including roles, responsibilities, and workload and staffing levels. Consideration must be given to the federal rightsizing initiative, security concerns, and rising costs associated with maintaining posts abroad and improved technology and communications for performing some of the work elsewhere.</p> <p>We conducted a review of the International Post footprint and determined that no further expansion to other geographic locales would be undertaken.</p>	<p>No</p>	<p>TAS does not support the LB&I recent request to cancel the prior agreement to take action on this recommendation "given the current environment surrounding the budget." While in Fiscal Years (FYs) 2010 and 2011 the IRS requested (and was granted) hundreds of millions of additional funding for international enforcement, it has not requested funding for this vital component of international taxpayer service. The IRS is also requesting an increase of \$72.6 million for international enforcement for FY 2012, of which no additional funding is planned for international taxpayer service. We also do not believe that Federal Rightsizing Initiative supports substantial reduction of services provided to US citizens abroad. The security concerns are largely overstated because the Department of State has not closed or reduced U.S. embassy services in Mexico. Moreover, the Criminal</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
			Investigation function has its own dedicated tax attaché in Mexico City. Since the IRS already has a presence in Mexico City, it should be able to provide taxpayer service to more than one million U.S. taxpayers residing in this country.
4. Open case resolution rooms at tax attaché posts and during tax venues abroad.	LMSB continues to work with the State Department to find space at various embassies around the world to accommodate taxpayer assistance tours, including possible case resolution rooms. In the past several years, as LMSB has attempted to find space at various embassies around the world, in most cases, the State Department was unable to provide space due to consolidation of embassy personnel. We have been informed that the lack of space issue will continue.	Yes	We are pleased with the IRS's willingness to open case resolution rooms at tax attaché posts and tax venues abroad. TAS is offering its assistance to work with the IRS to resolve potential logistics issues associated with such venues.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>5. Implement a pilot of PFA for small businesses with reduced fees and reduce filing fees for the APA program for small businesses with assets of \$10 million or less.</p>	<p>The IRS believes that it is not appropriate to use a pre-filing agreement to clarify for the taxpayer an issue that has numerous legal complexities. A PFA is generally entered into to resolve, in advance of filing, the determination of facts affecting a tax position on a return, the application of well-established legal principles to known facts, or the methodology used by the taxpayer to determine an appropriate amount of income. There is also an issue concerning costs. Currently, the user fee charged to obtain a PFA is \$50,000. This cost would be prohibitive to most individuals who are currently non-compliant because of their lack of understanding of the treaty provisions. If that fee were waived for individuals, additional resources would have to be allocated to the PFA program.</p>	<p>No</p>	<p>We believe individual U.S. taxpayers and small business abroad deserve the same level of confidence in the finality of a tax position on a return as large and midsize business taxpayers. Therefore, we suggest the IRS consider developing a program similar to the PFA program for this taxpayer population. The IRS should implement a pilot on a small scale to test the scope of raised issues, the possibility of cost reduction, and the desirability of this program to small business taxpayers. TAS offers its assistance in this effort.</p>

2009 ARC – MSP Topic #8 – THE IRS CORRESPONDENCE EXAMINATION PROGRAM DOES NOT MAXIMIZE VOLUNTARY COMPLIANCE

Problem

In an effort to maintain “audit coverage” (*i.e.*, the percentage of returns examined by the IRS), the IRS significantly expanded its use of correspondence examinations – from 54 percent of all examinations in FY 2000 to 72 percent of all examinations in FY 2008 – without first doing the research necessary to know if these audits actually increase or decrease voluntary compliance by the taxpayers now subject to them. An increase in audit coverage at the expense of quality may actually reduce voluntary compliance if taxpayers conclude that an examination will not detect tax cheating, or that the audit process is arbitrary or unfair.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Expand the scope of the IRS’s research agenda to provide more actionable information by answering questions such as:</p> <ul style="list-style-type: none"> • How does an examination that addresses deduction or credit issues, but overlooks unreported income, affect voluntary compliance? Can we quantify the effect? Does it vary by industry? • Do audits have a larger impact on voluntary compliance when the IRS clusters them 	<p>The IRS will submit a research request to determine the feasibility of assessing our impact on voluntary compliance as it relates to our overall compliance strategy, for correspondence examination, of addressing deduction and credit issues by industry and geographic region. The request will also determine if we can quantify the extent to which the addition of outreach or education magnifies the impact of the examination on voluntary compliance. We will request completion of Research’s analysis by December 31, 2010.</p> <p>SBSE input the Research request in July 2010. Research sent the initial</p>	<p>Partial</p>	<p>The feasibility study prepared by SB/SE Research concluded that it would be too difficult or costly to initiate further research. However, it did not include any cost estimates. The study started with overly narrow objectives, stating, “It was not our goal in this project to suggest a program to implement TAS’s suggestions. We sought only to provide Corr Audit with information they could use to formulate a response to TAS’s recommendation.” While other parts of the study suggested its objectives were a bit broader, it did not meet these objectives, stating, “Our third objective was to</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>geographically or within industries? Can we quantify the magnitude of any such effect by geographic region or industry?</p> <ul style="list-style-type: none"> • For which issues is an examination and outreach combination most effective in improving voluntary compliance? For each examination issue or taxpayer segment, can we quantify the extent to which the addition of outreach or education magnifies the impact of the examination on voluntary compliance? 	<p>reply in September 2010. They will consult with SBSE Exam by reviewing the results of their recent correspondence audits that addressed issues by industry and geographic region. They will also attempt to quantify the extent to which any addition of outreach or education efforts might magnify the impact of the examination upon voluntary compliance, using natural experiments. By August 2011, Research will issue an "Engagement Opinion" or white paper which will outline a proposed research study to determine the compliance impact of addressing deductions and credit issues and specifically excluding unreported income through the Campus Correspondence Audit function. The proposal will include what resources a designed, controlled experiment would require to implement.</p> <p>Received an update from Research regarding a delay in the final report. They will not be able to complete the "Engagement Opinion" or white paper in FY2011. They have requested</p>		<p>outline a research study for determining the compliance impact of Corr Audit, and to determine what resources such a study would require. While we discussed four possible approaches, we did not outline an actual study or determine the resources needed to perform it."</p> <p>SB/SE may have done what it said it would do, but it has not explored the cost or feasibility of estimating the impact of various examination activities on voluntary compliance, as recommended by TAS. At least two methods could be explored, including experiments (as suggested by SB/SE Research) or a comparison of the results of already-completed National Research Program (NRP) audits and already-completed correspondence audits. In each case, the IRS could look at both the direct results of the audits and pre-existing estimates of post-audit compliance (e.g., DIF scores, subsequent NRP</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>additional time. SBSE Campus Reporting Compliance (CRC) has extended the deadline to November 30, 2011 for Research to provide the feasibility or outline of a research study to determine the compliance impact of addressing deductions and credit issues and specifically excluding unreported income through the Campus Correspondence Audit function. This will allow time to review report and discuss any concerns with Research before December 31, 2011.</p>		<p>examination results, or other measures) by those under audit and those most likely to have had communications with the person(s) under audit. SB/SE could ask SB/SE Research to initiate such research or at least to develop cost estimates for each approach.</p>
<p>2. Commence the planned research (described above) to compare correspondence examinations with face-to-face examinations of similar issues, including EITC and employee business expenses. This research should compare accuracy, case disposition, appeals, litigation, audit reconsideration, and similar measures for three types of</p>	<p>An effort on this issue is already underway as part of our planned research. The IRS submitted a research request in September 2009 to compare the results of correspondence audits and face-to-face audits with similar issues. SB/SE will work with TAS staff and Research to focus on agreements, adjustments, satisfaction (employee and taxpayer), educational opportunities, and cycle time. The Research request will provide a keen insight into the differences between correspondence audits and face-to-face audits which include telephonic communications.</p>	<p>Partial</p>	<p>The IRS has committed to some research, but has not committed that the research will cover all of the issues described in the National Taxpayer Advocate's recommendation.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>examinations – office examinations, correspondence examinations with extensive telephonic communications, and normal correspondence examinations – for different taxpayer segments (e.g., those with and without representation, etc.).</p>			
<p>3. Do not expand the use of correspondence examinations to more complex cash economy businesses before completing research to know the effect of such examinations on voluntary compliance.</p>	<p>The IRS has no plans to expand the use of correspondence exams to more complex cash economy businesses. Therefore, the IRS does not agree that there is a benefit to expanding its research with respect to the Correspondence Examination Program at this time. The cash economy industry issues are not conducive to correspondence examinations.</p>	<p>Yes</p>	<p>According to the SB/SE, Campus Compliance Services Program Letter for FY 2010, one of its goals was to "[E]xpand workload selection in Correspondence Examination to complex Business Master File (BMF) and Individual Master File (IMF) workloads." Thus, if the IRS's assertion that it now has "no plans to expand the use of correspondence exams to more complex cash economy businesses" is correct, it appears to have adopted the National Taxpayer Advocate's recommendation.</p>
<p>4. Continue working with</p>	<p>The IRS sees benefit in continuing to</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>TAS to expand the Phone Optimization Project pilot to address the documentation issues identified by the Correspondence Examination Taxpayer Satisfaction Improvement Initiative.</p>	<p>work with TAS to expand the Phone Optimization Project (POP) to include rollout of an EBE Search Tool developed as a result of recommendations identified by the Correspondence Examination Taxpayer Satisfaction Improvement Initiative. The POP team is in the review stage of metrics from the first phase of rollout. Final recommendations will be available in July 2010.</p> <p>The EBE Search Tool has been updated and is in the final stages of review. It should be available on the Campus Exam SERP Portal and included in the Project Code Search-Exam tool for Project Code 381 by June 1, 2011.</p> <p>The new Project 0381 search engine was posted on SERP as of June 23, 2011. It is embedded in the Project Code Database under project code 0381 for Employee Business Expenses. A link has also been added to the CRC Exam SERP Portal. The portal is an extension of the current</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	SERP site, developed with technical information specific to exam casework.		

