

Department of the Treasury • Internal Revenue Service



# Taxpayer Advocate's

# Annual Report to Congress

**FY 1996**

---

December 1996

---

TAXPAYER ADVOCATE'S  
ANNUAL REPORT TO CONGRESS  
FY 1996

TABLE OF CONTENTS	i
FOREWORD	iii
I. INTRODUCTION	1
A. PROGRAM OVERVIEW	1
B. SOURCES OF FY 1996 PRP CASEWORK	4
II. PROGRAM SUPPORT	9
A. TAXPAYER ASSISTANCE ORDERS (TAOs)	9
B. SELECTION AND EVALUATION OF PROBLEM RESOLUTION OFFICERS	9
C. QUALITY INITIATIVES	10
D. COMMUNICATIONS	10
E. REORGANIZATION OF PRP	11
III. TAXPAYER ADVOCACY	13
A. INITIATIVES OF THE TAXPAYER ADVOCATE	13
1. REVENUE PROTECTION STRATEGY	14
2. LAST KNOWN ADDRESS (LKA) STUDY	16
3. CUSTOMER FEEDBACK SYSTEM	18

4.	JOINT RETURN STUDY	18
5.	AUDIT RECONSIDERATION PROJECT	19
B.	LEGISLATIVE PROPOSALS	20
C.	THE MOST SERIOUS PROBLEMS FACING TAXPAYERS	22
IV.	APPENDICES	48
A.	REVENUE PROTECTION STRATEGY	48
B.	LAST KNOWN ADDRESS STUDY	54

## FOREWORD

This is the first Taxpayer Advocate Report to the Congress as required by the recently enacted Taxpayer Bill of Rights (TBOR2). The mission of the Taxpayer Advocate is relatively simple and has two primary facets. First, we work with taxpayers to address their immediate problems or concerns and to provide appropriate relief. Second, we have a responsibility to address continuing systemic problems through analysis of their underlying causes and to recommend appropriate corrective actions. This element of our program is generally referred to as advocacy.

An ongoing role for Problem Resolution Program (PRP) and the Taxpayer Ombudsman, now the Taxpayer Advocate, for many years has been advocating for taxpayers through reviewing the impact of new programs and the source and causes of PRP casework. While advocacy can take many forms, the primary focus is to determine potential impacts on taxpayers, and then working with functional officials to take appropriate corrective actions. TBOR2 takes advocacy to a higher level by requiring the establishment of formal monitoring and reporting systems to track and follow-up on recommendations, as appropriate. I have also established a more formal process of conveying PRP recommendations to operational areas through the use of "Advocacy Memoranda" which require a response within 90 days. These memoranda are not intended to replace the ongoing advocacy activity that takes place at the staff level, but, in fact, will supplement and expand on those efforts.

Since TBOR2 was not enacted until the end of the tenth month of the fiscal year, we had a relatively short timeframe in which to gather input and develop this report. The focus of the report, therefore, has been placed on activity that had been documented by the end of the fiscal year and where responses had been requested from officials responsible for responding to the recommendations. Feedback on our current list of the most significant problems facing taxpayers in dealing with the IRS was gathered from our regional offices and responses were requested from appropriate operational officials. Other areas included in the report reflect ongoing problems with our attempts to locate and ensure we have that taxpayer's last known address as well as more recent efforts to reduce the potential for adverse impact of the Service's Revenue Protection Strategy on taxpayers.

In future reports, I plan to also include direct feedback from both taxpayers and the tax practitioner community on the most serious problems that taxpayers face in dealing with the IRS. I have already initiated a dialogue through the various Commissioner's liaison committees to start the process of gathering direct feedback from the following organizations on areas of importance to their constituents: the National Association of Tax Practitioners, the American Society of Certified Public Accountants, the National Association of Enrolled Agents, the National Association of Accountants, the American Bar Association, and the Tax Executive Institute. In addition, I have requested the assistance of our Strategic Planning Division in conducting a series of focus groups designed to gather feedback from individual taxpayers and small businesses on their concerns.

I recently provided members of the IRS Executive Committee with a copy of the Taxpayer Advocate's analysis of our FY 1996 casework activity. This report identified the top ten sources of PRP casework for each region, for our ten service centers, and for the nation. The Deputy Commissioner has asked each Regional Commissioner and the Service Center Executive Officer to work with me to identify critical areas of concern, and to establish teams to review the underlying causes for taxpayer problems in those areas and to recommend improvements to the operations of those systems. Each of the regional PRP staffs will participate in that process and will develop recommendations in other key program areas as well.

While this initial report represents, from my perspective, a good beginning, there is much to be done. The inclusion of direct input from taxpayers and the practitioner community along with enhanced analysis on the primary sources of PRP casework will form the basis for a more comprehensive systems improvement effort that will benefit both the taxpaying public and the Service.

Lee R. Monks  
Taxpayer Advocate  
December 31, 1996

## I. INTRODUCTION

This report by the Taxpayer Advocate to the House Ways and Means and Senate Finance Committees is mandated by section 101(a) of the Taxpayer Bill of Rights 2 (public law 104-168), enacted on July 30, 1996.

### A. PROGRAM OVERVIEW

The newly created position of Taxpayer Advocate and the Office of the Taxpayer Advocate replace the former position of the Taxpayer Ombudsman and the Headquarters Problem Resolution Program staff, while enhancing the authority of the position and expanding the office's scope and responsibilities. This is the latest enhancement, including those mandated by Congress, to a longstanding, and, we believe, highly effective program of taxpayer advocacy and assistance.

The Problem Resolution Program (PRP) was founded in 1976 as part of the Taxpayer Service organization and was reorganized as a separate organizational component the following year. Initially, Problem Resolution Officer (PRO) positions were established only at the Service's district offices. In 1979, recognizing that many of the taxpayer problems that reached district PRP offices related to service center operations, the program was expanded and PROs were established in each of the service centers. In both districts and service centers, the PRO is a member of the Director's immediate staff.

In late 1979, the Taxpayer Ombudsman, an executive level position on the Commissioner's immediate staff, was created to head the PRP organization and to provide greater authority and visibility to PRP both inside and outside the IRS. In 1980, Regional Problem Resolution Officer positions were established on the immediate staffs of each Regional Commissioner to provide program oversight and assistance to the PROs in districts and service centers.

Since its inception, PRP has provided assistance to taxpayers who have been unable to get their problems resolved through normal channels. PRP assured the timely and effective resolution of more than 325,000 such cases during FY 1996. In 1988, the Omnibus Taxpayer Bill of Rights (TBOR) expanded PRP's ability to assist taxpayers by providing statutory authority under section 7811 of the Internal Revenue Code for the Taxpayer Advocate or his designees, the Problem Resolution Officers, to issue a Taxpayer Assistance Order (TAO). A TAO may be

issued when necessary to relieve an imminent, significant hardship as a result of the manner in which the tax laws are being administered. The original statute authorized issuance of a TAO to require the release of property from levy or to cease or refrain from taking actions in certain situations. The following year, the Commissioner administratively expanded TAO authority to include relief of hardship in situations beyond those specified in the law. TBOR2 included this expanded authority and also allowed the Taxpayer Advocate or PRO to specify in a TAO a time period by which the ordered actions must be completed.

During FY 1996, more than 32,150 Applications for Taxpayer Assistance Order were processed. Of these, 76.5% were granted relief or appropriate assistance was otherwise provided. Only five cases required an enforced TAO, in which Problem Resolution Officers formally exerted their statutory authority to order relief for the taxpayer. In all five cases, the relief was provided timely.

TAO PROGRAM ACTIVITY  
FY 1996

ASSISTANCE PROVIDED TO TAXPAYER

	<u>Volume</u>	<u>Percentage</u>
TAO Resolved (Voluntarily)	14,862	46.2
PRP Case Initiated	2,114	6.6
Referred to Function for Resolution	4,052	12.6
Resolved by the PRO Without TAO	1,076	3.3
Relief Provided Before TAO Issued	2,514	7.8
Enforced TAO	5	*
<b>Subtotal</b>	<b>24,623</b>	<b>76.5</b>
 OTHER		
Relief Not Appropriate	5,546	17.3
Law Prevents Relief	1,147	3.6
No Action Required(did not meet criteria)	834	2.6
<b>Subtotal</b>	<b>7,527</b>	<b>23.5</b>
<b>TOTAL</b>	<b>32,150</b>	<b>100 %</b>

\* Less than 0.1%

Assistance could not be provided in 23.5 percent of the applications because:

- It was determined that relief was not appropriate (17.3%)
- The law prevented the Service from providing relief (3.6%)
- The ATAO did not meet significant hardship criteria (2.6%)

Relief may be determined to be inappropriate when the remedy the taxpayer is seeking is not justifiable; e.g., when a taxpayer requests abatement of an additional tax assessment but provides no supporting documentation to justify the abatement; or when granting a request for release of levy would jeopardize ultimate payment of the tax when the taxpayer has neglected or refused to make other arrangements with the Service to resolve their delinquency.

Many denials of relief due to the law preventing Service action were related to returning levy proceeds or releasing tax liens. The levy and lien provisions of TBOR2, which were supported by the Taxpayer Advocate, eliminated prior statutory constraints in these areas and should increase taxpayer relief actions during FY 1997.

Over the years, the program's focus has shifted from one of primarily identifying and resolving instances when taxpayers have not been able to solve tax problems through normal channels, or when they were suffering significant hardships. The focus now is to first assist the taxpayer with their immediate problem, and then determine the primary sources or underlying causes of those problems in order to work with IRS functional areas to initiate corrective actions and prevent the occurrence of similar problems in the future.

More significantly, TBOR2 enhanced the authority of the Taxpayer Advocate to ensure that IRS gives appropriate attention to the underlying causes of problems taxpayers encounter and that responsible IRS officials seriously consider and formally respond to recommendations by the Taxpayer Advocate to improve customer service and IRS responsiveness. TBOR2 requires the establishment of internal procedures, referred to as the "Commissioner's Reporting System," for ensuring a formal IRS response within three months to all Taxpayer Advocate recommendations, and requires that the Taxpayer Advocate report directly to Congress on the office's activities for the past year, including a summary of the actions taken to implement recommendations and to address the most serious problems faced by taxpayers.



## B. SOURCES OF FY 1996 CASEWORK

In January 1995 the Taxpayer Advocate initiated a change in the coding process for each case meeting PRP or ATAO criteria by type of issue (major issue code). The major issue code represents the issue or process that should be looked at for the purpose of determining the source or cause of various problems and then for initiating action to correct systems deficiencies, address unfair treatment, reduce program cycle time, or improving customer service.

In FY 1996 enhancements to the Problem Resolution Management Information System (PROMIS) resulted in creation of a single nationwide database of PRP/ATAO casework enabling collection and analysis of PRP's 55 major issue codes with far more ease and greater reliability than ever before.

The most recent analysis of closed PRP/ATAO cases provided:

- A picture of the vital few issues involved in a significant portion of PRP/ATAO casework throughout the IRS,
- An FY 1996 and FY 1995 comparison of major issue codes,
- A breakdown of major issue codes by IRS function with primary oversight,
- Major issue codes by centers, regions and districts, and for A/C (International)

The Taxpayer Advocate, at a recent meeting of the executive Committee, shared his staff's analysis of PRP casework for FY 1996, which included charts summarizing the top ten major issue codes, in terms of PRP casework volume, nationally, for each geographical region, and for the ten service centers. The charts that immediately follow this section (pages 7 and 8) provide a sample of the analysis being conducted by the Advocate's staff. Chart A reflects the top ten issues or processes that are the cause of PRP cases on a nationwide basis. Chart B depicts a distribution of all 55 PRP case codes for districts, as a whole, and for service centers. Charts C and D reflect the top ten issues for districts and service centers, respectively.

Our analysis indicated that the top ten major issue codes, by volume, for FY 1996,

were, as follows:

1. Audit Reconsiderations
2. Refund Inquiries/Requests
3. Lost/Misapplied Payments
4. Processing Individual Returns
5. Processing Claims/Amended Returns
6. Penalties Other Than Federal Tax Deposit (FTD) Penalties
7. Federal Tax Deposit Penalties
8. Earned Income Credit (EIC) Issues
9. Revenue Protection Strategy (RPS)
10. Installment Agreements

Executives in the field and at the Headquarters Office are expected to provide support to the Taxpayer Advocate through encouragement of functional participation in the analysis and systems improvement efforts initiated by their local and regional PROs. Regional Commissioners have been asked to review the data for their respective organizations and to initiate appropriate actions. The Taxpayer Advocate has strongly encouraged the establishment of Regional Advocacy Councils to serve as the primary focal point for reviewing PRP problem data and initiating corrective actions. All four regions have established councils with cross-functional representation including PRP.

The Advocate's staff has analyzed the FY 1995 and FY 1996 major issue code data to identify and quantify the most frequent and most time consuming taxpayer problems. We will continue to analyze the major issue code data on a quarterly basis during FY 1997 to identify trends, patterns, aberrations, and possible anomalies. This analysis, which represents actual data from PRP casework, will form the basis for the majority of the advocacy activities undertaken by PRP. We also plan to supplement this data with input from taxpayer focus groups and from practitioner stakeholder groups in order to develop a comprehensive approach to dealing with the problems faced by taxpayers in dealing with the Service. This process will allow the Office of the Taxpayer Advocate to:

- Better understand the most frequent problems facing taxpayers,
- Rank or categorize problems according to their potential significance,

- Develop data research and analysis project plans to be assigned to selected regions for completion,
- Confirm and quantify the seriousness of each major issue code problem,
- Uncover underlying cause(s) for the most serious problem codes,
- Develop recommendations to prevent such problems or mitigate their impact on taxpayers.
- Convey recommendations in advocacy memoranda from the Taxpayer Advocate to responsible IRS officials,
- Track recommendations in the Commissioner's Reporting System, and
- Report on the of recommendations in the Taxpayer Advocate's annual report to Congress.

This, in turn, will assist responsible officials in developing appropriate improvement initiatives that will:

- Reduce taxpayer burden in transacting business with the IRS,
- Reduce rework, including PRP/ATAO cases,
- Improve IRS efficiency in delivering products and services, and
- Free up resources to be applied to more productive programs.

Four specific advocacy projects have already been initiated by our regional offices as a result of our data analysis. The four projects deal with taxpayer access to toll-free, collection related issues, earned income credit, and FTD penalties. Progress on these initiatives and recommendations will be reported on in my FY 1997 report.

The charts which appeared on this page in the original report are not available in this format. If you wish to see the charts, request a copy of the report from the Office of the Taxpayer Advocate, (202)622-4300.

The charts which appeared on this page in the original report are not available in this format. If you wish to see the charts, request a copy of the report from the Office of the Taxpayer Advocate, (202)622-4300.

