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# National Taxpayer Advocate's

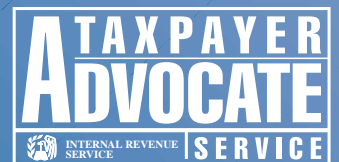
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## Annual Report to Congress

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## **TAXPAYER ADVOCATE SERVICE MISSION**

**We help taxpayers  
resolve problems with the IRS  
and recommend changes  
that will prevent the problems.**

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## FORWARD

As the Acting National Taxpayer Advocate, it is my pleasure to deliver this National Taxpayer Advocate's Annual Report to Congress. The Taxpayer Advocate Service has come into its own this fiscal year, standing up as a modernized component of the Internal Revenue Service. We have overseen exciting changes, and have overcome some difficult challenges with the help and support of our Internal Revenue Service colleagues. We are looking forward to similar changes throughout the Internal Revenue Service during the coming year, and to supporting our colleagues in meeting the challenges that may arise.

As you know, Val Oveson served as the National Taxpayer Advocate throughout Fiscal Year 2000. His two-year tenure as the National Taxpayer Advocate was a period of the most profound change this program has seen since its founding more than twenty years ago. Val's commitment to serving taxpayers, and his involvement in solving taxpayers' problems, set an example of leadership that we will continue to emulate. Val's personal impact reached beyond the Taxpayer Advocate Service. He challenged Internal Revenue Service leadership to fundamentally rethink traditional approaches to tax administration.

In announcing his departure to the Taxpayer Advocate Service leadership, Val commented, "a goal of all leaders is to build an organization full of other leaders who can carry on when they are gone." Val left his mark on the Taxpayer Advocate Service by laying the foundation that will support us into the future.

We had several accomplishments during the past fiscal year. We strengthened our advocacy program, identifying and quickly addressing immediate problems where intervention is needed, and developing longer-term projects that address underlying causes of problems taxpayers face. During the coming year we will continue to strengthen and expand this vital aspect of our mission.

Since mid-March 2000, we successfully reassigned our casework from employees working in IRS Operations to our newly hired and trained staff. That transition was accompanied by an unavoidable learning curve, as we implemented and refined new procedures, and as our new staff learned their new responsibilities. We resolved more than 256,000 taxpayer cases during Fiscal Year 2000. We have already seen improvement in the quality and timeliness of our case resolution this year, and will see further progress in Fiscal Year 2001 as we continue to improve our systems and strengthen our skills.

We are at the point where we have turned our attention away from modernizing and toward conducting our day-to-day business as the newly modernized Taxpayer Advocate Service.

Modernization was not an end, but a beginning - the beginning of improved tax administration. The completion of the Taxpayer Advocate Service modernization is the beginning of an organization that is better able to carry out its mission to help taxpayers resolve problems with the IRS and recommend changes that will prevent the problems. As the rest of the IRS completes its modernization, it should be better able to carry out its mission of providing top-quality service to the taxpaying public, and to quickly identify and address issues and problems taxpayers face.

I hope the Members of Congress and their staffs will find the information in this report useful. As you will see, the difficulty of administering and complying with complex tax laws is a recurring theme throughout this report. While many of the issues discussed are fully within the power of the Internal Revenue Service to prevent or correct, the complexity of the tax law presents problems for taxpayers and the IRS that defy simple solutions.

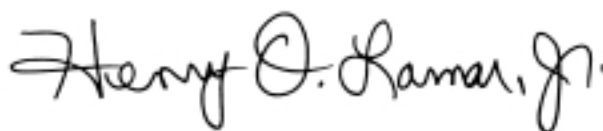
Although we have added a few new issues to the list of the top 20 problems faced by taxpayers, and dropped a few old ones, the list remains substantially unchanged since our first report in 1996. We have included ten new legislative recommendations in this report, as well as twenty-seven others that we have previously recommended. We have presented them in a new format, grouped by category in order to highlight recurring themes, and included a table of all legislative recommendations that were in last year's report. This year, compliance burden is discussed throughout the report rather than in a separate section. We have also added a new section on the accomplishments of the Citizen Advocacy Panels.

I would like to thank the many parties whose input and ideas were used in developing this report, including Taxpayer Advocate Service and Internal Revenue Service employees, individual tax practitioners and practitioner associations, the Citizen Advocacy Panels, and members of the taxpaying public.