2009 ARC – MSP Topic #9 – THE IRS EXAMINATION FUNCTION IS MISSING OPPORTUNITIES TO MAXIMIZE VOLUNTARY COMPLIANCE AT THE LOCAL LEVEL

Problem

Local examination projects (called “compliance initiative projects” or CIPs) that rely on local data sources or utilize local partners, can often uncover unreported business income – including income from the cash economy, which represents the largest portion of the tax gap – more effectively than national return selection techniques. Because local small businesses communicate with each other, this approach can also have a greater indirect effect on voluntary compliance than seemingly random examinations. The IRS could leverage the positive effects of local CIPs by using a multi-functional approach, for example, by doing outreach and education in the same community. However, it does little to encourage the development of local CIPs and has no national measures that can reliably distinguish good CIPs from bad ones. As a result, the IRS is missing opportunities to maximize voluntary compliance at the local level.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
1. Work with the research function to develop better measures for the compliance initiative project (CIP) program or at least better ways to analyze and evaluate CIP results.	In order to evaluate the effectiveness of CIP results, the IRS uses traditional examination measures in monitoring each project such as dollars per hour, average dollars per return, no change rates and related return pickup percentage. The IRS believes that these are reliable measures and that they distinguish productive CIPs from unproductive ones. Unproductive CIPs are terminated to reduce taxpayer burden and reserve limited compliance resources. However, in response to a recommendation in the National Taxpayer Advocate’s 2008 report, we have begun discussions with SB/SE	Yes	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	research on ways to best analyze CIP results.		
2. Require each area examination function to do at least some compliance initiative project (CIP) work with other IRS functions and local partners, using local data sources to address noncompliance by local cash economy businesses.	The IRS does not believe there would be added benefits to mandating that each Examination Area work cross functional CIPs. Absent this mandate, every Area initiated local CIP's in FY 2009 and the number of CIPs initiated in FY 2009 increased over those in FY 2008. This indicates the ability and desire of the Areas to work local CIPs even without a mandate.	No	While the IRS does some CIPs, they rarely involve more than one function or local sources of data. Out of the 72 CIPs initiated in FY 2009, only one involved another IRS function and only seven utilized state or local data, and we could not determine how many of these focused on cash economy businesses. Thus, it is reasonable to mandate at least some minimum number of CIPs that involve other IRS functions, local partners, use local sources of data, and focus on local cash economy businesses.

2009 ARC – MSP Topic #10 – THE IRS DOES NOT KNOW IF IT IS USING STATE AND LOCAL DATA EFFECTIVELY TO MAXIMIZE VOLUNTARY COMPLIANCE

Problem

The IRS’s use of state and local data – such as sales tax data – to detect unreported income could prompt taxpayers operating in the cash economy to report more of their income that is not subject to federal information reporting. Thus, selecting returns for examination using state and local data could be a particularly effective way to increase voluntary compliance. However, the IRS has no measures to show whether returns selected for examination using one type of data are better at promoting voluntary compliance than another. As a result, it may be difficult for the IRS to justify selecting many returns for examination based on the state and local data.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Design research to yield actionable information about the impact of examinations on voluntary compliance (e.g., whether using state and local data increases the impact of examinations on voluntary compliance).</p>	<p>The IRS has already begun a multi-year research initiative to study the impact of service on taxpayer compliance. Since the impact of service must be disentangled from the simultaneous impact of enforcement and other factors, one byproduct of this research may be obtaining plausible estimates of the impact of examinations on compliance. However, it may not be possible to distinguish between examinations based on such things as the types of State and local data used. Because of the complexity of this research, the impact of many IRS activities on compliance will be very difficult to quantify.</p>	<p>Yes</p>	<p>The IRS appears to be planning to study the impact of various activities on compliance. As the IRS studies the impact of examination activities on compliance, it could stratify the impact of enforcement results by type of data used. Thus, it should be feasible for the IRS to implement the National Taxpayer Advocate's recommendation to evaluate the impact on compliance of using different examination techniques and types of data when selecting and auditing returns.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>2. Develop practical measures (or analysis) for use in evaluating the overall success of audits using state and local data, as discussed above in connection with compliance initiative projects (CIPs).</p>	<p>Practical measures for each SRFMI business owner have already been developed and implemented in the SRFMI Corporate Evaluative Plan completed on January 15, 2010. These measures are actively being utilized at this time. In addition, several of our functions utilize state and local data in examinations. Correspondence Exam has an established inventory including cases identified from state audit reports received from various state revenue agencies. Field Exam started a project in 2009, Leveraging Data Mining Opportunities project, involving the use of data from state agencies to identify non-filers and under-reporters. Excise Tax uses the results of dyed fuel penalty cases, excise examination results, and registration information that from established information exchange agreements with the states. Employment tax uses state and local data in connection with the Questionable Employment Tax Practices (QETP) program. Practical measures are already in place to evaluate the overall success of these audits.</p>	<p>Partial</p>	<p>The IRS uses measures, but it is unclear if the measures reflect the impact of its activities on voluntary compliance.</p>

2009 ARC – MSP Topic #11 – THE IRS LACKS A COMPREHENSIVE “INCOME” DATABASE THAT COULD HELP IDENTIFY UNDERREPORTING AND IMPROVE AUDIT EFFICIENCY

Problem

A comprehensive database containing all data relating to gross receipts – such as credit card information reports (when available), sales tax data, and currency transaction reports – could help the IRS improve its system of selecting returns for examination and overall audit efficiency. Because no such database exists, the IRS has room to improve its ability to detect unreported income – the largest component of the tax gap.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Add more receipt- and asset- related data to IPM, such as:</p> <ul style="list-style-type: none"> • State Audit Report Program (SARP) data; • Cash payments (i.e., Bank Secrecy Act Program (BSA) data); • Taxpayer bank account data; and • Credit card information reporting data (when available). 	<p>The IRS has already taken action in this area. With its Release 5 that went into production in February 2010, IPM has incorporated new data into its model. Additional information is now received from the cooperating states in the State Reverse File Matching initiative –</p> <ul style="list-style-type: none"> • State Individual and Corporate Tax Return Data are now available. • State Wage and Miscellaneous Tax Data are now available. • We will consider adding SARP data when it becomes available in electronic form. IPM now contains the following BSA data – <ul style="list-style-type: none"> ○ Form 8300 – Cash Payments Over \$10,000 Received In a Trade or Business, ○ Form 105 – Report of 	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>International Transportation of Currency or Monetary Instruments,</p> <ul style="list-style-type: none"> ○ Form 103 – Currency Transaction Report by Casinos, and ○ TD F 90-22.1 – Report of Foreign Bank and Financial Accounts. With respect to taxpayer banking records, IPM already had – ○ Information regarding interest and dividends on bank accounts and money market funds belonging to taxpayers, and ○ Similar information regarding foreign bank accounts. The new third party reporting information from Merchant Payment Cards, Securities Basis and Government Payments will be included in the next annual data refresh after the first filings are due. 		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
2. Create or modify applications to access IPM data so the IRS can use the data for both automated income tax return selection and case building.	This action is already in place. New client applications are being added and IRS is making new uses for the data as it becomes available.	Yes	

2009 ARC – MSP Topic #12 – THE IRS DOES NOT HAVE A SIGNIFICANT AUDIT PROGRAM FOCUSED ON DETECTING THE OMISSION OF GROSS RECEIPTS

Problem

Specialized examiners who focus on detecting unreported income conduct an insignificant number of examinations. As a result, there is room for improving the IRS’s ability to detect unreported income – the largest component of the tax gap.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Create a specialized group (or expand the size and scope of existing groups) to focus on detecting unreported gross receipts by taxpayers whose income is not subject to information reporting without regard to the offshore or intentional aspects of any underreporting.</p>	<p>The IRS recognizes that unreported income is the largest component of the tax gap and is a significant compliance issue. As such, all examiners are expected to detect unreported income during examinations when warranted. New hire training for both revenue agent and tax compliance officers includes information to address the detection of unreported income. Comprehensive supplemental training, The Examiner’s Tool Kit, focusing on identifying unreported income, is being given to all examiners with less than three years examination experience. Embedded Quality Review System attributes that comprise the income standard are being modified to place emphasis on conducting a thorough probe for unreported income during audits. These attributes reflect required case actions that correspond directly to</p>	<p>No</p>	<p>The IRS’s stated expectation that all examiners will effectively identify unreported income is unrealistic. The type of examination most frequently used by the IRS -- correspondence examinations -- do not identify unreported income. As a result, the IRS may not be allocating its resources to effectively address the largest portion of the tax gap.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>the examiners' critical job elements. In FY 2010, SB/SE Exam has allocated additional resources to train Special Enforcement Program (SEP) agents that have not had SEP-specific training within the past year. Two additional SEP groups were established in SB/SE in FY 2010. We believe these measures will enable IRS to make progress in recognizing unreported gross receipts by taxpayers whose income is not subject to information reporting without creating an additional type of specialized unit.</p>		
<p>2. Provide these specialized groups access to information that would be available in the "income" database proposed above.</p>	<p>While we agree that providing examiners access to a more comprehensive income database would be beneficial, the benefit of the database must be weighed against the potential significant costs and relative benefits compared to other information technology projects. Taxpayer privacy and data security must also be a consideration. As they become available, we will continue to provide our examiners with the tools necessary to effectively perform their jobs while ensuring proper safeguard of taxpayer privacy and information.</p>	<p>No</p>	