## II. PROGRAM SUPPORT

### A. TAXPAYER ASSISTANCE ORDERS (TAOs)

TBOR2 provides codified the Taxpayer Advocate's and PRO's authority to set time periods for completing actions required by and Taxpayer Assistance Order.

During FY 1996, five enforced TAOs were issued by Problem Resolution Officers; two in Western Region and three in Midstates Region. All five TAOs were honored timely by the receiving officials.

### B. SELECTION AND EVALUATION OF PROBLEM RESOLUTION OFFICERS

In January 1996, the Commissioner issued a directive to all IRS Heads of Office that the Taxpayer Advocate or his designee, the Regional PRO, would participate in the selection and evaluation of all Problem Resolution Officers. TBOR2 subsequently codified that requirement.

Eight Problem Resolution Officers (PROs) were selected during FY 1996 with a Regional PRO participating and concurring in each selection; two PROs were selected at the Atlanta and Fresno Service Center, and an Assistant PRO was selected at the Brookhaven Service Center; two PROs were selected in the Brooklyn and Houston Districts, and three Associate PROs were selected in the Augusta, Portland, and Sacramento posts of duty. No Regional PROs were selected this year.

The Taxpayer Advocate provided input and gave concurrence to each Regional Commissioner on the performance evaluation of each Regional PRO. The Regional PROs participated in the performance evaluations of the district and service center PROs, with the exception of two centers. These were both due to unique circumstances for which steps have been taken to ensure that this does not recur.

## C. QUALITY INITIATIVES

During the past year, action was completed to consolidate quality review (QR) activity for PRP in two locations, San Francisco for all district offices and the Brookhaven Service Center for all service centers. The primary purpose of the consolidation was to achieve more consistency in the review of PRP casework and application of the PRP quality standards. In addition, I commissioned a national task force, made up of field PROs and members of my headquarters staff, to review concerns expressed by the field regarding the QR process. I approved thirteen recommendations made by the task force, designed to refocus quality from the customer's perspective which should result in both a better understanding of customer needs and improved quality results across the board. These changes were implemented during October 1996.

## D. COMMUNICATIONS

Since I assumed the position of Taxpayer Ombudsman in 1993, I have been extremely active in promoting the role of the Taxpayer Ombudsman (now Advocate) and Problem Resolution both internally and with external stakeholder groups. There was, at the time and still is, a need to ensure better understanding of the role we play within the organization. As a result of the changes created by the passage of TBOR2 that need is even greater.

For the Advocate to be effective, he or she must be allowed to operate as an independent voice for the taxpayer within the Service and to be able to make appropriate recommendations for improving IRS systems and processes that do not work properly or have unintended negative consequences for taxpayers. This requires both an acceptance and understanding of the role by top-level management within the organization as well as support from the Commissioner and Deputy Commissioner. The support required has been there since the time I first assumed this position. The additional authorities granted by TBOR2 such as the Advocate's Report to the Congress and the requirement that functional management must respond promptly to recommendations made by the Advocate will ensure that greater attention is paid to this aspect of our program. The balance of the understanding required will be gained from continued education of executives, managers and employees.

Since the passage of TBOR2 and even prior to that time, I have made a number of speeches to various practitioner groups and at IRS sponsored symposiums for tax preparers to discuss the changes and enhancements to PRP and my position as a result of the legislation. I have also indicated a desire to solicit direct feedback from these groups as part of the process to identify the most significant problems affecting taxpayers in their dealings with the IRS. Response has been very favorable and there have been numerous inquiries regarding specific timeframes for implementation of various aspects of the bill. Surprisingly, I also learned that there are still a number of tax preparers that were relatively uninformed regarding how PRP works and that it is available to them as a resource in dealing with problem areas with the IRS.

The last area relating to communications deals with direct feedback from taxpayers. PRP had conducted a series of focus groups in late 1993 on service offered by PRP. The information obtained was extremely useful in modifying our program practices and quality review program focus, but did not offer any significant insight to problems taxpayers were experiencing with the IRS as a whole. In 1997, I have initiated a series of focus groups, in conjunction with our Strategic Planning Division, to gather data from both individual and small business taxpayers on the types of problems they encounter in their dealing with the IRS. This information will be included in my next report to the Congress and will also assist in developing the list of the most significant problems as well as appropriate recommendations for systems improvements. Obviously, communications and outreach will continue as a high priority for PRP in 1997.

## E. REORGANIZATION OF PRP

For the past two years the IRS has been undergoing a reorganization of its regional and district offices. During that time the Service has consolidated field operations from seven to four regions and from 63 to 33 districts. At an early point in the discussions regarding district operations, Commissioner Richardson made the decision to retain PRO positions in all 63 former district offices. This ensured that each former district location would maintain a local PRP contact, now designated as an Associate PRO, for liaison with taxpayers, local congressional offices and the practitioner community.

While PRP staffing has remained fairly stable for the past few years, there have



been some shift of resources to accommodate needed transfers of workload. My office has developed a staffing model based on workload needs to ensure each district has been allocated an appropriate level of resources commensurate with local workload demands.

### III. TAXPAYER ADVOCACY:

#### A. INITIATIVES OF THE TAXPAYER ADVOCATE

Since the inception of PRP, the Taxpayer Advocate's staff and field PROs have been involved in identifying the underlying causes of taxpayer problems and in recommending solutions to improve taxpayer service and IRS responsiveness. Because those recommendations were made in a variety of ways and came in through different levels of the organization, they were handled inconsistently at times and often did not receive the support necessary to ensure implementation.

One of the early actions that I took upon assuming this position was to establish a more formal approach towards handling improvement recommendations received from the field and then in tracking completion of approved actions. Since that time, we have also developed a more comprehensive management information system and have used data derived from that system to pinpoint critical areas of concern. As a result, by the time TBOR 2 was enacted much of the structure and internal systems to track and report on improvement initiatives sponsored by the Advocate's office were already in place. We have established a formal system of Advocacy Memoranda, which requires a response to the Taxpayer Advocate within 90 days. We also have a tracking system in place to ensure approved actions are being addressed by the appropriate officials until they are resolved or discontinued.

During the last two months of FY 1996, we issued two Advocacy Memoranda, to the appropriate responsible official, which contained recommendations relating to two advocacy projects undertaken by the Advocate's staff: the first contained recommendations related to the Revenue Protection Strategy (RPS) that resulted from an FY 1996 cross-functional effort to improve processes for the 1997 individual income tax filing season. The second memorandum followed up on the implementation of recommendations that had resulted from a 1994 cross-functional effort, the Last Known Address (LKA) Study, which I chaired, to improve the way the Service determines and maintains taxpayers' current addresses.

In addition to the aforementioned advocacy projects, my staff was involved in two other initiatives worthy of mention in this report and we are also supporting a

project originally initiated by the San Francisco PRP staff and co-sponsored by the Western Region. The first two projects deal with the establishment of a servicewide customer feedback system and a study on issues affecting divorced or separated spouses, now more commonly referred to as the joint return study and the Western Region study focuses on audit reconsideration issues, which represents the number one source of PRP casework (see Chart A. page 7).

A brief synopsis of each of the five projects follows.

## 1. REVENUE PROTECTION STRATEGY

The Service's Revenue Protection Strategy (RPS) is an approach, begun during FY 1995, to take a more aggressive stance to identify and prevent fraud and abuse of the Earned Income Tax Credit. Although the strategy has evolved and been refined since its initial implementation, RPS' basic feature involved the delay in issuance of certain EIC-related refunds and the review and screening of questionable EIC claims to determine whether to disallow the claim through the statutory notice of deficiency process or to initiate a criminal investigation. During the 1995 filing season, field PRP offices received 25,257 Applications for Taxpayer Assistance Order (ATAO) and 895 regular PRP cases related to RPS refund freezes. During FY 1995, the Office of the Taxpayer Advocate worked with field PRP offices and members of Headquarters operational staffs to monitor the RPS processes and case inventories and to identify opportunities for improving processes and refining screening methods. During the 1996 filing season, only 835 RPS related ATAOs were received, a significant decrease in taxpayer hardship claims resulting from improved screening and selection techniques which required far fewer delays in the issuance of refunds. In 1996, although regular RPS PRP case receipts increased to 4579, most of those cases were holdover problems from the prior year, i.e., 1995, refund freeze was not yet resolved because of processing problems.

During the past fiscal year, the Taxpayer Advocate's staff partnered with staff members representing the Assistant Commissioner (Examination), the Office of Refund Fraud, and the Chief Taxpayer Service to review RPS processes in selected districts and service centers. Following that review, recommendations were made in an Advocacy Memorandum to the Chief Taxpayer Service. We acknowledged in our Advocacy Memorandum that legislation pending at the time it was issued to give the IRS authority to adjust EIC amounts and other return items without

requiring issuance of a statutory notice of deficiency might impact the recommendations being made.

During the 1997 filing period my staff will work closely with the staff of the Service Center Executive Officer and other functional areas to monitor the RPS process. This is critical in light of new legislation providing the IRS with math error authority on RPS cases and new procedures for handling taxpayer identification numbers for those individuals unable to obtain Social Security numbers.

The following is a brief summary of our RPS recommendations. The recommendations have been numbered in this report to assist the reader:

1. Revise the wording on the acknowledgment and interim letters generated through Examination function management information system.
2. Revise certain RPS taxpayer notices.
3. Establish indicators on RPS accounts to show when correspondence or telephone inquiries are received from taxpayers.
4. Establish an indicator to show when additional information is needed from the taxpayer.
5. Establish separate account indicators to show when an RPS case is closed because the taxpayer agreed to the proposed adjustment or when the Service accepted the return as filed.
6. Require the consistent use of indicators among all IRS offices.
7. Indicate the date acknowledgment and interim letters were sent on RPS cases.
8. Issue clarifying instructions for the handling of cases where multiple taxpayers live in the same household.
9. Provide separate indicators for closed cases where no response was received and for closed cases where a response was received but the information

provided was not enough to substantiate the taxpayer's eligibility.

10. Provide separate indicators for open cases where no response was received and for open closed cases where a response was received but the information provided was not enough to substantiate the taxpayer's eligibility.
11. Revise time frames for initiating internal referrals and PRP cases following taxpayer contacts to coincide more closely with processing times related to the acknowledgment and interim letters.
12. Revise account research and indicator input procedures for taxpayer calls routed outside a center's normal servicing area.
13. Revise indicator input procedures when internal referrals or PRP cases are initiated at telephone sites.

A more detailed explanation of our recommendations, responses by the Chief Taxpayer Service and the Taxpayer Advocate are included in Appendix A.

## 2. LAST KNOWN ADDRESS (LKA) STUDY

During FY 1994, the Taxpayer Advocate sponsored a cross-functional analysis of the IRS's efforts to improve the way it updates and maintains taxpayer address records. Twenty-three recommendations (ten short-term and thirteen long-term ones) were made as a result of that study and were approved by the Deputy Commissioner in August 1994.

In a December 1994 report, entitled *TAX ADMINISTRATION, Changes Needed to Reduce Volume and Improve Processing of Undeliverable Mail*, the General Accounting Office (GAO) reached the following conclusion:

Although it is unlikely that the problem of undeliverable mail can be totally eliminated, IRS needs to give undeliverable mail more attention because it adversely affects operations and can cause undue burden on taxpayers. Although previous efforts to deal with this mail were primarily limited to IRS' service center Collection functions, new efforts are expected to have Service-wide

consequences because IRS agreed in August 1994 to implement recommendations of the Taxpayer Advocate's study. The implementation of those recommendations should have significant impact on reducing IRS' undeliverable mail.

Since the December 1994 GAO report, twelve of the twenty-three approved recommendations were implemented or were closed (without being implemented). Actions implemented by the Service involved simplification and standardization of address instructions to taxpayers, the implementation of new guidelines for accepting oral statements during compliance contacts, clarification of procedures dealing with divorced and separated taxpayers, and expanded training for employees on change of address input procedures.

Overall we believe progress has been made in this problem area. At this time we believe most of the remaining issues can be closed with the exception of a few recommendations which are still in progress.

One of those projects involves a test funded by the Taxpayer Advocate's Office and conducted by the Indiana District Problem Resolution Office. The test provides for the direct distribution of the IRS change of address form within the U.S. Postal Service's Change of Address confirmation letter and Welcome Kit. On December 12, 1996, I issued an Advocacy Memorandum to the Chief Taxpayer Service recommending that he consider implementation of this proposal nationwide. My office is tracking that recommendation separately in the Commissioner's Reporting System, and I will report on our progress in my FY 1997 report to Congress.

The second issue provides for the development of a legislative proposal to define last known address. After review by Chief Counsel, they agreed to establish a project to define last known address by regulation in lieu of the legislative recommendation. At this time we cannot move further until a business case is completed for the time frames set forth for processing returns and notifications (i.e., the numbers of days necessary to process address information from returns and notification). This item will remain open pending this response.

A complete listing of the LKA Study recommendations and discussion points is contained in Appendix C.

### 3. CUSTOMER FEEDBACK SYSTEM

Following passage of Taxpayer Bill of Rights 2, which requires that the IRS report on all complaints received related to employee misconduct, the Taxpayer Advocate and Chief Management and Administration were assigned responsibility for the implementation of a Customer Feedback System. The following recommendations were made to the Commissioner, Deputy Commissioner, and IRS Executive Committee:

1. The Deputy Commissioner should have the primary responsibility for ensuring that appropriate actions are taken to implement the system and to initiate actions based on information and data provided by the system.
2. The Taxpayer Advocate should be the individual with primary responsibility for administering the system and for providing data and appropriate recommendations to the members of the IRS Executive Committee.
3. The Regional Commissioners and Chief Officers should be responsible for taking appropriate corrective actions, based on the data and recommendations received.
4. Data on customer feedback should be maintained on the Problem Resolution Office Management Information System (PROMIS) which will require some modifications to handle data input and storage requirements.

All recommendations have been agreed to and the system is now operational. Initially, data on both complaints and compliments from taxpayers is being gathered manually and will be retained by each office. Following the required modifications to PROMIS, which are expected to be completed in January 1997, all data will be input and the first report made available to the Executive Committee. In addition, coordinators have been established within each office to ensure data is properly input and maintained. The first report to the Congress on customer feedback is due June 30, 1997.

### 4. JOINT RETURN STUDY

During a TBOR2 hearing in April 1994, the Taxpayer Ombudsman indicated that

a study was being undertaken to review the problems being experienced by divorced and separated taxpayers. This was in response to comments made by the Chairman of the IRS Oversight Subcommittee, in reference to the increasing numbers of complaints being received by her office on this issue.