I am grateful for the support of Commissioner Rossotti and his unwavering optimism in our ability to make the changes necessary to achieve the new vision. Secretary Summers and the officials at Treasury have likewise, been supportive of the changes we have undertaken.

I am pleased to present this report to the Congress of the United States and to share my vision of what remains to be done to provide top quality service to America's taxpayers. I look forward to the appointment of the new National Taxpayer Advocate. Until then, I will continue to do everything in my power to see that taxpayer rights are protected and that the IRS treats everyone with dignity and respect. American taxpayers deserve nothing less. I will continue to recommend administrative and legislative changes that I feel are needed to make the nation's tax system more responsive and less burdensome.

Sincerely,



Henry O. Lamar, Jr.  
Acting National Taxpayer Advocate

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## THE MOST SERIOUS PROBLEMS ENCOUNTERED BY TAXPAYERS

Information used to compile the 20 Most Serious Problems List was gathered by analyzing Taxpayer Advocate Service casework data along with input from three major sources – Citizen Advocacy Panels, external stakeholder groups, and internal stakeholders. The four Citizen Advocacy Panels and 43 external stakeholder associations and organizations were asked to identify and rank the top 20 problems. Internal stakeholders, such as members of the various operating divisions and the Taxpayer Advocate Service, were also polled. The responses of these groups were weighted, with the input from the Citizen Advocacy Panels given the most importance, followed by the opinions of the external stakeholder groups, and finally the internal stakeholders. We felt weighting the responses in this manner would provide a customer focus to the problem ranking.

Although this process resulted in a rearranging of problem rankings, the dropping of a few problems, and the addition of three new ones, the list looks much the same as in previous years. Complexity of tax law remains the number one problem facing taxpayers, and is the root-cause of many of the other problems on the Top 20 list. Our respondents reported so many issues relating to complexity, we decided this year to list it as two problems - separating concerns that pertain to individuals from those that affect businesses.

Three problems were dropped from the list: Maintaining Taxpayers' Current Addresses; Substitute for Return Issues; and Automated Collection System Levy Releases. IRS has taken steps to utilize the National Change of Address system to maintain current addresses. A sharp reduction in the volume of cases worked in the Automated Substitute for Return program resulted in a corresponding drop in the number of complaints received. Likewise, a dramatic decrease in the number of levies issued by the Automated Collection System caused this problem to be removed from the list.

To complete the list of 20, the Complexity problem was divided as explained above, Innocent Spouse Issues were split out from the Divorced and Separated Taxpayers problem, and Third Party Representation Issues were added. Difficulties experienced in implementing the Innocent Spouse provisions of the Restructuring and Reform Act of 1998 support its standing alone on the list. Input from those surveyed resulted in the addition of Third Party Representation Issues.

We used the following format throughout this section to provide a consistent explanation of each of the 20 problems:

- IRS Responsible Official – official(s) accountable for implementing and monitoring actions related to the problem
- Issues Relevant to the Problem – a summary of concerns describing the problem
- External Stakeholder Comments – input from practitioners and individuals
- Internal Revenue Service Comments – description of the problem by IRS responsible officials.
- IRS Initiatives to Address the Problem – IRS Operations’ report of actions taken and planned to address the problem
- Taxpayer Advocate Service Comments – our assessment of the scope of problem

For comparison purposes, the following table includes the ranking for fiscal year 2000 and fiscal year 1999.



**RANKING OF  
TOP 20  
PROBLEMS:  
FISCAL YEARS  
1999 & 2000**

FY 2000 Ranking	Topic	FY 1999 Ranking	Page No.
1	Complexity - Individual	1 *	4
2	Complexity - Business	1 *	7
3	Clarity and Tone of IRS Communications	2	10
4	Inability to Access the Toll-Free Number	6	14
5	Burden on Small Business	15	18
6	Administration of the Earned Income Tax Credit	3	22
7	Lack of One-Stop Service	4	26
8	Lack of Acknowledgement of Correspondence and Payments	7	31
9	Penalty Administration	5	33
10	Offer in Compromise Issues	9	36
11	Payment Processing (Previously Misapplied Payments)	10	40
12	Lack of Concern for Taxpayer Problems and Issues	16	42
13	Electronic Filing Issues (Previously Cost to File Electronically)	19	46
14	Delays in Compliance Contacts	11	49
15	Understanding Federal Tax Deposits	18	52
16	Divorced and Separated Taxpayers	8	54
17	Math Error Notices and Refund Checks	14	57
18	Audit Reconsiderations	12	58
19	Innocent Spouse Issues	**	60
20	Third Party Representation Issues	n/a	63
--	Automated Collection System Levy Releases	20	N/A
--	Substitute for Return Issues	17	N/A
--	Maintaining Current Addresses	13	N/A

