Report to Congress

Progress on the Implementation of

The Taxpayer Assistance Blueprint

April 2007 to February 2008

Internal Revenue Service

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Introduction

In July 2005, Congress mandated the Internal Revenue Service (IRS), the IRS Oversight Board, and the National Taxpayer Advocate collaboratively to develop a five-year plan for taxpayer service. On April 11, 2007, the IRS delivered the TAB Phase 2 Report ("the TAB 2 Report") to Congress. The TAB 2 Report addressed the following objectives:

- Refine the IRS' understanding of the taxpayer needs, preferences, and expectations,
- Recommend taxpayer services improvement initiatives,
- Develop service outcome and performance measures,
- Establish an on-going process to assess taxpayer needs and correlate that assessment with compliance findings from the National Research Program,
- Address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayers' and partners' expectations, and
- Outline the five-year TAB Strategic Plan for taxpayer service based on all of the above.

The TAB Strategic Plan (the Plan) is intended to balance taxpayer and partner value with government value and compliance considerations in the taxpayer services environment. The Plan is based on a set of TAB Guiding Principles, reflecting the desired service outcomes for the next five years. The Plan includes specific initiatives for potential implementation in immediate years, and provides strategic direction thereafter. Extensive research and analysis provide strong rationale for proposed service initiatives and measures, as well as the service-related decision making and governance processes.

The TAB Strategic Plan is focused on balancing well-informed planning with operational experience, each collecting data relevant to taxpayer and partner experiences and service performance. However, a number of variables that affect service delivery will likely contribute to the continual evolution of the TAB Strategic Plan. Such variables include tax legislation, the IRS budget, technology advancements and security, and expectations from the public marketplace. Therefore, while desired strategic outcomes may not change significantly over the next five years, operational implementation will certainly be refined based on improved knowledge, experience, and environmental variables.

The joint explanation accompanying the Fiscal Year 2008 Consolidated Appropriations Act contains the following language:

> The Appropriations Committees reiterate and modify House and Senate report language directing the IRS, together with the IRS Oversight Board and the National Taxpayer Advocate, to submit annually to the Committees an update to the Taxpayer Assistance Blueprint, detailing its implementation status and

identifying any changes to the strategic plan for taxpayer service, including any research and relevant findings completed to date, and any open issues requiring additional research. The first update shall be submitted 90 days after enactment of this Act.

This report responds to the Appropriations Committees' request for an update to TAB implementation status by March 25, 2008. The report provides a summary of activities covering approximately a ten-month period from mid-April 2007 to early February 2008.

The report is organized to reflect both developmental and start-up activities, as well as increasing integration of the TAB into existing IRS strategic and operational planning, budgeting, and implementation processes. With the creation of an institutional TAB champion, the Taxpayer Services Program Management Office, implementation of the TAB Strategic Plan reflects a balance of immediate service initiative opportunities and longer-term service resource development. The report contains the following sections:

- IRS Services Governance
- TAB Guiding Principles
- TAB Strategic Integration
- TAB Operational Integration
- Implementation: TAB Service Improvement Portfolio
- Implementation: Research Plan
- Implementation: Taxpayer Assistance Center (TAC) Assessment Process
- Implementation: Measures
- Engagement: Communication Strategy and Best Practices
- IRS Oversight Board Perspective
- National Taxpayer Advocate's Perspective

This report is intended to identify and summarize notable accomplishments through the TAB Strategic Plan implementation. It does not represent the totality of IRS efforts to improve taxpayer and partner service nor does it provide an extensive account of each initiative.   However, several notable accomplishments in FY 2008 include:

- Establishment of the Taxpayer Services Program Management Office (TSPMO) and Services Committee to provide senior executive coordination and governance to TAB implementation;

- Implementation of an Estimated Wait Time announcement to inform taxpayers about their expected wait time in the telephone queue prior to reaching a customer service representative;

- Implementation of Spanish "*Where's My Refund?*," which adds refund status to the Spanish web page on IRS.gov that mirrors English-based refund information;

- Launch of an electronically searchable Publication 17, *Your Federal Income Tax*, on IRS.gov;

- Enhancement of training for volunteers in the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs; and

- Release of tax publications in new languages, including Chinese, Russian, Korean, and Vietnamese.

Questions regarding specific initiatives or programs can be directed to Mark E. Pursley, Director, Taxpayer Services Program Management Office, at 404-338-7102.

IRS Services Governance

The IRS guiding principle,[1] *Service Plus Enforcement Equals Compliance (S + E = C)*, underscores the IRS' commitment to providing excellent service to taxpayers and to enforce America's tax laws in a balanced manner. The equation recognizes that Service and Enforcement disciplines must effectively complement each other to increase and sustain voluntary compliance. For a number of years, the IRS Enforcement Committee has guided the development and implementation of agency-wide enforcement strategies, concentrating on issues that benefit from an enterprise overview or that have the potential for significant compliance impact.

The TAB Strategic Plan called for an IRS governance body to provide the same level of oversight to IRS service operations. Like the Enforcement Committee, this new governance body, the Services Committee, includes cross-functional, senior executive representation and supplements existing IRS decision making processes. The primary objective of the Services Committee is to facilitate an integrated agency-wide approach to delivering service and provide enterprise perspective to service decision making. On August 6, 2007, the Acting IRS Commissioner, Kevin Brown, approved the formal charter of the Services Committee, which held its initial meeting on October 11, 2007.   The implementation of the Services Committee ensures that both service and enforcement issues and priorities share equal agency-wide visibility.

►   *Services Committee*

The Deputy Commissioner for Services and Enforcement chairs the Services Committee. The permanent, voting members include the Deputy Commissioner for Operations Support, the Commissioners for Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE), the Chief Information Officer, the Chief Financial Officer, and the National Taxpayer Advocate. Non-voting members include the Commissioners for Large and Mid-Size Business (LMSB) and Tax Exempt and Government Entities (TEGE), the Chief of Communications and Liaison, and the Directors of Research, Analysis and Statistics, Office of Taxpayer Burden Reduction, Office of Professional Responsibility, Legislative Affairs, and Electronic Tax Administration (ETA). The Director of the Taxpayer Services Program Management Office (TSPMO) functions in an advisory role and is responsible for facilitating Services Committee meetings.

According to its charter, the Service Committee's scope and responsibilities are to guide the development and implementation of IRS-wide taxpayer service strategies. Specifically, it will:

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[1] IRS Strategic Plan 2005 – 2009, page 3.

- Oversee, prioritize, and approve an integrated services portfolio;

- Review, prioritize, and approve strategic service investment decisions in the context of agency-wide priorities and resources;

- Assess, revise, and approve agency-wide outcome measures;

- Facilitate an organizational culture that balances and integrates enforcement and service strategies;

- Assign ownership of actions related to major service decisions;

- Consider best practices and relevant research in making decisions relative to services resources;

- Recommend cross-functional taxpayer service research projects; and

- Review budget initiatives for alignment with the strategic plan.

By the end of February 2008, the Services Committee had met three times and accomplished the following:

- Approved the TSPMO Charter;

- Approved refinements to the originally-stated TAB Guiding Principles;

- Reviewed the status of TAB-related initiatives;

- Approved the TAB Research Plan for FY 2008 and FY 2009;

- Approved the piloting of an e-Council, a collaborative body consisting of ETA, business representatives, and Modernization and Information Technology Services (MITS) for evaluating e-Services strategies and systems requirements;

- Approved a new Concept of Operations[2] for ETA; and

- Reviewed the initial implementation plans for Release 1 of the Internet Customer Account Services (ICAS) system.

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[2] The objective of a Concept of Operations (CONOPs) is twofold. First, it explains the future state vision for a function or operation. Second, it provides the context for decisions related to organizational development.

►   *Taxpayer Services Program Management Office*

To ensure that taxpayers, partners, and the IRS benefit from the work to prepare the TAB 2 Report, the TSPMO was implemented on October 1, 2007. The vision of the TSPMO is focused on institutionalizing continual strategic and operational service improvement. The TSPMO acts as a focal point to highlight, facilitate, and integrate service investments, processes and initiatives that will improve the effectiveness and efficiency of service delivery to taxpayers, partners, and the government.

The TSPMO is charged with providing an agency-wide focus, but is organizationally located within the Wage and Investment (W&I) Division, given W&I's predominant role in IRS service delivery. The TSPMO's role with TAB implementation and relationship with the existing Business Operating Divisions (BOD) include:

- Promoting cross-functional coordination of operational activities with shared service outcomes. The TSPMO's goal is to support transparent decision making processes that integrate compliance, taxpayer/partner value, and government value into all strategic planning and budgeting decisions for IRS service programs.

- Refining the capability to project the foreseeable implications of planning and budgeting decisions on service outcomes to taxpayers, partners and the government.

- Facilitating development, application, and assessment of agency-wide performance and outcome measures. Communicate progress against service outcome goals, incorporating participation and feedback from IRS functions.

- Coordinating the multi-year research portfolio with the Servicewide Research Council. The TSPMO provided input to the BODs to identify, prioritize, and implement the taxpayer service research agenda. The TSPMO's focus will be to ensure the research projects address the issues of service optimization; service delivery impacts; and taxpayer/partner needs, preferences, and behaviors.

- Developing communication and marketing materials for targeted taxpayer and partner segments that promote channel and service alternatives and reflect associated service value propositions.

- Acting as a forum to introduce internal and external best practices, identify and champion value enhancing opportunities, and communicate results. The outcome will be a service culture of continual improvement by balancing well-informed planning and successful operational implementation.

- Integrating all service-related functions, including Submission Processing, into the TAB.

Implementing an enterprise service strategy in an organization as large as the IRS is a complex and iterative process. The TSPMO concentrated on increasing awareness of the blueprint, integrating it into IRS strategic plans, and facilitating initial operational implementation from October 2007 through February 2008. The balance of this report recounts key activities and accomplishments realized in the ten months since completion of the TAB 2 Report.

TAB Guiding Principles

During TAB Phase 2, the IRS worked to analyze extensive research data and certain recurring findings about taxpayer needs, preferences, and behaviors that emerged. The findings, combined with ongoing tax administration policies and priorities, led the TAB Executive Steering Committee (ESC) to develop guiding principles that provide the groundwork for influencing future investments in service strategies and initiatives. The TAB Guiding Principles define the role of IRS services, the importance of assessing taxpayer compliance burden, and strategic service directions that will provide value to taxpayers, the IRS, and its partners.

TAB Guiding Principles are periodically reviewed by the Services Committee and the IRS Oversight Board to ensure that they accurately reflect the IRS strategic objectives with respect to taxpayer service. During its October 11, 2007 meeting, the Services Committee considered a recommendation to modify several TAB Guiding Principles based on the new Department of Treasury Strategic Plan and assessment of implementation activity. As a result, the Committee revised several of the original TAB Guiding Principles subsequent to the submission of the TAB 2 Report. The refinements are highlighted in bold type:

- The primary goal of service for individual taxpayers is to facilitate compliance[3] with federal tax obligations.

