IV. Business Practices and Strategies

The way the IRS interacts with taxpayers is defined by its business practices, such as how filing is done, what notices are sent under what circumstances, the way phones are answered, the way collections of balances due are carried out and the way examinations are conducted. These business practices have historically been carried out by the IRS' functional disciplines, principally Examination, Appeals, Collection, Criminal Investigation, Submissions Processing and Customer Service (the latter being an amalgam of functions, including examination and collection, which have in common that they deal with the taxpayer by phone or mail).

Closely related to business practices are IRS strategies that guide such practices, such as how returns are selected for examination, what kinds of compliance issues to emphasize and how to encourage electronic filing. Strategies are ways of deciding how best to use limited resources to achieve defined goals.

Many IRS practices are codified in the Internal Revenue Manual and in various rulings and regulations. Both strategies and practices are also constrained by, and to a considerable degree determined by, the established organization structure and the installed technology base, the two principal instruments through which the IRS executes its business practices and strategies. These interacting factors - business practices, strategies, organization and technology - are so tightly joined and interdependent that it is not possible to make fundamental improvements in any of them without addressing all of them in an integrated fashion. This is a key reason why past efforts to adopt very promising improvements in compliance and customer service practices have not been fully implemented, despite important successes on a limited basis. Conversely, programs to improve technology, while accomplishing important incremental improvements, have not succeeded in replacing the old and inadequate base of technology on which the IRS depends.

By revamping its business practices and strategy in ways that were successful in the private and public sectors (and often on a limited basis at the IRS), the IRS can make major strides toward all three strategic goals. These changes are discussed below in summary, but full implementation of these changes is a major undertaking and will take place over a period of years, depending heavily on requisite changes in organization and technology.

Prevent taxpayer problems or address them as early as possible

One of the overriding themes in improving IRS business practices is to shift from addressing taxpayer problems well after returns are filed to addressing them as early in the process as possible, and in fact prevent problems wherever possible.

Malcolm Sparrow of Harvard's Kennedy School of Government, and one of the world's leading analysts of government compliance programs, said it simply:

> *Speed of reaction after the fact is considered second best; prevention is considered better, but is harder to quantify.*

This approach follows the well-established quality principle that it is far better for the customer and far less expensive to eliminate defects than to fix them. In making cars, for instance, it is very expensive to issue a recall because of a defect; it is less expensive to fix a defect before the car leaves the factory; and it is best of all to improve the design and manufacturing process so no defect occurs. So it goes with tax returns. As a rule, if a taxpayer files a correct return, no further costs are incurred by the taxpayer or the IRS. If the taxpayer makes an error, it is highly beneficial for both the IRS and the taxpayer to find and fix the error as soon as possible. If the taxpayer fails to pay the correct amount due, the sooner the issue is addressed, the lighter the burden on the taxpayer and the greater the likelihood that the IRS will receive payment. Interacting with taxpayers is a three-part process:

1. **Pre-filing:** services provided to a taxpayer before the return is filed to assist in filing a correct return.
2. **Filing:** services provided to a taxpayer in the process of filing returns and paying taxes.
3. **Post-filing:** services provided to a taxpayer after a return is filed, to identify and correct possible errors or underpayment.

Some of the services provided by the IRS in each of these categories, and the approximate distribution of IRS resources in each category, are shown below.

The IRS activities chart shows that the balance of IRS resources is heavily weighted to intervention after problems occur while relatively little is devoted to preventing problems, with 73 percent of the budget allocated to post-filing activities. In fact, nine times as much is spent addressing problems after the fact than is spent in preventing them.

Experience at the IRS and elsewhere shows that there are many opportunities to improve service and compliance and increase productivity by pursuing more aggressive use of techniques to prevent errors and address recurring and systematic compliance problems. (See Appendix 1.)

IRS Activities

PRE-FILING

Customer Education and Assistance

- Forms
- Publications
- Toll-free tax law assistance
- Web site
- Taxpayer education programs
- Public service announcements
- Volunteer tax assistance sites
- Advanced pricing agreements
- Published tax law guidance
- Private letter rulings
- Determination letters
- Tip rate determination and education
- Letters advising taxpayers of potential problems:
  - Duplicate SSNs
  - Self-employment tax
  - Cash vs. accrual accounting methods

11%

FILING

Customer Account Services

- Processing paper returns
- Processing electronic returns
- Crediting payments
- Advising taxpayers of errors and balances due
- Arranging installment agreements
- Answering taxpayer inquiries about their accounts
- Making corrections and adjustments to taxpayer accounts
- Abating penalties on taxpayer accounts when appropriate
- Paying refunds

