



## TESTIMONY BEFORE THE IRS OVERSIGHT BOARD PUBLIC FORUM

*Panel 1: Innovative outreach to customers. How would you recommend the IRS do proactive, educational outreach to stakeholders more efficiently, and how would you measure the results?*

February 19, 2008

### Background

The National Association of Tax Professionals (NATP) is honored to speak before the IRS Oversight Board and take part in this public forum. NATP appreciates the opportunity to participate in this panel discussion by providing recommendations on ways the IRS can effectively and efficiently provide proactive outreach to its customers.

**NATP** lends significant influence to taxpayers' decisions about compliance through its educated membership of more than 18,500 tax professionals. NATP is a "grassroots" organization formed in 1979 by tax professionals for tax professionals. Its founders envisioned a support organization that could provide education on the complex tax code, its regulations and other pronouncements in laymen's language.

**NATP** is a nonprofit professional association that is committed to the integrity of the tax administration system and the application of tax laws and regulations by providing education, research, and information to tax professionals. For nearly 30 years, we have existed to serve professionals who work in all areas of tax practice. We provide our members with over 200 tax education offerings in over 95 cities throughout the United States, a service unmatched by any other national tax association. In addition, our 35 Chapters and National headquarters in Appleton, Wisconsin serve the public through regular news releases, client brochures and newsletters, and a designated taxpayer website. Our Chapters provide significant member involvement in local and state communities.

### Overview

As a professional association whose core benefits include education and research, we want to stress the importance and urgent need for Congress to simplify the tax code. Simplification of the tax law is the cornerstone of voluntary compliance. This sentiment is echoed throughout the tax community year after year. Tax professionals throughout the nation are having increased difficulty with understanding and interpreting the tax laws in plain language their clients, the taxpayers, can understand. Congress has the ability to change the law - they prove that every December when they "fix" the alternative minimum tax for one year at a time. We need a solid, permanent solution to the complexity and Congress must be urged to act.

This Oversight Board has asked stakeholders for insights and recommendations on how the IRS can effectively and efficiently conduct proactive outreach to its customers. It would appear obvious that the IRS's "customers" should be, and always remain, the American taxpayers. The IRS should concentrate their educational efforts on providing the necessary tools that the average taxpayer can use to accurately comply with the tax laws, without unnecessary burden, thus ensuring voluntary compliance. They should do this as economically and efficiently as possible to maximize the use of limited resources.

There is no need for the IRS to duplicate educational services for tax professionals that are already being offered very competitively in the marketplace. The IRS should partner with stakeholders in the true sense of the word by not unfairly competing with the associations, educational institutions and other vendors that have a proven record of providing education to professionals. Outreach to the tax professional community, in the form of education, is best served by the organizations that are in the business of providing that education.

There are several tax professional outreach and liaison programs already in place that are made available by the IRS that have demonstrated effectiveness. For example, the National Public Liaison and the Small Business/Self-Employed division of the IRS hold monthly stakeholder liaison meetings in Washington D.C. where they provide the professional associations with information that is disseminated to their memberships. The information provided is invaluable. Similar programs are made available at the local level. These types of programs should continue.

### **Using Innovative Outreach to Encourage Voluntary Compliance**

The IRS has already demonstrated its ability to effectively reach taxpayers and industries through targeted outreach and education programs. Examples include focused outreach to low-income taxpayers to assist them with understanding their eligibility for the earned income tax credit. The implementation of the EITC Assistant on IRS.gov is a prime example of using innovative technology to reach out to a segment of the taxpaying population. Using tools such as these enable the taxpayer to efficiently determine eligibility for a particular deduction or credit, thus greatly reducing the incidence of error when the tax return is filed. These tools provide the IRS with an educational opportunity whereby they are able to explain the tax law to the public in simple, plain language. Additional tools can be created that would explain other parts of the tax law that are similarly difficult to understand such as the rules defining a qualifying child.