\* Ranked as a single problem in FY 1999

\*\* Included in, "Divorced and Separated Taxpayers," in FY 1999

# 1 Complexity of the Tax Laws Affecting Individuals

## IRS Responsible Officials:

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

## Issues Relevant to the Problem

- This continues to be the most serious and burdensome problem facing America’s taxpayers.
- The most basic aspects for the tax law, such as filing status, exemptions, and the Earned Income Tax Credit, are complicated and contain exceptions and special rules that many taxpayers do not understand.
- The yearly enactment of new laws, as well as amendments and phase-outs of existing statutes, creates confusion and misunderstanding. Even the use of computer programs does not eliminate the complex computations that a taxpayer often has to make to determine his or her tax liability.

## External Stakeholder Comments

*“Congress needs IRS at the table all the time, as too much tax law is passed conceptually without even considering administrative feasibility.”*

*Sharon Cranford, Director, Government Relations, National Association of Enrolled Agents*

## Internal Revenue Service Comments

Tax law complexity remains the non-business taxpayer’s most significant challenge. The IRS has taken a number of steps to assist the taxpayer in understanding the law and its requirements. We have enhanced training for our employees so they are better equipped to help taxpayers, expanded the hours of operations for customer assistance, expanded both electronic and telephonic automated assistance, and rewritten many taxpayer education publications. These steps do not correct the underlying concern about complexity; making the law simpler rests with the Congress.

### IRS Initiatives to Address the Problem

On June 5, 2000, the Service issued its Annual Report from the Commissioner of the Internal Revenue Service on Tax Law Complexity, providing options for reducing undue and unnecessary complexity. The report focused on provisions that affected individuals and small businesses and included suggestions that would reduce complexity associated with filing definitions, individual Alternative Minimum Tax (AMT), and estimated taxes.

- Provided training materials and other tools to improve the knowledge of field personnel relating to new tax laws and technical guidance. This training allows employees to properly address compliance issues and to explain the law more effectively to taxpayers. Examples of topics covered include whipsaw issues, education tax credits, child tax credits and taxpayer rights. Examiners were also provided with steps and techniques for explaining the law in more non-technical terms to help taxpayers understand any proposed adjustments.
- Developed a legislative recommendation for simplifying taxpayer procedures related to obtaining information about health care continuation coverage as authorized by the Consolidated Omnibus Budget Reconciliation Act (COBRA).
- Revised the Tax Year 2000 Form 1040A to enable approximately 2.5 million taxpayers who report certain capital gains distributions to file a simpler Form 1040A rather than Form 1040.

### FISCAL YEAR 2001 PLANS:

- Continue the Filing Simplification Research Strategy sponsored by Tax Forms and Publications. An outgrowth of this research may be the identification of legislative solutions for taxpayer problems related to tax law.
- Continue to emphasize to IRS examiners the need to explain the law in easy to understand terms.

## Taxpayer Advocate Service Comments

*Complexity remains the number one problem facing taxpayers and is the root-cause of many of the other problems on the Top 20 List. Despite IRS restructuring to target services to taxpayer needs, the fact remains that the Internal Revenue Code is riddled with complexities that often defy explanation.*

*Again this year, we suggest Congress take actions to simplify the Internal Revenue Code and make it easier to understand and implement.*

## 2 Complexity of Business Tax Laws

### IRS Responsible Officials

<b>John Dalrymple</b>	Commissioner, Wage & Investment Operating Division
<b>Joseph Kehoe</b>	Commissioner, Small Business/Self Employed Operating Division
<b>Larry Langdon</b>	Commissioner, Large & Mid-size Business Division
<b>Evelyn Petschek</b>	Commissioner, Tax Exempt & Government Entities Operating Division

### Issues Relevant to the Problem

- The complexity of the Tax Code can drive some small businesses into technical noncompliance.
- The cost of compliance is high for small business, both the burden of record-keeping and the expense of professional tax assistance.