17%

POST-FILING

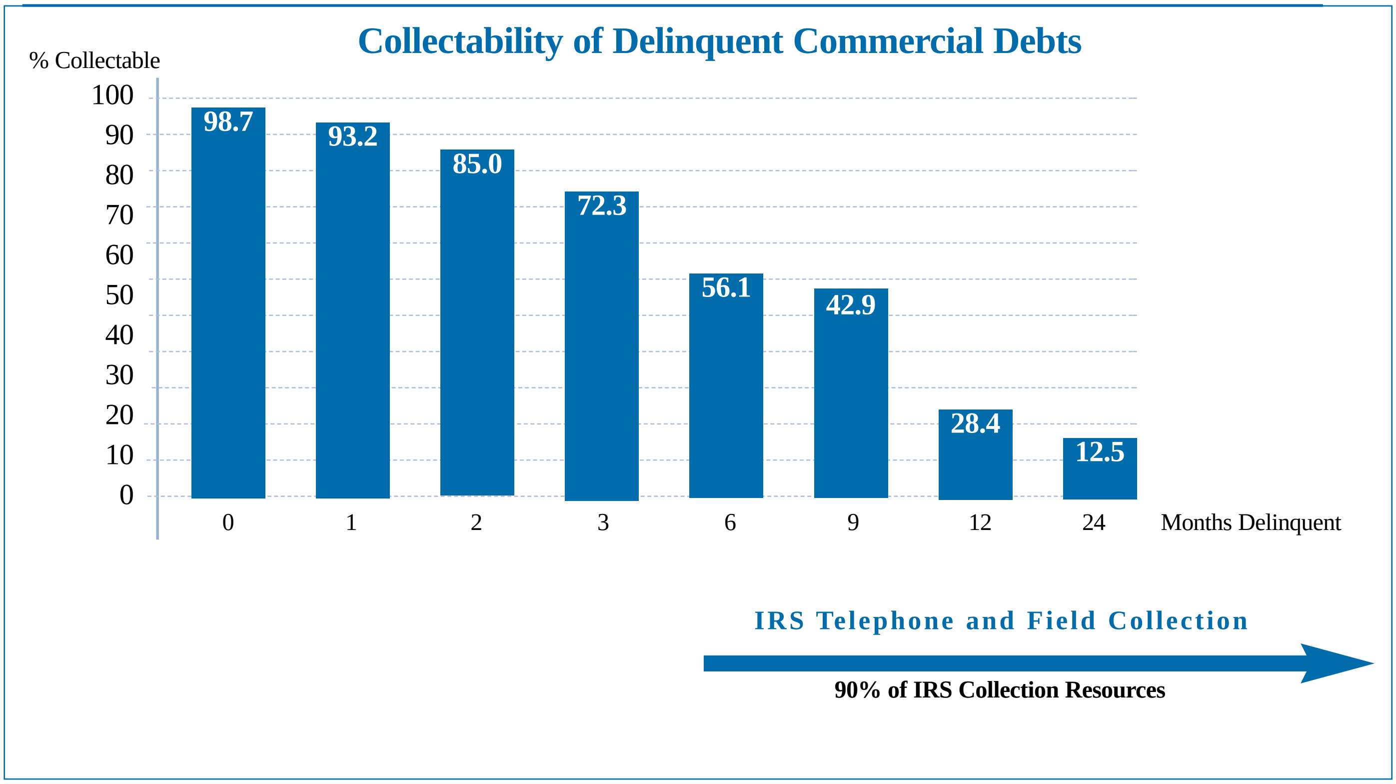
Compliance

- Auditing returns
- Recommending assessments if additional tax is due
- Arranging methods of paying off balances due
- Evaluating offers in compromise
- Taking collection actions, such as liens, levies and seizures
- Handling taxpayer appeals on assessments and collection actions
- Litigating disputes
- Detecting and investigating possible fraud
- Resolving complex taxpayer account and collection situations
- Evaluating and addressing "hardship" situations

72%

Percent of IRS Budget

NOTE: Budget figures exclude Counsel and support programs such as IS and facilities.



In addition, when taxpayer problems occur, it is important to intervene as quickly as possible, particularly in the case of underpayment or nonpayment. The key to effective collection anywhere is to identify as quickly as possible the potential risks of nonpayment and obtain an agreement to settle the debt.

The table shown above depicts commercial experience in collecting debts. As is evident from the table, the chances of successful collection decline rapidly with time, dropping to 56 percent after six months. By contrast, because of IRS practices, 90 percent of the working cases of IRS telephone and field collection personnel are more than six months old, and most are several years old.

Examination of returns also usually occurs well after returns are filed. Examination of individual and small business returns often occurs six months to one year after filing, and completion of the examination requires an additional five to 12 months. Audits of returns of large corporate taxpayers often do not begin until 2 1/2 years after returns are filed. Resolution of assessments, which go into accounts receivable, often does not occur for an additional two to four years.

In effect, the majority of IRS resources today are being applied to address taxpayer errors or issues that arose three to seven years ago. One of the implications is that 64 percent of the amounts shown as owed by taxpayers in the GAO report on IRS financial statements are for interest and penalties, and only 36 percent are the original tax due.

While great gains in both service and compliance can be anticipated by preventing taxpayer problems and errors and addressing those that occur much faster, changing established practices is dependent upon changes in organization and technology that will require significant investments of time and money.

Improve communications with taxpayers

The IRS communicates with millions of taxpayers each year through multiple channels: mail, telephone, Internet and in-person. The communications have a wide subject range, from tax forms and publications describing how to file, to phone calls setting up installment agreements, to in-person meetings to resolve longstanding issues and disputes.

Communications can be initiated by either the taxpayer or the IRS, and it is common for the same issue or subject to be addressed through multiple channels, e.g., when the taxpayer calls in response to a notice sent by mail.

IRS communications with taxpayers are not only diverse, they are extremely voluminous and complex in subject matter. The IRS currently provides 484 different tax forms, including 7 new forms, 177 modified forms and 105 publications. In 1999, the IRS mailed over 100 million tax packages to taxpayers and distributed an additional 650 million forms and publications, including over 57 million downloaded from its web site. In 1999, the IRS sent taxpayers 105 million notices, received between 20 to 30 million incoming pieces of correspondence and 168 million incoming phone calls on toll-free numbers, and served over ten million taxpayers at walk-in sites. Over 20,000 employees are dedicated solely to these tasks and, in total, over 70,000 employees regularly communicate with taxpayers.

The issues communicated through correspondence and phone calls are often more complex than those handled by typical commercial call centers. The average length of a call with a customer service representative on the IRS 800-number to respond to notices is eight to ten minutes, while the average talk time at a typical commercial credit corporation is 3.5 minutes.

From the taxpayer's point of view, the quality of service the IRS provides through these various forms of communication has been well below expectations. Since almost every taxpayer also deals with leading commercial companies in credit, direct mail and other similar operations, a comparison is readily available. Typically, such operations have a level of service whereby a customer has a 90 to 95 percent chance of getting through on a given telephone call. In 1999, the chances of getting through to an IRS toll-free assistor was 53 percent.