- A portion of the tax gap is attributable to errors by individual taxpayers. IRS service programs should be designed to prevent, minimize, and correct such errors with due consideration of taxpayer burden.

- IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.

  - o The IRS is committed to offering a portfolio of service options delivered across multiple channels, including face-to-face service.

  - o **Support expedited issue resolution across all channels through improved access to information and decision making resources**.[4]

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[3] Compliance is defined as taxpayers paying no more and no less than what they owe.

[4] Replaces the TAB Guiding Principle "provide service where the IRS is the only source for the information (e.g., accounts services)". The proposed change more directly supports the IRS Service

- o Enhance cost-effective, **solution-based**, self-assisted services **where appropriate for the subject matter** (e.g., forms and publications, automated telephone responses, and IRS.gov access). Provide opportunities for taxpayers to migrate to lower cost channels while ensuring that alternative channels are available.[5]

- o Expand use of e-file to reduce math errors, increase reporting compliance, and reduce submission processing costs.

- o As taxpayers migrate to self-assisted services, redirect available resources to activities that research determines are cost-effective options for preventing, minimizing, and correcting taxpayer non-compliance.

- Enhance IRS web site so that it becomes the first choice of more taxpayers for obtaining the information and services needed to comply with tax obligations.

- The IRS recognizes the significant role that partners play in tax administration. As such, the IRS will look for opportunities to assist these third parties in helping taxpayers understand and meet their tax obligations.

- **Enhance marketing, outreach, and education to targeted populations to improve service awareness, access, and quality**. [6]

While the TAB Guiding Principles provide the context and rationale for all service-related actions, the TSPMO has worked to integrate better TAB objectives into IRS strategic and operational plans. The following report outlines these efforts to date.

Strategy: "Provide the tools to ensure accurate, timely, accessible responses to tax law and tax account inquiries." In addition, it supports the First Contact Resolution outcome measure; it provides the rationale for modernization infrastructure, employee decision tools and customer-facing applications, and non-major technology investments; and it addresses the needs of taxpayers, partners, and employees.

[5] The words "solution-based, where appropriate for the subject matter" were added to the original version of this TAB Guiding Principle. This change moves the emphasis away from simply disseminating tax administration content to providing accurate solutions. It acknowledges the increasing complexity of the tax law supporting the development of on-line decision support tools and the objectives of burden reduction, simplification, first contact resolution, and consistent accuracy.

[6] This last principle is new. It highlights the critical role information plays to inform and educate taxpayers regarding their obligations and service solutions.

TAB Strategic Integration

During the ten months since issuance of the TAB 2 Report, the TSPMO actively worked to align the TAB with existing IRS strategic documents and activities, including the Modernization Vision and Strategy that identifies and guides decisions on Information Technology investments.

Tax Gap Report

The Tax Gap Report,[7] completed in August 2007, builds on the Comprehensive Strategy for Reducing the Tax Gap (the Treasury Strategy) that was released in September 2006 by the Department of the Treasury's Office of Tax Policy and provides more detail for that strategy. The plan includes seven components: reduce opportunities for evasion; make a mult-year commitment to research; continue improvements in information technology; improve compliance activities; enhance taxpayer service; reform and simplify the tax law; and coordinate with partners and stakeholders. The TAB Report, released in April 2007, became the basis for the service-related components of the Tax Gap Report, which also included TAB-recommended service initiatives. Both reports reflect the IRS commitment to expanded research and engagement, technology investment, taxpayer service enhancements, tax administration simplification, and coordination with partners and stakeholders.

IRS Return Preparer Strategy

As a result of recommendations made in the Tax Gap Report, the IRS held a Servicewide Return Preparer Summit in September 2007. The goal of the Summit was to begin work on a comprehensive, cross-functional IRS Return Preparer Strategy. The Return Preparer Summit led to the identification of issues, concerns and improvement opportunities that will form the foundation of this strategy. The strategic goals guiding the strategy are aligned with service, enforcement, and modernization goals. The TSPMO is actively working with other IRS divisions to define the current state of services to the return preparer community as well as integrating TAB service objectives into the strategy. Building on the knowledge acquired in the TAB, the objectives are to use increased research to understand and respond better to return preparer needs, preferences and behaviors; to expedite service task and issue resolution by enhancing solution-based, self-assistance and assisted services; and to enhance education, outreach, and marketing of IRS services to increase awareness, accessibility and value.

ETA Concept of Operations (CONOPS) / e-Services Strategy

The IRS Electronic Tax Administration (ETA) office enables the agency to meet taxpayer and government needs better through electronic means. Working with IRS business divisions, ETA will identify specific e-solutions to business problems in support

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[7] The Tax Gap Report lays out a comprehensive, integrated, multi-year plan to reduce the tax gap by increasing voluntary compliance.

of TAB objectives, and then help the IRS develop those solutions. As part of this work, ETA will lead the effort to create a unified electronic tax administration e-Strategy – effectively developing a vision for how the IRS can meet taxpayer and partner needs electronically and identifying a "roadmap" to move the agency to this future vision. The TAB will form a critical foundation for this e-Strategy.

The IRS is conducting a study to consider ways in which the IRS could meet the 80-percent e-filing goal set by Congress. The study, to be conducted by an independent firm, will look at all options to increase electronic filing – including expanding the Free File program, creating a direct filing option, imposing preparer mandates, using bar-coding technology, and other approaches. The Senate Appropriations Committee also directed the IRS to conduct such a study and develop an overall strategy for e-file growth.

Modernization Vision and Strategy (MV&S)

An essential part of the TAB strategy is the improvement of the technology that supports IRS taxpayer and partner services. The IRS Information Technology (IT) MV&S defines the agency's approach for aligning technology systems with operational priorities in order to make sound investment decisions. The MV&S serves as the blueprint for the IRS' incremental approach to building accountability, commitment and advocacy throughout the business and IT organizations. The core functions or "business domains" that directly relate to front-line tax administration are:

- Submission Processing;
- Managing Taxpayer Accounts;
- Customer Service;
- Reporting Compliance;
- Filing and Payment Compliance; and
- Criminal Investigation.

For each business domain, the MV&S defines the goals, benefits, opportunities, and expected business outcomes related to technology, that will yield the greatest benefit to taxpayers and the IRS. The plan identifies the specific projects, systems, and investments that will be necessary to achieve the business outcomes for each domain. The MV&S Information Technology Portfolio is selected annually. The business domains collaborate to develop a joint strategy for IT investments. The process results in a set of integrated strategies and investment proposals for each IRS investment domain.

Customer Service (CS) Domain executives and stakeholders re-assessed the current CS strategy in September 2007 and updated the Enterprise Transition Plan to reflect the service improvement categories identified by the TAB Phase 2 team. In 2007 the executives and stakeholders refined the CS Domain strategy to reflect a commitment to support the TAB Strategic Plan and recommended initiatives in future portfolio selection cycles.

The TAB 2 team identified two investments that will affect the CS Domain – Contact Analytics and Customer On-Line Decision Support. Each of these projects is discussed in the TAB Service Improvement Portfolio section of this report.

TAB Operational Integration

Each year business and support functions engage in planning, budgeting and decision making processes to translate IRS strategic plans into operational activities. The IRS Strategic Plan and supporting documents such as the Tax Gap Report and the TAB Report serve as the foundation for this management process. The TSPMO is facilitating the integration of TAB Guiding Principles, measures, and operational strategies into the IRS Operating Division plans.

The IRS' initial efforts focused on the W&I Division, which is responsible for the majority of IRS service delivery. Additional operational integration has involved the Small Business/Self-Employed and Large and Mid-Size Business Divisions. Driven by the timeline of the Federal planning and budget cycles, IRS made initial decisions regarding fiscal years 2008 and 2009 activities before completing the TAB 2 Report. Therefore, initial operational integration activity focused on assessing the alignment of planned initiatives with TAB recommendations and identifying priorities for future emphasis and investment.

Wage & Investment Division (W&I)

The IRS TSPMO staff worked extensively with W&I Strategy and Finance (S&F) and the operational business units in the development of the W&I Strategy and Program Plan (SPP) 2008 – 2009. In addition, these groups worked to identify the linkages between the TAB initiatives and operational priorities/improvement projects identified in the FY 2009 Strategic Assessment. Those coordination activities resulted in a crosswalk that identified responsible functions and related operational priorities/improvement projects for each TAB initiative.

Table 1 provides an illustration of this alignment as it relates to Taxpayer Service. In this manner, W&I links its operational priorities and improvement projects to both the Tax Gap Report and TAB recommendations. Accomplishments related to these operational priorities are discussed later in this report.

Table 1[8] TAB Alignment with the W&I Strategy and Program Plan

IRS Strategic Goal: Improve Taxpayer Service

IRS Objectives	IRS Strategies	IRS Long-Term Goals
▲ Improve service options for the tax paying public. ▲ Simplify the tax process. ▲ Facilitate participation in the tax system by all sectors of the public.	▲ Provide tools to ensure accurate, timely and accessible responses to tax law and account issues and inquiries. ▲ Ensure that guidance – including forms, instructions and notices explaining IRS policies and interpreting the tax code – is responsive to the needs of the public, written in clear, succinct and understandable language and issued promptly. ▲ Remove impediments to participation for groups with language, cultural or other barriers. ▲ Deliver focused education, outreach and alternative services directly and through stakeholder relationships, especially for those taxpayers not utilizing electronic services. ▲ Increase the scope and accessibility of services offered electronically. ▲ Simplify the tax return filing and paying experience for all classes of taxpayers.	▲ Attain an American Customer Satisfaction Index (ACSI) score of 69 for all individual tax filers by 2009. ▲ Attain a voluntary compliance rate of 86 percent by tax year 2009. ▲ Attain an electronic filing rate of 80 percent for major tax returns filed by individuals, businesses and tax-exempt entities by the year 2012.

Tax Gap Strategy Components	TAB Guiding Principle(s)[9]
▲ Enhance Taxpayer Service ▲ Continue Improvements in Information Technology ▲ Coordinate with Partners and Stakeholders ▲ Make a Multi-Year Commitment to Research ▲ Improve Compliance Activities	▲ The primary goal of service for individual taxpayers is to facilitate compliance with federal tax obligations. ▲ IRS Service investments will focus on preventing, minimizing and correcting taxpayer noncompliance. • Expand use of e-file to reduce math errors, increase reporting compliance and reduce submission processing costs. ▲ Enhance the IRS Web site so that it becomes the first choice for more taxpayers to obtain the information and services needed to comply with tax obligations. ▲ A portion of the tax gap is attributable to errors by individual taxpayers. IRS service programs should be designed to prevent, minimize, and correct such errors with due consideration of taxpayer burden. ▲ The IRS recognizes the significant role that partners play in tax administration. As such, the IRS will look for opportunities to assist these third parties in helping taxpayers understand and meet their tax obligations.

