Appendices

Appendix 1: Examples of Strategy to Improve Service and Increase Compliance

Simplifying Filing:
The Simplifying Individual Filing Research Strategy focuses on ensuring that the IRS tax forms and instructions are as easy as possible to use, guiding taxpayers toward the simplest form and reducing demand for service through simplifying individual filing. For example, in the 1997 tax year, approximately 16 million taxpayers filed more complicated individual tax returns than they needed to file to meet their filing obligation. In addition, approximately 18 million taxpayers threw away Telefile packages and filed other paper tax forms. Taxpayers spent over 63 million more hours filing, and the Service spent nearly seven million extra dollars processing 1997 Forms 1040 Series because of this single issue (filing more complicated form than necessary).

Subsequent research quantified the extent of difficulties, costs and resulting problems. Working in collaborative fashion with the Multimedia Division has enabled the Service to improve the percentage of mailed tax packages that can be used by the receiving taxpayers.

Research worked with the Submission Processing and Forms and Publications Divisions to use data related to taxpayer errors on forms to identify the order in which forms and publications were redesigned. This resulted in the changing of two forms and related publications, one of which, because of the redesign, will no longer cause over 20 million taxpayers to call or find other guidance and instruction to complete a form they would not use anyway.

The Strategy also addressed the issue of taxpayers filing when they were not required to file. Taxpayers having no taxable income, no withholding and/or no tax liability were going through the filing process and incurring the costs to file. These taxpayers expended over 51 million hours in 1998 in filing and the Service spent over 25 million dollars processing these unnecessary returns. Research again worked with Submission Processing Division to complete focus group and other research techniques to enact change. This resulted in redesigned flyers, instructions, web page and marketing techniques to ensure the right taxpayers were reached and that they received clear and understandable communications. In the second year of this research, over three million taxpayers in two age groups, elderly and young filers, will receive flyers and follow-up items to assist them in understanding they do not have to file.

Electronic Tax Law Assistance (Previously known as "Ask the IRS")
The Electronic Tax Law Assistance (ETLA) Program provides a convenient, alternative means for taxpayers to get answers to their tax law and procedural questions. Taxpayers can submit their questions through the IRS Web site at any time, day or night, and will receive prompt written responses. They do not have to wait in queue on the telephone, and can have a response they can refer to as needed. They do not need to be concerned about forgetting the details of a response verbally communicated to them via a telephone conversation. The service has been well received by taxpayers. Our survey results show that 97 percent of our customers chose the new service in lieu of the telephone, and 94 percent said they will use the service again.

The Electronic Tax Law Assistance (ETLA) program began as a pilot at the Nashville Customer Service site during the 1994 and 1995 filing seasons and has operated year-round since March 1996. The pilot program had receipts of 270,000 in FY 99, and receipts of 700,000 are projected in FY 2000.

ETLA also allows Customer Service to manage its workload more efficiently. The workload can be balanced by switching assistors from the telephones to e-mail during periods of slack telephone demand.

Electronic W-4
Research is developing a computerized Form W-4 that will be both simpler for employees to use and more

accurate than the paper Form W-4 can be. Employees use the Form W-4 to tell their employers how much tax to withhold from their paychecks. The paper form helps employees to convert the most important aspects of the tax law into either a number of withholding allowances (to avoid having too much withheld) or an additional amount of tax to withhold per-pay-period (to avoid having too little withheld). Since the paper form has to accommodate most people's situations, and since it requires the employee to perform several calculations, it is often burdensome and non-intuitive to use. Moreover, since the complex tax calculations need to be approximated on the paper form, the amount actually withheld can deviate substantially from one's actual tax liability.

The electronic W-4 will be both easier to use and more accurate than the paper form by having the computer do the work and by customizing the calculations based on user input. Users will be prompted to enter only the information that is relevant to their situation (e.g., based on their marital status, number of jobs, etc.), and the program will provide them with all the information they need to be withheld as accurately as possible. The program is being developed as a Web-based application, but can be distributed to employers in other forms as well. Future versions may even be able to print out a completed Form W-4 at the conclusion of the program. In addition to reducing taxpayer burden, the electronic W-4 may help to reduce unexpected under-withholding, and therefore may prevent many balance due and non-filing cases.

TIP Rate Determination and Education Program

In 1993, IRS estimated that tipped employees in the food and beverage industry were receiving approximately $18 billion in tip income, but reported less than $9 billion. Proper reporting would result in increases to corresponding items such as FICA tax, federal income tax, state unemployment tax, workers' compensation insurance, state income tax and any other tax or benefit that is based on wages.