### External Stakeholder Comments

*“Proper administration of the code by trained employees is a step in the right direction. However, such steps are limited by the code itself. The code is constantly evolving and forcing small business owners to seek expensive advice from accountants and lawyers. Once a simplified tax code is implemented, other issues, such as penalty administration, compliance burdens, deposit problems and clarity of IRS communications will be eliminated or dramatically reduced.”*

*Dan Danner, Sr. Vice President, Federal Public Policy,  
National Federation of Independent Businesses*

*“Too many business decisions are made on the basis of tax consequences rather than what makes good business sense.”*

*Harold Igaloff, Taxation Committee, National Small Business Union*

*“I think there is something desperately wrong with the system when there is only a small subset of people who understand how it works. Small businesses want to pay their taxes and be responsible citizens. I just don't think they necessarily believe that they should have to hire outside experts to do it; they should be able to handle their affairs themselves.”*

*Todd McCracken, President, National Small Business Union  
Testimony: Subcommittee on Tax, Finance and Exports of The House Small Business Committee, September 7, 2000*

## Internal Revenue Service Comments

Tax law complexity remains one of the business taxpayer's most significant challenges. This is the same concern that individual taxpayers face. Business taxpayers may find themselves inadvertently out of compliance due to the complexity of the Code. The IRS has taken a number of steps to assist the business taxpayer in understanding the law and its requirements. We have enhanced training for our employees so they are better equipped to help taxpayers, expanded the hours of operations for customer assistance, and expanded both electronic and telephonic automated assistance. We have also developed a number of taxpayer education publications geared specifically to the small business community. These steps help alleviate but do not correct the underlying concern about complexity; making the law simpler rests with the Congress.

### IRS initiatives to Address the Problem

- Initiated a Pre-filing Agreement test for the Large and Mid-size Business taxpayer segment. This test is aimed at resolving complex and recurring technical issues prior to the filing of a tax return.
- Provided training materials and other tools to improve the knowledge of field personnel relating to new tax laws and technical guidance. This training allows employees to properly address compliance issues and to explain the law more effectively to taxpayers. Examples of topics covered include whipsaw issues, education tax credits, and taxpayer rights. Examiners were also provided with steps and techniques for explaining the law in more non-technical terms to help taxpayers understand any proposed adjustments.
- Additional accomplishments are also included in this report in the narratives for Complexity of the Tax Law Affecting Individuals — Problem #1, and Compliance Burden on Small Business — Problem #5.

### FISCAL YEAR 2001 PLANS:

- Continue to emphasize the need for IRS examiners to explain the law in easy to understand terms.
- Expand the Pre-filing Agreement test for Large and Mid-size Business taxpayers.

- Work in partnership with major practitioner associations, state and local officials and other federal agencies to design, develop and deliver new educational products and services. Special focus will be placed on expanded education and assistance to prevent noncompliance among startup businesses.
- Use voluntary agreements with employers and businesses to achieve agreement on reporting and tax issues prior to filing. Expand the Voluntary Compliance Agreement Program by working with employers and business owners to provide pre-filing certainty. To date, IRS has implemented voluntary agreements on reporting of tips, primarily by food servers in restaurants. This concept will be expanded to other types of agreements and/or other industries.
- Add additional information to the IRS Digital Daily web site for small business taxpayers, based on customer needs.
- Release redesigned Forms W-2 and W-3, which support the one-stop filing initiative with the states.
- Release new Publication 15-B, Fringe Benefits, to complement other employment tax publications. Pub. 15-B will include fringe benefits information that was removed from another publication to make it easier for employers to use.

### Taxpayer Advocate Service Comments

*Businesses are adversely affected by the complexity of the Internal Revenue Code. Input from our external stakeholders focused so much attention on the dilemma businesses face in interpreting the Internal Revenue Code that it was separated from the problems experienced by individuals. Not only are businesses challenged by the Internal Revenue Code, they must deal with numerous, often competing, laws, regulations and ordinances enacted by state and local governments.*

### 3 Clarity and Tone of IRS Communications

#### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

#### Issues Relevant to the Problem

- IRS written communications often are not responsive to taxpayer needs.
- Notices are not clear and often not timely.
- Taxpayers are increasingly concerned about what they perceive to be the threatening tone of IRS letters and notices.
- Taxpayers often receive multiple notices rather than one notice encompassing all accounts.

