

Testimony for The IRS Oversight Board  
*Achieving the Goal for e-filed Returns*  
*Electronic Administration of Employment Taxes: Beyond e-filing*  
National Payroll Reporting Consortium  
January 26, 2004

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Madam Chairwoman and distinguished members of the Board: My name is Pete Isberg. I am the Director of Government Affairs for Automatic Data Processing, Inc., and serve as President of the National Payroll Reporting Consortium (NPRC)<sup>1</sup> on whose behalf I am testifying here today. I appreciate the opportunity to testify and want to emphasize that the NPRC is committed to working with the IRS to improve tax administration through electronic filing and related systems, and we appreciate the Board's role in helping to make this happen.

The NPRC represents businesses – “Reporting Agents” in IRS terminology – that provide human resource-related administrative services to employers, including payroll processing and employment tax payment and filing services. NPRC members serve more than one million employers with a combined total of more than 35 million employees, and process payroll for more than one-third of the private sector workforce.

Reporting Agents transmit about 30 percent of all Federal depository taxes received by the U.S. Treasury, and have long served an important role in our nation's tax collection system as a conduit between employers and the IRS. Reporting Agents improve the efficiency of IRS tax collection and improve tax compliance.

The paper that I have submitted for the record provides additional background on the role of Reporting Agents in tax administration, and addresses in more detail the two proposals that we believe are achievable ways in which the IRS can enhance electronic filing systems, which include: (1) making e-services available to Reporting Agents; and (2) empowering an IRS official with sufficient authority to represent the interests of Reporting Agents in IRS decision-making concerning issues of mutual concern. Lastly, the paper highlights the Industry Issue Resolution Program as a primary example of the benefits of interaction between the IRS and industry groups.

We appreciate the ongoing efforts by the IRS to work with NPRC to resolve issues and problems including the issues addressed in this testimony. Nevertheless, since our testimony before this Board last year, despite IRS and NPRC efforts, little progress has been made to make e-services available to Reporting Agents or to empower an IRS official to represent the interests of Reporting Agents. We are hopeful that both can be achieved this year.

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<sup>1</sup> The following companies are members of NPRC: Automatic Data Processing, Inc.; Ceridian Corporation; Compupay, Inc.; Federal Liaison Services, Inc.; Fidelity Employer Services Company LLC; Intuit, Inc.; Paychex, Inc.; Payroll People, Inc.; and Primepay, Inc.

## 1. E-Services for Reporting Agents

In stark contrast to our environment in which all Federal tax returns and all Federal tax payments are electronic, Reporting Agents generate tens of thousands of client inquiries per year that are handled by remnants of the proverbial stone age: written correspondence and telephone exchanges. Written correspondence means weeks or even months of waiting for simple issues to be resolved. Telephone exchanges mean hours upon hours of hold time. These methods unnecessarily sap IRS and Reporting Agent resources -- a drain that is especially unfortunate because the vast majority of these inquiries relate to matters that could be easily and quickly resolved without any need for burdening IRS personnel if Reporting Agents had electronic access to client information through e-services.

In terms of potential to enhance IRS efficiencies through e-services, Reporting Agents are the “low-hanging fruit”. Providing Reporting Agents with e-services access will result in immediate use of the system on behalf of more than one million business taxpayers, and will significantly reduce IRS’ burden currently devoted to human handling of Reporting Agent inquiries. For example, many interactions are preventative pre-filing activities, such as confirming an Employer Identification Number before making a payment or filing a return. Authorized electronic access to client information could easily resolve these matters on a self-service basis.

*Electronic tax administration extends beyond e-filing and electronic payments.* Tax deposits and returns filed by Reporting Agents have been 100 percent electronic for many years. Yet since having achieved what is essentially the model electronic filing program, the IRS has demonstrated a surprising lack of interest in providing what was designed to be an incentive for those who support electronic filing, namely IRS electronic services.

If the IRS wishes taxpayers and tax professionals to file electronically, the IRS should make it beneficial to do so. Electronic Services would help Reporting Agents justify the substantial costs of developing and maintaining the IRS electronic filing systems.

## 2. Empowering an IRS official to represent the interests of Reporting Agents in relevant IRS decision-making.

Given Reporting Agents’ significant role in transmitting a substantial portion of revenue received by the U.S. Treasury, it is surprising that there currently exists no representative of this industry sufficiently empowered to impact decisions related to IRS policies and procedures.