It is important to stress that this program emphasizes outreach and education as the means to increase voluntary compliance without having to use traditional enforcement actions, such as tip examinations. This reduces the tax burden for all those affected. Employers and employees are not burdened with unplanned tax liabilities that result from tip examinations. The IRS also profits, in that fewer resources are used in promoting this program than if labor intensive examinations were to be performed.

The Tip Reporting Alternative Commitment, begun in October 1993, directed Examination field personnel to make contact with individual restaurants and secure Tip Rate Determination Agreements (TRDA). Under the program, the IRS works with restaurants to determine a fair tip rate to be reported by all tipped employees. These tips are reported to the IRS. The restaurant industry raised concerns about the accuracy of the established average tip rates. As an answer to the industry's stated concerns, the IRS worked with a coalition of representatives from food and beverage industry to develop the Tip Reporting Alternative Commitment (TRAC), which became available in June 1995.

Under TRD/EP, in addition to one-on-one contacts with restaurants, the IRS has sent trained IRS personnel to speak to interested groups, such as local restaurant associations and practitioner groups. These personnel also teach workshops on tip reporting to tipped employees and write articles for local publications.

The number of employers filing from 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, increased from 48,178 in 1993, to 56,468 in 1998. However, the most significant factor is that the tips being reported on these forms, by tipped employees, increased from $3.9 billion in 1993 to $7.03 billion in 1998. (Food and beverage employers must file this return to make annual reports to the IRS on receipts from food and beverage operations and tips reported by their employees.) During this same period, tip rates increased from 7.8 percent in 1993 to 10 percent in 1998.

This program has had an impact on all other industries that report tip wages as evidenced by the increase in tip wages being reported on Forms 941, Employer's Quarterly Federal Tax Returns. Tip wages reported, from all industries, increased from $8.52 billion in 1994 to nearly $12 billion in 1998.

Due to the tremendous success experienced with the TRAC and TRDA, the program was extended to the gaming (casino) and hairstyling industries in 1996. Plans are underway to develop generic agreements for all other industries where tipping is customary.

EITC & Year of Birth Project

In October 1998, legislation gave the IRS the authority to use year-of-birth data from Social Security Administration (SSA) records to determine the accuracy of the age of children used to claim EITC benefits on tax returns. If the age reported by the taxpayer for the child is found to be in error, the EITC may be disallowed during returns processing as a math error.

The law does not allow EITC to be claimed for a qualifying child over the age of 23 unless the qualifying child is permanently and totally disabled. In July 1998, 38,999 Tax Year 1997 returns were identified as claiming EITC for children who, according to SSA records, were over the age of 23. Research assisted the EITC Project Office to issue a notice to those taxpayers (not already being contacted for other errors) telling them of the discrepancy between the age reported on the return and SSA data relevant to the child.

The notice asked taxpayers to carefully review their 1997 tax return and, if the age reported on the return was erroneous, to not claim EITC on behalf of that person on their 1998 income tax return. If the information on the 1997 tax return was correct, the taxpayer was asked to contact SSA to have the record corrected. Of the 26,783 taxpayers who were mailed a notice, 52.3 percent did not repeat the erroneous condition on their 1998 tax return.

Farm Labor Contractor Strategy

This central California strategy addressed a business segment that historically was highly noncompliant, and the taxpayers were often in an adversarial relationship with the IRS. This business segment is made up of agricultural farm labor contractors who supply temporary farm workers to farm operators. Before the new program began, relatively few contractors were compliant with employment tax and withholding obligations, as well as various State tax obligations. Working with an association of farm contractors and the State agencies, the IRS team was able to develop agreements as well as educational programs that persuaded most members to comply early, while working out acceptable arrangements for meeting past obligations. In particular, the IRS team forged an agreement with the State of California that made the issuance of State business licenses for farm contractors contingent on compliance with all federal and State tax laws. Only a very few taxpayers who blatantly refused to comply were investigated and prosecuted. The leader of this particular association was very vocal in his praise of this program because it eliminated in a practical way a major ongoing problem for most of his members, many of whom wished to be compliant but had difficulty doing so when the majority of their competitors were not complying. In 1993, businesses in the team's jurisdiction owed the government $11.1 million. As of 1997, that figure was down to $240,000.