The task force, which was co-sponsored by the Taxpayer Ombudsman and the Southwest (now Midstates) Region, completed their efforts in late 1995 and provided the results of their study to a new task force formed as a result of pending TBOR2 legislation requiring both the IRS and the GAO to conduct a study on the issue of joint and several liability. The Taxpayer Advocate and Chief Taxpayer Services are serving as cosponsors of the new study. The IRS study group report, which is due to be issued January 30, 1997, will also include a review of innocent spouse provisions.

## 5. AUDIT RECONSIDERATION PROJECT

In conjunction with our efforts to initiate improvements to systems which are creating problems for taxpayers, the Western Region recently completed an advocacy project on audit reconsiderations which, according to data on FY 1996 casework, is the single largest source of cases received by PRP.

The project, which is being reviewed by my staff and the Assistant Commissioner (Examination) has great potential for reducing both the timeframes for handling audit reconsiderations as well as the number of cases that need to be referred and subsequently handled in PRP. A number of recommendations have been forwarded to the Chief Compliance Officer for review. Results of this initiative will be reported on in the FY 1997 Taxpayer Advocate's report.



## B. LEGISLATIVE RECOMMENDATIONS

While I have no specific independent legislation recommendations to make in this year's report due to time constraints, there are several legislative proposals being circulated within the IRS at the time of this report's publication which I endorse for further study and consideration.

### 1. SIMPLIFY THE COMPUTATION AND ASSESSMENT OF THE ESTIMATED TAX PENALTY

The current rules regarding penalty for underpayment of estimated tax under IRC 6654 are extraordinarily complex for taxpayers and very difficult for the IRS to administer. For example, in FY 1995 5,619,851 estimated tax penalties were imposed on individuals. The exceptions to this penalty, for which many taxpayers qualify, are difficult to compute and are the source of additional frustration for taxpayers. Especially complex is the "annualized method" of determining if an exception to the penalty applies. Taxpayers are required to complete Form 2210 in order to show that they qualify for one of the exceptions that can lower or eliminate the penalty. Form 2210 is among the most complex and difficult of the tax forms.

The fundamental problem, however, is not with the form. The problem lies in the complexity of the law. The current list of suggested legislative proposals being circulated by Legislative Affairs Division contains two separate proposals in this area. I support further study of either concept since this is a difficult area for taxpayers to understand and is a continuing source of problems in PRP. Another possibility worthy of consideration is that the penalty be retained for only those taxpayers who continually underpay estimated tax, giving first-time "offenders" an automatic waiver.

### 2. ALLOW AN EXCEPTION TO THE STATUTE OF LIMITATIONS ON REFUNDS SO THAT UNTIMELY REQUESTED OVERPAYMENTS CAN BE CREDITED TO OTHER YEARS, IN THE DISCRETION OF THE IRS IN EXTENUATING CIRCUMSTANCES

The IRS is often put in the difficult position of explaining to a taxpayer that, while the IRS is seeking tax due owed from four or more years ago, it cannot

refund amounts that would otherwise legitimately be due from those years. Taxpayers who file delinquent returns for multiple years often have a combination of balance due and overpayment returns. Many Service employees can relate instances of actions taken against taxpayers who owed taxes for (say) 1990 and 1992 but would have had a refund (sometimes larger than the combined balance due) for 1991.

Taxpayers feel it is unfair that IRS will actively pursue a balance due while, in their view, ignoring the tax that would have been refunded from 1991. One proposal has been suggested to allow an exception to the statute of limitations on refunds when these types of extenuating circumstances exist. This proposal would allow the offset of overpayments to other tax liabilities, but not allow the refund of money for years beyond the current statute of limitations. Obviously, this is an area that needs to be reviewed carefully since we do not want to be in a position of rewarding non-filers.

### 3. ELIMINATE FAILURE TO PAY PENALTY AND INCREASE INTEREST RATE ON UNDERPAYMENT TO MARKET RATE

The current failure to pay penalty and the related application of interest on underpayment is extremely complex and appears to do little to encourage taxpayers to pay timely. Charging taxpayers both a failure to pay penalty and interest on the underpayment is, by itself, unnecessarily complex. Adding to this complexity are the rules governing the graduated penalty rates and the application of interest only after the deficiency assessment is made. I could support a study of a change in law that would eliminate the failure to pay penalty and increase the interest rate on underpayment to a level that would reflect the true time value of funds.

## C. THE MOST SERIOUS PROBLEMS FACING TAXPAYERS

The Taxpayer Bill of Rights 2 legislation has provided the Taxpayer Advocate's office with an important tool, through the Advocate's report to Congress, to deal more effectively in the identification and resolution of continuing problems that taxpayers are facing with the IRS. In our role as an advocate for taxpayers, we must not only identify the primary sources of problems, we must engage the organization in appropriate corrective actions. In developing this list of the twenty most serious problems facing taxpayers in their dealings with the IRS, that thought was foremost in our minds.

An initial source for our listing was the day-to-day dialogue we have with taxpayers and tax preparers on their most serious problems with our systems. Although much of this information is derived from informal discussion, many of the issues are supported by data from the PRP management information system (PROMIS). For example, taxpayers and tax preparers, alike, report a significant number of problems with IRS penalty administration. As indicated on Chart A (page 7) Other Penalties and FTD Penalties rank sixth and seventh, respectively, in the top ten listing for the source of PRP casework nationally. On the other hand, problems associated with taxpayer access to IRS toll-free service are reported as a source of continuing frustration for both taxpayers and preparers but would not normally be identified as a source for PRP casework.

Following development of the list, my office requested feedback from the Regional Commissioners and their staffs as follows:

- what progress had been made in their regions in addressing the issues outlined;
- the extent of the problem and its relative order of importance; and
- whether any other issues had emerged that warranted inclusion on the list.

As a result of this interaction, my staff developed the final listing of problems that appears in this report. As mentioned in the foreword of this report, plans for 1997 include more direct interaction with taxpayers and other key stakeholders, through focus groups and liaison activities. This will ensure a more comprehensive analysis of the issues and will be integrated with the data derived from the

---

PROMIS system to serve as the primary source for continuing efforts to improve the performance of IRS systems affecting taxpayers.

The listing of the twenty most serious problems facing taxpayers in their dealings with the IRS as well as the Services' progress to date in addressing these issues and our assessment of what remains to be accomplished is as follows:

1. COMPLEXITY OF THE TAX LAW  
Responsible IRS Official: VARIOUS

Complexity of the tax law is the single most burdensome aspect of compliance for most taxpayers and is an underlying cause of many, if not all, of the most serious problems encountered by taxpayers. While a number of IRS officials have varying degrees of responsibility for reducing the burden faced by taxpayers, and are taking appropriate steps, much of the impetus for complexity is driven by external forces and continuing changes to the tax law.

While complexity of the tax laws has been identified as the single most burdensome aspect of compliance for taxpayers, it also serves, to a great degree, as a contributing factor for many of the other issues addressed in this report. Obviously, complexity in and of itself, is not intentional but rather, is the cumulative effect of numerous tax law changes, each of which is enacted for a presumably desirable public policy purpose. The Service is deeply concerned with taxpayer burden and is strongly committed to reducing the burden associated with complying with the tax laws, whether it is dealing with clarification or simplification of notices, publications and instructions or of the tax laws themselves.

My office has focused on several issues during the past two years in an efforts to deal with reducing complexity and burden associated with the tax laws. For example, our efforts on a Joint Return study, co-sponsored by the Mid-States Region, were provided to the national IRS task force looking at the same issue. We intend to engage the field more fully in these efforts during 1997.

One proposal that I previously made in testimony before the Sub-Committee for IRS Oversight at a hearing on taxpayer burden dealt with a methodology to "score" all proposed tax legislation for taxpayer burden, much the same as is now

done for revenue. While an acceptable methodology would have to be developed to be used in scoring and this would not necessarily assure decreases in burden, this would ensure that burden is considered as an integral part of the process.

2. INABILITY TO READILY ACCESS IRS BY TELEPHONE  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

Taxpayers consistently identify the inability to reach IRS at its toll-free telephone number as a major problem. The IRS achieved a level of access during FY 1996 of 46 percent, which reflects a decline from the 50 percent level achieved during FY 1994.

In FY 1994, the IRS was funded to answer 34.6 million calls while actual demand was 66.8 million. In FY 1995, 33.6 million calls were funded, while actual demand rose to 101 million calls. This resulted in a 33 percent level of access for callers. (Demand in FY 1995 was unusually high due to actions taken as part of the IRS Revenue Protection Strategy initiated that year, which resulted in many refunds being delayed.) For FY 1996, 38.3 million calls were funded and actual demand dropped to 97.5 million, resulting in a 46 percent level of access. Despite the increased number of calls answered, the high level of demand each year still exceeds the resources available to answer these calls.

To maximize use of available resources and improve the level of access to taxpayers, the IRS established an oversight board in November 1995 to review, administer, and implement best practices for toll-free sites. The board completed a top-to-bottom review of toll-free equipment and implemented best practices nationwide.

The IRS is also improving the clarity of its notices to reduce the need for taxpayers to contact us. In addition, tax forms and publications are available on the Internet 24 hours a day and on CD-ROM and in many public libraries. The IRS Internet Home Page also provides answers to frequently asked questions and other tax information 24 hours a day. This past year, many new services including Tax Topics, scannable Publications, and Tax Tables were put on-line.

I strongly endorse the efforts being taken to improve access. In light of current and future budget realities, we see efforts to reduce demand while improving

---

overall access as critical initiatives and are working with the Customer Service organization in the Midstates Region to explore further ways to reduce avoidable demand. The Service is also committing additional resources to toll-free service this year.

3. LACK OF CLARITY AND INAPPROPRIATE TONE OF IRS COMMUNICATIONS WITH TAXPAYERS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

IRS notices and correspondence are not always clear and sometimes contain jargon that is not understood by the average taxpayer. Frequently, notices do not provide an adequate explanation of the reason for the communication. In addition, IRS communications to taxpayers take the same tone and approach toward taxpayers with spotless compliance histories as toward those with long histories of intentional noncompliance.

In response to concerns such as these, the IRS has begun a complete overhaul of its notice system. Efforts are focused in two primary areas: redesigning current notices and reengineering the entire notice process.

- The Notice Redesign project will improve the quality, content and format of IRS notices so that taxpayers can understand and know how to respond to a notice without having to call the IRS for an explanation.
- The Notice Reengineering project is part of a broader Tax Settlement Reengineering effort aimed at eliminating duplicate or unnecessary correspondence with taxpayers, targeting the notice mailouts to the desired audiences, improving the timing of the notice issuances, and exploring alternative methods of conveying information to taxpayers.

My staff is actively involved in notice review and redesign and will continue to monitor progress in this area. We see this as a major step in reducing burden for taxpayers. It also provides the potential to reduce telephone demand if IRS, through analysis of incoming notice calls, can improve notices so taxpayers do not need to call IRS after they receive them.

4. ERRONEOUS IRS NOTICES  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

Information reported to the IRS by external sources on wages, interest, and other income is not always accurate and often results in IRS communications with taxpayers which are unnecessary, inaccurate, and misunderstood.

The majority of payer reporting problems that impact the notices in the Underreporter Program (URP) most often occur in business mergers, when both merging entities report the income. Duplicate reporting also occurs for some businesses when both the payer and its transmitter file the same data. Other problems include late filing and/or the non-filing of correction documents.

National procedures for identifying and reporting incorrect payer information are used to create a file, which is a compilation of payer information that has been verified as "erroneously filed or processed." The information is updated weekly so that erroneous information returns can be identified and corrected without having to contact taxpayers. For example, during the processing of tax year 1992 cases (worked primarily in calendar year 1994, and the last year for which complete data is available) 20,589 cases were closed without having to contact taxpayers.

The IRS is revising the regulations that tell payers how to report business mergers, to clarify which company is responsible. The IRS office responsible for processing magnetic media documents conducts annual workshops which teach payers how to prevent problems and how to properly report each of the various types of income that is reportable on information returns. Through these workshops, the IRS has reduced the number of large volume filers who have problems. However, as the number of small filers has increased, the number of small filers who have errors in reporting payer information returns has grown. The IRS has begun targeting these small businesses with its workshops in an attempt to reduce errors from this community.

In addition to the workshops, a telephone Hotline is operated for payers to get information on how to file. Also, the IRS publishes the filing requirements each tax year for payers to follow and conducts public forums for payers to discuss any potential changes to the reporting forms (e.g., W-2, 1099).

---

We strongly endorse the actions being taken and will continue to monitor progress in this area. This is also an area in which we will attempt to get more direct input on the specific nature of the problems being experienced from payors and taxpayers in order to more specifically target corrective actions.

5. DIFFICULTY IN UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS

Responsible IRS Official: CHIEF COUNSEL (primary)  
CHIEF COMPLIANCE OFFICER (secondary)

Federal Tax Deposit rules and related penalties are extremely complex, resulting in frustration for taxpayers who attempt to comply with the requirements, and expenditure of significant resources by IRS in maintaining, correcting, and adjusting employment tax accounts.

During fiscal year 1993 the IRS issued new Federal tax deposit regulations intended to simplify the system previously in place. These regulations were effective with respect to deposits of Federal employment taxes (including railroad retirement taxes) attributable to payments made after December 31, 1992, and affect approximately six million employers who pay employment taxes. The new regulations were designed to simplify the employment tax deposit system. They are easier to understand and provide employers with up-front certainty in determining their deposit obligations. The new system was designed to reduce burden and compliance cost for employers, particularly small businesses. In addition, we are currently moving toward further simplification by phasing in an electronic funds transfer (EFT) deposit system, and giving consideration to raising the quarterly threshold requiring deposits.

The IRS is conducting a comprehensive analysis of the Business Master File for employers, who had a Form 941 filing requirement for 1995, to determine the effectiveness of the change in the regulations, noted above, in reducing their compliance burden. A second objective of the study is to identify and address continuing difficulties employers experience in complying with the deposit requirements. Participants from several IRS offices will conduct the study, as well as the Northeast Region PRP office. The Commissioner's Advisory Group is the external participant in this study. The results of the study will be available in the spring of 1997.



To specifically address penalty concerns, the study group, in conjunction with the IRS St. Louis office, conducted a review of closed PRP cases that addressed federal tax deposit penalties. The IRS will continue to emphasize the one-stop-service procedure which is part of CEP and which is designed to limit the number of problems with tax deposits.

The IRS has also taken steps to help taxpayers cope with the complexity of federal tax deposit rules. One example was the combination of employment tax information from three separate publications (Pub 493, *Alternative Tax Withholding Methods and Tables*, Pub 937, *Employment Taxes*, and Pub 952, *Sick Pay Reporting*) into one publication, Pub 15-A, *Employer's Supplemental Tax Guide*. In addition, the threshold requirement for making federal deposits through electronic filing was revised. An Electronic Federal Tax Payment System (EFTPS) help-line was set up to assist taxpayers in meeting their filing requirements.