IRS written communications, such as notices, are widely criticized as hard to understand. Furthermore, the topics on which taxpayers are calling are often of great importance to them, creating high anxiety if the matter cannot be resolved quickly. For example, a taxpayer who calls in response to a balance due notice is subject to accumulating interest and penalties and even levy of property if the matter is not resolved.

Improving convenience and quality of communications with taxpayers is one of the most important areas of improvement in business practices in a modernized IRS.

Some significant progress was made in 1999. This includes expansion of hours of phone service to 24 hours a day, seven days a week, Saturday hours at 250 walk-in sites throughout the country, and rewriting of some notices to make them easy to understand. Also, the IRS web site has been very successful, providing immediate access to all forms and publications and answers to many tax questions. In 1999, the IRS web site had over 767 million "hits" during which taxpayers downloaded more than 57 million forms and publications. In the longer term, the concept of a modernized IRS is to organize communications so that taxpayers can get accurate and prompt information and correct resolution of issues in a time and manner most convenient for them, whether by letter, phone, Internet or in person.

Given IRS operations' scale and complexity, this is a long-term task requiring fundamental change in all aspects of IRS operations, including organization and management, training of front-line personnel, internal and external distribution of information, information technology and performance measurements. Following are some examples of impediments to improving communications with our taxpayers that require fundamental change:

- Improving the level of phone access and providing 24-hour service requires managing calls and schedules on a nationwide basis, yet until October 1, 1999, IRS' 24 call sites reported to local service centers or district directors who were responsible for a geographic area and who often had differing technology and management practices.

- Improving the quality of call responses requires having front-line people who are properly trained and equipped to handle the subject matter. The complexity and diversity of the subject matter of the calls requires constant management of the way agents are organized and trained and the way calls are routed. This in turn depends on having management that is highly knowledgeable of the specific needs of the taxpayers being served as well as the ability to make constant improvements in the communications process. Yet because of their historically geographic focus, most call sites attempted to manage communications for every taxpayer type on a wide range of subject matters.

- Improving the quality of all communications critically depends on providing the front-line employees access to accurate, up-to-date information about taxpayers' accounts and the ability to adjust accounts immediately when needed. IRS computer systems generally do not have this capacity.

- Improving the quality of communications requires an accurate system for measuring quality, from both a technical point of view and the taxpayer's point of view. In 1999, such a system of measures was first introduced.

- Improving the quality of written communications (including forms, publications and notices) requires incorporating user-friendly, educational, helpful, easy-to-understand language and complete data that helps taxpayers comply with their tax obligations. This requires a complete rewrite of most notices and often depends on displaying taxpayer account data that IRS systems cannot provide.

The modernization program is designed to address all of these impediments in order to improve dramatically the convenience and quality of communications with taxpayers.

Expansion of taxpayer rights

Taxpayer rights include a wide range of protections and procedural safeguards designed to ensure that taxpayers get a fair hearing on their cases before the IRS takes any adverse action against them. In certain cases, the law requires that the taxpayer's personal circumstances must also be considered so that the taxpayer will not suffer undue hardship from an IRS action.

Taxpayer rights were considerably expanded in the IRS Restructuring and Reform Act of 1998, which included over 70 provisions concerning taxpayer rights. For example, some of the provisions in the bill are:

- "Due process in collections" provisions, which provide taxpayers facing collection action the right to have their case heard by the IRS Appeals office, and potentially a court, prior to levies being made.

- Expanded "innocent spouse" provisions that under certain circumstances provide increased authority for the IRS to relieve spouses of liabilities incurred on joint returns.

- Expanded authority for the IRS to "compromise" on taxes owed under certain circumstances.

- Change in "burden of proof" in certain court cases.

- Extension of privileged communications between taxpayers and attorneys to certain other advisors.

While the taxpayer rights provisions are now law and being implemented by the IRS, they are also consistent with and reinforce the direction of the overall modernization effort. Many of the modernization changes will increase the quality and effectiveness of the IRS in administering these rights. Of particular importance are the organizational changes that establish the National Taxpayer Advocate's office as an independent structure within the IRS, and the revamping of performance measures to include taxpayer rights.

Although most of the changes required by RRA '98 have now been implemented, many more changes will be required over the next five years to learn how to administer these provisions effectively and efficiently.

Broaden use of electronic tax administration

Electronically-filed returns improve service for taxpayers and boost productivity by reducing errors, speeding refunds and reducing labor costs. While electronic filing has been increasing rapidly, 77 percent of returns are still filed on paper. Reaching the congressionally-mandated goal of 80 percent electronically-filed returns will require many improvements within the organization, such as enhanced IRS technology to allow filing of a full range of returns, resolution of security issues to eliminate requirements for separate signature documents, tailoring of marketing and education programs to attract taxpayers and practitioners with varying needs, and broadening the number of effective payment options in conjunction with filing.

The opportunities to improve business practices through electronic communications with customers and practitioners go far beyond filing of returns. Customer education and assistance programs through the IRS web site, such as distribution of forms and publications and answers to tax law questions, are growing rapidly. Eventually, secure communication over the Internet with practitioners and taxpayers will be used more effectively to resolve taxpayer account issues, facilitating resolution of examinations, providing taxpayers authorized transcripts of their accounts and generally improving the timeliness and quality of the full range of IRS interactions with taxpayers.

In 1999, using highly secure technology, the IRS began the first pilot project to communicate taxpayer account data over the Internet with a small group of practitioners. Although this pilot program involved only 100 practioners, it is the first step in a major change in the use of electronic channels by the IRS.

To date, IRS electronic tax administration programs were developed as specialized “add-on” programs. To realize the potential, they must be integrated into the basic ways of doing business throughout the organization, as well as into new technology programs.