2009 ARC – MSP Topic #13 – THE IRS HAS DELAYED MINOR TAX FORM CHANGES THAT WOULD PROMOTE VOLUNTARY COMPLIANCE AND INCREASE AUDIT EFFICIENCY

Problem

The IRS has declined to make two simple changes to tax forms that could help maximize voluntary compliance. By adding a line to Schedule C to break out income not reported on Forms 1099 (e.g., cash) the IRS would remind taxpayers that cash receipts are actually taxable. This one line could potentially improve voluntary compliance, as well as the IRS’s ability to identify those who are not properly reporting cash sales.

Adding two checkboxes to business tax returns to highlight information reporting requirements could have a similarly positive effect. Taxpayers report more than 95 percent of all income subject to information reporting but less than 50 percent of the income that is not. Thus, if it reduced inadvertent failures by payors who are required to file information returns, these checkboxes could increase compliance by prompting payees to report amounts shown on these returns.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
<p>1. Set a date by which the IRS will complete any analysis of the benefits and burdens of the simple form changes (described above) that it deems necessary.</p>	<p>The IRS will complete it's analysis of the recommended form changes by 1/15/11.</p>	<p>Partial</p>	<p>The IRS has added two checkboxes recommended by TAS to Form 1040, Schedule C. They ask: “Did you make any payments in 2011 that would require you to file Form(s) 1099?” and “[I]f ‘Yes,’ did you or will you file all required Forms 1099?”</p> <p>However, the IRS has not adopted the National Taxpayer Advocate’s recommendation to add a line to Schedule C so that taxpayers separately report (1) the amount of income reported on Forms</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
			1099, <i>U.S. Information Return</i> , and (2) other income not reported on Forms 1099. TAS continues to believe this change could improve voluntary compliance, and audit selection and efficiency.
2. Unless the IRS shows the burdens of these form changes outweigh the benefits, set a date by which it will implement them.	The IRS cannot set a date of implementation until we complete the analysis as described in recommendation 13-1. Once we have determined the appropriate actions to take, we will be better positioned to determine when any changes will be made.	No	<p>The IRS has agreed to the analysis recommended by the National Taxpayer Advocate, but has not yet established an implementation date.</p> <p>The IRS has not adopted the National Taxpayer Advocate's recommendation to add a line to Schedule C so that taxpayers separately report (1) the amount of income reported on Forms 1099, <i>U.S. Information Return</i>, and (2) other income not reported on Forms 1099. Nor has it set a date by which it will analyze the benefits or burdens of such a change. As it begins to receive credit card reporting data, however, these considerations may change.</p>

2009 ARC – MSP Topic #14 – THE STEADY DECLINE OF THE IRS OFFER IN COMPROMISE PROGRAM IS LEADING TO LOST OPPORTUNITIES FOR TAXPAYERS AND THE IRS ALIKE

Problem

The underutilization of offers in compromise (OICs) directly conflicts with both the IRS’s policy statement for the OIC program and Congress’s intent for its use, as evidenced by the 72 percent decline in the number of offers that the IRS has accepted from FY 2001 to FY 2009. This decline is particularly troubling given that the IRS maintains a “currently not collectible” inventory of nearly \$61 billion (representing over 2.8 million taxpayers). While the National Taxpayer Advocate applauds recent IRS efforts to improve the OIC program, she remains concerned that these steps will not reform the OIC program sufficiently to convince taxpayers that the offer is a viable alternative in the IRS’s collection strategy, rather than a separate program designed for only a select few.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
1. Reinstate its 1992 procedures to more closely follow Policy Statement P-5-100.	Substantial legislative and policy changes have been made since 1992. We believe current procedures outlined in IRM 5.8, Offer in Compromise, and interim guidance fully support Policy Statement P-5-100 and allow both flexibility and negotiation. Reverting back to 1992 policies and procedures would not benefit taxpayers or the IRS.	No	<p>The IRS response does not adequately address our concern. The current procedures are inadequate to convey the policy statement. For example, the policy statement provides that IRS employees are to assist taxpayers with completing the offer forms and prohibits protracted installment agreements.</p> <p>However, current procedures do not guide employees on how to assist taxpayers with offers, and provide that a taxpayer may be required to pay their future income for the length of statutory period</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
			<p>beyond five years for a deferred periodic payment offer.</p> <p>Alternatively, we recommend that the IRS follow, rather than revert back to, its current policy and adopt new procedures similar to the ones in 1992, to accomplish its mission. IRS has not yet reconsidered its position to date.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>2. Recommend offers in compromise (OICs) consistent with the collectibility curve to taxpayers whose tax liabilities have aged more than three years.</p>	<p>Our procedures ensure that we make acceptance determinations consistent with the taxpayer's ability to pay at the time the offer is being investigated, regardless of age of the liability. The formula that is used to compute the reasonable collection potential considers what can be collected from the taxpayer in the future.</p>	<p>No</p>	<p>The IRS response does not address our underlying concern that realistic criteria is being used to evaluate offers. If the collectibility curve demonstrates that most collection occurs within the first three years of the debt, then the IRS should encourage its employees to be more flexible to accept offers where it appears that future collection will be limited. Otherwise, we recommend the IRS study the collectibility curve to make realistic offer procedures with respect to future income and acceptance of offers.</p> <p>The IRS has yet to reconsider its position and/or complete a study to show how much is collected the longer a liability remains on the books.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>3. Place the ability to work and accept offers in compromise (OICs) back in the revenue officer's collection toolkit and provide one-stop service for taxpayers whose offers are rejected, e.g., have revenue officers or other employees grant IAs or report accounts CNC after OIC rejection.</p>	<p>We will explore the feasibility of specific cases being worked by revenue officers. Current procedures in IRM 5.8.7.8 provide for alternative resolutions such as installment agreements and CNC after an OIC is not recommended for acceptance. We will continue to refine our procedures to provide the taxpayer one-stop customer service when their offer is not accepted. We will be exploring this recommendation as part of the implementation of the MITRE recommendations.</p> <p>IRM 5.7.8 currently provides for immediate alternate resolutions such as installment agreements and CNC after an OIC is not recommended for acceptance by an offer specialist. We will be working with NTEU on impact and implementation for offer examiners at the centralized OIC sites to begin providing taxpayers alternative resolutions when an OIC cannot be recommended. We have considered the feasibility of placing OICs back in the revenue officers' toolkit and are not pursuing this suggestion at this time.</p>	<p>Yes</p>	<p>We are pleased that the IRS will explore the feasibility of allowing revenue officers to work their own offers. We are concerned that the procedures are inadequate to ensure resolution of taxpayers' cases after a rejection is processed. We recommend that the IRS track cases after they are rejected to determine if the procedures are being followed and to add the procedure to quality reviews so that it may be evaluated further.</p> <p>The new COIC centralization plans actually move away RO's from having ready access to OICs. There is nothing new for "one stop service" which remains a significant problem for COIC cases.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>4. Revise Form 656 to eliminate substantiation and large amounts of documentation upon submission and create procedures so that Form 656 starts the conversation with taxpayers.</p>	<p>We believe that it is most effective for taxpayers to provide documentation with the offer submission. We are reassessing this process as part of the Siegel and Gale recommendations.</p>	<p>Partial</p>	<p>The IRS response does not address our concern that taxpayers are being required to provide information the IRS already has or taxpayers are being required to supply additional information due to IRS delay. We are pleased that COIC will begin a pilot for a streamlined process that will not require strict adherence to the information submission requirements, and believe that other offer examinations could be conducted.</p> <p>The revised Form 656 did reduce some of the substantiation and documentation requirements but the form remains complicated and the documentation requirements are significant. The streamlined OIC process uses the "start the conversation" approach to a certain degree--after processability, and only on the cases that meet streamlined criteria.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>5. Change procedures to require that offer processors build an offer file with information the IRS already has, and that offer examiners or offer specialists will explore the possibility of the offer with taxpayers, e.g., RCP, special circumstances, etc., gather additional information, and follow-up with correspondence.</p>	<p>Our internal policies already direct offer personnel to verify as much of the collection information statement (CIS) as possible through internal sources. In addition, guidance is provided to offer examiners and specialists for communicating with taxpayers regarding the reasonable collection potential (RCP) and addressing special circumstances.</p>	<p>No</p>	<p>The IRS response does not address our concern that offer personnel will request information by correspondence to return or reject offers. We recommend that the internal policies be modified to instruct offer examiners or offer specialists to contact taxpayers or their representatives by telephone when information appears to be missing. Further, the IRS should consider aligning its case reviews to identify cases that should have been accepted or continued but were rejected or returned due to the failure of the offer employee to look past minor departures from the information requirements.</p> <p>While personal contact is a key element of the IRS's new streamlined OIC process, it only applies to about half of the total OIC cases. This approach should be used for all OICs.</p>
<p>6. Revise and require all paid preparers to sign or identify themselves on Forms 433 and 656.</p>	<p>Form 656 as currently written already contains a signature block for paid preparers. The preparer's signature is not mandatory, however, because Title</p>	<p>No</p>	<p>The IRS response does not address our underlying concern that some paid preparers are making inadequate offers at great</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>26 contains no statutory authority authorizing the IRS to make a preparer's signature on the Form 656, or the Form 433, mandatory. The signature block was added to the 656 in order to encourage preparers to sign the form voluntarily, but no penalty may be imposed if they decline to do so. In order to make mandatory the signature of the preparer on either of these forms, a statutory provision will be necessary. Current Cir 230 practitioners who prepare Forms 433 or 656, whether or not they sign the Form 656, are deemed to be "practicing" before the IRS and therefore are subject to all applicable Cir 230 provisions. In addition, for purposes of imposition of a monetary penalty under Cir 230 10.50, a business which is owned by non-Circular 230 practitioners which employs Cir 230 practitioners can, under specific fact patterns, be deemed to be "practicing" and therefore subject to monetary penalty sanctions. While the IRS agrees that legislation requiring the preparer's signature on the Forms 433 and 656 would be one way to identify</p>		<p>taxpayer expense and not signing the offers, which permits them to harm other taxpayers without OPR involvement. We recommend that the IRS approach OPR and Chief Counsel to request that Circular 230 be revised or that a revenue procedure be issued to require all recognized representatives to sign any offer that they prepare.</p> <p>The new Form 656 "requests" that paid preparers sign the form, but it is not mandatory.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	paid preparers and representation, we are also exploring other non-legislative solutions which could be implemented more quickly and efficiently.		
7. Clarify that preparation of Forms 433 and 656 constitutes representation before the IRS, and inform taxpayers to use only Circular 230 representatives with respect to offers in compromise (OICs).	A pending proposed revision to Circular 230 adding new section 10.8(b) would make any individual who prepares all or a substantial portion of a document for submission to the Internal Revenue Service subject to the provisions of Subpart B (Duties and Restrictions) and Subpart C (Sanctions for Violations) of Circular 230. For this purpose, Forms 656 and 433 constitute "documents" prepared for submission to the IRS, whether or not the preparer signs the Form 656 or 433, and whether or not the preparer represents the taxpayer during the offer in compromise process."	Partial	<p>We are pleased that the IRS has proposed a revision to Circular 230 making any individual who prepares all or a substantial portion of Forms 656 and 433 subject to Circular 230 discipline in cases where practitioners are ineffective in their representation.</p> <p>The new Form 656 "requests" that paid preparers sign the form, but it is not mandatory.</p>