#### External Stakeholder Comments

*“The general public should get involved in rewriting notices or communications from IRS. The public should have an opportunity to give the IRS its input on each notice/communication to change the language so the average taxpayer can understand. (This input is a result of the Citizen Advocacy Panel’s direct interaction with taxpayers regarding what taxpayers want the IRS and Congress to know.)”*

*Pacific Northwest Citizen Advocacy Panel*

#### Internal Revenue Service Comments

IRS written communication to taxpayers continues to be a challenge. The IRS has rewritten 450 notices and letters to improve their quality and tone. It has also completely redesigned six notices, and another 11 notices are scheduled for completion this fiscal year. These 17 redesigned notices represent nearly 30 percent of the notice volume being issued to taxpayers. The most significant challenge to this process is not writing the notice itself but programming the changes into our current computer systems.



**IRS Initiatives to Address the Problem**

**Customer Feedback**

- Established a link for taxpayers to give feedback about their notices by using the IRS' Web Site or the Internet link with the Senate Small Business Web Site.
- Solicited taxpayer feedback on and input to the notice redesign effort through ten Taxpayer Assistance Centers seeking taxpayer opinions and recommendations on notices.

**Process Improvements**

- Continued the review of notices and letters by the Notice Clarity staff to ensure the quality and clarity of IRS written communications.
- Formed outreach team to review and approve all outreach letters issued by the districts.

**Product Improvements: Letters**

- Revised form letters issued by Examination to taxpayers to reflect softer tone, clearer wording, and more concise terminology.
- Added three new taxpayer friendly letters to the Integrated Collection System.
- Implemented a revised third party letter with four specific versions for the different types of compliance cases.
- Revised TEFRA forms and letters to incorporate the changes from the Taxpayer Relief Act of 1997.
- Changed letters for signing both pre 97 law and post 97 law agreement forms.
- Revised determination letters for innocent spouse cases.
- Revised letter informing taxpayer of appeal rights, rather than referring them to another publication.

### **Product Improvements: Notices**

- Began testing of six redesigned notices.
- Revised notices to taxpayers to add a paragraph on appeal rights.
- Redesigned Return Delinquency notices to make them more understandable.
- Added “Frequently Asked Questions” section to “Notices Page” on the Web.
- Rewrote the Understanding Your Notice section of the public web site in plain language. This section explains why the taxpayer received a particular notice, what it means, and what the taxpayer should do next.

### **Training**

- Implemented the National Partnership for Reinventing Government and the Vice President’s Plain Language Team’s Reader Focused Writing approach for rewriting IRS notices.
- Trained employees in listening, speaking and writing skills.
- Trained both national office and field employees in letter writing techniques. These individuals will act as resource and reference persons to ensure all correspondence meets Service guidelines.
- Established a Taxpayer Correspondence and Notice Improvement Intranet Web page to provide employees with access to writing and plain language tools.

### **FISCAL YEAR 2001 PLANS:**

- Redesign 11 more notices.
- Adapt the Reader Focused Writing techniques and the Collaborative Writing process used by the Veterans Benefit Administration (VBA), with the help of the National Partnership for Reinventing Government (NPR).
- Continue to eliminate notices where appropriate.
- Institute on-line notice review and correction capability in order to detect and correct sooner any errors on notices.

**LONG-RANGE PLANS:**

- Continue to redesign the remaining notices.
- Begin working on the hundreds of pre-printed and computer generated letters that currently exist with ultimate goal to rewrite and redesign all correspondence.
- Ensure Customer Service Representatives will be able to view the taxpayer's notice on-line when the taxpayer inquires. We are migrating the Notice Viewing Project to the Integrated Case Processing (ICP) platform, to integrate this application with the other tools used by Customer Service Representatives.
- Decrease the number of incorrect notices sent to taxpayers by shortening the account update cycle.
- Speed up the issuance of notices and incorporate all processing issues into one notice.