Leverage IRS resources through effective partnerships

There are many organizations and groups that are actively involved in tax administration and deal regularly with taxpayers. Among the most notable are State revenue agencies, tax practitioners of many kinds, industry associations, small business associations, federal agencies such as the Small Business Administration, hundreds of community and volunteer groups, services for low income and disadvantaged taxpayer services, and large businesses and institutions offering tax filing assistance to their employees.

Historically, the IRS worked with many of these organizations to share information about IRS programs and taxpayer concerns and, in the case of States, to exchange information for compliance purposes. The IRS also has some joint electronic filing programs with States.

In the future, the IRS must place far greater emphasis on working in partnership with all of these groups to reach solutions on taxpayer issues, and especially to improve taxpayer education and assistance. Many of these groups established communications channels to millions of taxpayers and are enthusiastic about working with the IRS to help their members avoid tax problems. Many taxpayers are also more likely to listen to and trust information that comes to them from organizations with which they regularly deal and depend on rather than from the IRS directly.

Examples of partnership programs that provide information to taxpayers include the following:

- The ABA and IRS produced an interactive education module for teens for use in high schools called "TAXi" and made it available on the Internet through the IRS Digital Daily website.

- The Banks, Post Office and Library (BPOL) program facilitates distribution of publications and forms through participating banks, post offices and libraries.

- The FY 2000 Small Business Resource Guide CD-ROM, designed as a reference guide for the entrepreneur, was produced and distributed free to the public in FY 99 as a pilot product.

- Through its Corporate Partnership Program, the IRS made forms and publications available to 14.8 million employees through the Intranet sites of over 2,200 companies.

- The Copy Center Program encourages copy centers to distribute free tax forms. Over 2,900 copy centers participate nationwide with support from large chains such as Office Depot, Office Max and Sir Speedy.

- Other partnership programs focus on outreach to taxpayers in under-served communities such as the Newspaper Supplement Program that distributes tax information through local newspapers and a pilot program in the Austin area that provides laminated tax forms for copying by grocery store customers.

The IRS has much to learn about specific taxpayer problems and concerns from the groups that are intimately knowledgeable about the taxpayer’s point of view. Such an approach is very much in keeping with our guiding principle of “understanding and solving problems from the taxpayer’s point of view.” It is also a way of improving productivity, since a small investment of time and money in supporting a partnership with an organization of thousands of members is much more efficient than attempting to communicate directly to individual taxpayers.

The states offer special opportunities for using resources and improving service to taxpayers. Since most taxpayers deal with at least one state as well as the IRS, there is a great deal of overlapping information providing significant opportunities for reducing the burden on taxpayers.

The IRS and the Montana Department of Revenue are testing a Simplified Tax and Wage Reporting System (STAWRS). Upon successful completion of the test, Montana employers will be able to take advantage of combined federal and state filing. STAWRS reduces taxpayer burden on small businesses by combining into one tax return the information now contained in the IRS employment tax return (Form 941), the Montana withholding return and the Montana unemployment insurance return. State government partnership programs will enable us to meet our joint mission as tax administrators to reduce employer burden while improving the efficiency and effectiveness of government operations.

In order to implement improvements in business practices, the principle of effective partnership must be integrated into the basic structure of the organization and be given sufficient management attention and support.

Tailor practices and strategies based on specific taxpayer needs and problems

Just as companies develop particular products and marketing programs to reach customers with differing needs, most IRS business practices offer the opportunity for dramatic improvement by tailoring them to address particular taxpayer needs and problems. These needs and problems vary enormously, as just a few examples illustrate:

- Individual taxpayers with income reported predominantly by third parties have a much more limited set of reporting and payment problems than those with business income, but prompt payment of refunds is very critical to them.

- College students, whose returns can often be filed by telephone, have different service needs and preferences than senior citizens with retirement income.

- Large businesses, with extensive international activities, have a different set of tax problems that require much different service than small, start-up businesses.

An IRS working group recently studied taxpayers with only wage and investment income and identified groups of individual taxpayers with particular circumstances and needs (Exhibit A). To serve these taxpayers effectively, it is essential to understand their particular needs and circumstances and to meet them with appropriate services and programs.

Tailoring IRS services to particular groups of taxpayers is a cornerstone of how we can dramatically improve our service to taxpayers as well as increase productivity within the organization. Virtually all IRS services can be improved using this principle. Pre-filing assistance programs, such as customer education, telephone and Internet assistance and publications and forms design, all represent obvious opportunities for more clear and effective communications. Filing-related programs, such as electronic filing, telephone account assistance and notices also need to be tailored to suit the needs of individual, small business and large business taxpayers. In addition, post-filing compliance programs offer major opportunities to allocate resources more effectively based on knowledge of specific issues affecting taxpayers in particular industries or business situations. In turn, the post-filing knowledge gained from working with taxpayers in examination and collection can be used to develop improved guidance and education programs to prevent future problems, thus reinforcing the problem prevention strategy.

Understanding taxpayer problems and needs and tailoring and improving programs to meet these needs is so fundamental to meeting IRS strategic goals that it must be a key organizing principle for the way the IRS is managed.