2009 ARC – MSP Topic #15 – IRS POLICIES AND PROCEDURES FOR COLLECTION STATUTE EXPIRATION DATES ADVERSELY AFFECT TAXPAYERS

Problem

The IRS continues to miscalculate collection statute expiration dates (CSEDs) and has not addressed lengthy CSEDs on certain taxpayer accounts. As of September 24, 2009, more than 4,600 taxpayers have accounts with CSED extensions that would violate IRS policy if entered into today. Moreover, a review of collection-related cases in TAS inventory found that over 60 percent contained one or more miscalculated CSEDs.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>1. Permanently resolve excessively long Collection Statute Expiration Dates (CSEDs) by writing off any balance due on accounts with CSEDs greater than the original CSED plus five years (absent other extensions allowed for by law).</p>	<p>We are required to look at these cases on a case-by-case basis. In September 2009, SBSE Collection and the NTA formed a joint team to review taxpayer accounts which the TAS has identified as having excess CSED dates. On April 6, 2010, SBSE Collection provided the name of a Program Manager from Collection Policy to represent SBSE on a joint task group to review CSED issues.</p>	<p>Partial</p>	<p>We are pleased that SBSE Research, SBSE Collection, TAS, and TAS Research have formed a team to review and possibly resolve these accounts with excessively long CSEDs. We suggest that the IRS change its response to partial as it is providing resources to possibly write off or resolve some of these accounts. The IRS obtained a counsel opinion on this issue and decided it was not legally feasible to stop pursuing collection on these accounts where the CSED extension was properly obtained from the taxpayer.</p>
<p>2. Provide comprehensive training and continuing education to all</p>	<p>SBSE and W&I will complete a review of our collection statute training modules to identify and address any</p>	<p>Partial</p>	<p>We are pleased that the IRS will review its CSED training and implement a CSED calculation</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>employees who work with Collection Statute Expiration Dates (CSEDs) so they can identify problematic CSED cases to refer to a centralized CSED unit.</p>	<p>potential training gaps.</p> <p>In May 2011, course development of a new course entitled, "Collection Phase II training" will include an expanded module on the computation of CSEDs. This course will be available for use 7/29/2011. For the FY12 CPE, a mandatory course on CSEDs will provide more extensive training on the events that suspend or extend a CSED and for what duration. This will be disseminated across all W&I Campus Collection sites. SB/SE Collection has requested this course be included in their FY12 CPE as well. In addition, W&I Filing & Payment Compliance has requested a new, all-inclusive, technically intensive course on computing and correcting CSEDs. A priority request was submitted to Learning and Education for development of this course in FY12. Once the request is approved by L&E, plans are to meet with representatives from W&I and SB/SE ACS call sites, ACS Support and Collection to discuss rollout of this CSED training module to W&I and SB/SE Campuses. The</p>		<p>tool to assist its employees in identifying and correcting erroneous CSEDs. However, the IRS response does not adequately address our concerns as to who will be responsible for resolving CSED issues or organization of a centralized CSED unit. We recommend that training and continuing education allocate ultimate responsibility for resolving CSED issues to a specific function.</p> <p>At this time the IRS continues to deny that a centralized CSED unit would be beneficial for resolving CSED issues. CSED issues are covered in CPE and other training sessions to keep employees up to date but there is still a lack of employees with the skill to resolve complex CSED issues.</p> <p>The IRS recognizes there are sometimes problems with the accuracy of CSED computations. There is a cross functional team working on a CSED calculation</p>

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	<p>extent of that training is yet to be determined.</p> <p>A new Excel-based tool has been created that corrects the errors of the prototype, foremost, multiple CSED extending events that have overlapping periods. In addition, the new tool will also be able to calculate the CSED for additional assessments or what-if scenarios associated with Offers-In-Compromise. We are in the process of having various Subject Matter Experts test the viability of this tool. Based on this analysis, we will make an appropriate recommendation by December 30, 2011 concerning the implementation of this product.</p>		<p>tool and training and CPE to address CSED issues, however until a real fix is developed this is still a concern for TAS.</p> <p>The IRS has determined that centralizing the CSED processes is not necessary. Training is provided for CSED as CPE and to new hires as necessary, however training on how to resolve complex CSEDs continues to be a concern.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>3. Develop systems that can identify Collection Statute Expiration Date (CSED) problems so they can be resolved quickly.</p>	<p>The IRS believes that in most instances the current systems accurately compute the CSED. We will monitor the accuracy of the computations and initiate programming changes as problems are identified.</p>	<p>No</p>	<p>The IRS response does not adequately address our concerns. Our report identifies several instances where CSEDs are not being correctly computed. There is great cost to taxpayers and the IRS when CSED are incorrect. We recommend that the IRS reevaluate its systems to address the instances of CSED errors we have identified. Currently, the IRS has a team developing a CSED Calculation Tool for use for all instances where CSEDs are an issue. This tool is expected to be ready by the end of FY 2011.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>4. Establish a centralized unit to work difficult Collection Statute Expiration Date (CSED) cases.</p>	<p>The IRS believes that the processes and programs in place effectively address the needs of taxpayers who experience a situation that involves a complex CSED issue. We do not believe that establishing a centralized unit to work difficult CSED cases would prove beneficial at this time. We will continue to explore opportunities to improve the timeliness and accuracy of case resolutions when complex statute suspensions or extensions exist.</p>	<p>No</p>	<p>The IRS response does not adequately address our concerns that the current procedures make it difficult to correct CSED issues without contacting every operating division responsible for CSED entries. We recommend that, at a minimum, the IRS authorize functions to resolve CSED problems directly without having to transfer cases from function to function to resolve these issues.</p> <p>The IRS continues to believe their current systems are adequate and will not consider developing a centralized CSED unit to address issues such as complex CSEDs.</p>

2009 ARC – MSP Topic #16 – THE IRS’S APPROACH TOWARD TAXPAYERS DURING AND AFTER BANKRUPTCY MAY IMPAIR THEIR “FRESH START” AND FUTURE TAX COMPLIANCE