Problems experienced by specific groups of taxpayers were also addressed. For example, unemployment compensation recipients were unable to withhold federal income taxes. As a result, changes in the law were recommended to allow unemployment recipients to elect to have their state withhold federal income tax at a 15 percent rate. Also, the common-law rules pertaining to employee versus independent contractor were difficult to apply. The IRS substantially revised the common-law rules pertaining to employee versus independent contractor. This was to make the rules simpler and make the criteria for determining whether a worker is an employee or independent contractor more concise.

We fully endorse the actions being taken by the Service in this area. Although taxpayers may find the Federal Tax Deposit rules somewhat complex, a number of changes have been made to simplify the process. In addition, the FTD system represents the major source of government funds, therefore expeditious receipt of FTD payments by the government is vital. Another improvement more specifically targeting small business and supported by my office was an agreement to notify taxpayers in advance when the frequency of tax deposits change.

6. COMPLIANCE BURDEN ON SMALL BUSINESSES

Responsible IRS Official: CHIEF COMPLIANCE OFFICER (primary)  
SMALL BUSINESS LIAISON (secondary)

Small businesses are heavily burdened in dealing with tax related issues, including tax withholding and reporting requirements, and differing filing and definitional requirements for various types of tax (e.g., FICA, FUTA, and income taxes).

Education is part of the answer to alleviating the burden tax law imposes on small business taxpayers and the Service has many programs geared to providing this education. Because, it has always been difficult to reach all stakeholders, further efforts need to be explored to identify ways to ensure taxpayers have the knowledge they need in order to comply with the tax regulations.

Small Business Tax Education Program (STEP) is a cooperative effort with local organizations to provide tax education to small business owners. The overriding theme is “making taxes less taxing.” This up-front tax education reduced the burden of the small business owners’ tax obligations. Approximately 2,200 educational institutions (mostly colleges and universities) participated in STEP.

Small business owners and self-employed persons can attend Small Business Workshops (SBW) to learn about their Federal tax rights and responsibilities. These workshops provide an overview of the role of the Internal Revenue Service and the kinds of tax information available to businesses.

The IRS has many recommendations and initiatives in process to reduce the burden of small businesses in complying with the law:

- recommending the elimination or modification of the Look-Back Provision in IRC 460. This is a burden on taxpayers and IRS, produces nominal income or refunds, and is costly to administer.
- 1995-96 Commissioner’s Advisory Group recommended (with the support of the Service) that the FIFO rules for applying deposits against liabilities be changed for monthly depositors and that the de minimus threshold for requiring deposits be increased from \$500 to \$1000;
- considering a Deposit Education Program (DEP) initiative to provide the one-time retroactive removal of FTD penalties for certain small businesses who participate in a training program;

- to comply with the mandate of TBOR 2 (Act section 304), the FTD timely and correctly deposit penalties will be waived for new employers; issuance of a notice to these taxpayers explaining what they need to do to comply in the future is under consideration;
- IRS will incorporate information in the Electronic Federal Tax Payment System (EFTPS) information package on the option of businesses making federal tax deposits more frequently than that provided by the regulations;
- developed a new publication, Publication 583, *Starting a Business and Keeping Records*, in an effort to assist small business people who are starting a business by providing basic federal tax information for small businesses;
- developed a video and written materials to assist employers and employees in meeting their tip income reporting requirements; the written material was produced in English and Spanish, and a Chinese version is under development.

The Service recognizes that small business owners cannot be expected to comply fully with the tax laws unless they first understand their tax obligations and then have the tools they need to satisfy their obligations quickly and cost-effectively. For that reason, approximately two and a half years ago, the Commissioner made a commitment that the Service would do what it could to assist small businesses.

- Regulatory Reform - The IRS started by going directly to small business owners to listen to them. To participate in this regulatory forum, the IRS established a new IRS Small Business Affairs Office (SBAO) in March 1994. SBAO serves as the national contact for small business taxpayers or their representatives to express concerns regarding issues of tax administration.
- Small Business Town Meetings and White House Conference on Small Business Meetings - The IRS continued to seek opportunities for listening to the small business community. The Commissioner held seven small business town meetings throughout the nation during the spring and summer of 1995. The IRS also actively participated in the White House Conference on Small Business's (WHCSB) state, regional and national meetings in 1994 and 1995.

- 
- Tax Information and Assistance - During the summer of 1995, the IRS joined with the Department of Commerce and fourteen other government agencies to establish the U.S. Business Advisor -- a one-stop Internet shop that directs small business owners to government information available on-line, including the electronic IRS Homepage. For small business owners seeking specialized tax assistance, the IRS partnered in the development of the first U.S. General Store for Small Business opened in Houston, Texas in July 1995. This store, which fourteen other federal agencies support, provides one-stop government service to businesses, ranging from assistance in complying with regulations, to solving tax problems, and obtaining loans. The IRS continues to work with other federal agencies.

The recommendation alluded to in the complexity section seems particularly relevant for small businesses, i.e., if burden were calculated at the time of enactment of tax legislation, small business concerns would be specifically considered at that time. We believe that business requirements are frequently enacted with a focus on the capabilities of medium and large businesses when in fact most businesses affected are very small, and are therefore faced with additional costs and complexity in complying. My office will continue to work with both operations and the Office of Small Business Liaison, as well as with the various Commissioners liaison groups to stay on top of and deal promptly with the concerns of small businesses.

7. PROBLEMS IN THE ADMINISTRATION OF PENALTIES  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

A large number of penalties are imposed and then abated each year, causing an unnecessary burden on both taxpayers and IRS.

The Chief Compliance Officer has indicated that it may be premature to conclude that, because a large number of penalties are abated each year, an unnecessary burden is being placed on taxpayers and the IRS. Generally, civil penalty statutes require that penalties be imposed (for certain infractions of the law) unless the taxpayer establishes "reasonable cause." In all such instances taxpayers must be contacted, in some manner, to be provided an opportunity to establish reasonable cause.

The vast majority of civil penalties are computer assessed. Computer generated penalties, such as the failure to file and failure to deposit penalties, are assessed when returns are processed and notices are generated affording the taxpayer the opportunity to request abatement for reasonable cause. In the absence of a reasonable cause determination, the penalty stands. In the case of information reporting penalties, a "proposed" assessment notice is sent, affording taxpayers an opportunity to establish reasonable cause prior to the penalty assessment. In either instance, the Service would be remiss if it did not afford the taxpayer the opportunity to respond to the penalty assessment. If this opportunity results in the taxpayers establishing reasonable cause and having the penalty removed, the Service has reduced at least a portion of taxpayers' burden attributable to cost.

It is acknowledged that the Service can improve its processing of penalties to minimize the frequency of erroneous assessments (resulting in additional abatements) due to such things as misapplied payments and other systemic errors. Steps are being taken to improve our penalty management information system and to better determine the reason penalties are removed. In 1993 IRS established "penalty reason codes" which break down the reasons, to categories, such as reasonable cause, taxpayer error, Service error, or Appeals settlement. These codes were operational in service center processing in 1993 and in examination processing in 1994. In 1996, these penalty reason codes were refined to provide more meaningful data.

In 1993 the Service also introduced a cross-functional Penalty Internal Revenue Manual (PIRM) to be used by all Service employees who handle penalties. The objective of this manual was to improve the consistency with which penalties are addressed. This PIRM is currently available on the Penalty Bulletin Board and on the CARTS system.

My office believes the data derived from the PROMIS system, which indicates penalties are a continuing source of taxpayer and PRP problems, clearly establishes the need for more action in this area. We have sponsored an advocacy project in the Northeast Region which will be looking at Federal Tax Deposit penalties to avoid or minimize instances of non-productive imposition. We are also working with the Office of Small Business Liaison to initiate a more comprehensive review of penalty policies and procedures and hope to report more in this area in our next report.

---

8. LACK OF UNDERSTANDING OF TAXPAYERS' CONCERNS  
Responsible IRS Official: CHIEF MANAGEMENT AND  
ADMINISTRATION

IRS does not fully understand the concerns taxpayers have with tax administration and therefore cannot adequately address them.

The IRS recognizes the importance of identifying taxpayer concerns and creating strategies to improve our services. To date, our efforts to explore taxpayer concerns have been focused on opinion research; since 1989, we have devoted considerable resources to taxpayer opinion data collection. Although exploring taxpayer opinions has led to improved services, we recognize a need to examine concerns through means other than opinions. We are in the process of expanding our efforts to include the systematic capturing of taxpayer complaints. The Taxpayer Advocate's Office is currently developing a system to track complaints and actions taken to respond to them. We believe that the analysis of this data will lead to a better understanding of taxpayer concerns and will allow us to better meet the needs of our customer.

Even before Executive Order 12862, requiring federal agencies to survey customers about satisfaction levels with services, was enacted in September 1993 the IRS was taking steps to systematically survey taxpayer opinions. Since 1992, the Service has conducted five customer satisfaction surveys with individual taxpayers and three with small business taxpayers. We have also trained employees to moderate structured focus groups and have sponsored or conducted more than forty public opinion and customer satisfaction surveys. The Value Tracking Core Business System was created to centralize the collection of qualitative data on taxpayer satisfaction. Recently, the section tasked with this responsibility was renamed the Opinion Research Group, and this group currently resides in the Strategic Planning Division.

One initiative that resulted from opinion research is the creation of a small business assistance center, established as a three-year research test in the fall of 1993 in Buffalo, New York. Since it opened, the Center has provided assistance to more than 11,000 small business taxpayers and received the Hammer Award in April 1996 because of their new and innovative taxpayer services. Currently, an evaluation is being conducted to measure the Center's impact on compliance. Once the evaluation is completed, decisions will be made on the continuation of

the Center in Buffalo and on the creation of centers in other locations.

To follow-up on the results of the 1993 customer satisfaction surveys, the Opinion Research Group conducted focus group projects to gather in-depth information on two issues: the burden of recordkeeping and taxpayers' perceptions of the fairness and integrity of the IRS.

The Opinion Research Group actively involves IRS executives in identifying and prioritizing key issues of concern to taxpayers. The Opinion Research Group also designs surveys for specific purposes at the request of individual executives. As a part of a National Performance Review effort during fiscal year 1995, the Opinion Research Group helped develop and conduct the "Out of Washington" events to obtain direct feedback from the public. The Opinion Research Group is currently partnering with IRS field offices on several data gathering efforts. They also have conducted focus groups with individual and small business taxpayers to gather opinion data concerning four processes identified by the Tax Settlement Reengineering Project. Following is a list and description of the four processes:

- Enable Taxpayers to Fulfill Their Tax Obligations (the process of proactively educating the general public about the tax process and motivating taxpayers to fulfill their tax obligations);
- Provide Assistance (the processes used by taxpayers to voluntarily fulfill their tax obligations); and
- Perform IRS Quality Control (the processing and perfecting of the taxpayers' returns and pipeline documents).

Analysis on the data collected through these focus groups will assist the reengineering project employees to achieve their objective of designing, prototyping, and implementing a tax settlement process that reduces cost, and improves quality and cycle time.

My office strongly endorse the actions being taken and in FY 1997 will sponsor focus groups in conjunction with Strategic Planning Division on the problems taxpayers experience with IRS. Information from these groups will be used in developing our FY 1997 report.

---

9. DELAYS BY IRS IN COMPLIANCE CONTACTS  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

Compliance contacts by the IRS, such as notices concerning discrepancies between income reported on a tax return and that reported by payers, are routinely initiated from one to two years after the income was received and/or reported. This burdens taxpayers with the possible lack of recall and records, as well as with potential additional penalty and interest charges.

Over the past few years, the IRS has taken steps to shorten the time between when income is reported by taxpayers on their tax returns and when the IRS contacts taxpayers if the information reported by payers differs. The goal is to reach taxpayers before they file their next return so that they can avoid repeating the problem that gave rise to the initial IRS contact. For example, in calendar year 1995, the elapsed time was reduced to three months; for tax year 1995 returns, initial taxpayer contacts began in November 1996. This is accomplished by extracting tax and information return data in two separate phases rather than waiting until all returns have been processed. The IRS is pursuing additional processing and procedural changes to further reduce the time between the document matching process and the date underreporter notices are issued.

My office endorses the actions being taken and has noted reductions in the elapsed time between the reporting of income and follow-up actions by the Service

10. PROBLEMS IN DETERMINING AND MAINTAINING TAXPAYERS' CURRENT ADDRESSES  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

A December 1994 GAO report, entitled *TAX ADMINISTRATION, Changes Needed to Reduce Volume and Improve Processing of Undeliverable Mail*, recommended that IRS more aggressively communicate to taxpayers the need to notify IRS when they change their address and to make the notification process easier for taxpayers. In addition, IRS sometimes fails to update its files to reflect the most current taxpayer's address known to any IRS component, and does not always take adequate steps to assure that its communications reach both parties to a joint return when there has been a divorce or separation.



As described in the GAO Report, the IRS estimated that it had about 15 million pieces of undelivered mail in fiscal year 1992. The three principal causes of this problem were identified as:

1. Taxpayers move without leaving a forwarding address with the United States Postal Service (USPS);
2. The USPS may not deliver or forward mail, which is then returned to the IRS as undeliverable; and,
3. The IRS may incorrectly record taxpayers' addresses in its files.

The IRS has pursued a number of initiatives to improve the accuracy of taxpayer address information on file and to reduce the amount of undelivered mail that is returned to service centers. For example:

1. Internal Revenue Manual (IRM) procedures have been revised to require the update of a spouse's address of record when a taxpayer separates from his or her spouse.
2. IRMs also provide instructions to enter the "In care of" data, if present, when updating taxpayer addresses to IRS computer files.
3. Oral statements are now accepted to facilitate the processing of address changes.
4. From July 1995 through September 1996, the IRS participated in a joint effort with the United States Postal Service (USPS) to test the Federal Address Change System (FACS).

The following is a list of ongoing or planned actions that should reduce the amount of undelivered mail generated by the IRS and improve the accuracy of taxpayer address information contained in the Master File.

1. The USPS has required that, by July 1997, all mail pieces claimed at automation (i.e., discount) postal rates must have had their addresses validated against the NCOA database within 6 months of the mailing.

2. The IRS is testing the use of address software to improve delivery. The software helps ensure the consistency of city, state, and ZIP code information within an address, and corrects data transcription errors.
3. Due to the efforts of the Notice Reengineering Team in FY 1996, the IRS has taken steps to eliminate several high volume notices that will prevent approximately 18 million mailings. The elimination of these notices will also reduce undeliverable mail that would normally result from these mailings.