**Taxpayer Advocate  
Service Comments**

*Written communication is a problem that we expect will remain near the top of the list for several more years. Comments from some members of the practitioner community express an appreciation for the improvements to computer-generated correspondence. However, little progress has been made in the redesign of notices. Only six notices have been revised, 11 are scheduled to be revamped this year, while the redesign of the remaining notices has been relegated to Long Range Plans. A problem of this magnitude deserves more attention than it is getting. For millions of taxpayers the only contact they have with IRS is a notice or letter. This correspondence should be clear, to the point and not leave them confused and frustrated.*

*We realize this effort is hampered by the complexity of tax law, the legislated requirements to include certain information in correspondence, and information systems limitations. But, we know from the volume of calls received from perplexed taxpayers, it is time for IRS to make the commitment and dedicate the resources necessary to improve its written communications.*

## 4 Inability to Access the Toll-Free Number

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

### Issues Relevant to the Problem

- Inconvenient hours and office locations drive some taxpayers to Toll-free Service that would otherwise visit Walk-In offices;
- Inconsistent answers to the same technical or procedural questions; and
- Use of voice mail and recorders is frustrating.

### External Stakeholder Comments

*AARP finds its members are frustrated by their inability to access the toll-free number after the tax season (really is not one of reaching someone to talk to, but rather that the person reached usually has no knowledge of tax issues at all, not to mention complicated ones).*

*American Association of Retired Persons Top 20 Feedback*

### Internal Revenue Service Comments

The IRS's Toll-Free Customer Service provides the best venue for the taxpayer to get answers to his or her question, whether it is a general question or one that emanates from a notice. Significant progress has been made over the last two years. The Level of Service has improved from 53 percent to 61 percent with far more taxpayers availing themselves of the service from year to year. The IRS plans to improve this service to achieve a 71 percent Level of Service. This, in turn, will reduce the pressure on our other service delivery mechanisms. The accomplishments listed below reflect the alternative strategies we put into place while designing a more effective toll-free system.

## IRS Initiatives to Address Problem

### Tax Assistance Centers and Walk-in Assistance

- Increased Walk-in office hours for the 2000 filing season. Walk-in offices were open from 8:00 a.m. to 4:30 p.m. Beginning Saturday January 15, many Walk-In offices were open from 8:30 a.m. to 12:30 p.m. on Saturdays.

### Integrated Case Processing (ICP)

- Implemented ICP for the 2001 filing season. It provides for easier access to taxpayer account data including history narratives more easily and effectively than the current system. It also allows assistors to update these records.

### Service Center Examination Branch

- Established a Toll-Free line for Service Center Examination Branch in seven of the ten service centers. The remaining three centers will have this service by December 2000.
- Established Service Center Examination Branch toll-free operation hours from 7:00 a.m. to 7:00 p.m. local time.
- Streamlined the telephone database to reduce confusion as well as the amount of time taxpayers had to wait on the line.
- Developed automated options for the Spanish-speaking taxpayers when no bilingual assistors are available.
- Included tax examiner's phone extension on the notice sent to taxpayers to allow the taxpayer to speak to the examiner working their case or to leave a message.

### R-Mail (Referral Mail)

- Developed an electronic mail system as an alternative to the cumbersome method of paper referrals from recordings left by customers. IRS provided over 900,000 responses to customers with general tax law questions during the 2000 filing season using this system.

- Increased customer satisfaction due to receipt of timely callbacks providing the information customers were seeking.
- Improved average response time from 2.5 days in filing season 1999 to 1.6 days during filing season 2000.

### **TeleTax**

- Enhanced the TeleTax system. This system was initially designed to answer taxpayers' basic tax law questions. It has been an excellent supplement to customer service representatives on our toll-free lines for helping taxpayers with their tax-related questions. In the event that taxpayers prefer another avenue, we have provided another option of accessing the same topics on the IRS web site.
- TeleTax is available 24 hours per day, 7 days a week.

### **Appeals**

- Implemented a toll-free help line that will route callers to the appropriate Appeals Office. It connects them with the office's Customer Service/Outreach Representative. Previously, each of the 33 offices used a local number that was not tollfree. The toll-free service will make it easier and more convenient for taxpayers to obtain assistance.

### **PLANS FOR FISCAL YEAR 2001:**

#### **Taxpayer Assistance Centers and Walk-in Assistance**

- Continue to provide consistent, expeditious, accurate and professional service to our taxpayers during the 2001 filing season. IRS full time offices will open at 8:00 a.m. and close at 4:30 p.m., Monday through Friday. Extended hours will be offered at full-time locations two hours a night, twice a week through September 30, 2001. Saturday service will begin on January 27 and conclude on April 14, 2001. IRS will continue to use retail or other non-traditional locations as alternative sites for Saturday service.