Problem

The number of bankruptcy filings in the United States has increased by 31 percent from calendar year 2007 to 2008. Accordingly, the effect of bankruptcy law on tax debts is often confusing to taxpayers and their representatives. Even if the tax is dischargeable, the IRS can collect the discharged tax by enforcing its lien interest on exempt, abandoned, or excluded property. Yet the IRS provides inadequate guidance to its employees trying to collect from the value of this property, which can lead to irrational case decisions. Moreover, IRS policies that allow a notice of federal tax lien to indefinitely remain on file (based on a subjective determination that has no checks or balances), can needlessly harm a taxpayer’s ability to make a fresh start outside of bankruptcy.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
1. Develop and implement explicit guidance requiring managerial approval of all post-discharge lien retention determinations.	Sufficient guidance already exists with respect to post-discharge lien determinations. IRM 5.9.17 contains specific and detailed instructions regarding actions that can be taken post discharge with respect to lien retention and investigations into exempt and abandoned property. Additionally, IRM 1.4.51.5(4) contains specific instruction to Insolvency managers regarding their duties with respect to liens and post-petition collection actions. This IRM instructs managers to ensure that prompt action is taken to both determine if assets are worth pursuing, as well as to ensure that liens on discharged periods are	No	The IRM addresses a manager’s responsibility to ensure that a prompt determination regarding whether an asset should be pursued by collection and that liens are released 30 days after a determination has been made to not pursue the asset. However, it does not address the National Taxpayer Advocate’s primary concern, which is that a lien on exempt, excluded, or abandoned property can be retained by a field insolvency employee without managerial approval. We are concerned that this lack of managerial approval could result

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	released within 30 calendar days of that determination.		in retention of liens in inappropriate circumstances.
2. Track how many liens survive bankruptcy, how many are later released, and how much revenue is collected as a result of leaving these liens on the taxpayers' assets, and use this data to analyze the effectiveness of the program.	Because every investigation into exempt, abandoned, or excluded assets stands on its individual merits, capturing nationwide data on liens not released or money received could provide misleading data and would not yield supportable conclusions. However, the effectiveness of liens during and after bankruptcy will be included in the study referenced in the response to Recommendation 2-3.	Partial	We are pleased that the IRS is including these questions in its forthcoming study. Furthermore, we understand that each case and the facts surrounding it are different, but believe tracking the number of liens that survive bankruptcy, the number of liens later released, and the amount of revenue collected from these liens would be useful information that could be used to evaluate the overall effectiveness of its policies regarding liens after bankruptcy.
3. Permit revenue officers to retain control over nondischargeable debts while investigating collection potential from exempt, abandoned, or excluded assets.	The IRS believes that this recommendation would not be in the best interests of the taxpayer or the government. Our practice of using insolvency employees to work dischargeable assessments reduces the potential for violation of a discharge injunction and thus provides protection to the taxpayer.	No	We understand the IRS's concerns regarding the violation of a discharge injunction, but believes that revenue officers could be trained to abide by this injunction. Having the revenue officer retain dischargeable debts would reduce confusion for the taxpayer and make it easier for him or her to resolve lingering tax problems.
4. Work with the U.S. Bankruptcy Courts to	IRS agrees it is important to educate taxpayers on bankruptcy. We achieve	Yes	.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>include stuffers to be sent out with notices that contain information on tax debts during and after bankruptcy.</p>	<p>this through the current publication and letters available to the taxpayers and their representatives. However, as we continue to strive to improve taxpayer education and outreach, we will explore the feasibility of developing a pamphlet that could be sent out by the Bankruptcy Courts that will further explain the general treatment of taxes in a bankruptcy proceeding. We will determine the feasibility of this recommendation by 8/31/2010.</p> <p>Because the implementation of a nation wide "stuffer" to be included in all bankruptcy filings would require coordination and agreement with 86 different bankruptcy courts, we feel this is currently not feasible. Additionally, business bankruptcy filers and individual filers would not need the same information, thereby making the process even more cumbersome to implement. We would also have to account for differences in local practices within the courts, which if not considered, could provide incorrect information. We have recently aired a webinar dealing with collection of taxes</p>		

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	<p>and the impact of bankruptcy filing which is available on irs.gov. We are also redrafting our exempt, abandoned, and excluded property letters which are sent out post discharge. We have also publicized the 1-800 numbers for the Centralized Insolvency Operation, which is available to bankruptcy filers in the event they have questions during the pendency of their bankruptcy.</p> <p>The letters were published in July 2011 (Letters 4066, 4067, and 4068). We worked closely with TAS on the revised letters, and can provide the copy of the document clearance records if necessary. A version that highlights the changes from the prior version is not available. The historical copies can be compared with the current revisions to see the nature of the changes. We also worked closely with Counsel on these letters, and they reflect the balance to provide legally required information as well as make the explanations as clear as possible for the taxpayer. As to the statement below: "The intention of our recommendation was to make sure taxpayers filing for bankruptcy knew</p>		

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	<p>where to get information regarding taxes, basic info about how to contact the IRS and the bankruptcy publication." We have publicized the 1-800 number for the CIO, who handles all incoming inquiries from taxpayers in bankruptcy. This information is available on irs.gov, and we maintain a presence with the National Association of Chapter 13 Trustees (represent Chapter 13 debtors) and the National Association of Bankruptcy Trustees (represent Chapter 7 debtors), and ensure that they are appropriately referring their debtors to the 1-800 number to have their questions answered. That is the most effective way to reach the largest population of debtors. Additionally, viewing the webinar on bankruptcy basics that is available on irs.gov is a good way for taxpayers to educate themselves about the implications of bankruptcy filing. Additionally, we explored the feasibility of providing a bankruptcy information "stuffer" and it is simply not feasible. We have also published Trustee Tips on irs.gov which provides information for bankruptcy trustees to better help</p>		

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	<p>them educate their debtors. Often the trustee is the only consistent contact a bankruptcy filer has. We feel we have made great strides in improving communication and providing information to bankruptcy filers and have more than accomplished that which we committed to in the MSP response.</p>		
<p>5. Revise demand letters to provide taxpayers with information on both their dischargeable and nondischargeable debts, state that the IRS is only entitled to collect the current value of the exempt, excluded, or abandoned assets, not the entire unpaid balance of the tax liability that was discharged, and explain how the taxpayer can resolve any lingering tax issues.</p>	<p>The demand letters are currently under review and the IRS will ensure that any revision clearly states that the IRS is only entitled to collect the current value of the exempt, excluded, or abandoned assets, not the entire unpaid balance of the tax liability that was discharged.</p> <p>The letters 4553, 4554, and 4556 were revised and published in 7/2011. We worked with both Counsel and TAS in order to ensure our revisions contained the requisite clarity regarding the amount realizable from assets deemed exempt, abandoned, or excluded.</p>	<p>Yes</p>	<p>We are pleased that the demand letters are being revised and will clearly state that the IRS is only entitled to collect the current value of exempt, excluded, or abandoned property. However, this letter also needs to include a section that explains how the taxpayer can resolve any remaining tax issues.</p>

2009 ARC – MSP Topic #17 – PONZI SCHEMES PRESENT CHALLENGES FOR TAXPAYERS AND THE IRS

Problem

The infamous Madoff Ponzi scheme – reportedly involving over \$50 billion and 15,400 investors – came to light in late 2008. This single scheme had the potential to increase the dollar amount of theft loss claims more than 15-fold. Ponzi schemes create problems for both taxpayers and the IRS. When Ponzi victims learn that previously-reported investment income does not actually exist and they have lost much or all of their initial investment, they face a number of tax-related questions. Tax-exempt victims may also face tax reporting and compliance questions.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>1. Publish additional guidance or at least publish answers to more of the most frequently asked Ponzi-related questions. This guidance should address Ponzi issues such as those described in this MSP, including:</p> <ul style="list-style-type: none"> • The tax treatment applicable to indirect investors; • When to amend prior-year returns to eliminate phantom income (including a description of the documentation that would establish the phantom income was not 	<p>Since issuing Rev Rul 2009-9 and Rev Rul 2009-20, the IRS has continued to answer questions related to Ponzi schemes. For example, the IRS has posted FAQs on www.irs.gov on the treatment of indirect investments in Ponzi schemes through partnerships and trusts. Advice has also been provided in the form of general information letters responding to inquiries from taxpayers through their members of Congress, informal advice in telephone inquiries from taxpayers and tax professionals and advice to IRS personnel on cases in various stages of development that involve Ponzi scheme losses. The IRS is continuing to monitor issues and develop answers to FAQ's as appropriate. Examples of case specific</p>	<p>Yes (Partial)</p>	<p>The IRS has provided a significant amount of helpful Ponzi-related guidance. However, it has not fully addressed all of the major questions that external stakeholders identified, as described in the report.</p> <p>We recommended published guidance. While some guidance has been published, many of the questions posed in the report remain unaddressed.</p>