W&I TAXPAYER CHARACTERISTICS
Examples of Special Needs of Individual Taxpayer Market Segments

SEGMENT	PROFILE	KEY NEEDS	PROPOSED STRATEGY TO ADDRESS NEEDS
Segment I	• Simple returns; low income (<$30K); low tax understanding; language assistance; urban; possible dependents; possible compliance issues	• Face-to-face contact required; tax education; needs hand-holding; language assistance	• Focus on education about taxes; reach through walk-in centers; bi-lingual assistance
Segment II	• Simple returns; low to middle income; educated and computer proficient; understands taxes; prepare own returns; compliant	• Need for accurate and fast access to IRS (through Internet); answers to specific questions	• Aggressive marketing of e-commerce products; education on forms to file and taxation issues pertaining to them; greater access to electronic sites (e.g., through schools and universities)
Segment III	• Middle income families; average return complexity; familiar with taxation; typically paper filers; prepare own returns; compliant	• Reliable information on tax law changes, new forms and procedures; prompt and accurate response to queries	• Provide information on tax laws through direct mail; marketing of e-commerce products--migrating them toward e-commerce; provide more accessibility through new channels
Segment IV	• Complex returns, investment and schedules; high income; professionals and wealthy retirees; paid preparers; compliant	• Customized assistance through preparers; need help with complex problems; easy access to tax information through preparers	• No direct assistance required from IRS; focus on providing high-quality assistance to practitioners; leverage partnerships with practitioners to provide better service
Segment V	• Divorced/separated individuals; simple/average complexity of returns; low/middle income; low understanding of taxation; possible compliance problems	• Increased understanding of tax system; recognition of their circumstances--possible hardship assistance; accessibility to someone who will solve their problems; clear explanation of child support test	• Basic tax education (e.g., seminars on return preparation); hardship programs; outreach through divorce courts, single parent associations
Segment VI	• Balance due and non-filers; some understanding of taxes; possible fear of the tax system; low understanding of collection options; financial problems; withholding (W-4) problems; frequently ignoring notices, contact attempts; prepare own returns	• Understanding of the collection process, options and implications; understanding of withholding; accessibility to tax help; reduction of penalties for honest mistakes	• Aggressive marketing/clinics on collection options (installment agreements, offers in compromise and credit card settlement); information on reasonable cause incentives; providing specific help on the phone; quicker response to non-filing situations
Segment VII	• Elderly/retired; low to middle income; Social Security/pension-based incomes; simple/middle complexity returns; prepare own returns; not computer literate; value face-to-face contact; easy to reach through retirement communities	• Face-to-face assistance/education; information on Social Security/pension changes; desire to volunteer; increased awareness of investment tax law changes; assistance on return preparation	• Increased coordination with AARP and other relevant stakeholders; seminars and assistance on filing through community organizations; reach through VITA and TCE; joint ventures with Social Security, investment firms, banks, etc.

Apply risk-based compliance intervention techniques

Regardless of how successful the IRS is in preventing taxpayer errors, it will always be necessary to intervene through examinations, collection actions and investigations when noncompliance or nonpayment is found or suspected to be occurring. Since the IRS has limited resources, it is essential to apply resources where they will be of most value in reducing noncompliance, both in specific cases and in patterns of noncompliance. Strategies that target resources effectively benefit individual taxpayers by reducing the need to burden those taxpayers who comply. For example, the IRS was a pioneer in using statistical techniques in selecting tax returns for audits that were likely to contain an understatement of tax.

With the advent of many new best private sector practices, the IRS has an important opportunity to use the information it has to deploy compliance resources more efficiently. This is especially the case with respect to collections, where great progress in developing more effective collection techniques and practices has been made in both private and public agencies. The proven keys to effective collections are: (1) to identify as promptly as possible, using all available information, customers who may present a risk of nonpayment; and (2) to intervene in the most effective way, whether through mail, phone calls or in-person visits, to work out a payment program that addresses that particular customer's payment problem. This helps the customers as well as the collecting agencies, and limits the need for enforcement actions.

Although risk-based compliance techniques offer great opportunities for progress on all three of IRS' strategic goals, they are dependent upon clear, centralized management of compliance resources for relatively homogeneous sets of taxpayers. In addition, accurate, up-to-date data about taxpayers' returns and accounts, and modern technology such as constantly updated decision models, telephone dialing equipment that assists the operator in making calls and collection support systems are essential. Long-established business practices must be modified and updated.

Address willful noncompliance

As the agency tasked with administering and enforcing the tax laws, the Internal Revenue Service is required to determine who is not in compliance with their taxpaying responsibilities, and bring them into compliance. The IRS has the authority to impose civil fines and penalties for delinquent payments and filings and generally pursues civil remedies through its Examination and Collection functions. Civil actions are usually sufficient for bringing most noncompliant taxpayers into compliance. However, there are a small number of taxpayers who willfully violate the tax code with criminal intent. A Roper survey commissioned by the IRS in June 1999 found that 87 percent of Americans feel that it is not at all acceptable to cheat on your taxes. Only eight percent say it is okay to cheat a little, but three percent thought it acceptable to cheat on taxes "as much as you can get away with."

IRS Criminal Investigation (CI) is responsible for investigating criminal tax violations and related financial crimes in support of the administration of the Internal Revenue Code. CI is the only federal law enforcement agency with the authority to investigate income, excise and employment tax criminal violations. CI conducts a comprehensive financial investigation and determines whether sufficient evidence exists to recommend prosecution to the Department of Justice for willful attempts to violate the federal tax laws. Criminal penalties are sought only in appropriate matters involving willful violations of the tax code.

CI is an essential component of effective tax administration. Over the past decade, the number of cases referred to CI from within the IRS decreased significantly. The IRS is no longer the largest source of referrals and now supplies less than 12 percent of all criminal cases requiring investigation. In April 1999, Judge William Webster issued several recommendations following a year-long study of the IRS' Criminal Investigations. Judge Webster identified in his report that "Examination, collection and CI must reinvigorate the fraud referral program...making clear CI's commitment to tax enforcement." In 2000, the IRS will begin to focus its investigative resources on those cases having the biggest impact on noncompliance with the tax law.

Integrate compliance strategies

The greatest payoff in progress on all three of IRS' strategic goals will come when all of the improved business practices can be implemented through effective and integrated compliance strategies. An integrated strategy is one in which the needs and problems of a set of taxpayers are clearly understood and all the techniques and resources from all the disciplines of the IRS are applied appropriately to solve those problems over a period of time.

