

# **The Future Direction of Electronic Tax Administration**

**Remarks before the IRS Oversight Board by**

**Kevin Belden, Chairman**

**Electronic Tax Administration Advisory Committee (ETAAC)**

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Madam Chair, Members of the Oversight Board and distinguished guests. My name is Kevin Belden and I'm honored to serve again this year as the Chairman of the Internal Revenue Service's Electronic Tax Administration Advisory Committee (ETAAC). Thank you, on behalf of the Committee, for the opportunity to share our views on the future direction of electronic tax administration. ETAAC was established to provide continued input to the development and implementation of the IRS strategy for electronic tax administration. Members of ETAAC represent a diverse cross-section of IRS partners, customers and stakeholders, whose interests and insights are critical to the overall attainment of electronic tax administration goals.

## **The Progress of Electronic Tax Administration**

We're approaching the midpoint between enactment of the Restructuring and Reform Act of 1998 – which set goals for electronic tax administration – and the year 2007 when those goals were targeted to be achieved. The IRS has made considerable progress toward achieving those goals. Initial efforts focused on expanding the availability of electronic filing, particularly for individuals. While those were necessary first steps, we've since learned that offering electronic filing options doesn't, by itself, lead to their use. The vast majority of individual tax filers are able to file electronically, but just fewer than 35% (46.3 million) of all individual returns were e-filed this past year. The key challenge to increasing e-filing is to stimulate demand by taxpayers and tax preparers. That, in turn, is dependent on continuing to increase the value of e-filing and electronic tax administration, not just for the IRS, but for its customers and third party partners as well.

To improve the growth rate of electronic tax administration, the IRS will need to overcome barriers to adoption of e-filing that include a continued preference by taxpayers for paper filing, lack of awareness of e-filing and how to do it and concern about privacy, security and the role of third parties in the process. Some of these barriers can be addressed through education and marketing of the advantages of e-filing, such as faster refunds, electronic receipts that offer proof of filing, convenience, accuracy and reduced likelihood of receiving a notice from the IRS. Others need to be addressed through structural changes that provide more value to tax practitioners, tax software developers and online filing providers – to make it “smart business” for them to adopt and promote e-filing.

## A Foundation for the Future

Many of the essential elements for creating an innovative future direction for tax administration are falling into place. The IRS is modernizing its core tax administration systems to make them more capable, flexible and responsive. New electronic service delivery channels are being implemented, including secure web “portals” for access to internal information resources, services and taxpayer account information by IRS employees and trusted external customers, including taxpayers’ authorized representatives.

The IRS is beginning to offer electronic services, like the ability to register as a trusted external customer and for a new business to obtain an Employer Identification Number (EIN) online. These e-services are highly anticipated and will be much appreciated by the professional tax community. The IRS is also implementing the first of a series of modernized e-filing platforms, beginning with the Employment Tax e-Filing System in early January 2003, to be followed by 1120 e-filing in January 2004. These modern new e-filing platforms will be based on industry-accepted standards for data sharing and communication, making them attractive to software developers and tax practitioners.

With respect to such third party partners in the tax administration environment, the IRS recognizes the significance of their role in the electronic tax administration “supply chain” and the importance of including them early and often in the planning, design and implementation process.

## **A Future Vision of “End to End” Electronic Tax Administration**

Not long ago, tax administration seemed to be the exclusive domain of government tax agencies. Automation efforts were largely focused on internal processes. External parties were customers (e.g., taxpayers), representatives of taxpayers (e.g., tax practitioners) or suppliers to taxpayers and their representatives (e.g., tax software developers). Tax agencies defined the format, content and mechanisms for providing required information. Providing information back to external parties was generally a lower priority than getting it from them.

As has happened in the private sector, the growth of the Internet and the development of new “networked” supply chain business models have prompted a change in the way we think about those relationships in tax administration. The new view – which you might think of as “end to end electronic tax administration” – preserves those traditional roles and responsibilities, but acknowledges that third parties in the tax business are also the IRS’ partners in serving a common customer – the taxpayer.

In the private sector, new end to end business models – driven by innovative thinking and enabled by new technologies – are emerging in industries with characteristics similar to the tax administration environment. Those characteristics include a diverse customer base, complex and highly-specialized functions, seasonal peaks and valleys and a high level of dependency on value-adding intermediaries.