The IRS has developed similar tools for the tax professional. The EITC Toolkit for Tax Preparers, e-services, Tax Talk Today, and the Issue Management Resolution System (IMRS) are just a few examples of how the IRS reaches out to professional tax preparers.

Care must be used to ensure that the focus for providing tools to taxpayers is not always through technology. A great many taxpayers either still do not own computers or are technologically challenged in the use of them. To steal an ad slogan from AT&T, the IRS needs to "reach out and touch someone." Going back to old-school customer service is something the IRS should be expanding on, not eliminating. The American taxpayer likes the comfort of knowing they can actually talk to someone, face-to-face, about their tax problem. Often this is the quickest and most efficient way to

resolve an issue. The front-line IRS employees should be empowered to do just that. The internet is a wonderful tool for providing tips, education, and answers to frequently asked questions, but walk-in facilities such as the Taxpayer Assistance Centers (TACs) provide a human touch which allows taxpayers to have the sense that the IRS is there, to help them, when they need it.

In 2007, a task force was formed to enhance small business outreach. The Small Business/Self-Employed division assembled a service-wide team to review their current outreach programs and develop recommendations to enhance education and outreach opportunities using internal and external resources. The recommendation was for SB/SE to develop a five-year strategic plan to enhance the outreach and education provided to SB/SE taxpayers. A memorandum from Beth Tucker dated September 2007, was full of insightful recommendations and other suggestions of what the IRS “should” do. Among the recommendations are to develop multilingual initiatives to provide translated documents and educational materials to reduce cultural barriers impacting compliance. Another recommendation was to develop ways to do follow-up with new employer identification number (EIN) recipients. In light of this, one would have to ask, what has become of those recommendations? Have any of the recommendations been implemented? If not, when will they? The information gathered by this task force should not be dismissed or wasted. The best way the IRS can serve the stakeholders is by sharing the information they obtain and explain how they plan to use it.

NATP has witnessed a growing number of questions and concerns in these two areas with more of an emphasis on the increasing multicultural barriers. It is our recommendation that the IRS expand the **taxpayer** programs they already have in place instead of allocating their limited resources to new programs and initiatives. They have a good start and a considerable investment in products and programs that cater to Spanish speaking taxpayers, low-income taxpayers, and small business taxpayers. Conducting focused, ongoing outreach to these taxpayers in particular will encourage voluntary compliance through understanding the tax law and in turn, reduce the tax gap.

### **Reducing the Tax Gap Through Targeted Education**

In the fall of 2002, the IRS launched the National Research Program (NRP). The goal of the NRP was to design and implement a successful strategy to collect data that will be used to measure payment, filing and reporting compliance and to deliver the data to the Business Operation Divisions. In addition to updating taxpayer data, the information collected was used to meet a wide range of needs including support for the development of strategic plans and improvements in workload identification.

The IRS also uses the NRP data to analyze taxpayer compliance and to assess the effectiveness of compliance programs and treatments in use by the IRS. Data for analysis includes amounts reported by taxpayers on their tax returns and the corrected amounts that were determined by examiners. With this information, the IRS can enhance its outreach to specific areas of tax law that show repeated confusion, error, and lack of understanding. For example, many taxpayers have difficulty understanding how to report the information provided to them on Form 1098-T, *Tuition Statement*. The difficulty arises because the educational institution reports the “amounts billed” in Box 2 and often, nothing in Box 1 where payments received are reported. It has been NATP’s experience that the educational institutions are as confused as the public on how this seemingly innocuous form is to be filled out. Without clear, uniform guidance, the incidence of error when computing educational credits

and deductions will continue. This is a prime example where the IRS can step in and assist an industry with targeted education. This is only one example, there are many more, too numerous to list here.

The IRS only need consider the success of its tip programs when contemplating the need for targeted education that is specific to an industry. As we have stated earlier, the IRS has several programs that are already in place that have proven effectiveness. The Market Segment Understanding (MSU) Program, first introduced in 1993, is a means of enhancing tax compliance while reducing taxpayer burden. This program envisions that the IRS and taxpayers, market segments in particular, work together to improve tax compliance in those areas through educational efforts and other collaborative approaches rather than through traditional audit techniques. The program and procedures are already in place. The IRS should expand on these instead of creating additional programs that will undoubtedly require additional funding.