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<p>constructively received);</p> <ul style="list-style-type: none"> • How to report any clawbacks; • How these same rules apply to private foundations; • How to apply the private foundation distribution rules; and • How private foundations may avoid the jeopardy tax. 	<p>advice already provided dealing with theft losses includes hedge fund partnerships and other pass through entities including trusts and charitable trusts. SBSE published a Technical Digest article (January 2010) with information for examiners regarding Ponzi schemes.</p> <p>The IRS revised internal instructions to examiners on how to process Ponzi-related claims. Case-specific informal advice has been issued to field counsel, taxpayers and examiners. We continue to monitor issues that have been raised repeatedly to determine whether additional general guidance is necessary.</p>		
<p>2. Consider the Ponzi Schemes Working Group's recommendations, particularly those that the National Taxpayer Advocate finds promising, including:</p> <ul style="list-style-type: none"> • Providing additional guidance to receivers administering Ponzi 	<p>Counsel is working with receivers and other fiduciaries to furnish case-specific guidance such as private letter rulings on whether investors or an entity (e.g., a partnership) should deduct the theft loss and use the safe harbor; application of the qualified settlement fund rules; information reporting and filing obligations and related issues.</p> <p>The IRS is studying revised information</p>	<p>Partial</p>	<p>The IRS has agreed study one of the Ponzi Working Group's recommendations. This fulfills a portion of the National Taxpayer Advocate's recommendation to consider the working group's recommendations.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>bankruptcies; and</p> <ul style="list-style-type: none"> • Revising information returns (i.e., Form 1099) to identify Ponzi-related recoveries. 	<p>reporting responsibilities for receivers who have been appointed as a result of Ponzi-related matters.</p> <p>The tax treatment of recoveries from a Ponzi scheme that a trustee distributes to victims depends on whether, and to what extent, the victim claimed an income tax deduction at the time he or she discovered the loss. Victims of a Ponzi scheme who claimed income tax deductions for their losses generally are required to include any subsequent recoveries in their gross income. Victims who did not claim deductions may not be required to report the recoveries in their income. Counsel has advised that under the current statutes there is no requirement for a trustee or other fiduciary appointed to recover assets for Ponzi scheme investors to issue a Form 1099 reporting distributions to payees because the trustee cannot determine the amount of the distribution that is income to the payee. Because the tax treatment of a distribution depends on the victim's particular tax circumstances, the income is not fixed and determinable.</p>		

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	<p>The IRS is taking several approaches to ensure that trustees and victims of Ponzi schemes are aware of the tax consequences of a distribution. The IRS has worked with and will continue to work with trustees to obtain information on distributions. The IRS has discussed with at least one trustee the prospect of including with the distribution an IRS-prepared general information letter that advises victims of the tax treatment of distributions. The IRS is also considering addressing this issue in a "Frequently Asked Questions" document on the IRS website, and working with trustees to create a hyperlink to this document from the trustees' websites.</p> <p>The Office of Chief Counsel is actively working on a "Frequently Asked Questions" document addressing the tax treatment of trustee distributions to the victims of Ponzi schemes for posting on the IRS website. We will use the "Frequently Asked Questions" document to provide information to trustees who may also want to include the document with any distributions to</p>		

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	be sent to the victims.		

2009 ARC – MSP Topic #18 – IRS POWER OF ATTORNEY PROCEDURES OFTEN ADVERSELY AFFECT THE REPRESENTATION MANY TAXPAYERS NEED

Problem

Tax professionals play a significant role in tax administration by facilitating return processing and representing taxpayers in audits and controversies. When the IRS fails to timely recognize a valid power of attorney (POA), taxpayers may experience difficulties. IRS processing of POAs also harms taxpayers in cases where the IRS improperly bypasses the designated representative or does not notify a taxpayer-employer about a change of address initiated by a third party payer.

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
<p>1. Expedite the analysis of current systems' ability to systemically upload taxpayer representative information directly from the Centralized Authorization File (CAF) to the Automated Lien System (ALS) and submit power of attorney (POA) notifications to the ALS for each lien when multiple liens are requested.</p>	<p>Based on a previous TIGTA recommendation, the IRS had already agreed to determine the feasibility of establishing an automated process that would systemically upload taxpayer representative information directly from the CAF to the ALS system. An Integrated Automation Technologies (IAT) tool is scheduled to be piloted at the end of January 2011 which will serve as an interface between ALS and IDRS/CFINK. As part of the interface process, for each lien created on ALS, the tool will research CFINK to identify any POA(s) listed for the modules. That information, if not already on ALS, will be uploaded to ALS so that when the CDP notice is generated for the taxpayer, notification will also be sent</p>	<p>Yes</p>	<p>We are pleased that the IRS has agreed to determine the feasibility of establishing an automated process to systemically upload taxpayer representative information directly from the CAF to the ALS and to pilot an Integrated Automation Technologies (IAT) tool. Before these databases are systemically linked, the IRS must develop additional guidance and procedures to ensure the information is manually input in a proper and timely manner, and measure the accuracy of this manual process through quality reviews.</p>

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	<p>to the POA(s). Since the tool will research each lien, notifications will be sent to the POA for each lien filed regardless if they are multiples against the same taxpayer. The tool will work for all systemically requested liens both in the field and ACS. If the test/pilot works, it will be implemented promptly subject to any funding constraints. We anticipate the pilot will take about a month.</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
<p>2. Until working linkages are established via current systems or Customer Account Data Engine (CADE), develop additional guidance and procedures to ensure the power of attorney (POA) information is manually input and monitored through quality review procedures.</p>	<p>The IRS currently has guidance in place to add POA information to ACS, ICS, and ALS. In 2007, both ACS and ICS began systemically providing ALS their NFTL requests along with the POA information those systems receive from the CAF in addition to any updates. Case reviews address if the NFTL determination was appropriately made. There are two attributes to ensure the taxpayer and/or representative was informed of a filing of NFTL. Attribute 410 - Lien Determination /Filing addresses whether a lien determination was made in a timely fashion. Attribute 606 – TP/POA Kept Apprised should ensure the taxpayer and/or representative was informed of a filing of NFTL. Based on these two existing attributes and existing IRM procedures, the IRS does not agree that there is a need to establish any additional attributes or reviews. The IRS continues to look for ways to improve the systemic processes already in place.</p>	<p>No</p>	<p>TAS continues to receive complaints from practitioners that they often do not receive copies of lien notices. We remain concerned about the negative consequences of taxpayers lacking effective representation as a result of IRS systemic errors and lack of commitment to establish additional safeguards and quality review processes. These shortcomings may prevent taxpayers from exercising their legal right to request a collection due process hearing when the IRS files a notice of federal tax lien, and may further increase the number of taxpayer rights violations and POA bypasses.</p>
<p>3. Allow Low Income Taxpayer Clinic (LITC)/ Student Tax Clinic (STC)</p>	<p>Taxpayers using the services of a Low Income Tax Clinic (LITC) or a Student Tax Clinic (STC) may require the</p>	<p>No</p>	<p>We remain concerned about the IRS's stance on requiring clinics to repeatedly resubmit forms, which</p>

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<p>directors to renew and revoke their student representatives' authorizations simply by submitting such change in writing, with attached Office of Professional Responsibility (OPR) special orders, and without repeatedly resubmitting Forms 2848.</p>	<p>representational services of a student with a POA. LITC or STC students must obtain OPR's approval in the form of a special order before they may practice before the IRS and once approved to represent taxpayers must follow the rules applicable to all practitioners, including those rules requiring the completion or submission of a properly completed power of attorney. OPR approves special orders for LITC and STC on a per semester or per quarter basis only. If a taxpayer submits a power of attorney to the CAF authorizing an LITC or STC student to represent the taxpayer before the IRS, the student's representation authorization is automatically removed from the CAF 130 days, up from the original 90-day timeframe, after the authorization is recorded on the CAF. The time limit is intended to protect the confidentiality of sensitive taxpayer information. Because this 130-day limit is consistent with the length of a typical College or University semester or quarter, the IRS is unconvinced that a student's authorization should be extended beyond 130 days without</p>		<p>is not only burdensome and time-consuming, but also exacerbates the tax problems facing low income clients, and undermines the mission of the clinics. While taxpayers can currently authorize an LITC Director to add or substitute a representative on an initial power of attorney (on Line 5 of the Form 2848), Line 5 constitutes a modification that then prevents LITCs from accessing E-services. In addition, because of significant delays in CAF processing in 2010 as reported in a recent SERP Alert (Apr. 2010), LITCs and STCs report that often the semester ends for a student representative before his or her POA is processed by the CAF. The IRS should allow simplified student POA processing to avoid these extensive delays that undermine the statutory mission of the clinics.</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
	<p>further justification. If the student continues in the LITC or STC program, the taxpayer can resubmit the valid POA with any subsequent special order approved by OPR to the CAF and the student's authorization will be reinstated for an additional 130-day period. Taxpayers also can currently authorize an LITC Director to add or substitute a representative on an initial power of attorney on Line 5, Acts Authorized, of the Form 2848. If the LITC Director has been authorized to add or substitute a representative, the LITC Director may complete and execute a new power of attorney on behalf of the taxpayer that identifies the student(s) who will be representing the taxpayer during the current semester (or quarter), attaching the appropriate special order and the prior power of attorney that named the LITC Director as representative and authorized the LITC Director to add or substitute a representative. The new power of attorney should not revoke the previous power of attorney.</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
<p>4. Permanently assign a Centralized Authorization File (CAF) unit employee dedicated to Low Income Taxpayer Clinic (LITC) power of attorney (POA) issues and make the information about this point of contact (POC) available to TAS, so that TAS can provide this POA information or changes therein directly to the LITCs.</p>	<p>The Headquarters CAF analyst currently works closely with Taxpayer Advocate Service Counsel on student representation issues. Also, this employee's contact information is available to LITC Directors, via TAS, when the CAF Help Line is unable to resolve LITC Directors' CAF processing issues. Therefore, this employee already functions as a de facto LITC account manager.</p>	<p>Yes</p>	<p>While the National Taxpayer Advocate believes the creation of the LITC account manager position within the CAF unit is preferable, TAS supports the alternative resolution of this problem.</p>
<p>5. Establish a cost-effective process for gathering and measuring taxpayer and power of attorney (POA) complaints on direct contact violations.</p>	<p>Due to the very small number of complaints involved, the IRS believes that establishing a separate and dedicated system would entail significant costs that would outweigh the potential benefits. As stated in the annual audit reports completed by TIGTA for the last twelve years, in considering the significance of our system limitations, it is important to recognize that the evidence TIGTA has obtained and evaluated over the years suggests potential direct contact violations are very small considering that thousands of IRS enforcement</p>	<p>No</p>	<p>We believe that even one violation of IRC §7521(b)(2) and (c) is troubling. IRS refusal to monitor the number of bypass violations sends a mixed signal to IRS employees about this important matter. When employees are unaware or simply ignore legal requirements and IRM procedures and directly contact the represented taxpayers, knowing that the IRS does not measure these contacts, the resulting "bypass" violates an important taxpayer right. Although the</p>