Highly-competitive businesses have responded to new market challenges and opportunities by shifting their view from streamlining internal processes and systems to integrating internal and external service providers in a seamless, end to end service delivery value network. That view takes into account business partner capabilities and needs, creating a flexible, dynamic environment that allows each partner to perfect its own specialized processes, reduce costs, enhance value and respond quickly to customer needs.

For the IRS, the corollary to this end to end electronic business vision could look like this:

**Taxpayers** would have multiple choices in terms of how they interact with the IRS (e.g., directly or through an authorized representative; electronically or by mail) and what value-added services they choose to use (e.g., online preparation and filing services from a variety of competing vendors). In this vision, taxpayers would not only be e-filers, but e-customers. They could decide among a variety of options how they would like to view their own IRS account information, perhaps choosing traditional paper correspondence, maybe through a secure session at [irs.gov](http://irs.gov), or potentially as part of an electronic financial portfolio offered securely by a private sector financial institution.

**Tax Software Developers** would continue to be active participants with the IRS in defining new services that would be beneficial to mutual customers. The IRS would define changes requiring software investments in ways that minimize costs and maximize value for the tax software companies. The IRS would also provide electronic services and secure account access in ways that would integrate securely with private sector software. For example, the tax software used by a practitioner would automatically validate taxpayer identification information in near real time and securely pre-populate account information, such as Estimated Tax payments, reducing costs for the practitioner and increasing accuracy for the taxpayer and the IRS. Tax software companies, in turn, would be prompted by competitive market pressures to enhance other features of their software, such as providing direct links into IRS tax research knowledge bases.

**Online Filing Providers** similarly would have access to electronic services that they could incorporate into their tax preparation and e-filing offerings. Their services would be easily accessed and understood by taxpayers. The new EZ File Alliance – a virtual marketplace for online filing – is an excellent example of how this type of business model could benefit the IRS, its partners and its customers.

**Tax Practitioners**, in the end to end vision of tax administration, would choose from a variety of third party software products offering highly interactive e-services, made possible through online communication with the IRS' systems. A full range of e-services would be available, allowing practitioners to make a clean break from their paper processes. Those services would include the ability to e-file all form types, research taxpayer account information online or through a direct software interface, correspond electronically with the IRS, easily obtain electronic taxpayer signatures and maintain all

records electronically. Information returns would be filed electronically by employers and financial institutions (2D bar coding of information returns would be a helpful interim enhancement), and made available timely to taxpayers, practitioners and tax agencies.

**Other Government Agencies**, such as SSA, FMS and state tax agencies, would exchange information electronically with the IRS to improve compliance, taxpayer service and processing accuracy.

**Employers and Financial Institutions** would file withholding and information returns electronically, providing electronic copies to taxpayers and their designated representatives. Financial institutions may integrate tax account information with other customer financial information into an electronic financial portfolio, allowing online account inquiry, customized financial advice, tax filing and payment reminders and electronic tax payments. As an incentive to customers, financial institutions and other third parties may offer free online tax preparation and filing, provided by a specialized online filing provider.

## **Achieving the Future Vision**

**The IRS** would act as an integrator of this network of tax administration service providers. Its own electronic tax administration processes and systems would be designed to facilitate the smooth interaction of its internal functions with the specialized functions of its third party partners and taxpayers. The focus of its electronic tax administration initiatives would be to increase value and reduce costs for all the participants in the tax administration service network, while protecting the security and confidentiality of taxpayer information.

Those initiatives would enhance timely processing of returns and refunds and speedy resolution of issues, standardize interface and data transfer protocols, provide simple and comprehensive views of taxpayer account information and facilitate the ability of third parties to dynamically tailor services to the needs of individual customers. Key enablers of this future vision, led by the IRS, would be the creation of “natural integration points,” such as an electronic means for designating, tracking, updating and authenticating authorized representatives, definition of open standards such as XML for data exchange and development of simple but effective data encryption and electronic signature mechanisms.

In this environment, existing tax administration service providers would likely innovate with new and creative electronic service offerings and new providers would undoubtedly enter the market with fresh ideas and new business models. Taxpayers would be the ultimate beneficiaries.

That concludes my remarks to the Oversight Board. Thank you for the opportunity to comment on the future direction of electronic tax administration.