This area continues as a concern of my office. Other related actions are discussed in the section entitled Taxpayer Advocate Initiatives: Last Known Address (LKA) Study. We plan to continue discussion with Taxpayer Service to look for means of improving procedures for this program.

11. COST TO TAXPAYERS OF ELECTRONIC FILING  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

The cost of electronic filing is a burden to low income taxpayers who use electronic filing to get quick refunds.

The Service needs to continue to offer low or no-cost methods of filing electronically to encourage taxpayers to use this option and has initiated several programs that help provide relief from this burden. Three of these programs are:

1. TeleFile, which allows taxpayers to file their returns by telephone using a toll-free number. There is no cost to taxpayers who use this program. Nationwide expansion of this program in 1996 resulted in an increase in the number to 2.84 million from over 680,000 in 1995.
2. Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA), which provide electronic filing services. ELF returns filed by VITA sites increased from about 124,400 in 1995 to 226,300 in 1996.
3. Automated Walk-in Assistance and Electronic Transmission, which provides electronic filing for taxpayers requesting assistance with return preparation. Taxpayers must meet certain criteria to use this service. In

1996, about 50,000 electronic returns were processed by IRS walk-in offices.

My office strongly endorses the comment that IRS needs to offer low or no-cost methods to encourage the use of electronic filing so as not to place a burden on taxpayers who use this service out of proportion to the benefits IRS derives. Employer or community-sponsored programs provide another option for low income taxpayers should also be explored. The increased promotion of Telefile should also result in substantial increase in receipts over 1996.

12. PROBLEMS IN THE ADMINISTRATION OF THE EARNED INCOME TAX CREDIT

Responsible IRS Official: CHIEF COMPLIANCE OFFICER

The growing population of taxpayers entitled to the Earned Income Tax Credit frequently has less than average knowledge of tax laws and requirements, and need additional assistance in understanding the complexities of this provision.

The IRS has provided comprehensive support for enabling qualified taxpayers to obtain the Earned Income Tax Credit (EITC) and, if they wish, the Advance Earned Income Tax Credit (AEITC). To accomplish this, the IRS established partnerships with state and local government agencies and national and local community service, social welfare, religious, professional, business, labor and ethnic organizations.

The Service has made significant inroads to educate the public on the eligibility rules for EITC/AEITC, has made EITC and AEITC key elements of the VITA and TCE Programs, and developed special training for more than 80,000 volunteer assistors to help eligible taxpayers take the credit and apply for the advance credit. The training has included special video programs and focused sections in print materials.

During FY 1993 Post-Secondary Understanding Taxes Program was piloted in 27 educational institutions by 38 instructors with 768 students. In FY 1994, materials were available nationwide. Through a tele-marketing project, more than 2,500 sponsors requested the materials during the first year. Approximately 5,500

educators currently use the resource package. The program includes significant information dedicated to EITC and AEITC.

IRS actions taken during FY 1996 and proposed for 1997:

- Secured organizational sponsors for special VITA/EITC assistance sites and coordinated informational efforts with government and private sector organizations and print and electronic media.
- Entered into partnership with USDA Cooperative Extension Service to inform potentially qualified individuals about EITC and AEITC.
- Coordinated outreach actions with the Center for Budget and Policy Priorities that led to grassroots EITC and AEITC information campaigns by state and local social advocacy groups throughout the nation.
- Secured the cooperation of more than 80 major organizations to assist with the promotion of EITC/AEITC.
- Arranged for distribution of print promotional/information materials in English and Spanish.
- Arranged with state and local governments to include stuffers in various public assistance mailings, and to place posters and other promotional materials in public buildings.
- Arranged with major private sector employers and employer associations to distribute promotional materials. In July 1996 a task order was awarded under the terms of the Taxpayer Information and Education Multi-Year Contract (TIR-93-0059), providing for a rewrite of the current edition of the Post-Secondary Education Program.
- Worked with local school systems, educational associations, and other organizations to promote awareness among students' families and other eligibles.

Availability of sufficient funding to produce updated Volunteer Assistance and Compliance Education materials is critical. Without these products the

instructors who use the Post-Secondary Understanding package will not receive the most current tax law; and the volunteers for the VITA and TCE programs will not receive the necessary training. Every year the number of individuals who rely on the services of the VITA and TCE volunteers increases, along with the number of adults required to file income tax returns for the first time.

My office endorses the stated actions and we are heavily involved to assure that necessary EIC compliance programs do not inordinately burden taxpayers and to provide expeditious release of refunds in case of significant hardship. Issues relating to EIC are also discussed in the section entitled Revenue Protection Strategy.

13. ABATEMENT OF INTEREST DUE BECAUSE OF IRS DELAYS  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

There is a lack of equity caused by the inability of IRS to waive or abate interest charges that result because of delays caused by IRS.

The IRS has been statutorily unable to abate interest in most cases. The Tax Reform Act of 1986 (Taxpayer Bill of Rights) introduced IRC Section 6404(e)(1) to allow for an abatement of interest on deficiencies or payments when the IRS makes an error of delay in the performance of a ministerial act. This affects all taxpayers who owe taxes and perceive that additional interest has accrued due to delays caused by IRS employees or procedures. Section 301 of TBOR2, passed in July 1996, expanded the scope of IRC Section 6404(e)(1) to provide that the IRS can abate interest with respect to any unreasonable error or delay resulting from managerial acts as well as ministerial acts. In addition, denial of claims for abatement are now entitled to Tax Court Review.

As a result of TBOR2, IRS has developed a National Examining Officer's Activity Record (Form 9984) which requires documentation in the case file of all activities on the case. In addition, in order to ensure Tax Court deadlines are met, Formal Interest Abatement Claim Disallowance procedures are also being developed.

My office will be monitoring the additional authority given IRS by the recently enacted TBOR2 legislation to assure that implementation procedures are developed which are consistent with Congressional intent.

---

14. PROBLEMS IN MAILING FORMS, ES VOUCHERS, ETC.  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

IRS seems to be experiencing increasing problems in mail items reaching the intended taxpayers.

This problem may be diminishing in severity since the most recent IRS Customer Satisfaction Survey (Publication 1866A) indicated that taxpayers gave IRS its highest rating in the entire value tracking section when responding to the statement: "The IRS provides people with the forms and information they need to complete their tax returns."

IRS presently mails approximately 160-170 million pieces of bulk mail each year to addresses that are generally 6 to 9 months old at the time of the mailing and have not been perfected with current "state of the art" address correction systems. In addition, all the IRS's bulk forms or return mailings are mailed by third class, which is less expensive than first class, but does not provide automatic forwarding or return-to-sender service and may experience potential delays in delivery.

The IRS has taken numerous steps over the years to improve its bulk mailing techniques and procedures, has improved the address software for large volume booklet mailings to move the products to the closest point of delivery for the first sorting and handling of the mail, and began using bar codes on all bulk mailings. In addition, the IRS is pursuing the use of the NCOA system for all bulk mailouts, is beginning to use software that performs address standardization routines for mailings to individual and business addresses, and has developed contract language stressing technical requirements for bulk mailouts and vendor responsibilities in meeting contract dates.

Plans for the future include the following initiatives to refine the IRS contract compliance and mail monitoring procedures:

1. New mail tracking and monitoring systems put in place by the USPS and industry will electronically track mail as it enters and moves through the postal system;
2. The IRS is exploring multi year contracting methods to ensure a more stable base of experienced, well-qualified contractors;

3. The IRS is exploring the use of “on demand” or “point of delivery” concepts rather than large volume single source contracts.
4. While bulk forms mailings continue to generally be the most cost effective method to deliver most forms and instructions to the widest possible audience, the IRS continues to explore and expand the use of alternatives.

My office fully endorses the actions being taken.

15. SEPARATE MAILING OF MATH ERROR NOTICES AND EFFECTED REFUND CHECKS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

Several million taxpayers who receive refunds each year also make mathematical errors in computing the tax on their returns affecting their refund amounts. Currently, the explanation of the error and the refund checks are mailed separately, causing confusion to taxpayers.

Currently, the IRS forwards an indicator, via the refund magnetic tapes from service centers, to the Financial Management Service's (FMS) Regional Financial Centers, that a math error was identified in the original return and that the refund amount has been corrected. FMS inserts a stuffer with the affected refund checks advising taxpayers that their refunds may be for amounts other than what they expected, and that an explanation for the difference will be sent separately. The proposal to include a math error notice indicator along with the refund check tape was scheduled to be addressed as part of the IRS plan to upgrade its computer systems. However, due to funding uncertainties, both in the IRS and FMS, this issue is not being pursued at this time.

My office will continue to work towards a better solution to this problem which involves two agencies in Treasury. Taxpayers who believe their refund checks comes from IRS call the the Service unnecessarily. We believe a comprehensive cost benefit analysis would be useful to determine the potential to reduce both taxpayer burden and the cost to the IRS in handling unnecessary calls.

16. DELAYS BY IRS IN PROCESSING OFFERS IN COMPROMISE  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

The number of offers-in-compromise has increased greatly because of changes in IRS policy toward their consideration and acceptance. However, IRS's ability to respond timely to those submissions has not kept pace.

As a result of the substantial increase in offers in compromise inventory since the Service implemented the changes to the offer program in 1992, the IRS has established a new disposition goal of six months. The IRS recognized that many offers prior to 1992 were not resolved for long periods of time. The cumulative disposition rate within 6 months has ranged from 54 percent in 1993 to 58 percent in July 1996.

A core business group was formed in April 1996 to evaluate the entire offer process. The group has not completed its task to date but has made numerous recommendations which should help to reduce the inventory and allow for a more timely resolution. Additionally, offers continue to age while they are in the hands of District Counsel. TBOR2, however, provides that Counsel now only has to review offers with liabilities which exceed \$50,000. The great majority of offers in the inventory are for liabilities below \$50,000. It is expected that this change will also decrease the amount of processing time.

My office feels the steps being taken should have a positive impact on improving the timeliness of offer processing. We also plan to review the acceptance rate for offers as well as consistency of processing actions.

17. BURDEN CAUSED BY CASH MANAGEMENT PRACTICES  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

The IRS does not seem to have adequately addressed burdens that the use of lockbox vendors (i.e., a bank to receive and quickly process tax payments) cause for taxpayers, such as separate envelopes for returns and remittances, additional postal charges, confusion caused taxpayers by changes to lockbox addresses, and problems associated with lockbox employee embezzlement.



Since the advent of lockbox processing, procedures have been in place to safeguard taxpayer payments and to prevent theft or fraud. Although some instances were reported and addressed early-on, the IRS is not aware of recent problems associated with lockbox employee embezzlement. The burden issue with regard to lockbox occurs when the IRS requires taxpayers to separately send payments to a lockbox address and tax returns to an IRS service center. To deal with this issue, tax year 1996 Form 1040 tax packages will contain a single envelope with instructions that direct taxpayers to mail returns with payments to the same address. Two labels will be provided, one with the lockbox address for returns with payments and the other with the appropriate IRS service center address for non-remittance returns.

My office endorses the stated actions being taken. In addition, we believe when such changes are proposed by the Treasury Department to save the Department either costs or interest expense, consideration should be given to the increased burden on those affected. For example, in this case a small part of the savings from the expedited cash flow could have been set aside to offset the possible increased postage costs for taxpayers.

18. LACK OF ACKNOWLEDGMENT OF TAXPAYERS' SUBMISSIONS AND PAYMENTS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

Taxpayers often receive no acknowledgment of receipt when they submit claims, payments, and responses to IRS communications, nor information on the eventual disposition of the matter.

Prior to June 1991, taxpayers were sent an acknowledgment letter when their correspondence, claim, payment, etc., was received. However, there was no measurement to ensure that the IRS response specifically acknowledged everything received or addressed all issues when closing the case. Since 1991, the IRS increased its emphasis on improving responsiveness to taxpayer correspondence, emphasizing closing taxpayer correspondence within 30 days rather than sending acknowledgment (interim) letters. During implementation of this practice, a performance analysis system was installed to monitor the accuracy and timeliness of responses.

Current criteria do not call for acknowledging incoming mail (such as “Enclosed, please find my tax payment . . .”) that does not require further contact with the taxpayer by the IRS. However, such acknowledgments will be done if there are other issues which require action by the IRS when an interim or final letter is prepared. Recently, some computer-generated pattern letters were revised to include a paragraph acknowledging a payment received with the taxpayer’s correspondence.

The IRS continues to explore ways to improve its responsiveness to taxpayer correspondence. For example, the acknowledgment paragraph for the taxpayer’s correspondence and payment will be put in all letters as a selective paragraph instead of leaving it to the IRS employee to manually type. Correspondence letters are continually revised to make them more understandable and meaningful to taxpayers.

My office endorses the efforts taken. The additional cost of further acknowledgment needs to be weighed, in our view, against the additional costs of non-acknowledgment such as unnecessary telephone calls. This should be explored as part of efforts addressed at reducing unnecessary telephone demand.

#### 19. LACK OF ONE-STOP SERVICE

Responsible IRS Official: CHIEF TAXPAYER SERVICE

Despite efforts to address this problem, taxpayers continue to be frustrated when they must make repeated contacts and deal with several different IRS employees to resolve separate but closely related tax issues.

GAO and IRS Internal Audit findings indicate that taxpayers expect to make one call and talk to one person who will resolve all of the issues they raise. Customer Service/Taxpayer Service assistants receive extensive training in most areas of account resolution, but it is still not possible to expect every assistant to have the necessary skills to handle all issues all the time. Sometimes it is necessary for them to transfer the call to another area for issues not within their realm of knowledge/authority.

Prior to 1995, one-stop service was measured only for account calls in the IRS toll-free districts. The rate for Business Year 1994 was 96.65 percent, compared

to 91.32 percent for 1993. In 1995, the traditional definition and measurement of one-stop service was replaced with a new measure, Initial Contact Resolution (ICR), which measures the satisfactory resolution of all issues resulting from a taxpayer's first inquiry to the IRS.

ICR became effective March 1995 and now measures all types of inquiries to the IRS (i.e., telephone, walk-in or correspondence inquiries). Five different categories make up this measurement. ICR is being tracked in the first three categories as follows:

1. The satisfactory conclusion of all issues during a taxpayer's first inquiry while on-line with the first IRS representative.
2. The satisfactory conclusion of all issues during a taxpayer's first inquiry while on-line with more than one IRS representative. (Due to many types of complex account problems, it is not feasible to expect that all assistors will have the answers to each and every issue.)
3. The satisfactory conclusion, off-line (written referrals, correspondence, messaging) of all issues as a result of the taxpayer's first inquiry.

Two additional categories are used to measure service but are not considered as meeting ICR:

4. The satisfactory conclusion of all issues as a result of or during the taxpayer's subsequent inquiry on the same issue(s).
5. The inability to provide satisfactory conclusion to the taxpayer's issues on-line.