Again, to quote Malcolm Sparrow:

> *In both Australia and California, renewed attention was paid to service functions, to public education programs and provision of timely and well-targeted information. But attention never wavered from the central mission of making sure taxpayers paid up, in full and on time. For any particular kind of identified noncompliance, the choice between using the 'service arm,' and the 'enforcement arm,' or something else became a matter of crucial professional judgment on which the public image and credibility of the agency depended.*

An example of such an approach is the IRS Earned Income Tax Credit (EITC) Program. The EITC is helping millions of lower-income workers, both with and without children, make ends meet. In 1997, over 19 million workers received credits worth almost $30 billion. The IRS' goal is to encourage every eligible taxpayer to claim the credit. But, the IRS must also work to ensure that claims for the credit are accurate while preventing those who are ineligible from receiving it.

Professional tax practitioners prepare over 60 percent of the returns filed with a claim for EITC. To increase the effectiveness of the preparer community in servicing their clients, legislation was enacted which provided that penalties be applied to preparers who fail to diligently determine the accuracy of the taxpayer information used to claim EITC.

In order to assist the practitioner community in meeting its obligations with respect to due diligence in the area of EITC, the IRS developed the EITC Preparer Outreach Program, a strategy of combined outreach and compliance checks. Between November 1999 and January 2000, Service employees are visiting over 10,000 preparers. The employees are discussing the eligibility requirements for a taxpayer to claim an EITC benefit as well as the recordkeeping requirements for preparers. During these visits, preparers are also receiving an EITC Professional Kit which contains an overview of the EITC; information on valid identification numbers, eligibility and due diligence requirements and other helpful information.

In addition, the IRS has partnered with the two largest national preparers, H&R Block and Jackson Hewitt, which have agreed to provide the necessary education to their own employees and franchisees. They also agreed to change their software to eliminate all default answers on the due diligence forms.

While we have yet to determine the compliance benefits in tax dollars protected, we feel confident that the improved customer service will lead to an improved partnership between the IRS and the professional practitioner community.

Near-Term Improvement Priorities

The development and implementation of integrated strategies on a large scale depend on having a clear understanding of taxpayer problems, an organization structure that permits comprehensive addressing of these problems, and appropriate performance measures to encourage and quantify progress.

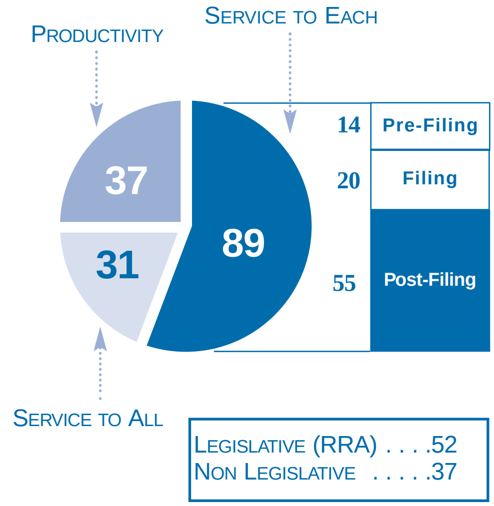
As is evident from the above examples, there are major opportunities for progress on all three of the IRS' strategic goals by revamping business practices and strategies, and there are hundreds of specific actions that are required to implement these improvements.

The National Performance Review study titled *Reinventing Service at the IRS* made 295 specific recommendations and many more have been identified from other sources. While some of these actions can and are being implemented quickly, the most important changes are dependent upon other fundamental changes in the organization, management and technology.

Through a rigorous prioritization process, 157 near-term initiatives to improve business practices were identified in 1999; of these, about half are mandates. Many of the higher profile initiatives were implemented or partially implemented in 1999, 12 initiatives were added and six expanded for 2000, as shown on the following pages.