W&I Strategies

▲ Reduce W&I taxpayer burden by improving quality, efficiency, and service delivery.

▲ Expand options for electronic filing, paying, communication services and other automated services.

▲ Improve EITC and pre-refund activities through an approach that strengthens both compliance and outreach.

▲ Implement a balanced Compliance program to increase voluntary compliance.

▲ Assist third party providers in helping taxpayers understand and meet their tax obligations.

▲ Improve HCTC services through an approach that strengthens both compliance and outreach activities.

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[8] Internal Revenue Service, Wage and Investment Division, *Wage & Investment Strategy & Program Plan FY 2008 – FY 2009*, pgs 33 - 34.
[9] Internal Revenue Service, Wage and Investment Division, *Wage & Investment Strategy & Program Plan FY 2008 – FY 2009*, pg 31.

Other Integration Efforts

►   *Large and Mid-Size Business Division International Strategy*

The IRS Servicewide International Strategy seeks to improve tax administration and deal more effectively with the increased globalization of individual and business structures. The IRS approach to international tax administration includes a strategic goal of improving service options for international/U.S. territories and of striving for burden reduction in international tax law administration. The IRS TSPMO function coordinated with the LMSB Deputy Commissioner (International) in late summer 2007 to ensure integration of the TAB and LMSB International service objectives in the approved Servicewide Strategy, published in October 2007.

►   *Small Business / Self Employed Division*

As part of its efforts directed toward increased collaboration with other IRS Operating Divisions, the TSPMO has taken steps to improve coordination and collaboration with the SB/SE. This collaboration is essential because of this Division's responsibilities for relationships with the tax professional community (80 percent of SB/SE taxpayers use tax professionals for their dealings with IRS) and because this Division conducts the greater part of IRS enforcement programs. SB/SE shares key compliance messages with practitioners and other outside stakeholders using communication and education strategies. SB/SE uses an established issue-resolution system that ensures issues are identified, resolved and communicated timely. In addition, SB/SE continues to facilitate the increase of data exchanges with federal agencies to identify non-compliance through continued enhancement of Fed/Fed program.[10]

In the past six months, the TSPMO Director conducted several meetings with SB/SE's Commissioner, Deputy Commissioner, and senior executives and collaborated in efforts to identify the linkages between SB/SE's Strategic Plan and the TAB Strategic Plan. The result is that SB/SE will identify ongoing activities that should be included in the TAB Strategic Plan and will spearhead efforts to improve alignment between the two Plans. In addition, both organizations are exploring shared needs for supporting research and the role that the SB/SE Research organization and other research initiatives can play in support of TAB Strategic Plan initiatives.

►   *Office of Taxpayer Burden Reduction*

The TSPMO is participating on a project initiated in the Office of Taxpayer Burden Reduction to identify issues the IRS can undertake to reduce the tax compliance burden on aging Americans. The project is based on IRS research that showed that the burden on aging Americans, a group expected to double in size in the next 20 years, is a current and growing area of concern. The complex issues faced by aging Americans

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[10] The Fed/Fed Program is implementing a strategy to facilitate new relationships between the IRS and other federal agencies. This program will seek to develop new partnerships, increase data exchanges, and to expand partnerships to maintain the highest level of effectiveness related to disaster situations.

today include having more than one pension, Social Security income, Roth and/or traditional Individual Retirement Accounts, a job after retirement, owning a business in areas such as consulting, caring for grandchildren with possible eligibility for the Earned Income Tax Credit, and long-term health care and medical issues. The project team is focusing on areas in which the IRS can initiate activities internally as well as those that will require legislative changes.

Implementation: TAB Service Improvement Portfolio

A key element in the TAB Strategic Plan is the implementation of the Service Improvement Portfolio, a series of recommended improvement initiatives designed to enhance taxpayer service. The initiatives address services offered by the IRS directly to taxpayers, as well as services provided to partners.

The TAB identified five service improvement categories, and the current state of service delivery related to each category. The categories included improvement initiatives recommended to help the IRS achieve desired service performance and outcomes, reflecting available resources, operational feasibility and strategic assessments. The TAB report recommended a total of 55 initiatives (the TAB Initiatives), both already planned and prospective, within the scope of the five categories. The service improvement categories are:

1. Electronic Interaction Enablement

2. Telephone Service Enhancements

3. Partner Services

4. Outreach and Education

5. Marketing and Promotion

The IRS FY 2008 Omnibus appropriation enacted level includes $47 million in additional funding not included in the FY 2008 Budget Request. Eight million of the $47 million will establish and administer a Community Volunteer Income Tax Assistance matching grants demonstration program for tax return preparation assistance.

Also included in the $47 million is an additional $31.2 million to provide outreach and education activities for individuals, businesses, and tax-exempt entities; and to increase the number of returns prepared at IRS Taxpayer Assistance Centers. Responsive to Congressional intent, IRS proposes to more broadly use this funding to help implement the Taxpayer Assistance Blueprint recommendations, including partner training and outreach, IRS.gov enhancements, installation of Contact Recording in all TACs, expansion of the Facilitated Self-Assistance Research Project, increase customer-focused research, and enhance services for Limited English Proficient taxpayers.

These TAB investments will result in improved services to taxpayers in years to come. While this additional $47 million funding will not recur in FY 2009, the IRS believes that the FY 2009 Budget Request is appropriate to accomplish the goals set out by the agency; such as increased self-service applications to provide more service options and improved quality and accuracy of telephone services.

The FY 2008 Budget Request includes $10 million for initiatives specifically identified in the TAB report. The IRS selected four of the 55 TAB initiatives (or the "FY 2008 TAB Budget Initiatives") to be funded by the $10 million.[11]

The following discussion of the status of the implementation of the TAB Service Improvement Portfolio consists of two sections: (1) a detailed discussion of the FY 2008 TAB Budget Initiatives and (2) a discussion of accomplishments related to the remaining TAB Initiatives.

FY 2008 TAB Budget Initiatives

► *Electronic Interaction Enablement*

1. Spanish *"Where's My Refund?"* – The IRS added a Spanish version of the popular "*Where's My Refund?"* web application to the Spanish web site on IRS.gov effective January 2, 2008. The application provides basic refund information on the web to the Spanish-speaking community. The new option will answer more than 95 percent of routine refund inquiries from Spanish-speaking customers. As of March 1, 2008, the system had received more than 90,000 authenticated inquiries.

   The Hispanic population in the United States is projected to grow from 35.3 million in 2000 to 59.7 million in 2020, or 69 percent.[12] Having this self-service application in Spanish clearly meets the IRS mission in that it reduces taxpayer burden, in this case to the Spanish-speaking taxpayer community. In addition, providing Spanish-speaking taxpayers this self-help application enables Customer Service Representatives (CSR) to respond more quickly to more complex taxpayer issues.

2. Expanded Portfolio of Tax Law Decision Support Tools / Customer On-Line Decision Support (COLDS) – The TAB 2 Report identified the COLDS tool as *Tax Law Support Tools and Calculators* initiative.

   The two releases for the COLDS project are:

   • Frequently Asked Questions (Release 1) – This release will improve and enhance W&I's Frequently Asked Questions (FAQs) link on the IRS.gov public-user's portal. It enables users to conduct key word queries on W&I's FAQs knowledge database and will increase the usage of FAQs as a reliable source of tax law information. Both taxpayers and CSRs will access the same content through the web which will provide continuity to

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[11] The $10 million in FY 2008 funding is part of the additional funding provided by Congress for taxpayer service program. For FY 2009, the Budget Request provides for maintaining taxpayer service programs at the FY 2008 enacted level of $2,150,000,000. The taxpayer service appropriation remains flat for FY 2009 as a result of inflation.

[12] U.S. Census Bureau, 1970, 1980, 1990, and 2000 Decennial. Internet Release Date February 8, 2008.

the answers to questions asked by either taxpayers or CSRs. The FAQ release provides guidance and promotes taxpayer self-assistance. Release 1 is on schedule for the 2009 Filing Season.

- Probe and Response Application (Release 2) – The Probe and Response system guides the taxpayer to the appropriate answer or tax decision based on an electronic interview process. This enhancement to IRS.gov develops a common set of decision-support tools that provide a web-based self-service solution for use by employees, taxpayers, practitioners, and other third parties that will help make the website a first choice for obtaining information required to comply with tax obligations.

  Due to significant functional overlap, COLDS Release 2 will integrate a recently deployed, web-based tool, the Interactive Tax Law Assistant (ITLA), which replaces the Publication Method Guide and the Probe and Response Guide for Field Assistance (FA) and Accounts Management CSRs, respectively. A phased approach will be used to continue deploying content internally during FY 2009 and then to external customers through IRS.gov during FY 2010.

► *Telephone Service Enhancements*

3. <u>Contact Analytics (CA)</u> – Contact Analytics provides commercial-off-the-shelf software tools for evaluating recorded audio from contact center recordings for the purpose of identifying performance improvement opportunities. The scope of the CA project currently addresses calls captured through the existing Contact Recording project for call center telephone contacts only. The current CA project does not include TAC contacts. Large segments of recorded messages can be selected, reviewed and compared using user-specified search criteria. The CA tools will determine the root cause of why taxpayers are calling and identify potential areas for improvement. As a result, improvements such as the modification of operational processes and training may be employed to enhance the conversational interactions with the customer, resulting in quality, efficiency, customer satisfaction, and the ability to satisfy service requests fully on the first contact (first contact resolution).

   The Contact Analytics project scope and concept have been developed. Currently the project team is looking at competing technologies for software selection. Delays in the approval of the final FY 2008 IRS budget delayed the start of the CA project, which is operating under a compressed timeline. The pilot is scheduled for September 2008, and dependent upon the adopted software, full deployment will be in FY 2009.

4. <u>Estimated Wait Time (EWT)</u> – EWT provides taxpayers real-time messages within the Toll-free product lines, informing them of the "expected wait time" to hold until their call is picked up by an assistor. EWT provides taxpayers the

information needed to decide whether to hold or call back at a less-busy time, thereby reducing taxpayer burden and increasing customer satisfaction.

A pilot covering six telephone product lines dedicated to specific taxpayer topics (i.e. certain tax law questions, individual account questions and installment agreements) and accounting for more than 50 percent of the actual 2007 filing season call volume is running from January 2008 through May 2008. An analysis of the pilot will be completed by June 30, 2008. Upon completion of the analysis, EWT will be extended to additional telephone product lines, as appropriate.