The national ICR rate for the 12-month period ending in August 1996 was 81.3 percent, up from 79 percent in December 1995 (the December figure reflects only an 8-month average). Specific "reason codes" were developed to assist tracking, determination and identification of the top conditions causing taxpayers to re-contact the IRS. Trend analysis has been performed on the data to target the top reasons. This information allows the IRS to make changes within its control (i.e., IRM procedures, acceptance of oral testimony). However, situations such as system limitations (i.e., computer system is down) also prevent the IRS from

achieving 100 percent ICR and cannot readily be changed at the present.

My office endorses the actions taken as well as those planned for the future.

20. INCONVENIENT TIMES AND LOCATIONS FOR DOING BUSINESS WITH IRS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

Working taxpayers often find it difficult to do business with IRS during IRS' normal weekday, 8:00 a.m. to 5:00 p.m. business hours because they are at work themselves during walk-in hours of operation.

District Directors nationwide were encouraged to evaluate the effectiveness of walk-in offices and their locations and to decide how best to provide services based on demographics and available resources. The Service has also aggressively publicized alternatives to direct face-to-face IRS assistance, including the availability of volunteer assistance at approximately 20,000 VITA and TCE sites nationwide.

Tax forms and publications are available electronically on the Internet 24 hours a day. In addition, the IRS makes them available by CD-ROM and in many public libraries. The IRS Internet Home Page also provides answers to frequently asked questions and other tax information 24 hours a day. This past year, many new services including Tax Topics, scannable Publications, and Tax Tables were also put on-line. Also, the IRS continues to make its district office toll-free telephone assistance services available 10 hours each weekday. Answers to account-related inquiries are available 13 hours per day on the IRS 1-800-TAX-8815 assistance number.

My office endorses the actions taken and will continue to advocate that times for access be expanded, within available resources, to allow taxpayers the option to do business with us at times more convenient for them.

## IV. APPENDICES

### APPENDIX A: REVENUE PROTECTION STRATEGY

The following is an overview of each of the Taxpayer Advocate's recommendations regarding the Service's Revenue Protection Strategy, a program to strengthen the IRS' ability to detect and prevent fraud. A number of these recommendations are either being implemented or are planned for implementation at some time in the future. Some will require additional discussion prior to a determination of appropriate action.

ASSISTANT COMMISSIONER (CUSTOMER SERVICE) COMMENTS:  
Legislation has been enacted giving math error authority to the Internal Revenue Service for missing/invalid Social Security Numbers for dependent exemptions and Earned Income Tax Credit for qualifying children. Self employment tax work and dependent care credit are also impacted. Due to this legislation, there will be radical changes in the predominant type of work Service Center Examination does, the volume of work that can be accomplished, the methods of obtaining that work, and the procedures that will be implemented for Examination's role in the RPS for processing year 1997. We will continue to consider any negative impact to the taxpayer as we go about the primary objective of Correspondence Examination which is determining the correct liability using deficiency procedures. Additionally, we will solicit input from the Advocate's staff when the 1997 Revenue Protection Strategy Guidelines package for Service Center Examination is coordinated with the other National Office functional areas. Comments on the specific recommendations made are as follows:

1. REVISE THE WORDING ON THE ACKNOWLEDGMENT AND INTERIM LETTERS.

We agree with this recommendation and we are revising the generated acknowledgment and interim letters used by Service Center Examination (not just in the Revenue Protection Strategy). The revisions were made based on input from the service centers and your staff. At this time, we do not know if Information Systems (IS) will be able to program the changes for the start of the 1997 processing year.

---

2. REVISE THE CP 19 AND CP 20 NOTICES INITIATED BY SELECTION OF A CASE BASED UPON RPS CRITERIA.

Revisions to the CP 19 and CP 20 notices have been requested for 1997 based on input from the service centers and the Advocate's staff under the assumption that math error legislation would not be implemented in 1997. If the math error legislation is implemented in 1997, the CP 19 and CP 20 notices systemically generated for EITC, dependent exemptions, Self-Employment Tax and Child Care Credit will cease to exist. Any Examination letters developed for the programs that will be worked by Correspondence Examination, under the RPS procedures, will be developed by the Office of Service Center Examination.

3. ESTABLISH AN IDRS CONTROL WHEN CORRESPONDENCE AND REFUND INQUIRIES ARE RECEIVED IN THE UNIT.

We cannot implement this recommendation. All Service Center Examination Branches do not have adequate resources (IDRS terminals and staffing) needed to devote to this recommendation. Again, if the math error legislation is implemented in processing year 1997, the Service Center Examination Branches will be working their RPS cases manually. Therefore, they should have a better management of their correspondence since they will control how much work they take in weekly by what they are able to accomplish. The Office of Service Center Examination will be more vigilant in assuring that:

- Examination does not receive correspondence/refund inquiries that does not meet the criteria for routing to Examination (that was observed at all 10 service centers last year).
- Examination works their correspondence/refund inquiries timely by insuring more detailed instruction, monitoring status updates, performing evaluative visits and monitoring the weekly PRP reports provided by the Advocate's staff.

4. ESTABLISH A SEPARATE STATUS CODE WHEN ADDITIONAL INFORMATION IS NEEDED TO DETERMINE THE TAXPAYER'S ELIGIBILITY.

This problem was observed on our visitations to the service centers and was cited

in our reports; however, we concluded that a larger problem was that service centers were not following instructions to put cases in Status 23 because this would have entailed taking work out of the automated system. If the math error legislation is implemented in 1997 and a manual AIMS control process is in effect for our RPS work, we will consider mandating a second status code in addition to Status 23 for the scenario described in the recommendation. In our RPS Request for Information Services (RIS) for processing year 1998, we will request a programming change for the automated system. No additional programming changes will be requested for 1997.

5. ESTABLISH A SEPARATE STATUS CODE WHEN A CASE IS CLOSED AS AGREED OR NO CHANGE.

Disposal codes, not status codes, explain how an Examination case was closed. We don not believe any additional codes are necessary. There are "no change" and "agreed" disposal codes.

6. REQUIRE THAT ALL CENTERS USE THE SAME STATUS CODES AND ORGANIZATION CODES WHEN INDICATION CASE ACTIONS.

This problem is not limited to RPS Examination work. We agree with the recommendation to use consistent RPS status codes Servicewide in light of the fact that account status information, through universal access, is no longer confined to a service center and its jurisdictional district office. We will ensure that 1997 RPS guidelines address this issue. Organization code information, however, primarily serves as a tool for Examination to locate work within Examination that is not limited to service center RPS case processing and has no bearing on information provided to the taxpayer.

7. INDICATE THE DATE THE ACKNOWLEDGMENT LETTER AND INTERIM LETTER IS SENT ON AIMS OR IDRS.

No new AIMS programming requests will be submitted for processing year 1997, since it is not clear at this time what the benefits of the recommended change would be to taxpayers or telephone assistors. Again, the impact of this recommendation is not limited to Revenue Protection Strategy work. With more information from the Problem Resolution staff, we will evaluate a need to request

a programming change from AIMS for processing year 1998. The issue of IDRS control has previously been addressed in the response to the third recommendation.

8. ISSUE CLARIFICATION FOR THE HANDLING OF CASES WHERE TAXPAYERS LIVE IN THE SAME HOUSEHOLD. CURRENTLY, EITC AND HEAD OF HOUSEHOLD FILING STATUS ARE BEING DENIED AUTOMATICALLY IN SOME CENTERS, WHILE OTHERS ARE NOT.

We will provide more detailed instruction in the Duplicate Address section of our 1997 RPS Guidelines to address this problem.

9. PROVIDE A SEPARATE DISPOSAL CODE (DC) FOR DEFAULT CASES (STATUS 90) DC 10, FOR CASES WITH NO RESPONSE AND DC XX, FOR CASES WHERE A RESPONSE WAS REVIEWED BUT THE INFORMATION PROVIDED WAS NOT ENOUGH TO SUBSTANTIATE THE TAXPAYER'S ELIGIBILITY.

No new programming changes will be requested for processing year 1997 and again, the recommended change would impact more than just Service Center Revenue Protection work. We will work with the Advocate's staff to further define the nature and extent of this problem, and will consider this programming recommendation for 1998.

10. PROVIDE A SEPARATE STATUS OR ORGANIZATION IDENTIFIER FOR CASES ABOUT TO DEFAULT OR AN INDICATOR TO INDICATE CASES WHERE THERE IS NO RESPONSE VERSUS CASES WHERE THERE WAS A RESPONSE BUT IT WAS NOT ENOUGH TO VALIDATE THE ELIGIBILITY.

No new programming changes will be submitted for processing year 1997. We will evaluate this programming change for the automated system in conjunction with our Examination plans for the 1998 Revenue Protection Strategy which have not yet been determined.

During the Office of SC Examination's 1996 evaluative visits, it was our observation that the service centers with the least number of status codes had less labor-intensive operations than those that defined everything they did with some



type of terminal update action. Those centers with the fewest status codes were able to locate cases better, move their inventory faster, use less resources and answer correspondence and telephone calls more expeditiously. Any future changes we make in the RPS program for Examination will consider efficiency along with other factors cited in the recommendation.

11. REVISE CUSTOMER SERVICE TIME FRAMES FOR INITIATION OF REFUND INQUIRIES AND PRP CASE TO COINCIDE WITH EXAMINATION TIME FRAMES.

We are in the process of evaluating this recommendation but plan to coordinate and make agreed upon recommendations once this process has been completed. We will coordinate with Service Center Examination and update IRM (21) as appropriate to improve initial contact resolution on refund inquiry cases.

12. REVISE PROCEDURES TO INCLUDE RESEARCH OF UNIVERSAL IDRS TO ANSWER RPS CALLS ROUTED TO OTHER CALL SITES AND INPUT OF HISTORY ITEMS WHEN FORMS 4442 OR 5543 ARE SENT.

We currently have general procedures on the use of universal IDRS in our manual and guidelines but will review the procedures and guidelines to see if additional instructions are needed.

13. REVISE PROCEDURES TO OPEN AN IDRS CONTROL TO THE CENTER WHEN FORMS 4442 OR 5543 ARE SENT.

This recommendation also requires further coordination and analysis with all organizations involved in the process. We need to first ensure monitoring systems will be improved prior to making any changes.

#### TAXPAYER ADVOCATE'S COMMENTS:

During the final quarter of FY 1996, operational functions that had previously been under the separate jurisdictions of the Chief Taxpayer Service and Chief Compliance Officer, i.e., all operational functions which provide other than face-to-face taxpayer contact, including Service Center Examination were combined into one organization, Customer Service, headed by the Assistant Commissioner (Customer Service). By the end of FY 1996, all of the RPS recommendations

contained in my Advocacy Memorandum addressed to the Chief Compliance Officer and Chief Taxpayer Service fell within the purview of the newly created Customer Service organization.

We acknowledge that the Service's newly legislated math error authority under IRC 6213(g)(2) to make adjustments for failure to include a correct Taxpayer Identification Number (TIN) or failure to pay self-employment tax on a return claiming the Earned Income Tax Credit, the focus of the Revenue Protection Strategy will shift dramatically during the 1997 filing season. This should greatly reduce the volume of RPS cases handled through the Examination process. Our recommendations will still apply, however, to those cases and other refund freeze cases that will be worked under the statutory notice of deficiency process.

A number of RPS recommendations were made in order to provide better information about the status of RPS audits via existing systems to IRS employees outside the examining office who respond to taxpayer inquiries. Taxpayers' whose refunds are frozen because of RPS are far more likely to contact the IRS than taxpayers involved in routine audits. RPS taxpayers are generally lower income taxpayers who are anxiously awaiting issuance of refunds, while taxpayers involved in routine audits are generally not expecting any payment from the Service. RPS taxpayers, therefore, are likely to try to contact us determine what actions are necessary from them to expedite payment from the IRS. As a result, the systems routinely used in the past primarily to manage audit inventories have been called upon under RPS processing to serve an additional purpose of providing current status information, and they do not adequately meet that requirement. We will continue our coordination efforts with all functional areas involved in this process to improve controls and processing actions.

Establishing appropriate IDRS controls for each case (recommendation 3) would obviate much of the need for some of the other recommendations. Most of the RPS cases which became PRP cases during the 1996 filing season occurred because front line assistors mistakenly concluded from information available on existing systems that no response had been received from the taxpayer, when in fact an incomplete response had been received. In considering the resource impact of our recommendations, the resources devoted by the Service to process the FY 1996 RPS PRP cases should be included in the calculation. We look forward to continuing to work with the Customer Service staff to review our differences and to explore various alternatives to enhance the RPS process.

## APPENDIX B: LAST KNOWN ADDRESS (LKA) STUDY

During FY 1994, the Taxpayer Advocate sponsored a cross-functional analysis of the IRS's efforts to improve the way it updates and maintains taxpayer address records. Twenty-three recommendations (ten short-term and thirteen long-term ones) were made as a result of that study and were approved by the Deputy Commissioner in August 1994.

In a December 1994 report, entitled *TAX ADMINISTRATION, Changes Needed to Reduce Volume and Improve Processing of Undeliverable Mail*, the General Accounting Office (GAO) reached the following conclusion:

Although it is unlikely that the problem of undeliverable mail can be totally eliminated, IRS needs to give undeliverable mail more attention because it adversely affects operations and can cause undue burden on taxpayers. Although previous efforts to deal with this mail were primarily limited to IRS' service center Collection functions, new efforts are expected to have Service-wide consequences because IRS agreed in August 1994 to implement recommendations of the Taxpayer Advocate's study. The implementation of those recommendations should have significant impact on reducing IRS' undeliverable mail.

Since the December 1994 GAO report, twelve of the twenty-three approved recommendations were implemented or were closed (without being implemented). Actions implemented by the Service involved simplification and standardization of address instructions to taxpayers, the implementation of new guidelines for accepting oral statements during compliance contacts, clarification of procedures dealing with divorced and separated taxpayers, and expanded training for employees on change of address input procedures.

Overall we believe progress has been made in this problem area. At this time we believe this issue can be closed with the exception of a few recommendations which are still in progress.

One of those projects involves a test funded by the Taxpayer Advocate's Office and conducted by the Indiana District Problem Resolution Office. The test provides for the direct distribution of the IRS change of address form within the

---

U.S. Postal Service's Change of Address confirmation letter and Welcome Kit. On December 12, 1996, I issued an Advocacy Memorandum to the Chief Taxpayer Service recommending that he consider implementation of this proposal nationwide. My office is tracking that recommendation separately in the Commissioner's Reporting System, and I will report on the Chief Taxpayer Service's response in my FY 1997 report to Congress.