Virtually all policy and operations decisions regarding employment taxes affecting Reporting Agents, reside in the Small Business/Self-Employed Division (SB/SE). Yet the IRS “National Account Managers” (NAMs), who serve as conduits between the IRS and Reporting Agents, serve under the Electronic Tax Administration, in the Modernization and Information Technology Services (MITS) organization. NAMs have no official role in SB/SE. Organizationally, this is akin to having private sector Marketing staff report into the Information Technology department.

Although the NAM position has been very helpful and responsive to Reporting Agents, the placement of the NAM outside of the key policymaking division -- SB/SE -- and the lack of recognition of the NAM, has meant that the interests of Reporting Agents have been under-represented in key IRS policy decisions. The NAM's lack of influence has also been eroded by the shift of business e-file and EFTPS programs from ETA to SB/SE. The National Account Manager should be granted additional authority and moved into the appropriate operating division; i.e., SB/SE.

### 3. The Industry Issue Resolution Program: A Prime Example of the Positive Result of Interaction Between the IRS and Industry Groups

The Industry Issue Resolution (IIR) program stands out as a prime example of strategic thinking and proactive management on the part of the IRS. NPRC has been fortunate to have been involved in one of these projects. While the details are not ready for public release, the project is well on its way to addressing very substantial problems that have plagued the IRS, the Social Security Administration and large employers for decades. It affects every IRS Division, yet was perceived to be too big a problem for any one IRS Division to solve.

Once the project was identified, the IRS Office of Burden Reduction and SB/SE-Taxpayer Education and Communication (TEC) gathered representatives from every affected area, including regional IRS processing offices, Chief Counsel, Information Technology, Forms and Publications, and the Department of the Treasury in addition to industry representation. The group defined the problem, determined that specific actions could substantially resolve the issue, and jointly designed solutions based on industry recommendations. With careful coordination of resources, drafts of the resulting work were completed within weeks.

The entire process has been an outstanding example of effective problem solving by a very large organization. We commend all participants, and encourage the IRS to expand this approach to the many other challenging issues that face the IRS and American taxpayers.

Again, we appreciate the opportunity to provide information to the Board that may help the IRS improve their electronic filing programs, and achieve the electronic filing goals established by Congress. I would be happy to answer any questions you may have.

## **The Role of Reporting Agents and Their Contributions to Improving IRS Tax Collection**

### **Background**

- Reporting Agents assist employers in making required tax deposits and tax information filings to the Federal Government and to state and local governments. With respect to Federal tax requirements, Reporting Agents perform the following services:
  - Preparation and electronic filing of Form 941, Employer's Quarterly Federal Tax Return; Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, and Form 945, Annual Return of Withheld Federal Income Tax; and
  - Electronic submission of Federal Tax Deposit (FTD) payments and related information.

### **Reporting Agents Remit Nearly 30 Percent of All Depository Taxes Received by the United States Treasury**

- Of the roughly \$1.5 trillion in total federal depository taxes paid in 2002, almost 30 percent was deposited by Reporting Agents.
- The vast majority of Reporting Agents' EFTPS transactions represent deposits for taxpayers who are not required to submit tax payments electronically.

### **Tax Compliance Is Significantly Enhanced for Businesses That Utilize Reporting Agents**

- The ever-increasing complexity of the Internal Revenue Code is a significant challenge for businesses that do not use Reporting Agents. For example, the wide and poorly understood array of fringe benefits and monetary and non-monetary compensation can often cause considerable confusion. Reporting Agents offer the expertise to ensure that such types of income are automatically taxed and reported correctly.

### **IRS Resources Are Spared Because of Payroll Reporting Agents**

- Reporting Agents shoulder much of the burden of IRS tax administration by filing all tax deposits and returns electronically. In fact, over 95% of electronically filed IRS employment tax returns are filed by Reporting Agents.
- Reporting Agents help ensure that business owners are kept up-to-date on tax law, tax regulations, and IRS procedural changes.