Exhibit B-1: Near Term Improvement Priorities

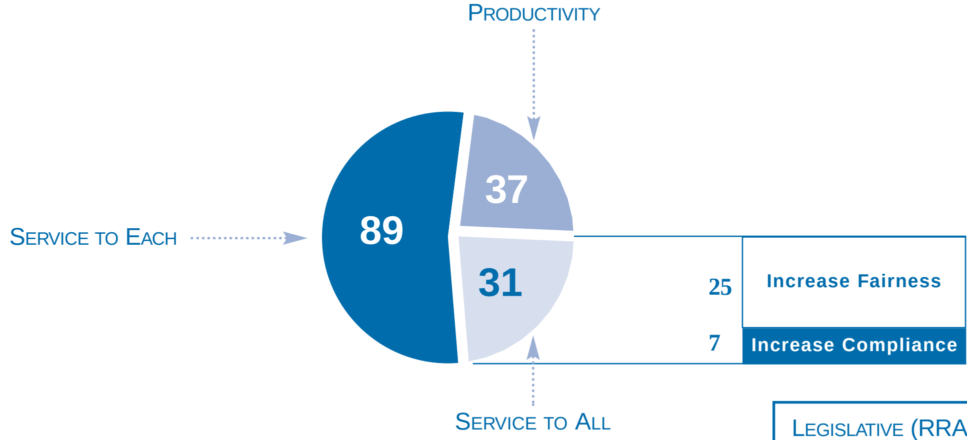
Service to Each Taxpayer

Making Filing Easier (Pre-Filing)	Improve taxpayer assistance by meeting demand and increasing accuracy. **1. Expand telephone service to 24 hours a day, 7 days a week.** **2. Use call-routing technology to ensure better management of phone traffic.** **3. Provide bi-lingual service on the telephone.** **4. Provide nationwide access to the SERP, Service-wide Electronic Research Project.**	Increase use of, and offer easy-to-use alternatives to, paper filing. 1. Implement actions to mandate electronic filing of Form 1065. 2. Accept alternative methods of payment. 3. Increase marketing of all e-file products. 4. Increase electronic options for businesses.		
Providing First-Quality Service to Each Taxpayer Needing Help with a Return or Account (Filing)	Meet customer demand for fast responsive account assistance by telephone. 1. Arrange for each local District Office to publish addresses and phone numbers in local telephone directories. **2. Complete Automated Collection System (ACS) redesign study.** **3. Monitor and assess the Atlanta Consolidated Call Site Pilot (ACCSP) to determine if concepts merit Service-wide implementation.**	Simplify notices and correspondence. 1. Improve written communications by rewriting notices in plain language. 2. Reduce volume of undelivered mail. 3. Flatten the notice issuance pattern throughout each year. 4. Include the name, telephone number and unique identifying number of an IRS employee on any manual correspondence.	Meet demand for walk-in assistance. 1. Expand and standardize hours of operation. 2. Improve availability of forms and publications. 3. Install Q-Matic at 15 additional sites.	Provide specialized products and services for small businesses. **1. Make technical correction to clarify the small business exemptions from the corporate alternative minimum tax.** **2. Provide relevant information to new employers when they apply for a federal employer identification number (EIN).** **3. Encourage the use of the EFTPS and STAWRS.** **4. Mentor and monitor New Employers prototype.**
Providing Prompt, Professional, Helpful Treatment to Taxpayers in Cases Where Additional Taxes May Be Due (Post-Filing)	Protect taxpayer rights. **1. Place burden of proof on IRS in certain cases.** 2. Expand innocent spouse relief, separate liability election and equitable relief. **3. Limit circumstances in which a taxpayer's residence or business assets may be seized.** 4. Hold employees responsible for identifying any improper conduct affecting taxpayers. 5. Notify the taxpayer when a notice of federal tax lien has been filed. **6. Maintain records of taxpayer complaints of misconduct by individual employees.**	Improve access to problem solving help. 1. Expand the circumstances under which the Taxpayer Advocate may consider issuing a Taxpayer Assistance Order. **2. Create Citizen's Advocacy Panels.** **3. Inform public about the Taxpayer Advocate and publicize the Taxpayer Advocate's toll-free number.** 4. Hold local Problem Solving Days (PSDs) at least through April 1999. Institutionalize PSDs into daily operations.	Broaden taxpayer payment options whenever appropriate. 1. Allow taxes paid by check or money order to be made payable to the United States Treasury. **2. Offer credit card payment for balances due. Seek credit industry partners to pilot test credit cards for taxpayers who file electronically in 1999.** 3. Test Direct Debit Installment Agreement improvements (option to exclude "user fee" with direct debit of payments). **4. Change offer in compromise procedures to reduce taxpayer burden.**	Identify systemic causes of account problems and develop solutions. 1. Address systemic causes of Audit Reconsideration issues by: A) Revising statutory notice processing. B) Reducing processing delays. **2. Obtain access to Financial Management Service's Check Information.** **3. Implement Non-Master File (NMF) action plan.** 4. After December 31, 1999, authority is given to extend 10-year collection period in certain circumstances.

■ = Completed ■ = Partially Completed

Exhibit B-2: Near Term Improvement Priorities

SERVICE TO ALL TAXPAYERS



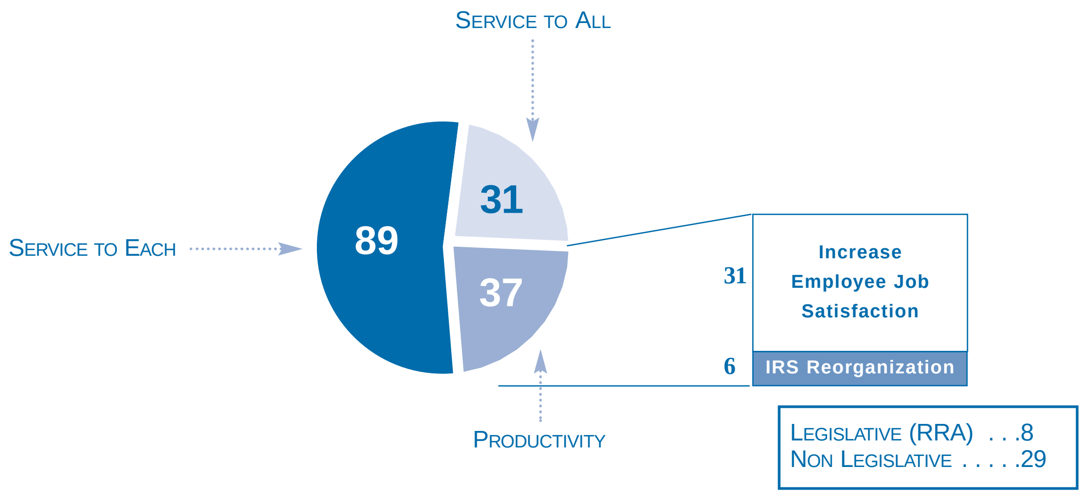
LEGISLATIVE (RRA) . . .22
NON LEGISLATIVE 9

Increase Fairness of Compliance	Pursue penalty reform.	Ensure appropriate, fair and consistent use of compliance resources.
	1. Reduce the FTP penalty by 50% for individuals who timely file returns and pay by installment agreements. 2. Redesign all penalty notices and train Exam, Collection and Customer Service employees on who is authorized to approve initial assessments. 3. Investigate the appropriate level for penalty abatement via telephone. **4. Send a letter to business customers who have made first-time deposit errors to tell them the penalty has been waived and how to avoid mistakes in making their next deposit.**	**1. Develop and implement an approval process under which any lien, levy or seizure is approved by a supervisor.** **2. Determine a minimum bid price below which the seized property must not be sold.** **3. Establish a sunset date of 180 days for notices of intent to levy.** **4. Revenue officers shall determine there will be sufficient net proceeds from the sale to apply to unpaid tax liabilities.**
Increase Overall Compliance	Improve and increase use of "upstream" education and delinquency prevention techniques.	Use research to identify potential areas of noncompliance and develop effective treatments.
	1. Award matching grants up to $100,000 per year to develop, expand or continue qualifying low-income taxpayer clinics. 2. Provide proactive education to taxpayers to inform them of potential issues that could create delinquent tax situations. 3. Improve the EITC program by implementing the EITC action plan, which includes: education, communication and assistance, prevention and identification, research and math error programming for secondary TIN, age-related checks, etc.	1. Each year, conduct an analysis of the sources of complexity in administration of the federal tax laws. 2. Design a national compliance survey as an effective alternative to TCMP. 3. Continue to develop and refine alternative treatment revenue (ATR) methodologies to measure the effectiveness of non-enforcement compliance initiatives.