TAB Initiatives

The following discussion presents key accomplishments related to the five service improvement categories for TAB Initiatives not specifically considered as part of the FY 2008 budget submission.

1. Electronic Interaction Enablement[13]

Objective: Maximize the taxpayer and partner value of the IRS web site and on-line self-assistance, making the electronic channel the first choice of more taxpayers and partners for obtaining the information and services they need to comply with their tax obligations.

Recommendations: The recommended initiatives for the Electronic Interaction Enablement category address services governance, content management, end-to-end portal and application monitoring, web site design and usability, online support tools, publication search capability, evaluation of Frequently Asked Questions, and authentication for account-related tools.

Implementation Status:
- Enterprise Content Management (CMA) – The IRS is developing a strategy for enterprise content management and plans to address identified needs in a new portal implementation. Under current plans, the new CMA will be able to incorporate IRS.gov taxonomy, thereby providing taxpayers with improved results when searching for specific content. Newer content management technology will allow the IRS to keep content more current and consistent and will allow one piece of content to be reused in different areas of the web site. Currently, selection of the new CMA product is scheduled for FY 2008.

- Internet Customer Account Services (ICAS) – Release 1 of the Internet Customer Account Services (ICAS) project, which will enable individual taxpayers to view their IRS account information online, is in progress and to date has completed the project initiation, preliminary design and detailed design phases. Among other significant milestones, the project completed a baseline business case

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[13] The 2007 Taxpayer Assistance Blueprint Phase 2, page 8.

identifying benefits, costs, and financial return on investment to be realized as a result of the project. The project, projected for completion in October 2008, recently entered the system development phase of the project management lifecycle.

- E-Services Improvements – One focus of this initiative is to improve password management. Electronic Tax Administration (ETA) added a password reset feature to the Registered User Portal in July 2007 to allow users to reset their own password. This saves users from going through the five-to-seven-day re-authentication process, thereby reducing taxpayer burden.

- Publication Search Capability – The IRS launched a fully searchable Publication 17, *Your Federal Income Tax,* on the IRS.gov website that will assist customers in easily navigating this widely used publication. This new version contains electronic links that allow users to link to other parts of the publication and to the external website immediately. The online version is accessible to taxpayers with disabilities in accordance with Section 508 of the Rehabilitation Act of 1973 (29 U.S.C. 794d).

   2. Telephone Service Enhancements[14]

Objective: Improve telephone service efficiencies and enhance technologies to maximize the user experience on the telephone channel.

Recommendations: The recommended initiatives for the Telephone Service Enhancements category address contact center infrastructure and telephone technology improvements.

Implementation Status:
- Centralized Customer Contact Forecasting and Scheduling (CCCFS) – IRS continues to modernize the system of workload forecasting and staff scheduling by interfacing the CCCFS software with internal systems, such as the telephone routing system. The first phase of CCCFS provides workforce management functionality that includes forecasting of phone, paper, and potentially web-based customer contacts, workload tracking, staffing, and comparing corporate productivity performance against the schedule. Currently, this first phase is scheduled to be deployed for W&I's Accounts Management function during FY 2008. The project team completed a second phase of detail design that covers the replacement and upgrade of system hardware.

- Account Management Services (AMS) – AMS will enable real-time access to taxpayer account information by IRS employees in order to support faster resolution of taxpayer issues by IRS employees. The AMS releases over the next three to five years will focus on improving the accessibility of taxpayer account data by creating services that provide an integrated view of the

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[14] The 2007 Taxpayer Assistance Blueprint Phase 2, page 9.

taxpayer's account. In addition, AMS will provide automated research capabilities, systemic quality checks, enterprise management of inventories within AMS, automated case actions to increase accuracy, efficiency and productivity, and will increase employee satisfaction by providing English translations of account transactions and systemic access to relevant reference materials.

3. Partner Services[15]

Objective: Maximize assistance provided to tax practitioners, commercial preparers, community-based partners, and return preparation software vendors who are helping taxpayers understand and meet their tax obligations.

Recommendations: The recommended initiatives address training and resources; tax practitioner, commercial preparer, and community-based partner collaboration; electronic and telephone resources; community coalition support; and coordination with federal agencies.

Implementation Status:
- Volunteer Income Tax Assistance (VITA) Grants – In the joint explanation accompanying the FY 2008 Consolidated Appropriations Act (Public Law 110-161) enacted on December 26, 2007, the House and Senate Appropriations Committees directed the IRS to establish and administer a matching grant program, in consultation with the Taxpayer Advocate Service, for Community VITA. The establishment of the Community VITA Grant will allow the IRS to offer funding to assist organizations with growing and sustaining the VITA program. The Stakeholder Partnerships, Education and Communication (SPEC) organization in W&I, which administers the existing VITA program, chartered a team to develop the new grant program. The IRS developed proposals for the VITA Grant Program, including the application process, eligibility criteria, evaluation and ranking criteria, selection methodology, and program and grantee monitoring and evaluation. The IRS intends to open the application process for VITA grants in July and August 2008, with selection and notification of grantees by October 31, 2008. Grantees will be able to draw awarded funds beginning in December 2008, in preparation for the 2009 filing season. The $8 million VITA Grant program will not replace the current in-kind support provided by IRS for the existing VITA program.

- Volunteer Return Preparation Program (VRPP) training program – The IRS took a number of steps to improve the quality process of the VRPP. The IRS established and communicated national accuracy targets for volunteers, completed a standardized Quality Site Review sheet to measure accuracy of returns prepared at volunteer sites, and created a standardized, universal return preparation training course for site coordinators' use in training their volunteers.

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[15] The 2007 Taxpayer Assistance Blueprint Phase 2, page 9.

Additional recommendations will be implemented as the year progresses.

- Scope and Sustainability Strategy – This initiative focuses on refining strategies to assist partners in achieving increased scope and sustainability through multiple resources. During FY 2007, the IRS SPEC organization established a team that identified strategies to continue developing tax-related financial education and asset-building support for use in community-based partner programs during 2008 and beyond. In addition, the IRS Media and Publications organization continues to build and maintain relationships with tax-related professional associations, such as the American Payroll Association, by making presentations on changes in tax law, employment taxes and information returns.

- Partner Pages on IRS.gov – This initiative focuses on ensuring that the partner pages on IRS.gov include best practices with references and links to financial and technical resources. The IRS continues to promote the IRS.gov partner page's keyword search "Community Network" to internal and external stakeholders by incorporating Community Network messages in key volunteer and facilitator training guides, marketing products, and bookmark products for the partner audience. SPEC changed the title of the main page to make it more searchable and included information for the Site Coordinator's Corner, which provides partner tools, references and publications. The site also provides links to "hot topics," on-line tools, quality alerts, and other tax-related products and support materials. In addition, SPEC revised the Partner Survey to include a series of questions that will measure partner and volunteer awareness, use, and satisfaction with the IRS.gov Community Network pages and to prompt the user to identify improvements to the site.

- Practitioner Telephone and Electronic Services – The purpose of this initiative is to strengthen and market practitioner telephone and electronic service offerings. Practitioners with Automated Underreporter (AUR) issues calling the Practitioner Priority Services (PPS) telephone line currently cannot be transferred to AUR. PPS callers are provided the toll-free number and asked to call back to contact AUR. Upcoming changes scheduled to be deployed in July 2008 will allow Customer Service Representatives to transfer practitioners directly to AUR and eliminate the need for a call back.

- Access to Electronic Resources – In November 2007, IRS provided access to all Circular 230 Practitioners who qualify to practice before the IRS as attorneys, Certified Public Accountants, or Enrolled Agents to the web-based e-Services and its related incentive products. Previously, access to the incentive products was only available to Electronic Return Originators (ERO) who filed at least five tax returns electronically per year. In addition, the IRS also expanded access to over 1000 reporting agents (providers of payroll and tax services) for the Electronic Account Resolution and Transcript Delivery Systems. This expansion enabled IRS partners to complete disclosure authorizations, and view or modify existing forms online. Tax professionals who have a Power of Attorney

on file with the IRS can, for the first time, resolve their client's account problems electronically by sending their inquiries to a secure mailbox and receiving responses from the IRS about individual or business account problems, refunds, installment agreements, missing payments, and notices. The Transcript Delivery System allows tax professionals to request and receive account transcripts, wage and income transcripts, tax return transcripts, and verification of non-filing letters for individual and business taxpayers.

- National Partners – The IRS formed a new partnership with the Corporation for National and Community Service, a federal government agency that plays a vital role in supporting the AmeriCorps' Volunteer in Service to America (VISTA) program. VISTA is the federal funded national service program designed specifically to fight poverty. The partnership has two objectives: to educate all VISTA volunteers on EITC so they can provide this information to the families they serve; and to engage VISTA volunteers directly in building capacity for the VITA program. The IRS is also working with new partners, the American Council of the Blind and National Industries for the Blind, to focus on visually impaired taxpayers. The focus will be to develop local strategies, such as mobile VITA sites, to address the transportation and other access issues facing this population. In addition, the IRS partnered with the Department of Defense and the Department of Homeland Security in the development of a informational DVD, *Federal Taxes After the Military – What You Should Know, Publication 4590 (6-2007),* which includes a tool veterans can utilize to project the amount of taxes owed and the correct amount to be withheld from wages during the year.

- Fed/Fed Program – The Fed/Fed program, established in March 2006, is both a Tax Gap and a TAB initiative. The purpose of the Fed/Fed program is to develop and facilitate relationships between the IRS and other federal agencies focused on increasing data exchanges between federal agencies to identify areas of non-compliance.

4. Outreach and Education[16]

Objective: Enhance outreach to targeted populations and maximize opportunities to educate taxpayers, partners, and IRS employees.

Recommendations: The recommended initiatives for the Outreach and Education category address research, campaigns and products, Limited English Proficiency (LEP) segments, educational resources, partner training resources, and IRS employee education.

Implementation Status:
- Nationwide Outreach Strategy – The Nationwide Outreach Strategy will focus on disseminating tax information and increasing EITC awareness and other tax credits to communities with a significant number of LEP individuals. This strategy

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[16] The 2007 Taxpayer Assistance Blueprint Phase 2, page 9.

will include using internal and external research options to explore ways to expand pre-filing products and service in priority languages. As a first step in developing this strategy, the IRS established a Hispanic LEP Initiative Team to identify actions that will enhance services to the Hispanic LEP population.