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	<p>personnel routinely interact with millions of taxpayers and their representatives each year. IRS continues to provide key personnel procedural training and guidance in the Internal Revenue Manual on this topic. For example, an article in the October 2009 Technical Digest addressed pre-contact responsibilities, including reviewing IDRS information to determine whether a valid Form 2848, Power of Attorney and Declaration of Representative, is on file for the year(s) under examination. Furthermore, managers and independent reviewers monitor the adherence to these procedures during case reviews and employee case discussions.</p>		<p>TIGTA report was based on actual investigations, we have reason to believe that many complaints are not elevated to TIGTA. TAS discussions with AICPA members and the ABA LITP Committee indicated that POA bypass occurs rather often. Moreover, we strongly disagrees with the IRS's statement that the cost of a POA bypass measuring system would outweigh the benefits to taxpayers. When the IRS has not even analyzed the cost of such a system, the argument about "significant cost" does not appear credible. In the absence of an effective measurement system, we are very concerned about the potential volume of POA bypass violations.</p>
<p>6. Implement dual address change letters ("Are You There?" letters) alerting employers that a third party has initiated a change of address in cases where the third party payer has access</p>	<p>IRS previously put together a team comprised of Collection, Specialty Tax, TAS, Submission Processing, Counsel, and SBSE research personnel to explore this issue. The team received Counsel advice noting that the change of address notices may only be sent in limited circumstances when the IRS</p>	<p>No</p>	<p>While the IRS agreed to put together a team to explore this issue, it disbanded the team on May 6, 2011, stating that it cannot "identify the universe of taxpayers that should receive the change of address notice." We are very concerned about this action</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
<p>to the client employer's funds.</p>	<p>has reason to believe that the address change was not authorized by the taxpayer. Once this advice was received, the team began discussing options for more accurately identifying employer accounts involving third party payers and determining how many changes of address are input yearly. SBSE Research recently determined that paid preparer information is being captured by the CDW database. The team will submit a formal request through SBSE Research to request additional research that will allow the team to determine the scope of the problem. The team then will review research results and identify instances in which sending dual confirmation letters may be appropriate.</p>		<p>contrary to the IRS's prior commitment. The IRS Office of Chief Counsel concluded that dual confirmation letters are permissible under IRC § 6103 and are already in use by the IRS. For example, the IRS mails the Letter 1310 (3-2011) to ALL users of e-services who requested a change of address. When a misappropriation of client funds by third-party payers occurs, it creates millions of dollars in unpaid payroll taxes for thousands of taxpayers across the country. In two recent cases that occurred in FY2010, defunct payroll service provides misappropriated millions of dollars in unpaid payroll taxes for thousands of taxpayers across the country. We are confident that the benefits of dual address change letters ("Are You There?" letters) to the affected employers and the government outweigh any cost-related concerns. Therefore, we urge the IRS to reconsider its position and adhere to the prior agreement to begin using a dual</p>

NTA Recommendation	IRS Response	IRS Addressed Yes/No (TAS's Assessment)	TAS Explanation (if any)
			address change letter alerting employers that a third party has initiated a change of address.

2009 ARC – MSP Topic #19 – THE IRS MISMANAGES JOINT FILERS’ SEPARATE ACCOUNTS

Problem

Taxpayers who file joint returns are jointly and severally liable for any deficiency or tax due, and the IRS usually maintains a single account to keep track of their joint liability. Sometimes, however, the IRS creates separate accounts for joint return filers to accommodate changes in the taxpayers’ circumstances. Taxpayers are harmed when the IRS mismanages these separate accounts, designated as MFT 31 accounts (or on occasion as Non Master file or NMF accounts).

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS’s Assessment)	TAS Explanation (if any)
1. The IRS should implement a system in all IRS programs with responsibility for creating Master File Tax (MFT) 31 accounts to ascertain whether it creates MFT 31 accounts or, if necessary, non-master file (NMF) accounts, in response to a triggering event.	The IRS already has systems in place to verify that MFT-31 accounts or NMF accounts have been created when appropriate. In addition to the reports and tools mentioned in the response to 19-3 below, appropriate creation of separate accounts is also part of the normal managerial and quality review processes in place for employees that work programs that include separation of joint accounts.	Yes	
2. The IRS should monitor Master File Tax (MFT) 31 accounts and non-master file (NMF) accounts to verify that they accurately reflect payments, do not lead to inappropriate collection activity, and do not result	Processes are already in place to ensure MFT 31 accounts accurately reflect payments, avoid inappropriate collection activity and do not result in inappropriate IRS communications. We have already implemented the following processes: • For mirrored accounts, computer programming is in place to systemically	Yes	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>in inappropriate IRS communications.</p>	<p>generate a TC 766 credit on the spousal account anytime a payment posts to the cross-reference account.</p> <ul style="list-style-type: none"> • For non-mirrored accounts (i.e. Exam and Appeals Tax Court Cases), computer programming causes the generation of an internal transcript when payments post to either spouse's MFT 31 account and the payment needs to be manually mirrored. • When systemic limitations prevent the establishment of an MFT 31 account and the account has been established on Non-Masterfile, internal transcripts are generated to ensure proper crediting of payments. • Mirrored accounts systemically compute the Collection Statute Expiration Date (CSED) and Assessment Statute Expiration Date (ASED) for both spouses. • MFT 31 computer programming has been updated so that offsets (reductions to credits to satisfy outstanding liabilities) will now systemically occur from a joint account (MFT 30) to the MFT 31 accounts for both the primary and secondary taxpayers on a joint return. 		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<ul style="list-style-type: none"> Steps have been taken to minimize the instances of inappropriate IRS communications with respect to separate accounts. For example, IRM 21.6.8.2 explicitly outlines the disclosure rules relevant to MFT 31 accounts; POAs received for MFT 31 accounts are processed only for the taxpayer for whom the MFT 31 account was established; and, the Transcript Delivery System, an automated system accessible to tax practitioners that instantly delivers tax account and return information, has been programmed to prevent spousal disclosure in cases where a request involves an MFT 31 account. The IRS has also requested an Integrated Automation Technologies (IAT) tool that can be used to check each TIN on an MFT 31 report to see if the mirroring process has been completed. If not, the tool will notate that the case should be manually corrected and processed as separate accounts. Tentative dates for development and implementation are FY 11. The tool will be used in SB/SE Campus Compliance Services (CCS). The IRS will also consider the 		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	feasibility of expanding the use of similar IAT tools elsewhere, including in the Innocent Spouse program.		
3. The IRS should develop management reports that identify instances in which it did not create Master File Tax (MFT) 31 accounts or non-master file (NMF) accounts in response to a triggering event or mismanaged these accounts, and describe the corrective action it took.	The IRS already utilizes management reports to identify instances in which Master File Tax (MFT) 31 accounts or non-master file (NMF) accounts failed to establish in response to a triggering event. For example, Innocent Spouse (ISP) employees create an open Integrated Data Retrieval System (IDRS) control base when they are working on an issue that requires an MFT 31 or NMF account module. When an MFT 31 or NMF account does not establish, an unpostable listing is generated to the employee with the open IDRS control. Employees are required to resolve the unpostable and the IDRS control is not closed until they have verified that the MFT 31 or NMF has been established. Employees also receive a 6R report identifying all open cases on IDRS. Managers are required to monitor these reports to ensure employees are taking the appropriate actions to close cases in a timely manner. Another example of how reports are used include that	Partial	The IAT tool described in the IRS's response does address the recommendation, at least in part.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>Centralized Insolvency (CIO) cases are assigned on the Automated Insolvency System (AIS). The mirroring process is started in AIS, by downloading the transaction codes required to create the MFT 31 module in IDRS. However, if any of the transaction codes go unpostable, a base is opened to CIO. Employees in CIO are responsible for correcting the unpostable. Managers and employees monitor the cases on AIS until the MFT 31 module is created. The IRS has also requested an Integrated Automation Technologies (IAT) tool that can be used to check each TIN on an MFT 31 report to see if the mirroring process has been completed. If not, the tool will notate that the case should be manually corrected and processed as separate accounts. Tentative dates for development and implementation are FY 11. The tool will be used in SB/SE Campus Compliance Services (CCS). The IRS will also consider the feasibility of expanding the use of similar IAT tools elsewhere, including in the Innocent Spouse program.</p>		