■ = Completed ■ = Partially Completed

Exhibit B-3: Near Term Improvement Priorities

Productivity Through a Quality Work Environment



Increase Employee Job Satisfaction

Provide a quality work environment.	Provide tools and training to enhance customer service.	Create an IRS culture that values employees and rewards top quality service.
1. Establish a new workforce performance management system. 2. Replace existing workstations as required by the National Workspace and Occupancy Standards. **3. Increase top grade level for customer service representatives.** 4. Change and continuously improve supervisory practices to enhance employee satisfaction at call centers. 5. Implement enhancements to e-mail and VMS.	**1. Submit a comprehensive customer service employee-training plan to Congress.** 2. Provide adequate number of telephone, fax and e-mail capabilities at each post of duty. 3. Create a training module on customer service for all functional areas. 4. Develop procedures to include user-friendly job aids as part of IRM 2100 to assist front-line Customer Service employees. 5. Provide electronic research tools to front-line employees. 6. Use capabilities of Performance Development System (PDS) to assess competencies and determine training needs.	1. Prohibit the use of records of tax enforcement in evaluating employees. **2. Revise IRS mission to focus on taxpayer needs.** **3. Establish, as a standard practice, that all executives overseeing taxpayer contact functions will interact with taxpayers on a regular basis.** 4. Use internal and external feedback systems to improve culture by: A) Improving customer feedback. B) Implementing tests in 4-8 field offices to improve operations based on customer satisfaction surveys. C) Implement customer satisfaction measures.

Ensure Successful Reorganization of IRS Structure and Management While Maintaining a Stable Workforce

Improve service by reorganizing and refocusing along customer segments.	Measure progress and performance against a balanced measurement system.
1. Reorganize the IRS by establishing organizational units servicing groups of taxpayers with like needs.	1. Develop a balanced measurement system that measures customer service, employee satisfaction and business results by: A) Aligning all IRS review systems (e.g., business review, peer review, etc.); B) Aligning critical elements of personnel standards into a balanced measures approach; C) Aligning the balanced measurement system into the modernized IRS. 2. Develop and implement a Centralized Quality Review System to improve quality measures and provide better feedback to CSRs and managers.

■ = Completed ■ = Partially Completed

Exhibit B-4: Potential Expanded or New Near Term Improvement Priorities

SERVICE TO EACH	
Develop a viable proposal to include a POA (or other appropriate representational designation) check box on Form 1040.	New
Rollout of oral Taxpayer Information Authorization (TIA).	New
Test placement of "stuffers" on local Problem Solving Days in fourth notices from Collection.	New
Expand Spanish walk-in service to multi-lingual walk-in service via contracted telephone translation support.	Expanded
Implement ACS redesign recommendations.	Expanded
Address outstanding issues from the latest NTA "20 Most Serious Problems." The first issue to address will be misapplied payments/unapplied payments. Perform a study to determine the scope of work required and current trends on this issue.	New
Institutionalize two components of Problem Solving Days within normal operations—taxpayer appointments and cross-functional teams. Recommendations from the current task force will likely expand scope and resource requirements for institutionalizing effort.	Expanded
Small Business Employment Tax Deposit proposal. Ease the burden on small business employers by increasing or easing the existing criteria for quarterly depositors.	New
Create a Small Business Transition Office (SBTO) to continue and expand specialized products and services for small businesses—e.g. Small Business Resource Guide (CD-ROM), partnerships with SBA and other agencies, EFTPS support, FEIN projects, STAWRS support, new employers prototype, Web site products, etc.	Expanded
Coordinate with Small Business Development Centers (SBDCs). Use the over 1200 existing SBDCs as platforms for outreach programs to small businesses.	New
Oversee and migrate approved Small Business lab projects (Pacific/Northwest District) for implementation and/or integration to Small Business/Self Employed operating division. Lab projects will be approved and tracked using TSI process.	New
Small Dollar Notices. Conduct a study to determine the viability of sending notice of balance due amount but waiving payment in cases of small dollar notices. Examine situations where the costs of collection are greater than the balances due (defined by a to-be-determined tolerance level).	New
Convene team of field personnel to review new IRM 2100 to identify issues and suggest improvements.	Expanded
Make progress on notice redesign including measurement of quality and accuracy from taxpayer's perspective. Conduct focus groups to obtain taxpayers' points of view on quality of IRS notices.	Expanded
SERVICE TO ALL	
Implement approved recommendations from the "Reducing Burden National Task Force." Potential items include: - Provide quality service during an audit by taking responsibility for a taxpayer's existing IRS account problems - Expand business hours of audits. Conduct initiative to combat corporate tax shelters Conduct initiative to combat abusive trusts	New
PRODUCTIVITY THROUGH A QUALITY WORK ENVIRONMENT	
Reduce administrative burden on managers. Managers need to spend more time involved in case work and in mentoring and coaching employees.	New
Provide tax preparation assistance for lower graded employees at the service centers (GS3s, GS4s…).	New

Exhibit C: IRS Current Organizations