- Disability Initiative – As one of SPEC's key national initiatives, the Disability Initiative educates taxpayers with disabilities on available tax credits, deductions, and free tax preparation. It also increases the understanding of and access to community-based asset-building and financial literacy resources to help improve these taxpayers' economic well-being. On January 8, 2008, SPEC and the National Disability Institute held the second annual "Mayor's Leadership Academy on Asset Development for Persons with Disabilities." Representatives of mayors' offices and community-based organizations designed and implemented a coordinated plan of action to advance the economic freedom of working Americans with disabilities through participation in free tax preparation and asset building strategies. During the 2007 filing season, 54 cities actively participated in this initiative and SPEC engaged ten national and 355 local partners, produced 36,275 tax returns. These efforts resulted in refunds of approximately $33 million, and made over 1 million outreach contacts. This initiative will be active in 63 cities in FY 2008. The initiative includes all "sub-market" segments of disability (physical, mental, hearing and visually impaired).

- Virtual Translation Office – During the first quarter of FY 2008, IRS released five new tax glossaries in traditional and simplified Chinese, Russian, Korean and Vietnamese. These new glossaries of tax terminology will help meet increased demand for tax-related resources in languages other than English. The IRS also translated Publications 579SP, *How to Prepare the Federal Tax Return*, and 334, *Tax Guide for Small Businesses*, into Chinese for publication later in FY 2008.

- Multi-Lingual Initiative (MLI) Strategy Office – The objective of this initiative is to develop strategies and policies targeted to the needs of Limited English Proficient (LEP) taxpayers. Accomplishments under this initiative include the launching of the *"Where's My Refund?"* link in Spanish on the IRS.gov/espanol website, the expansion of the Free File program into Spanish, release of the Spanish Basic Tax Responsibility DVD, and the Basic Tax Responsibility Audio CDs in Spanish, Chinese, Russian, Korean, and Vietnamese. These products explain taxpayer rights and responsibilities regarding taxes, the benefits of paying taxes, and provide information about IRS services available to assist taxpayers.

5. Marketing and Promotion[17]

Objective: Improve marketing of channel alternatives – specifically the electronic channel and associated services and capabilities to targeted taxpayers and partners.

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[17] The 2007 Taxpayer Assistance Blueprint Phase 2, page 9.

Recommendations: The recommended initiatives for the Marketing and Promotion category address a comprehensive marketing approach to improve awareness of services delivery channels and capabilities.

Implementation Status:

- Free File Media Campaign – Late in calendar year 2007, the IRS launched a media campaign for Free File, a program through which taxpayers earning under $54,000 per year can e-file for free. The objective of the campaign is to increase the awareness of the program among qualified filers and to promote the benefits of Free File, with a particular contrast to filing paper returns. Benefits highlighted by the campaign include faster refunds, ease of use, convenience, rapid feedback for received returns and the availability of Free File in Spanish. Key messages focus on income-qualified market segments, including the young and lower-income taxpayers.

  The campaign employs several public relations tactics using the media as a conduit to reach core audiences, including:

  o Development of an online, Free File Press Kit that contained fast facts, "frequently asked questions" sheet, and in-depth articles with key audience messages for the media. These materials were available prior to the start of the 2008 filing season.

  o Prominently placement of the Free File logo, tag line, and messaging on the paper Form 1040s for the 2008 filing season. All who receive the paper 1040 will get the Free File message directly.

  o Targeting early filers, and based on the media consumption habits of core audiences, started English and Spanish television and radio satellite media tours in mid-January 2008. Additional targeted TV and radio placement campaigns, in both English and Spanish, targeted audiences in early February 2008 with another aggressive push in early April 2008 in order to reach last-minute filers.

  o Leveraging of existing partnerships with the Society for Human Resource Management, American Payroll Association, and National Restaurant Association to release articles throughout the tax season in support of primary and secondary Free File messages.

  o Utilization of online marketing initiatives including e-mails, paid search and banner placements on a wide variety of media sites to reach both employers and consumers to promote the benefits of Free File.

- Earned Income Tax Credit (EITC) Awareness Day – Following the success of the 2007 event, IRS planned and coordinated a successful EITC Awareness Day generating extensive national and local media coverage on EITC and free tax assistance on January 31, 2008. More than 90 IRS partners held news

conferences and over 80 organizations issued news releases. More than 1,100 radio stations were reached via statewide radio networks. Highlights included:

o   A national news conference that took place with 18 national reporters and seven television stations. Secretary Henry Paulson, Treasurer Anna Cabral, Acting IRS Commissioner Linda Stiff, and IRS Advisory Council (IRSAC) Chairperson Margaret Roark participated. The event was also webcast live.

o   A conference call with approximately 17 personal finance columnists and reporters. The IRS Directors of Electronic Tax Administration and Refundable Credits (ETARC) and Earned Income Tax Credit (EITC) participated.

Implementation: Research Plan

As a key component of future strategic planning and operational integration, the TSPMO developed the TAB Phase 2 Research Portfolio to identify areas for research from the taxpayer and partner perspectives. Evaluation and prioritization of these research areas resulted in a number of customer service projects scheduled to begin in 2008. Additional research projects are in various stages of planning for future development.

As part of TAB 2 research, the IRS developed an extensive baseline to refine its understanding of complex taxpayer and partner needs, preferences and behaviors. In addition, the *National Taxpayer Advocate 2007 Report to Congress Volume II* devoted an entire section on the complex variables influencing voluntary compliance. The TAB Research Plan addresses several of the NTA recommendations and includes projects managed by the NTA organization. When applied, the results of the TAB research efforts will increase IRS understanding of taxpayer and partner behavior and provide better information in making business decisions that support voluntary compliance.

FY 2008 TAB Research Initiative

The FY 2008 Budget Request includes a TAB Research Initiative of $5 million, in addition to the $10 million discussed earlier in this report, and staffing of eight full time equivalent (FTE) positions, which provides additional funding to enhance understanding of the role of taxpayer service on compliance by undertaking new research on the service needs of taxpayers. The effect of service on taxpayer compliance will be examined by focusing on the four areas listed below. The first area of research will be worked by both W&I and Research, Analysis and Statistics (RAS) at a cost of $1.1 million. The remaining areas of research will be worked by RAS at a cost of $3.9 million. The FTEs are split evenly between W&I and RAS. The four areas of additional research funded by the initiative are as follows:

1. <u>Meeting Taxpayer Needs by Providing the Right Channel of Communication</u> – This research area classifies the types of services taxpayers seek from various options (internet, walk-in sites, toll-free hotline), preferences among these options, and the costs of providing the services. The goal is to determine the most productive communication channels for the IRS and taxpayer.

2. <u>Better Understanding Taxpayer Burden</u> – This research area updates the taxpayer burden survey to provide revised estimates of the compliance burden incurred by individual income taxpayers. It also continues the development of a post-filing model to allow for the evaluation of proposals designed to reduce taxpayer burden, improve taxpayer service, and further the understanding of the relationship between service and compliance.

3. <u>Understanding Taxpayer Needs through the Errors They Make</u> – This research area improves taxpayer service and increase voluntary compliance by identifying why

taxpayers make errors and the relationships between errors and unclear notices and publications. Further research will assess the effect of proposed changes to remedy the errors. This will channel resources more efficiently to areas with the greatest need and reduce IRS burden by increasing the accuracy of returns by taxpayers who strive to be compliant.

4. <u>Research on the Impact of Service on Overall Levels of Voluntary Compliance</u> – This research area develops models of how taxpayer services affect voluntary compliance levels and measure the impact of IRS activities relating to taxpayer service on the level of voluntary compliance. This research will attempt to quantify the relationship between services provided and overall compliance. In addition to providing enhanced service to taxpayers, the results of the study will be instrumental in reducing the tax gap by increasing voluntary compliance.

TAB Research Council

The TAB Research Council, formed in the fall of 2007 to develop and manage a cross-functional research portfolio, is comprised of representatives from the IRS research functions participating in the TAB effort. The TAB Research Council members include RAS, Taxpayer Advocate Service Research, operating division research organizations (W&I and SB/SE), and the TSPMO. The Council's charge is to ensure that future research on taxpayer and partner services reflects an integrated, consistent, and coordinated approach.

Centrally coordinating these research projects prevents duplication of effort and supports efficient use of resources. Further, the TAB Research Council will consolidate findings and suggest new directions of inquiry to build upon increasing knowledge of service needs and effects. Sharing information among IRS operational functions will further augment IRS research expertise, methods development, and significant findings.

The TAB Research Council's initial coordination efforts involved development of a uniform classification scheme and taxpayer segment definitions. Asking customers similar questions with the same choices for answers will create a comparable body of findings. Uniform research design will also provide the TAB Research Council new lines of inquiry and more meaningful comparisons across multiple surveys. The IRS can create a common agency-wide profile of taxpayers and partners with the survey results. Going forward, the Council will consolidate research findings and suggest new directions of inquiry to build upon increasing knowledge of service needs and effects.

A significant number of research projects already in progress are currently being monitored by the TAB Research Council. A number of these foundational research projects relate to the additional research areas funded by the FY 2008 Research initiative. When complete, these projects will enhance the IRS' understanding of service from the perspectives of taxpayers and partners. Examples include:

► *Toll-Free Survey Tax Issue Resolution Analysis*

Existing Toll-Free customer satisfaction surveys ask taxpayers about the resolution of their service issue. Additional analysis of the existing data provided by this question, including matching results to the contact data, will increase understanding of first contact resolution. This research will compare the resolution rate with the purpose of the call, demographic characteristics of the caller, and prior experience with the IRS. The IRS will use the results of the research project to understand taxpayer segments, and taxpayer issues and experiences that influence their likelihood of resolution. This research will identify taxpayer preferences for using specific channels to resolve tax issues on the first contact. Based on the research project results, the IRS will consider treatments to increase issue resolution. This research will address taxpayers' preference for first contact resolution and reducing taxpayer burden. Preliminary data gathering and analysis are underway and the report is scheduled for completion during the third quarter of FY 2008.

► *Do Free File Taxpayers Continue to E-file?*

This project will help the IRS understand which taxpayers discontinue using Free File compared to those who are eligible and continue to use Free File. It will address trends related to students and EITC recipients. It will outline the differences and potential trends of continuing e-filers and those that turn to other preparation and filing methods. Efforts include demographic analysis of taxpayer characteristics relating to age, adjusted gross income, earned income credit eligibility and filing status. Knowing which taxpayers reject electronic preparation and filing after using Free File is an important step in developing strategies to promote continued adoption of e-filing. The project will also build knowledge to address trends related to the migration effects of Free File. W&I Research completed the data collection and preliminary analysis for this project in 2007. The report is due in the second quarter of FY 2008.

► *Communication Elements Testing*

This research gauges the effectiveness of IRS communications by evaluating the behavior of selected taxpayers after receiving an IRS notice. The IRS will be able to improve taxpayer service and compliance through evaluation and refinement of the elements in IRS communications that effectively influence taxpayer behavior. In addition to providing insight into the relationship between taxpayer service and compliance, this research project method will provide an accurate estimate of the effectiveness of IRS service expenditures and taxpayer burden.