The second issue provides for the development of a legislative proposal to define last known address. After review by Chief Counsel, they agreed to establish a project to define last known address by regulation in lieu of the legislative recommendation. At this time we cannot move further until the Chief Taxpayer Service completes a business case for the time frames to forth for processing returns and notifications (i.e., the numbers of days necessary to process address information from returns and notification). This item will remain open pending this response.

To assist the reader, recommendations denoted with an (S) are considered short-term while those with an (L) are long-term recommendations.

RECOMMENDATIONS CLOSED DURING FY 1995 - Between August 1994 and September 1995 seven of the approved recommendations were implemented, or were closed without being implemented, as summarized below.

- S2. STANDARDIZE ADDRESS INSTRUCTION TO TAXPAYERS  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

IMPLEMENTED

- S4. PROVIDE TRAINING ON ADDRESS FORMATS FOR EMPLOYEES  
Responsible IRS Official: CHIEF MANAGEMENT AND  
ADMINISTRATION

IMPLEMENTED

- S5. STANDARDIZE PROCEDURES FOR ACCEPTING ORAL  
STATEMENTS DURING ALL COMPLIANCE CASE CONTACTS  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

IMPLEMENTED

S7. STANDARDIZE PROCEDURES FOR ADDRESS CHANGES FOR DIVORCED AND SEPARATED TAXPAYERS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

IMPLEMENTED

L6. INCORPORATE UP-FRONT QUALITY ADDRESS CHECKS IN ALL FUTURE INPUT SYSTEMS

Responsible IRS Officials: CHIEF TAXPAYER SERVICE and CHIEF INFORMATION OFFICER

CLOSED: Recommendation was closed because of Tax Systems Modernization "re-scoping." Its eventual implementation will be monitored by the responsible officials.

L7. IMPLEMENT STANDARD ADDRESS CHECK PROGRAM "CZALL" IN ALL CURRENT INPUT SYSTEMS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

IMPLEMENTED

L12. CONDUCT COST/BENEFIT ANALYSIS OF PROCESSING ADDRESSES FROM EXTENSION REQUESTS

Responsible IRS Official: CHIEF TAXPAYER SERVICE

CLOSED: The cost/benefit analysis calculated the cost to implement at about \$1 million and 48 FTE. Analysis further revealed that 19 percent of extensions contain practitioners', not taxpayers', mailing addresses.

RECOMMENDATIONS CLOSED DURING FY 1996 - At the beginning of FY 1996, sixteen of the twenty-three recommendations approved in August 1994 had not been implemented or otherwise closed. A follow-up request was made on July 9, 1996 to determine the current status. During FY 1996, five more recommendations were implemented or closed, as summarized below:

- S8. TEST DISTRIBUTION OF IRS FORMS 8822M, CHANGE OF ADDRESS REQUEST, AT U.S. POST OFFICE  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INCOMPLETE

The initial test distribution for Form 8822M was completed by Indiana PRO in September 1995. Results could not be measured because the required system was not in place to extract and analyze necessary baseline data.

CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED

This action involved implementing a test to determine the effectiveness of including an IRS change of address mailer in the U.S. Postal Service's (USPS) Change of Address Kit. The test was conducted by the PRO in Indianapolis, but the absence of baseline data made results difficult to measure. However, the process that was tested would not qualify as a means of meeting the new Address Quality requirements established by the USPS for pre-sort postal discount rates. Consequently, the Service is pursuing other options (See comments under Recommendation L2, below.) to improve the accuracy of IRS address information.

TAXPAYER ADVOCATE'S COMMENTS:

Two different change of address form tests conducted by the Indiana PRO. The first, discussed here under recommendation S8, involved distribution of IRS change of address forms at selected Indianapolis post offices, and a comparison of rates of undeliverable IRS refund checks within those ZIP codes during the filing season periods preceding and subsequent to the test distribution. Although the test distribution was completed by the Indiana PRO, as scheduled, the test results could not be measured because the needed baseline data was not provided.

The second test distribution of IRS change of address forms by the Indiana PRO is discussed below under recommendation S9. Since the results of that test seem to have far more potential than that in S8, we consider recommendation S8 as incomplete but closed.

- S9. TEST DISTRIBUTION OF FORMS 8822 TO U.S. POSTAL SERVICE CHANGE OF ADDRESS CUSTOMERS  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: ACTIVE

Initially, Compliance agreed to conduct this test proposed by the Cincinnati Service Center (CSC), between April and August 1995, with an analysis of results completed by February 1996. In March 1995, the Compliance test at CSC was dropped because of complications with the vendor, and Taxpayer Service (TPS) Input Processing Division assumed responsibility for this item. TPS provided an action plan indicating initial testing to begin at the Philadelphia Service Center (PSC) in May 1995 and continuing through September, with a report of test results targeted for October 1995. We understand that the test is still in progress at PSC.

In addition, a modified version of this test is being undertaken by the Indiana PRO, distributing, via a USPS "Welcome Kit" vendor, modified Forms 8822M that were revised based on feedback from focus group interviews of postal service customers. Other than staff time devoted to processing responses and collecting statistical data, and the cost of printing the Forms 8822M, the vendor is distributing the Service's change of address form at no charge. The comparative data from both of these tests will be useful in assessing their effectiveness.

#### CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED

Because of reluctance by the USPS to provide access to its National Change of Address (NCOA) database for use by IRS in mailing out Forms 8822 to taxpayers who filed change-of-address notifications with USPS, another method of testing this concept was explored. Under this alternative, the USPS mailed letters on behalf of IRS to individuals who had moved. Taxpayers who received these letters were asked to send confirmation of their address changes to IRS (Philadelphia Service Center). These confirmations included signatures, social security numbers, telephone numbers, and dates of birth of the people who moved, and provided a basis for IRS to update its Master Files to reflect the address changes. The test ran from July 1995 through September 1996. During this period, confirmation was received on only 25% of the letters sent out by the USPS. The test was terminated for the following reasons: the USPS was reluctant to provide IRS with a list of movers who did not respond to the mailing; other agencies were reluctant to actively participate in testing and developing the system; funding was not available to expand the testing area; and, the USPS determined that this process would not qualify as a means of meeting the new Address Quality requirements for pre-sort postal discount rates.

The Problem Resolution Office, Indiana District, conducted a modified version of

---

this test from May - August 1996, during which the Postal Service included a modified version of the Form 8822 in the Movers Kit accompanying the confirmation letter from USPS. As of August 4, 1996, only about 17-18% of the recipients sent the confirmation forms to IRS. Also, as in the Philadelphia test described above, this process will not qualify as a means of meeting the new Address Quality requirements for pre-sort postal discount rates.

Consequently, the Service is pursuing other options to improve the accuracy of IRS address information. (See comments under Recommendation L2, below.)

**TAXPAYER ADVOCATE'S COMMENTS:**

For purposes of this study, I concur with the Chief Taxpayer Service's response indicating that the original initiative of his office is closed. Having said that, I believe the results of the second test mail-out coordinated by the Indiana PRO with an external vendor proved to be very successful and at a lower cost than the test conducted by TPS (12 cents per unit versus 50 cents per unit). While implementation of this test distribution process may not meet the USPS' Address Quality requirements, the TPS distribution process also fails to meet postal requirements. This will need to be addressed in either case.

The other options, mentioned above by the Chief Taxpayer Service and discussed under recommendation L2, also need to be pursued. However, since the eventual implementation of any of those options is neither assured nor close at hand, I have recommended that the Chief Taxpayer Service adopt the method tested by the Indiana PRO.

On December 12, 1996, I issued an Advocacy Memorandum to the Chief Taxpayer Service recommending that he consider the vendor's proposal and begin negotiating a contract on behalf of the IRS. My office is tracking that recommendation separately in the Commissioner's Reporting System, and I will report on the Chief Taxpayer Service's response in my FY 1997 report to Congress.

**L4. STANDARDIZE PROCESSING OF "IN CARE OF" NAME LINES**  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INCOMPLETE**  
Mail label and notice programs were to have been changed to display "in care of"



name lines. A March 1995 status report stated that a position paper was developed and a decision document signed, but the content of those documents was not provided. A December 1995 status report stated "Completed. IRM procedures have been issued to be effective January 1, 1996." Since the status report did not specify the IRM section, we contacted Taxpayer Service. But, research of the IRM section cited (i.e., IRM 3(13)50) shows no reference to processing "in care of" name lines.

**CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED**

The Taxpayer Service organization issued a Production Evaluation Report to the field instructing them to ensure that IMF address changes that have "in care of" data are properly input. References on where to enter this data are included in section 3(13)24.1 of IRM 3(13)20, BMF Account Numbers and in section 3(13)52.15 of IRM 3(13)50, IMF Account Numbers (1997 version). Procedures have been written and issued to all service centers.

**TAXPAYER ADVOCATE'S COMMENTS:**

I consider this recommendation fully implemented.

**L13. CONDUCT COST/BENEFIT ANALYSIS FOR PROCESSING ADDRESSES FROM ELECTRONIC FILING (ELF) FORMS**  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: ACTIVE**

In February 1996, Taxpayer Service shared a draft costing and decision paper proposing that the Form 8453 Document Locator Number (DLN) and last known address not be posted to the Master File because of the estimated costs exceed the expected benefits, and because of ongoing initiatives to eliminate Form 8453 in favor of a paperless system. No final decision has been communicated.

**CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED**

The cost/benefit analysis for processing addresses from ELF forms has been completed, and on July 10, 1996, Chief Counsel concurred with our decision not to post address information from taxpayers' Forms 8453 to the Master File. (See discussion of Recommendation L5, above.)

**TAXPAYER ADVOCATE'S COMMENTS:**

I do not object to the decision reached, and consider recommendation L13 closed.

OPEN RECOMMENDATIONS - As of the end of FY 1996, eleven of the original twenty-three Last Known Address Study recommendations remain open and not implemented, as summarized below:

S1. DEVELOP LEGISLATIVE PROPOSAL TO DEFINE LAST KNOWN ADDRESS

Responsible IRS Official: CHIEF COUNSEL (primary)  
CHIEF TAXPAYER SERVICE (secondary)

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INACTIVE

No business case has yet been developed by Taxpayer Service, describing the correct and appropriate time frames for processing address changes from notifications and from tax returns. Internal procedures, i.e., Rev. Proc. 90-18, currently provide for 45 and 90 day processing time frames. The business case must be made so that Chief Counsel can draft the legislative proposal. The Taxpayer Service action plan initially contained a June 1995 target date for completion of the business case. That was subsequently rescheduled to October 1995 because of delays, then to January 1996.

As an alternative to the legislative proposal, Chief Counsel has suggested defining last known address by regulation, but the business case for processing address changes from notifications and tax returns would still be required to open a regulation project. (See recommendation L5 below.)

EXCERPT FROM CHIEF COUNSEL'S RESPONSE: IN PROCESS

Our action plan on S1 specifically provides that Chief Counsel will seek Executive Committee clearance (with coordination through Legislative Affairs) of a legislative proposal to define last known address after business cases are established by Collection and Taxpayer Services.

On June 29, 1994, the Taxpayer Advocate requested that a business case be developed for the time frames set forth for processing returns and notifications (i.e., the numbers of days necessary to process address information from returns and notifications). We have not received this business case.

If a business case for the time frames set forth for processing returns and notifications is made, we will establish a regulation project to define last known address by regulation, in lieu of the legislative recommendation. However, we

believe that the use of third party information required legislation.

**CHIEF TAXPAYER SERVICE'S RESPONSE: IN PROCESS**

We are still in the process of completing a business case to determine the correct and appropriate time frames for processing address changes from notifications and from tax returns. My staff is working with the Advocate's staff to revise a preliminary paper they prepared earlier this year on this issue.

**TAXPAYER ADVOCATE'S COMMENTS:**

This item will remain open until discussions are completed.

**S3. STANDARDIZE ADDRESS FORMAT ON INTERNAL INPUT DOCUMENTS**

Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: ACTIVE**

Standardized format required on all revisions after June 1996; to be completed by December 1996.

**CHIEF TAXPAYER SERVICE'S RESPONSE: IN PROCESS**

The National Director, Multimedia Production Division, issued Publishing Procedure 164, Standardized Taxpayer Address Format on all Internal Use Forms. This procedure is used by all printing analysts to ensure the proper address format is used when revising internal use forms. This is an ongoing process as forms are submitted by originators for revision and printing, and has been in effect since May 1995. All forms will be reviewed for conformance and revised as needed by December 1996.

**TAXPAYER ADVOCATE'S COMMENTS:**

I am satisfied with the progress of the implementation of this recommendation.

**S6. TEST EFFECTIVENESS OF ADDRESS CHANGE "CHECK BOX" ON FORM 911, APPLICATION FOR TAXPAYER ASSISTANCE ORDER (ATAO)**

Responsible IRS Official: TAXPAYER ADVOCATE

**TAXPAYER ADVOCATE'S COMMENT: IN PROCESS**

Data was gathered on a random sample of more than 350 Forms 911; the results

---

have been tabulated, and analysis of data has been completed and is being reviewed within my office. The results will be circulated for comment beginning in January 1997 among appropriate internal stakeholders.

S10. DEVELOP CHANGE OF ADDRESS EDUCATION CAMPAIGN  
THROUGH TAXPAYER EDUCATION (TPE) PROGRAM  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

TAXPAYER ADVOCATE'S COMMENTS:

Some Taxpayer Education materials have been revised to include Change of Address information; others will be revised if funding is available. I am satisfied with the progress made in implementing this recommendation, but still consider it open.

L1. DEVELOP SERVICEWIDE STANDARD PROCEDURES FOR USE OF  
LOCATOR SERVICES  
Responsible IRS Official: CHIEF COMPLIANCE OFFICER

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INCOMPLETE  
Initial action plans called for development of Servicewide locator procedures by June 1995 and implementation of locator services units at all service centers by September 1995. Funding was identified as a critical issue for implementation of this recommendation. As of November 1995 status report, Servicewide procedures were to be developed by May 1996; locator units had been established only in CSC and PSC.

CHIEF COMPLIANCE OFFICER'S RESPONSE: IN PROCESS

Each year following the development of this recommendation by the Last Known Address Study Group, funding for multi-functional locator research was either cut or eliminated. The Inventory Delivery System (IS), which will operate in each service center, incorporates several modules such as address research, telephone number research, and asset research that will perform functions similar to the locator work envisioned by the multi-functional locator units under recommendation L1 of the Last Known Address Study. The IS prototype began in July 1996, at the Philadelphia Service Center, and will continue during FY 1997. We expect the Investment Review Board (IRB) to make a decision in May 1997, concerning IS roll-outs to the other centers. If the IRB approves the roll-out, implementation would occur in FY 1998 (subject to budget limitations).

