

**Statement of
Grace Dieterich, Chair
Electronic Tax Administration Advisory Committee**

**IRS Oversight Board Public Forum
February 8, 2006**

Good Afternoon. I'm Grace Dieterich, Senior Vice President of Technology for Jackson Hewitt Tax Service and chairperson of ETAAC – the Electronic Tax Administration Advisory Council. The Council, formed as a result of the IRS Restructuring and Reform Act of 1998, provides a forum to convey public perception of the activities related to the Electronic Tax Administration, to offer constructive observations about current or proposed policies, and to offer recommendations which encourage taxpayers to transact and communicate electronically with the IRS.

As the technology head for the nation's second largest tax preparation service company and the chairperson for ETAAC, I am honored to participate on this panel, particularly since the importance and impact of measures are so fundamental to the ETAAC charter and the tax preparation industry.

The value and use of measurements enables one to evaluate results, outcomes, and ultimately to drive behavior patterns and business direction. Measurements allow us to set goals, put a plan in motion, and utilize technology tools to help validate that the direction remains positive. Congress established a goal for the IRS that 80% of all tax returns be filed electronically by 2007. IRS put their plan in motion by establishing a strategic plan, formulating tactical initiatives, and encouraging fundamental changes throughout the organization, which includes changing the mind set of their employees, (as well as the tax preparation and the general taxpayer communities), to think in terms of an electronic environment versus just a paper world.

Clearly the performance of the IRS can be monitored through measurements. And each year, ETAAC has a responsibility to prepare a report for Congress on the progress made by IRS on its goal of filing 80% of all tax returns electronically by 2007.

Tax Season 2005 was a milestone for the IRS, as for the first time, more than 50% of all tax returns were electronically filed. That milestone clearly represents momentum towards the 80% goal, the IRS must still continue to strive to improve this percentage and solicit greater participation in electronic filing among all stakeholders. The recent recommendation by the IRS Oversight Board to extend the date for IRS to reach its goal of 80% is a very good one.

There has been steady growth of e-filing by the paid practitioner community over the past several years. State mandates have certainly amplified this growth by raising the bar for some paid practitioners who have been slow in embracing electronic filing. Paid

practitioners who file a minimum number of tax returns are now required by select states to file electronically, and metrics have shown us that much of the recent growth in e-filing at the federal level is a direct result of growth seen with state-initiated mandates. ETAAC recommends that the IRS take a lead role in working with and encouraging states to adopt a consistent approach for implementing such mandates. These policies should be implemented with a focus on simplicity, best practices, and defined standards.

Many tax industry business partners- be it financial institutions, payroll providers, software developers, or the paid practitioner community- utilize technology to facilitate efficient methods for delivering timely and accurate information, all of which can be easily measured. For example, electronically filed tax returns are validated for accuracy by most automated software products before returns are sent to the IRS. The IRS reject process subsequently allows for a timely resolution. These processes can clearly be measured for efficiency improvements and cost savings between e-filed returns versus paper returns.

Because e-filing is growing, there needs to be more technology to support it. A perfect example of how technology can help taxpayers who file electronically is through the use of indicators, like the debt indicator. This indicator supports e-filing in that it allows taxpayers to be more informed and provides a great customer service tool. The sharing of information ultimately benefits taxpayers and measurements help quantify these benefits.

Additional indicators that the IRS should consider include ones for CADE eligible tax returns and modernized e-file 1040 returns. These would serve to improve taxpayer satisfaction since it's more efficient to resolve matters with the taxpayer directly versus a laborious paper process. For example, the recent CADE system glitch which mistakenly generated approximately 16,000 paper refund checks could have eliminated many customer service issues if tax practitioners were aware of which customers were impacted. The use of indicators would improve the overall tax payer experience and enable the IRS to measure the impact of such events.

Unique indicators associated with natural disasters like hurricanes and floods should also be explored by the IRS. Metrics would be readily available to judge the effectiveness of special services offered to those affected by such disasters. As you know, today, disaster information is handwritten on the top of an affected person's tax return. This is certainly an opportunity for the IRS to expand the use of indicators and their efforts in tracking this and many other services.

Another look at how the use of technology can help measure success can be seen in the IRS public website. The recent redesign of the website for improved usability along with the introduction of eservices has been well received by the tax practitioner community. Up to date information is readily available, whenever needed, helping activities that once took days and weeks to complete to now be handled in a matter of minutes. Customer satisfaction surveys have clearly indicated that the IRS e-services are a true success story.

But let's expand this horizon and paint an even better success story for the IRS. Just think about how many taxpayers could reap the benefits of e-services by leveraging the technology capabilities of larger business partners and allowing "system to system" connections with IRS. For example, this could enable tax practitioners to verify the accuracy of name control for TINs, before tax returns are ever sent to the IRS! Today, you must individually verify this information on a case by case basis using the IRS e-service. Just think about the improvements in customer service and operating efficiencies that can be realized... definitely a success story that can easily be measured.

Another potential opportunity to explore includes a greater focus on information returns. With so many larger business partners utilizing software systems, just think about the operational efficiencies and cost benefits that can be realized by using standardized forms for computer generated W2 and 1099 documents. The IRS requires a specific format for electronically transmitting such data yet, computer generated documents are not standardized. This lack of conformity certainly leads to more inaccuracies in filing returns and requires greater training throughout the industry.

Additional potential opportunity for the IRS would be "system to system" sharing of information returns through a central repository. Certainly proper controls for data protection and security measures would be required, but a central repository of Information Returns eliminates the need for generating, mailing and/or retaining in office files many paper documents. The savings and benefits of such an undertaking can be quantified and measured, helping drive the momentum for the IRS and its partners to set a new strategic direction.

Approximately 60% of all tax returns are filed by a paid preparer. Measurements can help quantify and reinforce the benefits paid preparers bring to both the individual tax payer as well as the IRS. Measurements can quantify the accuracy of these returns versus the self prepared market; measurements can quantify the timeliness of responses, if correspondence is required, versus the self prepared market; measurements can quantify the overall customer experience and satisfaction levels versus the self prepared market...definitely areas worth further investigation by the IRS.

Clearly, technology plays a critical role in the future direction of products and services offered by the IRS and the information they share with partners. Measurements are needed to determine the correlations between the use of e-services, e-payments, e-filing, and compliance. In today's society where the Internet plays such a major role in our daily lives, it is incumbent upon the IRS to set a strategic direction that exploits technology, leverages its business partnerships, and relies on measurements to validate its success.