The IRS conducted tests relating to taxpayer correspondence and made subsequent improvements to five notices that reach over 3.8 million taxpayers annually. The IRS will test additional communications during April, June and September 2008.

Effect of Service on Compliance

In addition to the projects noted above, TAB research includes a long-term research initiative to determine the effect of service on compliance. The IRS developed a draft statement of work and is in the preliminary stages of initiating a research design contract. The research design contract will involve input from academics, consultants, and other government agencies. Participants from these groups will consider and evaluate best approaches to estimating the effect of IRS activities (service and enforcement) on taxpayer compliance. As a result, additional data will be compiled over the next several years and will become the basis for analysis and refinement of IRS's compliance measures.

Facilitated Self-Assistance Research Project (FSRP)

To test the viability of taxpayer preferences for self-assistance identified in research for the TAB Phase 2 Report, the TAB team developed the Facilitated Self-Assistance Model to test the concept at selected Taxpayer Assistance Centers (TAC).[18] Walk-in taxpayers are offered the options of self-assistance on computer workstations with access to IRS.gov or telephones self-assistance via the IRS toll-free system. Guided by IRS personnel, taxpayers can carry out tax law and account-related tasks using IRS.gov or the menus and live assistance available through the IRS toll-free telephone system. This test system is running at 15 TACs of varying size located across the nation. Additional sites will be launched later in FY 2008. As TAC patrons choose among these service options, we will learn how to tailor the available array of services to best meet taxpayer needs and preferences for service.

Through surveys conducted before and after self-service is offered, the IRS will determine which taxpayers are willing to use computer workstations or phones for routine service tasks, which service tasks taxpayers are most willing to attempt with facilitated self-assistance, the degree of satisfaction and frequency of resolution achieved during this process. If a taxpayer is dissatisfied while seeking service, they are offered direct access to face-to-face assistance with TAC service personnel. The data from this research project will help the IRS better meet the needs of taxpayers by refining the effective alignment of service task, taxpayer preferences, and service delivery channels. In addition, the process of coordinating three IRS service channels will provide invaluable practical information about how to integrate service delivery effectively to serve taxpayers better and achieve efficiencies that increase government value.

To allow W&I's Research function to capture demographic and usage data that will assist with determining the feasibility of FSRP, the pilot testing will likely be extended through the 2009 filing season.

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[18] This project has since been renamed the Facilitated Self-Assistance Research Project to better reflect the exploratory nature of this hybrid service channel.

Market Impact Model Created to Assist IRS Decision Makers

The TAB calls for transparent decision making that considers the effect of service initiatives on compliance, taxpayer and partner value and government value. This project is using research data (Conjoint II Survey[19]) to model taxpayer reaction to changes in service performance. To assist decision-makers in understanding the effect of prospective taxpayer service initiatives, the Market Impact Model will estimate a single quantitative measure of taxpayer-defined value based on different mixes of services, channels and performance attributes. This model will be used as a resource by the TSPMO and the Services Committee to inform decision making better. The IRS contracted with Pacific Consulting Group (PCG) in September 2007 to develop the Market Impact Model. The delivery of the model and related training is scheduled for completion in April 2008.

National Taxpayer Advocate Research Initiatives

The National Taxpayer Advocate has energetically supported the use of theoretical, cognitive and applied research in tax administration. The importance of effective research in the design and implementation of the Taxpayer Assistance Blueprint (TAB) is especially noteworthy. Accordingly, the Taxpayer Advocate Service (TAS) is participating in numerous TAB task force/work group efforts and is currently leading a study of the migration of Telefile users to different filing methods and why they chose that filing method.

The IRS must formulate and implement policy on taxpayer assistance that promotes voluntary compliance on the part of the taxpayer. Such policy must also consider the return preparer's role in tax compliance and as a customer of IRS assistance channels. In addition to direct participation in TAB Research, TAS has also contracted for research to study the effect of tax morale and the effect of the tax return preparers on voluntary compliance. These projects are discussed in greater detail, below.

Normative and Cognitive Aspects of Tax Compliance

TAS hired a contractor to identify and analyze the reasons why taxpayers comply with the tax laws.[20]   The contractor reviewed and summarized research on how values, norms and cognitive processes influence compliance behavior and developed

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[19] In conjoint analysis, consumers rank combinations of the attributes that comprise a product. In the TAB Conjoint II, taxpayers ranked service channels, according to service tasks, based on differing values for access time, hours of operation, wait time, and expected first contact resolution. Analysis of how taxpayers ranked these service products created data showing what attributes of service are important to taxpayers and which service channels they prefer.

[20] Marjorie E. Kornhauser, Professor of Law, Sandra Day O'Connor College of Law, Arizona State University.

recommendations concerning how research in this field can be applied to improve tax administration and voluntary compliance.

The study found that traditional theories attribute taxpayer compliance to a fear of detection and punishment. Deterrence models of taxpayer compliance have poor explanatory power, however, because they assume that the decision to comply is based solely on a cost-benefit analysis in which people weigh the benefits of non-compliance against the costs of detection and penalties. Current research demonstrates that the choice to comply is not purely rational. Rather, personal values, social norms and non-rational cognitive processes also strongly affect the decision.

The components of tax morale, as defined by Professor Kornhauser, like internal motivators in other areas of the law, are not static. They interact with each other and the environment and are influenced by each individual's own cognitive framework. Consequently, an external agent, such as the IRS, can influence tax morale norms and thereby tax compliance. It can activate compliance norms in a variety of ways including education, properly framing communications, fair procedures and a regulatory framework that incorporates current and future findings of tax morale research into its operations and dealings with taxpayers.

The results from this study include three major recommendations. First, according to the study, the IRS should establish a department devoted solely to exploring tax morale issues and implementing the findings. Second, the IRS should adopt a tax morale approach to tax compliance that recognizes the importance of taxpayers' internal motivations and the effects of societal conditions and institutions (such as the IRS) on these internal motivations. Third, using behavioral science research, the IRS should implement ongoing educational (long- and short-term) programs and media campaigns. Since the subject of this study is tax compliance of individual taxpayers, both the literature review and recommendations focus on individuals. However, like the tax morale concept itself, they are relevant for all taxpayers. For the complete report, see the National Taxpayer Advocate's 2007 Annual Report to Congress, volume II, pages 137-180, http://www.irs.gov/pub/irs-utl/arc_2007_vol_2.pdf.

The Role of Preparers in Facilitating Inadvertent and Intentional Noncompliance

Commercial preparers complete over 60 percent of individual tax returns. Preparers are the entry point into the tax system for a majority of taxpayers, who seek out preparers to help them navigate complex tax laws. Thus, preparers, who occupy a position of trust, have the ability to facilitate compliance with the tax laws. Alternatively, preparers can influence the taxpayer to take aggressive positions or even unlawful positions on tax returns. This type of noncompliance has been termed "brokered" noncompliance.

There is a significant tax administration need for additional research into the role of preparers in bringing taxpayers into compliance, the types of and causes of preparer errors, and the role of preparers in facilitating noncompliance. TAS has engaged a contractor to explore these issues through analysis of IRS data to determine the role of

preparers and other intermediaries in facilitating compliance or noncompliance with the law.[21] The analysis will include the types of errors preparers make, the causes for the errors, and the cost associated with these errors for the taxpayer and government. The contractor will develop recommendations for improving accuracy and compliance by tax return preparers and offer suggestions for further research studies to understand better the role of preparers in fostering tax compliance or noncompliance.

Oversight Board Research Initiatives

The IRS Oversight Board continues to track independently taxpayer attitudes on several key tax administration issues through the continuance of its annual telephone survey of a random sample of U.S. adults, as administered by the GfK Custom Research Roper Reports Group. The Board's latest taxpayer attitude survey, completed in late summer 2007, now provides a baseline of annual data of the views of U.S. taxpayers stretching back five years. The Board's survey provides a consistent measure of taxpayer attitudes, over time, on several issues important to tax administration. These include the American publics' overall satisfaction with the IRS, as well as their views on the acceptability of cheating on one's taxes, the extent to which IRS should hold taxpayers accountable for any cheating, factors that influence their decision to report their tax liabilities honestly, the importance of certain IRS services and sources of tax information, and their preferences for where IRS should apply any extra budget funding.

The Board also refines its survey annually, adding questions in some years to gain additional insights into the views of the American taxpayers on key tax matters. In 2006, the Board began securing a more explicit taxpayer assessment as to whether IRS is maintaining a proper balance between enforcement and service, or tilting too far in one direction or the other. In addition, the Board expanded the 2007 survey to get a clearer understanding of taxpayer views relative to the issue of regulating and licensing of all federal tax return preparers – most of whom are currently not subject to such regulatory oversight.

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[21] Professor Leslie Book is the Director of the Graduate Tax Program at the Villanova University School of Law.

Implementation: Taxpayer Assistance Center Assessment Process

The W&I Field Assistance (FA) organization is delivering increased assistance for the 2008 filing season as a result of focused analysis of prior year assistance patterns, strategic hiring in high traffic TACs, increased use of flexible return preparation assistance appointments, and use of credit hours and targeted overtime to manage wait-times.

To promote EITC in connection with the agency-wide EITC Awareness Day, January 31, 2008, FA held special EITC return preparation days on the first three Saturdays in February and assisted over 7,700 customers in 69 TACs, including the preparation of over 4,000 returns. For Super Stimulus Saturday on March 29, more than 300 TACs in all 50 states will be open from 9:00 a.m. to 3:00 p.m. to provide return preparation, information, and assistance to individuals who normally are not required to file a tax return, such as Social Security recipients and veterans

With the delivery of the TAB Report, FA refined its current CONOPs. The new CONOPs includes a revised mission statement, key strategic goals, operational themes, performance indicators, initiatives and technological advances such as the ITLA tool and the FSRP project, that are discussed in more detail in the Research section of this report. These initiatives align with the IRS Strategic Plan, the TAB Report, and W&I's Strategy and Program Plan. Examples of key goals and themes highlighted in the CONOPs for FY 2008 through FY 2013 include maximizing taxpayer self-assistance options and enhancing first contact resolution for all service tasks.

TAC Geographic Footprint

Field Assistance is moving forward to develop a geographic footprint that will focus on identifying optimal TAC locations and creating a data collection system that includes demographics, TAC business results, and qualitative business rules. The objective is to create a balanced footprint[22] to maximize filing season and year-round service demand. The Acting IRS Commissioner and the National Taxpayer Advocate endorsed this new process following briefings in January 2008.