### **Reporting Agents Have Been Key Partners With the IRS in Helping to Achieve Electronic Filing Goals**

- Reporting Agents transmit all tax deposits and related information electronically through the Electronic Federal Tax Payment System (EFTPS) Bulk or Batch Filer programs. The inclusion of all Reporting Agent tax deposit activity is critical to the IRS' ability to reach

EFTPS goals. The EFTPS Bulk and Batch Filer programs were developed and implemented through an exemplary cooperative effort to enhance EFTPS.

- Many Reporting Agents have helped to facilitate electronic filing of individual income tax returns, by enabling all employees of client companies to electronically “import” the more than 34 fields of W-2 data — including salary and withholding information — into electronically prepared individual income tax returns. Direct electronic importing of such data facilitates computer-assisted tax preparation, increasing the chances that such returns will be filed electronically, and helping to eliminate income tax return transcription errors.
- Many Reporting Agents promote electronic filing of individual tax returns by printing the IRS e-file logo on employee copies of Form W-2. As a result, roughly 40 million taxpayers are reminded of the benefits of electronic filing (e.g., "*Safe, Accurate, FAST*") and provided with a reference to the IRS website, at the very moment they are preparing their tax return.

## *Achieving the Goal for e-filed Returns:*

### *Reward Key Contributors to Electronic Filing*

#### **I. Make relevant IRS Electronic Services available to Reporting Agents**

- The IRS is developing "e-services," which will offer to certain third parties (e.g., tax practitioners, financial institutions, and 1040 electronic return originators) the ability to electronically transmit client registrations, requests for client transcripts (which are used to resolve account discrepancies); and information to resolve client account issues (e.g., misapplied payments, penalties).
- Expanding IRS electronic services is a prime example of the E-Government mandate expressed in the President's Management Agenda. E-services will cut government operating costs by allowing authorized self-service, reduce the expense and difficulty of doing business with the government, and provide customers with readier access to high quality government services.
- Until recently, Reporting Agents were able to transmit client-service communications with the IRS electronically through the Electronic Communication System (ECS) established by the IRS Philadelphia Service Center. As part of IRS consolidation, this service was shut down in 2002.
- Until e-services become available, Reporting Agents are working with the IRS Practitioner Priority Services (PPS) telephone sites. This telephone service is inefficient, requiring an average of 3 to 7 minutes<sup>2</sup> of unproductive waiting time per call, before even reaching an IRS staff member. However, wait time and PPS staff knowledge have improved over the past year as a result of IRS attention to these issues.
- Reporting Agents are not currently included in e-services and there is currently no concrete plan to include Reporting Agents in future phases. The IRS SB/SE division has made providing e-services to Reporting Agents a priority, but has been unable to provide even an estimated date by which such services might be available.
- An important part of the IRS' strategy has been to provide e-services as a reward or inducement to increase participation in electronic filing. From the magnetic tape programs of the early 1980's to the current e-file and EFTPS programs, Reporting Agents have demonstrated strong support of IRS electronic filing and payment programs. The omission of Reporting Agents from the e-services project means in essence that the IRS has penalized -- not rewarded -- the sector that has contributed the most in terms of helping IRS to reach their goals for electronic filing of business tax deposits and returns.

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<sup>2</sup> Treasury Inspector General for Tax Administration: The Practitioner Priority Service Was Successful in Its First Year of Operation, but Action to Reduce Caller Wait Time Is Needed, July 2003 2003-30-143

- IRS e-filing systems and formats have evolved significantly, from magnetic tape files, to structured Electronic Data Interchange, and recently to XML. Data security and file management systems have changed equally rapidly. Each IRS change has meant additional costs and workload for Reporting Agents to implement the latest version. Each change (i.e., mag tape, to EDI, to XML) also meant that prior investments in *e-filing* systems had to be discarded. Direct costs to industry to implement and maintain IRS electronic filing systems are conservatively in the tens of millions of dollars in recent years alone. Electronic services would help Reporting Agents justify the substantial costs of developing and maintaining electronic filing systems.
- NPRC supports adding appropriate e-services functionality for Reporting Agents, with the recognition that IRS electronic services were designed for income tax practitioners, and may not be relevant or appropriate for Reporting Agents. E-services for Reporting Agents should include the following:
  - Ability to verify that the Reporting Agent has an authorization on the Reporting Agent File (RAF)
  - Online access to client IRS accounts by Reporting Agent associates
    - Secure environment to submit and receive information
  - Individual and bulk access/transaction capability
    - Any registered employee of the Reporting Agent should be able to work on any client account
    - Ability to submit requests and information related to multiple accounts
  - Pre- and post-filing research capability
    - Online viewing of client account activity, modules, transcripts, etc.
    - Entity verification, e.g., confirmation of taxpayer EIN, name, assigned tax deposit schedule, etc.
  - Account resolution
    - Online submission of correspondence and adjustments
    - Requests for holds on accounts pending research to avoid unnecessary notices
    - Online case tracking (e.g., received, in process, closed)
    - Ability to submit requests for penalty waivers on a pre-assessment basis
  - Electronic Notices: Online access to view and download notices