**TAXPAYER ADVOCATE'S COMMENTS:**

I will continue to pursue adoption of this recommendation because of the potential to reduce taxpayer burden and overall costs.

**L2. DEVELOP SERVICEWIDE PROCEDURES FOR PROCESSING UNDELIVERED MAIL**

Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INACTIVE**

Initial action plans called for a multi-functional effort to design, develop, test, and implement standard procedures for Undeliverable Mail System (UMS) to be completed by June 1995. A March 1995 status report showed all target dates delayed 6 months while a multi-functional group (to meet in June 1995) reviewed results of different tests underway (e.g., FACS, NCOA) to reduce undelivered mail volume. No revised action items or target dates were provided.

**CHIEF TAXPAYER SERVICE'S RESPONSE: IN PROCESS**

Prior to convening a multi-functional task force to develop standardized procedures for processing undelivered mail, the Submission Processing organization decided to participate in several studies to determine how to reduce the amount of undelivered mail the Service receives.

As stated in S8 and S9, above, IRS participated in a joint effort with the U.S. Postal Service (USPS) in 1995 and 1996 to test the Federal Address Change System (FACS). Under this system, which was slated to be an inter-agency process and was to reduce IRS undelivered mail by 30% to 50%, the USPS sent letters asking for address confirmation to people who had moved in a given area. About 25% of the population filing change-of-address forms with the USPS responded to the initial mailing.

The USPS has given an extension to July 1997 for implementation of its new requirement that all mail pieces claimed at automation (i.e., discount) rates must have had their addresses validated against the NCOA within six months of the mailing. Funds to process the Master File through NCOA are included in the FY 1997 budget. IRS is also attempting to acquire the NCOA database and legal authority to update taxpayers' addresses to help reduce the amount of undelivered mail we receive.

Additionally, IRS is testing the use of "address hygiene" software to purify addresses to improve delivery. The purification process insures the consistency of city, state, and Zip code information within an address and, in effect, corrects any data transcription errors.

**TAXPAYER ADVOCATE'S COMMENTS:**

Although Taxpayer Service has asked Chief Counsel to revise Revenue Procedure 90-18 to allow updating taxpayer addresses from third party sources, no significant actions have yet been taken. Taxpayer Service has indicated a need to review the results of tests to reduce the amount of undeliverable mail before developing uniform procedures for processing it. We still view this as an area of concern that needs continued attention and will continue efforts with TPS to review test results and to determine appropriate actions.

**L3. DEVELOP AND TEST CHANGE OF ADDRESS TURNAROUND NOTICES**

Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INCOMPLETE**

Initial action plan called for the redesign, refinement, testing, and assessment of effectiveness of turnaround notices to be completed by September 1995. A March 1995 status report modified some action items and target dates. A December 1995 status report advised that prototype testing of redesigned balance due Notices 501, 502, 503, and 504 was to begin January 1996. "In conjunction with this effort, the ability to include change of address information on these notices, or whatever method is feasible, will be determined at the time of implementation."

**CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED**

Testing of the redesigned Notices 501, 502, 503, and 504 has been completed. During the test, the change-of-address information was added. When the final product was extracted, the change of address information interfered with the bar code, which contains coded data about either the taxpayer's address or enclosed tax data. Because of insufficient space on the notices, we cannot effectively include change-of-address information on them.

**TAXPAYER ADVOCATE'S COMMENTS:**

The redesigned notices 501, 502, 503, and 504 intentionally contain far less text

and far more white space than the previous designs, in order to simplify the forms and make them more easily understood by taxpayers. Despite that worthwhile goal, I believe that the change-of-address information could be accommodated on a redesigned form. I will ask that the Chief Taxpayer Service reconsider that decision and include a member of my staff in those deliberations. For this reason, I consider the status of recommendation L3 to remain "IN PROCESS."

L5: REVISE REVENUE PROCEDURE 90-18

Responsible IRS Officials: CHIEF COUNSEL (primary)  
CHIEF TAXPAYER SERVICE

(secondary)

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INACTIVE

Chief Counsel is waiting for completion of LKA recommendations S1 and L13. Other closed LKA recommendations impact revision of Rev. Proc. 90-18: S5 and L12. Counsel has developed a draft revision that incorporates S5 actions, and will incorporate others when completed by Chief Taxpayer Service.

CHIEF COUNSEL'S RESPONSE: IN PROCESS

L5 specifically provides that, after recommendations S1 (Legislative Proposal to define last known address), S5 (Standardize procedures Servicewide for accepting oral testimony during case contacts), L12 (Process addresses from applications for extension of time to file), and L13 (Process addresses from Form 8453, U.S. Individual income Tax Declaration for Electronic Filing) are implemented, Chief Counsel will revise Rev. proc. 09-18 C.B. 491, to reflect changes in law and administrative procedures.

As of this date, only S5 (regarding oral statements during case contacts) has been implemented. CC:DOM:IT&A opened a publication project to update Rev. Proc. 90-18 to reflect this change in the Service's administrative practice which permits taxpayers to provide oral notification of change to the taxpayer's address of record for active accounts and address perfection.

The revision of Rev. Proc. 90-18 to reflect S1 and L13 will be treated as a separate publication project(s), when and if, S1 is adopted and/or L13 is implemented. L12 will not be implemented. Thus, address changes will not be made from applications for extension of time to file.

---

We drafted a proposed revenue procedure which permits taxpayers to provide oral notification of a change to the taxpayer's address of record. The proposed revenue procedure provides that oral notice of change of address is accepted only for active accounts (e.g., a current examination, an account or adjustment inquiry, an undelivered refund, or current correspondence from the Service) and address perfection (i.e., the correction of misspellings and the addition of house and apartment numbers).

On July 14, 1995, our office briefed the Associate Chief Counsel (Domestic) on the proposed revenue procedures. She had asked that we determine if the Service wants this revenue procedure published since it is limited only to active accounts and address perfection. We informed the Commissioner's staff of the Associate's request. In order to include this publication project in IT&A's 1997 Business Plan, the Service must determine whether there is a critical need for this project and whether oral notification from cold calls (i.e., calls where the only action requested is a change of address) should be accepted.

#### CHIEF TAXPAYER SERVICE'S RESPONSE: IN PROCESS

Chief Counsel was tasked with revising Revenue Procedure 90-18 but was waiting for the Submission Processing organization to complete recommendations S1 (Complete a business case to determine the correct and appropriate time frames for processing address changes from notifications and from tax returns) and L13 (Conduct Cost/Benefit Analysis of Processing Addresses from ELF Forms). As stated above, the business case for Recommendation S1 has not yet been completed; this will be completed on an expedite basis. However, the cost/benefit analysis for Recommendation L13 has been completed, and on July 10, 1996, Chief Counsel concurred with our decision not to post address information from taxpayers' Forms 8453 to the Master File. Additionally, the National Director, Multimedia Production Division, asked Chief Counsel to revise Revenue Procedure 90-18 to allow IRS to update taxpayer addresses using third party sources.

#### TAXPAYER ADVOCATE'S COMMENTS:

See my comments under recommendations S1 and L13 above.

#### EXPAND STANDARD ADDRESS CHECK PROGRAM CZALL TO VALIDATE FOREIGN ADDRESSES

Responsible IRS Officials: CHIEF TAXPAYER SERVICE (primary)



CHIEF COMPLIANCE OFFICER(secondary)

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INACTIVE

An initial action plan called for development of RIS by August 1995 and implementation by July 1996. A November 1995 status report stated Taxpayer Service is waiting for "a detailed list of the specific items required and wanted by International and upon receipt a RIS will be prepared to write the suggested International CZALL program."

CHIEF TAXPAYER SERVICE'S and CHIEF COMPLIANCE OFFICER'S RESPONSE: IN PROCESS

Customer Service will coordinate with the Assistant Commissioner (International) to develop a detailed list of requirements for validating foreign addresses. Due to current budget considerations and reduced funding for TSM, the feasibility to expand the current address field to properly validate foreign addresses must be coordinated with the Information Systems staff. Customer Service will provide your office with a report containing the decision on this proposal shortly.

TEXT OF CUSTOMER SERVICE'S REPORT:

CZALL currently has in place a format routine that allows for the proper formatting for a foreign address. This format routine is also used for domestic addresses. When entering a foreign address into the system, the street address, foreign city, province or country must be in the proper fields before we make an update to the master file. If this data is not in the proper fields, the system immediately rejects the input data, and the system informs the operator of an incorrect format error.

Due to current budget limitations and reduced funding for Tax Systems Modernization, it is not in the best interest of the Service to continue this initiative to create foreign country codes. Foreign country codes are "nice to have" features for our systems; however, it will not increase the ability to get the mail to the correct street address (Domestically or Internationally).

TAXPAYER ADVOCATE'S COMMENTS:

While the current address check program, CZALL, will allow the input of a foreign address, it does not validate foreign addresses. Instead, proper formatting of foreign addresses, including the input of the required period (.) in the state field, suppresses the CZALL routine that would otherwise reject the foreign address as if

---

it were an invalid domestic address.

The intent of recommendation L8 is to expand the use of CZALL to validate foreign addresses, through the use of tables of valid names or abbreviations of foreign countries, provinces, cities, and postal codes, much like the tables of valid state abbreviations, city names, and their related ZIP codes currently used with the program. Implementation of this recommendation would go far toward addressing the problem of foreign mail that is undelivered because of misspelled or improperly formatted city, province, and country names and abbreviations, and incorrect postal codes.

While budget limitations may be a valid reason for not implementing this recommendation, no information was provided in the EOCSO's report about the estimated costs of developing and maintaining such tables, nor was a comparison provided of those costs versus the costs in lost revenue to the government and in additional processing for Service because of undeliverable foreign mail. I still consider the status of this recommendations to remain "IN PROCESS."

- L9. IMPROVE AND EXPAND THE USE OF JOB AID, DOCUMENT 7475, STATE ABBREVIATIONS, MAJOR CITY CODES, AND ADDRESS ABBREVIATIONS  
Responsible IRS Official: CHIEF TAXPAYER SERVICE

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INACTIVE  
Taxpayer Service status report stated Doc. 7475 was revised but our review shows that foreign country names and address field lengths were not included as recommended.

CHIEF TAXPAYER SERVICE'S RESPONSE: CLOSED  
Document 7475 was revised in June 1995 and again in September 1996. Additional domestic ZIP code and major city code data was included. We expanded the use of this job aid by providing for its distribution through the three Centralized Inventory Distribution (CID) sites. The document is also available at the ten service centers. Page 31 of Document 7475 (Rev. 9/96) contains an acceptable address format for foreign addresses that our current ADP system can handle.

TAXPAYER ADVOCATE'S COMMENTS:

The text appearing on page 31 of the September 1996 revision of Document 7475 referenced by the Chief Taxpayer Service above is as follows:

**Foreign Addresses**

The street address in foreign addresses on IMF accounts is input on Name Line 2. On BMF accounts, the street address in foreign addresses is input in the field designated for foreign addresses.

Input the foreign city, province or country and foreign postal code in the street address field.

Input foreign country in the city field. *This must not be abbreviated.*

Input a period (.) in the state code field.

Taxpayer Service considers this recommendation closed, although foreign country names and address field lengths were not included in the revised job aid as recommended. While there may be valid reasons for not implementing this part of the recommendation, we need to follow up with Taxpayer Service to review those issues. I still consider the status of recommendation L9 to remain "IN PROCESS."

**L10. CREATE ONE UNIFORM ENTITY ADDRESS DOCUMENT/HANDBOOK**

Responsible IRS Official: CHIEF TAXPAYER SERVICE

**TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: INCOMPLETE**

The LKA study group considered alternatives for revising existing IRMs to make them consistent or for creating a multi-functional entity address handbook. Based on internal stakeholder input, the latter approach was agreed upon and approved. Initial action plans called for completion of the handbook by January 1996. A December 1995 status report from Taxpayer Service states: "After stakeholder meetings, it was decided that a uniform document/handbook was not necessary nor preferred by customers. Action Plan Completed."

**CHIEF TAXPAYER SERVICE'S RESPONSE: IN PROCESS**

The EOSCO will shortly provide your office with a report containing his decision

---

and rationale regarding the implementation of this proposal.

**TEXT OF THE EXECUTIVE OFFICER FOR CUSTOMER SERVICE OPERATIONS' REPORT:**

We conducted a feasibility analysis and our analysis indicates that the implementation of this recommendation would not be beneficial to all areas of the Internal Revenue Service. Our analysis indicated a consolidated Entity document/handbook will not meet the needs of internal customers because entity information is necessary in many Internal Revenue Manuals (IRMs). However, we have consolidated entity address information into one handbook for the Customer Service Operations.

Customer Service Operations Division recently completed the creation of several new Chapters of IRM (21)00. Two of the new common chapters of this handbook for the Customer Service Operations are entitled "Entity Changes" and "Business Master File Tax Issues." This IRM consolidates entity information.

We conclude that Recommendation L-10 is not beneficial for all areas of the IRS and should only be implemented as stated for Customer Service Operations.

**TAXPAYER ADVOCATE'S COMMENTS:**

While the new Customer Service Operations IRM chapters cited above contain some of the information recommended for inclusion in the multi-functional handbook (e.g., guidelines for accepting oral statements of changes of address, instructions for updating addresses on joint accounts of divorced and separated taxpayers, etc.), they do not contain all of the recommended information.

The purpose of the recommendation was to ensure that consistent and uniform address format instructions are provided to all IRS personnel, not just those in the Customer Service organization. Customer Service's rationale for concluding that creation of a multi-functional entity address handbook "is not beneficial for all areas of the IRS" is not made clear in his report, and details of the "feasibility analysis" conducted by his office have not been reviewed by my office. I still consider the status of recommendation L10 to remain "IN PROCESS."

**L11. ENSURE IMPLEMENTATION OF LAST KNOWN ADDRESS STUDY RECOMMENDATIONS**

Responsible IRS Official: TAXPAYER ADVOCATE

TAXPAYER ADVOCATE'S JULY 1996 COMMENTS: IN PROCESS

After August 1994 approval by the Deputy Commissioner, progress of implementation was tracked by the Taxpayer Advocate via the Commissioner's Tracking System (administrative predecessor to the TBOR2-mandated Commissioner's Reporting System) and monitored by a series of status requests from responsible executives and status reports to the Executive Committee. In July 1996, in anticipation of the enactment of TBOR2, the Taxpayer Advocate orally requested status reports on each recommendation, and began tracking them in the Commissioner's Tracking System, to be reported on until closure or implementation in the Taxpayer Advocate's annual report to Congress.

TAXPAYER ADVOCATE'S RESPONSE:

All open LKA recommendations have been entered into the "Commissioner's Reporting System" and will be monitored and reported on until closed in the Taxpayer Advocate's Annual Reports to Congress.