### LONG-RANGE PLANS:

- IRS is considering expanding the use of mobile vans and kiosks to provide services where there is no IRS office located nearby.
- Upgrade TeleTax hardware to increase efficiency and eliminate call overflow (when caller can not get into system).
- Wage & Investment (W&I) and Small Business/Self Employed (SB/SE) Operating Divisions are planning upgrades to the Report Generation Software (RGS) system to facilitate nationwide routing of examination calls and reduce the amount of times a caller may have to wait to speak to an assistor. Additionally, telephone access will be improved by a workload split between the W&I Division and the SB/SE Division, dedicating sites to specific types of work, dedicating Customer Service Representatives to specific areas of expertise, and routing calls to specialized customer service sites. There will also be an increase in staffing designated for the phones to enhance service on both technical and account calls.

### Taxpayer Advocate Service Comments

*Despite a considerable effort to improve toll-free accessibility and services, our customers continue to express dissatisfaction with this system. A level of service of 61% leaves a multitude of dissatisfied taxpayers. Busy signals, the walk-through menu, waiting 'in the queue' and unanswered questions are cited by taxpayers as toll-free shortcomings.*

*The inability to access the toll-free system causes many to contact their Local Taxpayer Advocate's office for assistance. This results in the Taxpayer Advocate Service diverting resources away from casework and providing a parallel telephone service.*

*Tax law complexity is a major contributing factor in the problem of providing easily accessed telephone assistance. The 'gating' of tax law questions is an initiative aimed at utilizing issue specialists. However, the practice is contrary to the concept of one-stop service and is the source of much of the discontent expressed by callers. Improvements to information systems technology may increase the ability to offer quality telephone assistance on account-related inquiries, but quickly providing accurate responses to technical tax law questions is a tremendous challenge.*

# 5 Compliance Burden on Small Business

## IRS Responsible Officials

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

## Issues Relevant to the Problem

- Tax withholding, reporting and filing requirements are a heavy burden on small business.
- Small businesses need one-on-one assistance before they have problems.
- The type of business returns that can be filed electronically are limited

## External Stakeholder Comments

*“A survey by National Small Business Union and Arthur Andersen found that small businesses cite payroll taxes as their most significant tax burden. For the most part, the IRS has tried to address some of the concerns of small businesses. They have developed a CD-ROM for small businesses designed to answer frequently asked questions. It seems to be well-done and user friendly - the problem is, most small businesses don’t know about it.”*

*Todd McCracken, President, National Small Business Union  
Testimony before the Subcommittee on Tax, Finance, and Exports of The House Small Business Committee, September 7, 2000*

*“For many small businesses, the initial tax administration requirements are confusing and a headache to complete. Bank accounts can’t be opened without an EIN and in some areas taxpayers experience considerable delay in obtaining this number.”*

*Mark VanDeveer, AICPA Member*

*“The cost of compliance for all taxpayers is increasing (of particular concern are the many taxpayers with unsophisticated financial affairs who are forced to seek professional tax return assistance); and, complexity interferes with economic decision making.”*

*David A. Lifson, Chairman, Tax Executive Committee, AICPA,  
Testimony to the House Small Business  
Panel Hearing on Tax Code and Small Business, September 7, 2000*



MOST SERIOUS PROBLEMS



## Internal Revenue Service Comments

The IRS has long recognized the concerns raised by the small business community and those concerns are part of the reasoning for establishing a Small Business/Self Employed Operating Division. This division will focus exclusively on the needs and concerns of this unique taxpayer segment.

## IRS Initiatives to Address the Problem

- Completed plans for testing extended hours for examinations. In this test, offices will be open by appointment during the evening and on Saturdays to accommodate those people who cannot easily meet at other times.
- Developed Publication 3498, The Tax Examination Process, to eliminate the need to send three publications to taxpayers when issuing audit reports and to enhance taxpayers' understanding of their rights. This publication provides a comprehensive description of the examination process from initial contact through Appeals in the simplest language possible.
- Provided Market Segment Audit Techniques Guides (ATG) through the Internet for free downloads. They are also available for purchase through the Government Printing Office. ATGs provide small businesses with the latest issues for their business segments.
- Provided tax product and Digital Daily Web Site enhancements to assist small businesses. The Small Business Resource Guide CD-ROM 2000 (Publication 3207, Catalog 26757M) was distributed in the second quarter of Fiscal Year 1999. This product is a complete reference guide for the entrepreneur, and includes all forms, publications, and many other references needed by small businesses from start-up to shutdown.