In summary, Reporting Agents have met every possible electronic filing and electronic payment goal as of several years ago. Surprisingly, there is no substantive benefit for filing business tax returns electronically. From the business taxpayer's perspective, paper filing is already safe, accurate and fast. There is no refund anticipation incentive. Electronic services would help Reporting Agents justify the substantial costs of developing and maintaining the IRS electronic filing systems.

## **II. Empower an IRS official with authority sufficient to represent the interests of Reporting Agents in the making of any relevant decisions related to IRS policies or procedures.**

- IRS policy decisions that affect Reporting Agents are made by the Small Business/Self Employed Division (SB/SE). SB/SE is comprised of three organizations: Customer Account Services (CAS); Taxpayer Education and Communication (TEC); and Compliance.
- CAS is responsible for processing operations and programs in the SBSE campus sites. They oversee all business returns processing, telephone assistance programs, and third party authorization programs such as the Centralized Authorization File (CAF) and the Reporting Agent File (RAF). CAS has largely favored the needs of other third parties over those of Reporting Agents. For example, Reporting Agents were not considered in the design of e-services, and were excluded from discussions regarding e-services.
- TEC is responsible for interfacing with internal and external stakeholders. They perform an important educational and liaison function, and have been instrumental in bringing Reporting Agent issues and concerns to the appropriate IRS business owners.
- The IRS implemented a National Account Management Program in 1999 to improve mutual understanding and to develop partnerships between the IRS and key industries. National Account Managers ("NAMs") were assigned to various industries (software providers, return preparers, Reporting Agents) to help resolve systemic issues.
- However, although virtually all policy and operations decisions regarding employment taxes resides in SB/SE, the NAM serves under the Electronic Tax Administration, in the Modernization and Information Technology Services (MITS) organization. Organizationally, this is akin to having private sector Marketing staff report to the Information Technology department. Although there have been successes, the program has not yet met the expectations of Reporting Agents.
- Both SB/SE-TEC and the NAM are actively contributing to the ongoing Reporting Agent Forum meetings, which have been very effective in addressing issues of mutual concern.
- Although the NAM position has been very helpful and responsive to Reporting Agents, the placement of the NAM position outside of the key policymaking division -- SB/SE -- and the lack of recognition of the NAM, has meant that the interests of Reporting Agents have been under-represented in key IRS policy decisions.

- The NAM's lack of influence has been worsened by the shift in responsibility for business e-file and EFTPS programs from ETA to SB/SE. The National Account Manager should be granted additional authority and moved into the appropriate operating division; i.e., SB/SE.

### **III. The Exemplary “Industry Issue Resolution” program**

- As a prime example of strategic thinking and proactive management on the part of the IRS, the Industry Issue Resolution (IIR) program stands out. NPRC has been fortunate to have been involved in one of these projects.
- While the details are not ready for public release, the project is well on its way to addressing very substantial problems that have plagued the IRS, the Social Security Administration and large employers for decades. It affects every IRS Division, yet was perceived to be too big a problem for any one IRS Division to solve.
- Once the project was selected, the IRS Office of Burden Reduction and SB/SE-TEC gathered representatives from every affected area, including regional IRS processing offices, Chief Counsel, Information Technology, Forms and Publications, and the Department of the Treasury, in addition to Industry representation. The group defined the problem, determined that specific actions could substantially resolve the issue, and jointly designed solutions based on industry recommendations. With careful coordination of resources, drafts of the resulting work were completed within weeks.
- The entire process has been an outstanding example of effective problem solving by a very large organization. We commend all participants, and encourage the IRS to expand this approach to the many other worthwhile issues that face the IRS and American taxpayers.