### **Managing Customer Expectations**

Who are the customers and what are their expectations? That is the real question. If the customers are the taxpayers, their expectations are simple – paying the least amount of tax as determined under the current laws, and make those very laws simple to understand. It is always easier to comply with something when it is understood. Too often taxpayers throw up their hands in sheer frustration, report what they “think” is correct, and hope for the best.

In the event a taxpayer is audited, the auditor must explain, in plain language, what is being examined, what additional information is required to accurately determine the correct amount of tax, and then follow up with the taxpayer to explain what was changed or disallowed, and why. In general, taxpayers want to comply and fulfill their tax obligations. Millions demonstrate this by hiring professionals to help them or buying software products that provide assistance. There are others who do not have the discretionary funds to do that but who want to comply as well. Having a clear understanding of the laws and regulations encourages voluntary compliance.

In 2005, at the request of Congress, the IRS developed a five-year plan for taxpayer service. The result is the Taxpayer Assistance Blueprint, an ambitious effort that provided the IRS with valuable information on the behaviors and expectations of the taxpayer. From a stakeholder perspective, this information is only valuable if it is put to use. The TAB research indicated that taxpayers who use IRS services are most concerned with first contact resolution; nine out of ten taxpayers who used IRS services in 2005, (the website, telephone line, or TACs) reported that they would use the same channel again in the future. This is a clear indication that taxpayers are creatures of habit. If the IRS’s goal is to reduce the TACs and instead steer taxpayers to the website for assistance, the end result will be the alienation of a segment of the population and will reduce voluntary compliance. Ultimately, this may negate the successes of other programs. Having alternate means of providing assistance, so all taxpayers are served, is the true measure of success.

### **Measurement**

In many respects, it is difficult to measure the success of a program or procedure strictly in terms of a return on the investment. When dealing with taxpayers, and tax professionals, successes are

also measured by satisfaction. Taxpayers are satisfied when they believe they are only paying their share of taxes through a system that is fair for everyone. Tax professionals are satisfied when they believe they are getting the support and assistance from the IRS needed to produce accurate returns.

Evaluating measures can only be as accurate as the means used to determine the problem. An accurate way of measuring the tax gap, much less compliance, has been a concern of the IRS, the Treasury and Congress for decades. It still has not been accomplished. If the IRS has not yet done so, our recommendation would be to hire measurement experts qualified to assess the situation and provide a reasonable analysis. Such action is often taken in other areas of government by other agencies.

## **Conclusion**

It is obvious that the major contributor to problems like the lack of voluntary compliance, the high error rate, and the growing tax gap, is the complexity of the tax code. It would also stand to reason that the problem cannot, and will not be resolved until Congress takes the necessary steps to pass the laws that are needed to ensure a fair tax system without causing unnecessary burden on taxpayers, tax professionals, or the IRS.

With all the programs that the IRS has already created and completed, one must beg the question “Isn’t there enough data, resources, and measurements already available that would assist the IRS in accomplishing its outreach goal?” Why must we continue to reinvent the wheel? Resources are limited, and becoming more limited as time goes by. The IRS employees are already feeling the pinch of attrition with an increasing workload. According to Colleen Kelley, president of the National Treasury Employees Union (NTEU),

*.....the IRS has 20,000 fewer employees than it had 10 years ago. Consequently, employees are feeling pressured to focus on their quantity of work, rather than quality of work.”*

That type of attitude among the workers who are hired to serve the public is not conducive to productive outcomes and ensuring the integrity of the Tax Administration System. The need for additional programs is not now. The IRS needs to focus its somewhat limited resources on the segment of the taxpayers whom they have already identified as being the least likely to comply. Congress, on the other hand, needs to simplify the laws to improve compliance by the taxpayers they serve.