During 2007, FA used the geographic footprint process to advance the TAB objectives of balancing compliance effect, taxpayer value, and government value in the decision making process for relocating the Chicago Ridge (Illinois) TAC. The General Services Administration (GSA) terminated the lease at the Chicago Ridge facility when the lessor refused to complete significant repairs. The TAB/TAC Evaluation team provided research relative to Cook County's taxpayer population and other demographic data to

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[22] The balance will be achieved by locating TACs to respond effectively to service demand and by offering alternative services for locations where demand is relatively low or seasonal.

assist Real Estate and Facilities Management (REFM) and GSA in determining the optimal location for relocating the TAC.

The GSA and IRS REFM considered several sites within Cook County with prime consideration given to taxpayer coverage area and the effect on TAC employees. Each of the two finalist sites offered an improved facility and moved toward the population served by the TAC. The final site selection, Orland Park, represented the optimal choice based on increased taxpayer coverage and other factors, such as the effect on employees and the REFM timeline. The IRS opened the new Orland Park TAC in February 2008.

Implementation: TAB Measures

This report summarizes the strategic integration work that provides broadly defined direction and intended results, the operational integration in the planning and budgeting process, and the actual implementation status of current initiatives. What follows is the recommended set of desired outcome and performance measures that the will enable the IRS to assess TAB-recommended service performance and outcomes to enhance service value and support voluntary compliance. This portfolio of measures is subject to ongoing refinement and enhancement as a result of experience, strategic direction, and environmental influences. All revisions and proposed new measures will be subject to the approval of the Services Committee and the IRS Oversight Board.

The TAB Performance Measures Portfolio contains five outcome measures and seven performance measures that assess the delivery of taxpayer services across channels and service categories. These measures are aligned by Compliance, Taxpayer and Partner Value, and Government Value categories and provide a high level overview of how well IRS is meeting taxpayer needs and preferences and addressing the compliance issues that prevent taxpayers from fulfilling their tax obligations. See Table 2.

Table 2. Performance Measures Portfolio

Compliance	*Taxpayer and Partner Value*	*Government Value*
Outcome Measures		
1. National Research Program (NRP) Voluntary Compliance Rate	2. Taxpayer Burden 3. First Contact Resolution Rate 4. Customer Satisfaction	5. Percentage of Taxpayer Service Contacts Delivered Through the Electronic Channel
Taxpayer Service Performance Measures		
1. Filing Compliance Rate 2. Voluntary Payment Compliance Rate	3. Percentage Aware of Channels and Services 4. Partner Satisfaction Percentage	5. Level of Service 6. Accuracy Percentage 7. Taxpayer Self-assistance Rate

Since the completion of the TAB Report in April 2007, activities undertaken to develop the Performance Measures Portfolio include the following:

- Establishment of the cross-functional Measures Working Group established;

- Documentation of compliance measures;

- Development of a research plan developed on the effect of services on compliance;

- Ongoing development of a taxpayer Burden measure under development;

- Ongoing development of First Contact Resolution Rate measure; and

- Near completion of a percentage measure of Taxpayer Service Contacts Delivered through the Electronic Channel measure near completion.

In October 2007, the TSPMO created the TAB Measures Working Group (MWG). Comprised of representation from IRS Research entities and business operational units, the TAB MWG is responsible for the development, implementation, and integration of the TAB Measures Portfolio into the strategic planning, budgeting, and assessment process. The MWG is also responsible for providing ongoing recommendations for new and refined outcome and performance measures based on operational experience, strategic direction, public and private sector benchmarks and best practices. Due to differences in the nature of the work involved in developing the measures, the MWG established two subgroups – the Research MWG and Functional MWG.

The Research MWG is primarily responsible for the development of the compliance and burden measures and performs research and analyses that support the overall measures development process. The Functional MWG is responsible for delivery of the remaining Taxpayer and Partner Value, and Government Value measures. Both teams are working concurrently and sharing progress, issues, and accomplishments.

Compliance Measures

Led by the IRS RAS function, the initial work of the MWG is focused on developing the compliance measures, the estimates used to define the individual tax gap. These measures focus IRS efforts on preventing, minimizing and correcting inadvertent errors by taxpayers. The three Compliance measures *(Voluntary Compliance Rate, Voluntary Filing Rate, and Voluntary Payment Compliance Rate)* have been documented in a data dictionary format. The main components required to build a data dictionary are definition, formula, methodology, data sources and measurement tools, available and reliable data, data availability, and reporting frequency, each of which has been constructed for each compliance measure.

The TAB Research Plan includes a project on *Intentional versus Inadvertent Error Prediction* to determine the effect of service on compliance. A complete description of the project is included in the "Implementation: Research Plan" section of this report.

Taxpayer and Partner Value Measures

Taxpayer Burden Methodology – The time and money that taxpayers spend to comply with federal tax obligations includes pre-filing, filing, and post filing activities. The prior aggregate burden reporting is being replaced with reporting of the constant dollar average monetized burden per taxpayer. Reporting average burden in constant dollars supports better comparisons over time compared to other measures. This monetary burden measure continues to reflect both taxpayer time and out-of-pocket costs spent on gathering tax materials, tax planning, tax-related recordkeeping, form completion, and form submission. It also includes time spent interacting with IRS and third parties such as paid tax professionals and money spent on tax preparation software and services. Currently, this measure covers pre-filing and filing income tax burden of individual taxpayers. Eventually, measurement coverage will be expanded to reflect post-filing burden and burden for other tax and taxpayer types.

First Contact Resolution[23] (FCR) Rate – The rate is the percentage of taxpayers and partners reporting that their issues were accurately and completely resolved upon first contact with the IRS. Taxpayer research indicates that FCR is the most important performance attribute when contacting the IRS for tax assistance. The Research MWG performed research on the measure components and industry information to provide the basis for analyzing and using the findings help create a FCR rate measure for the IRS business environment. Work is in progress to construct this measure.

Customer Satisfaction – IRS selected the American Customer Satisfaction Index (ACSI) to gauge taxpayer satisfaction with the quality of services provided to IRS tax filers. The ACSI, the standard metric for measuring citizen satisfaction for the federal government, is the only uniform, national, cross-industry measure of satisfaction with the quality of goods and services in the United States.

Government Value Measures

The Government Value measures cover the four basic components of operational performance of workload, resources, productivity, and quality. Government Value measures focus on making the IRS measures for self-assisted services as strong as those for assisted services. This category has one outcome measure – *Percentage of Taxpayer Service Contacts Delivered through the Electronic Channel.*

The IRS has developed detailed definitions for service contact in each channel (correspondence, electronic, and face-to-face). Workload activities in each channel were evaluated and lists of included and excluded workload activities were documented. Assumptions, limitations, and risks were addressed to articulate clearly assumptions and areas of concerns with data collection or counting. A data dictionary is in the draft stages of completion. This measure is in the final stages of development.

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[23] This term refers to satisfying a service request with one contact.

Next Steps

A work plan has been developed to complete the development of the measures in the portfolio. Smaller teams within the subgroups will be created to begin the work needed to develop the remaining measures in the portfolio fully. After the measures are developed, the important phase of testing, baselining, and setting targets will begin. Reports will need to be developed to capture the data to analyze the measures for reliability and accuracy. This phase could take one to two years to ensure that the measures are performing as intended and that we have gained the necessary experience to appropriately baseline and set targets.

The TSPMO will also determine the appropriate process to introduce the measures as indicators of organizational performance. This process will include Services Committee approval and follow the Strategy and Program Plan Addendum timeline in accordance with existing IRS, Oversight Board, and Treasury Department implementation requirements. The MWG will remain the vehicle to address ongoing recommendations for new or refined outcome and performance measures based on organizational experience, strategic direction, public and private benchmarks, research data analysis and best practices.

Engagement: Communication Strategy and Best Practices

Following the release of the TAB 2 Report, the TSPMO led an effort resulting in the preparation and approval of a communication strategy with the objectives of creating awareness and understanding, promoting engagement by educating internal stakeholders, and establishing effective communication with internal and external stakeholders. The overall strategy is to convey the long-term IRS-wide commitment to customer service improvement processes and outcomes. Efforts will include strategic marketing of future operational planning and initiative decisions with an emphasis on the relevance of the outcomes to the TAB Guiding Principles and recommendations. The goal is to maximize the involvement of all internal and external stakeholders in the customer service improvement process. The communication strategy is in the early stages of implementation, but examples of efforts by the TSPMO include:

- Delivery of extensive internal presentations and briefings to IRS functions regarding TAB findings, recommendations and implementation.

- Development of a web site on IRS.gov to feature the TAB Reports and other supporting documents. This page allows the TSPMO to share relevant information and provide an email address for receiving input and questions from external audiences. The web site also describes the governance structure for TAB implementation including information about the IRS Services Committee and the TSPMO. A similar web site has been established on the IRS Intranet for access by IRS employees.

- Publication of TSPMO and TAB-related articles in IRS newsletters circulated throughout the organization providing updates on TAB implementation and success stories reflecting incorporation of the TAB principles into initiative planning and the roll-out of new customer services.

Recent engagement activities expanded to include a formal "best practices" discussion program with private and public-sector organizations focusing on improving operations and customer service. The TSPMO also met with the Canadian Revenue Agency and the Pennsylvania Department of Revenue to share information about the TAB and other customer service-related issues and initiatives for taxpayers and partners. The TSPMO staff has been invited for a follow-up visit to continue discussions and information sharing related to service integration.

Oversight Board Perspective

The IRS Oversight Board appreciates the opportunity to contribute to this update on the efforts to implement the TAB. As an independent body, the Board's perspective focuses on the long range strategic implications for taxpayer service.

Overall, the Board is pleased with the strategic plan articulated in the TAB to improve IRS service to taxpayers and with IRS actions to date to implement that plan. However, this status report on the TAB effort is silent on two particular issues which the Board feels a duty to highlight.

First, there are apparently no IRS efforts currently underway to link TAB initiatives with future program activities within the Tax Exempt/Government Entities (TE/GE) Division. This update does report that IRS has taken several actions to identify linkages between the TAB initiatives and future operational priorities/projects within the SB/SE and LMSB Divisions; and, thus, has moved beyond just a focus on W&I Division and its projects that comprise the bulk of the IRS customer service programs. Still, this report is silent on efforts to improve IRS service to the tax exempt community. While it is logical that IRS should focus its initial service improvement efforts on the operating divisions with responsibility for servicing individual and business taxpayers, the activities of tax exempt and governmental organizations nevertheless also have a significant impact on the lives of most citizens. As a result, there is a need for the IRS to start focusing part of the TAB efforts on improved service to TE/GE taxpayers.