2009 ARC – MSP Topic #20 – TARGETED RESEARCH AND INCREASED COLLABORATION NEEDED TO MEET THE NEEDS OF TAX-EXEMPT ORGANIZATIONS

Problem

Tax-exempt organizations must meet tax compliance and reporting obligations that can be surprisingly complex. Smaller organizations, which constitute the majority of the tax-exempt sector, are more likely to face this complexity without the assistance of professional tax preparers. The IRS acknowledges that small exempt organizations (EOs) need special help complying with the tax law, but it has no way to obtain comprehensive information about the services EOs need from the IRS or how they prefer to receive them. Further, the informational and educational needs of 1.8 million diverse tax-exempt organizations are primarily supported by nine IRS employees in the Exempt Organizations Customer Education and Outreach group within the Tax Exempt and Government Entities division. The “research gap” regarding the characteristics of the EO population, together with this inadequate staffing level, places the IRS in the position of using a one-size-fits-all, Internet-based approach to delivering service and helping organizations understand their reporting responsibilities.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
1. Design and implement a tax-exempt organization (or EO) Taxpayer Assistance Blueprint to formulate a targeted outreach plan based on research.	<p>TE/GE has designed a pilot research program, EO Services and Assistance (EOSA), focusing on small 501(c)(3) organizations. The research will study the communication preferences/educational needs of these organizations. TE/GE will develop a targeted, multi-year outreach plan to provide improved education and outreach services.</p> <p>Phase 1 of EO's pilot research project, EO Services and Assistance (EOSA), consisted of a set of focus groups that have been completed.</p>	Yes	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>TE/GE has designed a pilot research program, EO Services and Assistance (EOSA), focusing on small 501(c)(3) organizations. The research will study the communication preferences/educational needs of these organizations. TE/GE will develop a targeted, multi-year outreach plan to provide improved education and outreach services.</p> <p>Exempt organizations CE&O and TE/GE Research completed EOSA Phase 2, surveys of small tax-exempts in June 2011. The results of the surveys suggested:</p> <ol style="list-style-type: none"> 1) Increase the awareness of EO Update and StayExempt – once they are aware of these vehicles users of each (while low-based) rate them as helpful. 2) Collecting EO E-mail addresses and deploying Email communications as a part of EO outreach programs. 3) To the extent possible, improving three aspects of the EO section of IRS.gov: language, navigation & search engine. 		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>4) In all communications and outreach, keep in mind the learning here AND from the 2010 Qualitative research about EO Preparer needs – specifically that they want IRS pro activity in providing them with Guidance, Help/Advice, and Updates/Alerts.</p> <p>Phase 1 was completed in 2010. This research was face to face surveys. Phase 2 was completed June, 2011. This research was done with a total of 1,202 telephone surveys of small to mid-sized exempt organizations up to \$249.9K in total receipts. The participants included 300, 990-N (e-Postcard) filers; 602, 990-EZ filers; and 300, 990 filers. Phase 3's Statement of Objectives is being written now. Phase 3 will use the results from Phases 1 and 2 for a cost benefit analysis for the final outcome.</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>2. Use data generated by the Taxpayer Assistance Blueprint (TAB) to present a compelling argument for appropriate levels of funding for outreach, education, and a local Customer Education and Outreach (CE&O) presence.</p>	<p>Until the work in Recommendation 20-1 is completed, it is not possible to assess staffing needs and TE/GE's appropriate response. Staffing plan due – 12/31/2011</p>	<p>Yes</p>	

2009 ARC – MSP Topic #21 – THE IRS SHOULD DEVELOP AN IN-HOUSE COGNITIVE RESEARCH LAB TO UNDERSTAND TAXPAYER BEHAVIOR AND DEVISE MORE EFFECTIVE PRODUCTS AND PROGRAMS

Problem

The IRS does not adequately test its products, programs, and assumptions prior to releasing notices, forms, or educational products to the public, or before embarking on new programs and changing processes or procedures that affect the ways in which the IRS interacts with taxpayers. Testing should be conducted in a Cognitive Research Lab prior to release or implementation in order to test assumptions and make adjustments based on the reactions of different taxpayer populations to the item or programs being tested. Failure to do so results in the IRS continuing to release products, programs, and initiatives without having tested the methods or assumptions made in developing them to determine if the approach is truly effective.

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
<p>1. National Headquarters Research, along with representatives from the operating Divisions, and TAS, should study cognitive labs to determine how best to structure an IRS lab.</p>	<p>The IRS has for many years been committed to researching taxpayer comprehension, preferences, and barriers to full and timely compliance. This research has improved our forms, communications, services, and procedures, and will continue to do so. Research, Analysis, and Statistics will explore, in consultation with the affected business units, if any of these activities would thrive better under a different structure. The IRS has a Usability Lab at the Ogden Campus, which the operating divisions can use in several ways to test products. The Usability Lab is currently located in MITS and we will assess where to</p>	<p>Yes</p>	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>place this Lab, including the Research environment. In our November 2008 report to Congress on The Factors That Influence Taxpayer Compliance Behavior, written jointly with the National Taxpayer Advocate, we clarified that the Office of Research, Analysis, and Statistics is taking the lead on research into the linkage between external factors and taxpayer compliance, and that the National Taxpayer Advocate is taking the lead on research into the internal drivers of compliance behavior. To research the impact of external factors, we are conducting lab experiments, field experiments, and statistical analyses of historical data and do not recommend establishing a "cognitive research lab" for this purpose.</p> <p>In 2010, Research, Analysis and Statistics (RAS) conducted a study to explore usability testing and cognitive labs, the requirements and best practices for testing, and determine the feasibility of adding a usability lab to perform testing as a permanent component to RAS. Upon completion</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>of this study, RAS determined that there were several matters that should be considered. A stationary laboratory is the most ideal testing environment because the details of space can be specifically designed for testing purposes. Several agencies, within the Washington DC area, have well equipped labs which are available for use by other agencies when not in use. These agencies include:</p> <ul style="list-style-type: none"> • National Cancer Institute • Social Security Administration • Bureau of Labor Statistics <p>Mobile Laboratories: Another option is a low-cost mobile lab. The most basic of usability testing requires two high-performance laptops, two sets of webcams, two sets of microphones, and three usability professionals to maintain projects and incoming data. Dedicated laboratory space is not necessary as any test could be conducted with the use of at least two rooms, either adjacent or close together. This basic mobile setup can purchased as a set, with costs totaling approximately \$10,000.</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
2. Identify IRS employees who could be trained to staff the lab.	<p>The IRS has a Usability Lab at the Ogden Campus. The Usability Lab is currently located in MITS and we will assess where to place this Lab, including the Research environment. This assessment will also determine optimal staffing requirements.</p> <p>IRS has a Usability Lab at the Ogden Campus, which the operating divisions can use in several ways to test products. The Usability Lab is currently located in MITS. Currently, the Ogden UL employs two staff members: one who oversees the stationary equipment and software and the other member has been cross-trained in various aspects of the lab, and also serves as the point of contact for all projects.</p>	Yes	
3. Hire staff that cannot be developed rapidly from current IRS employees.	<p>The IRS has a Usability Lab at the Ogden Campus. The Usability Lab is currently located in MITS and we will assess where to place this Lab, including the Research environment. This assessment will also determine optimal staffing requirements.</p> <p>The optimal amount of staff for the lab</p>	Yes	

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
	<p>would be three members: one lead usability expert or professional, and two experienced usability testers. The usability expert should have received formal education and/or training, and/or have a large amount of testing experience. Examples of experience and background can include the following:</p> <ul style="list-style-type: none"> • Cognitive psychology • Educational design • Computer programming • Counseling • IT development • Usability • Sociology • Behavioral sciences <p>Although it may be necessary at some point to hire a few trained usability professionals, we believe that IRS has the option to cross-train current staff to expand usability and cognitive testing resources while maintaining the use of the Ogden staff.</p>		

NTA Recommendation	IRS Response	IRS Addressed Yes/No/Partial (TAS's Assessment)	TAS Explanation (if any)
4. Build a cognitive research lab.	In our November 2008 report to Congress on The Factors That Influence Taxpayer Compliance Behavior, written jointly with the National Taxpayer Advocate, we clarified that the Office of Research, Analysis, and Statistics is taking the lead on research into the linkage between external factors and taxpayer compliance, and that the National Taxpayer Advocate is taking the lead on research into the internal drivers of compliance behavior. To research the impact of external factors, we are conducting lab experiments, field experiments, and statistical analyses of historical data and do not recommend establishing a "cognitive research lab" for this purpose.	No	We strongly encourage the IRS to reconsider its position on creating a fully staffed, in-house Cognitive Research Lab. While lab experiments, field experiments, and statistical analysis are all necessary, we believe that without using professionals such as psychologists and sociologists to analyze taxpayer behavior, the IRS will not achieve a comprehensive understanding of what motivates taxpayers to comply with their tax obligations, how compliance motivators vary between different taxpayer segments, and how well taxpayers understand instructions and tax concepts.