Second, while this status report summarizes certain budget allocations, initiatives and projects for FY 2008 that further the implementation of the TAB, it does not address expected progress for FY 2009. As a result, the Board is obliged to point out that the report does not address what impact, if any, on TAB initiatives may ensue should Congress adopt the President's proposed IRS budget for FY 2009; which entails a reduction of around $47 million for the taxpayer service program. For example, would such a cutback in the IRS taxpayer services for FY 2009 require a reduction in the Volunteer Income Tax Assistance (VITA) Grant program, or negatively impact the TAB research initiatives being initiated in 2008?

In the Board's view, the Committees need to be well informed about the longer term impacts on TAB implementation that will likely flow from specific IRS taxpayer service funding levels for FY 2009. The Board has a different vision for taxpayer service in FY 2009 and recommends a funding increase of around $26 million for the following taxpayer service initiatives:

- Research Taxpayer Burden, Complexity, and Compliance ($10 million)
- Expand VITA and Low Income Tax Clinics ($10 million)
- Maintain Processing of Critical Pension Plan Returns ($6.3 million)

The first initiative provides funding to enhance understanding of the interaction between taxpayer burden, tax law complexity and taxpayer compliance. This research will help

improve understanding of these inter-relationships, in keeping with strategies put forth in the Taxpayer Assistance Blueprint (TAB) and the Department of the Treasury report, *A Comprehensive Strategy for Reducing the Tax Gap*. The second initiative helps create a fairer tax system by providing funds to enhance programs to improve service delivery to two taxpayer segments with specifically identified needs per the TAB: the growing number of elderly and those with low income. The third initiative supports customer service by providing funds to maintain processing of essential pension plan return information while transitioning to a new mandated electronic filing system.

The Board recommends that the Committees consider the impact on the TAB when making appropriation decisions for IRS FY 2009 funding.

National Taxpayer Advocate Perspective

I am very pleased with the progress the IRS has made in its understanding of and focus on taxpayer service through the development and implementation of the Taxpayer Assistance Blueprint (TAB) Strategic Plan. Because of the TAB and my own office's research, we know more than ever about taxpayer needs and preferences, and their willingness to try new methods of service delivery.[24] The IRS has recommitted to delivering quality taxpayer service and begun reversing its trend in recent years of limiting the types of services and methods of delivery. I applaud the IRS for creating the Services Committee as a counterpart to the Enforcement Committee and enabling the entire senior leadership of the IRS to consider and coordinate taxpayer service initiatives. I am also happy to see that the IRS is now more clearly acknowledging the need for taxpayer assistance centers (TACs) and working to improve service delivery at the TACs.[25] For example, IRS management has indicated a willingness to take a geographic approach to determining which topics to designate as "out-of-scope" (*e.g.,* the IRS should not treat farm-related questions as "out-of-scope" in TACs located in areas where there is a significant amount of farming activity), and the IRS has recently relaxed its stringent rules that generally prevented taxpayers from obtaining copies of their tax return transcripts at the TACs.[26]

While this status report on the TAB reflects improvements in taxpayer service, I continue to have the following concerns:

Funding for Taxpayer Service

Any reduction of the IRS taxpayer service budget presents a significant challenge to implementation of the TAB. Funding must continue so that programs developed by the TAB team are not just piloted but are instead fully implemented. For example, as discussed in this progress report, preliminary feedback from the 15 TACs offering Facilitated Self-Assistance (whereby taxpayers may carry out certain service tasks on IRS.gov or the IRS phone system with the help of a live IRS assistor) has been positive. Yet without sufficient funding, the IRS will be unable to expand the pilot testing, let alone fully implement the program, no matter how successful it may be. If the financial support for taxpayer service is not sufficient, the TAB process will have been for naught - having produced many interesting ideas and important research that simply cannot be implemented or applied.

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[24] *See* National Taxpayer Advocate 2006 Annual Report to Congress, vol. 2, 1-15 (Research Study: Study of Taxpayer Needs, Preferences, and Willingness to Use IRS Services).

[25] In my 2007 Annual Report to Congress, however, I identified several other problems that limit the usefulness of the TACs, including the insufficient number and staffing of TACs and the significant conditions for obtaining return preparation assistance that have the effect of deterring taxpayers from seeking service. *See* National Taxpayer Advocate 2007 Annual Report to Congress 162-182.

[26] Previously the IRS required taxpayers to obtain transcripts of their accounts through the toll-free number, which would mail a transcript within 7 to 10 days. Taxpayers could only obtain transcripts at TACs in "emergency" situations. It was the experience of the Taxpayer Advocate Service (TAS) that the TACs almost never acknowledged an emergency situation. In fact, since that policy was in place, TAS transcript cases have increased sharply. The IRS's more flexible transcript policy should result in fewer TAS cases in this area.

Internet Services

Insufficient funding increases the temptation for the IRS to put all its eggs in one basket when it comes to taxpayer service – namely, Internet services. The Internet may be adequate for taxpayers who are comfortable handling financial transactions online, but the TAB's research studies showed that a certain percentage of taxpayers require personal interaction – by telephone, face-to-face, or both – in order to comply with the tax laws. The IRS has an obligation to provide services through methods that will assist all taxpayers. The IRS must therefore maintain and improve its telephone and face-to-face services for as long as there is a segment of the population that needs it.

Research Initiatives

I have long been a staunch advocate of research. As such, I am heartened by the TAB research plan. In addition to the research initiatives already identified by the TAB team, I urge the IRS to establish a permanent department, essentially an applied research laboratory or unit, dedicated to studying compliance issues – through both its own independent research and its evaluation of third-party research – and implementing the results of such research.[27] In order to develop a better understanding of the causes of noncompliance, I also propose that the IRS conduct a survey of taxpayers who undergo a National Research Project (NRP) audit. Such a survey should attempt to determine what caused the noncompliance shown on the return as well as explore the factors, such as attitudes toward taxes and the government (including the fairness of the tax system), that influence taxpayer behavior. I believe it is important to have such a survey conducted by a third party rather than by IRS agents in the course of the NRP audit in order to get the most candid answers possible from taxpayers. In this manner, we can understand, for a different group of taxpayers each year, why taxpayers do not comply and better determine what approaches (*i.e.*, education, notice, enforcement) the IRS should take to increase compliance.

Enforcement

The goal of any taxpayer service plan should be to maintain and increase voluntary compliance. In order to achieve that goal, the IRS should stop approaching service and enforcement as separate tracks. The IRS enforcement functions, such as audit and collection, should not be excused from having to address the issue of taxpayer service. If a taxpayer makes a reporting error, for example, the enforcement functions should not only seek to assess and collect any underpayment of tax but should also educate the taxpayer to reduce the likelihood that the taxpayer will make the error again. In this way, the IRS should integrate service within its enforcement activities. In addition, the IRS needs to do more to identify which issues can be addressed by correspondence examination and which taxpayers and issues would be better handled by a face-to-face audit. The IRS must design both its enforcement and service initiatives to better take

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[27] *See* National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2, 137-180 (Research Study: Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers).

into account the particular characteristics of the subject taxpayer population. For example, a recent study conducted by my office found that the IRS correspondence audit process causes Earned Income Tax Credit (EITC) taxpayers to experience significant barriers in communicating with the IRS and providing the documentation requested and that EITC taxpayers who had representation during their audits were nearly twice as likely to be found eligible for the EITC after the audit as those without representation.[28]

Expansion to Different Taxpayer Populations

In addition to expanding taxpayer service to encompass enforcement activity, the IRS should extend the reach of TAB initiatives to different taxpayer populations. I am pleased that the TAB team has begun to reach out to the IRS Large and Mid-Size Business and Small Business/Self Employed Divisions, but I strongly recommend that the TAB team broaden its focus to include service delivery through the Tax Exempt/Government Entities Division as well. Spending by exempt organizations accounted for more than 11 percent of the gross domestic product from 1998 through 2002,[29] and these organizations employed over seven percent of the U.S. workforce in 2004.[30] Moreover, the federal government increasingly partners with exempt organizations to deliver federal services.[31] Exempt organizations are thus an integral part of our society and economy, and facilitating their tax compliance will benefit all taxpayers. Improving service to tax-exempt organizations is crucial as most of these organizations are small entities with modest budgets and volunteer staffs.[32] Approximately half of exempt organizations have all-volunteer staffs and another third have fewer than ten employees.[33] These smaller organizations frequently lack professional tax guidance and rely on their volunteers to deal with the IRS.[34]

Language Services

The final expansion of TAB initiatives I suggest is to language services. The accomplishments with regard to Spanish language offerings described in this progress report are laudable. I am also pleased that the IRS is expanding its language services to include Chinese by releasing a Chinese tax glossary, translating Publications 579SP,

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[28] Among taxpayers with representation, 47.6 percent retained at least some EITC compared with 27.4 percent of unrepresented taxpayers. *See* National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2, 94-117 (Research Study: Earned Income Credit Audits – A Challenge to Taxpayers).

[29] Written Statement of Stanley J. Czerwinski, Director, Strategic Issues, Government Accountability Office, GAO-07-1084T, *Nonprofit Sector Increasing in Numbers and Key Role in Delivering Federal Services*, before the Subcommittee on Oversight of the House Committee on Ways and Means, Oversight of Tax-Exempt Organizations 4 (July 24, 2007).

[30] Independent Sector, *Facts and Figures about Charitable Organizations* 3 (last updated Jan. 4, 2007).

[31] Written Statement of Stanley J. Czerwinski, Director, Strategic Issues, Government Accountability Office, GAO-07-1084T, *Nonprofit Sector Increasing in Numbers and Key Role in Delivering Federal Services*, before the Subcommittee on Oversight of the House Committee on Ways and Means, Oversight of Tax-Exempt Organizations (July 24, 2007).

[32] *See* National Taxpayer Advocate 2007 Annual Report to Congress 197-209.

[33] IRS, *TE/GE FY 2005 Strategic Assessment* 3 (Feb. 2, 2005).

[34] IRS, *TE/GE FY 2005 Strategic Assessment* 3 (Feb. 2, 2005).

How to Prepare the Federal Tax Return, and 334, *Tax Guide for Small Businesses*, into Chinese, and releasing a Chinese version of the Basic Tax Responsibility Audio CD. However, the IRS should translate a broader range of documents, not just education and outreach materials but also forms and examination and collection notices, into the five languages most commonly spoken by taxpayers with limited English proficiency (*i.e.*, Spanish, Chinese, Russian, Korean and Vietnamese).[35]

<center>*   *   *   *   *</center>

In summary, I applaud the IRS for the significant strides it has taken to date to learn more about taxpayer needs and preferences and to develop a strategy to improve its service offerings. I look forward to continued collaboration with the IRS on refining and implementing taxpayer service improvements.

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[35] *See* National Taxpayer Advocate 2006 Annual Report to Congress 333-354.