### FISCAL YEAR 2001 PLANS:

- Work in partnership with major practitioner associations, state and local officials and other federal agencies to design, develop and deliver new educational products and services. Special focus will be placed on expanded education and assistance to prevent noncompliance among startup businesses.

- Use voluntary agreements with employers and businesses to achieve agreement on reporting and tax issues prior to filing. Expand the Voluntary Compliance Agreement Program by working with employers and business owners to provide prefilling certainty. To date, IRS has implemented voluntary agreements on reporting of tips, primarily by food servers in restaurants. This concept will be expanded to other types of agreements and/or other industries.
- Add additional information to the IRS Digital Daily web site for small business taxpayers, based on customer needs.
- Provide Work Opportunity Tax Credit (WOTC) and Welfare to Work Tax Credit (WtW) information on the Intranet and Internet. Add a WOTC/WtW module to Small Business Workshops.
- Complete test of extended hours program and implement nationwide, based on the results of the test.
- Release redesigned Forms W-2 and W-3, which support the one-stop filing initiative with the states.
- Release new Publication 15-B, Fringe Benefits, to complement other employment tax publications. Pub. 15-B will include fringe benefits information that was removed from another publication to make it easier for employers to use.

**Taxpayer Advocate  
Service Comments**

*Feedback from internal and external sources indicates this problem continues to grow. Val Oveson testified before a House Committee on Small Business on September 7, 2000 on a variety of issues affecting small businesses. Many of the proposals in this report address concerns raised in that testimony.*

*The burden of conforming to a myriad of federal, state and local requirements drives many small businesses into technical non-compliance. While the IRS Modernization plan provides for a framework to assist these taxpayers, the business of easing the compliance burden needs to begin now. The formation of an entire operating division to focus on Small Business and Self Employed taxpayers reflects IRS' recognition of the need to ease the burden on small businesses.*

*The Taxpayer Education and Communication unit of the Small Business/Self Employed Operating Division is positioned to lead this endeavor. The plan to work in partnership with state and local taxing authorities to educate and assist start-up businesses is a step in the right direction.*

## 6 Administration of the Earned Income Tax Credit

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

### Issues Relevant to the Problem

- The law regarding the Earned Income Tax Credit is complex. As a refundable credit, taxpayers and return preparers are eager to claim the Earned Income Tax Credit and do so even when they are not sure of their eligibility.
- IRS education and outreach efforts must focus on helping taxpayers file correct claims.
- IRS review and enforcement must identify and deny erroneous claims while minimally affecting legitimate refund credits.

### External Stakeholder Comments

*“There are serious concerns for taxpayers whose refunds are frozen due to EITC returns. It creates problems for practitioners to help their customers.”*

*Dan Taratin, President, Jackson Hewitt Tax Service, Parsippany, N.J.  
Tax Analyst, September 29, 2000,  
Article: EITC Error Rates Up: Review Process Slows Down*

*“This idea to help the less-advantaged taxpayers is great! However, it has taken a turn to benefit the most unscrupulous taxpayers and tax practitioners. For the tax practitioner ... too many who are not under Circular 230 have devised ways to make this EIC a benefit. For the taxpayers ... they find out from other taxpayers in their work places, neighbors, friends, etc. how to beat this game for refunds for which they are not entitled. I believe this is the best game they can use at this time. WE NEED TO STOP THIS PRACTICE! IRS should enforce tough fines on these taxpayers and publish it broadly in the newspapers, radio and TV. Enough of this is NOT done!”*

*Joan C. LeValey, EA*

## Internal Revenue Service Comments

The law regarding Earned Income Tax Credit (EITC) continues to be complex and the potential remains for incorrect and/or fraudulent claims to be filed. The IRS has taken a number of steps to better educate the taxpayer on who can claim this credit and how to claim the credit. We assisted 254,358 taxpayers with EITC questions and return preparation last year. A number of legislative proposals have also been made through Treasury.

## IRS Initiatives to Address the Problem

- Revised tax year 2000 Form 1040 and Schedule EIC to help improve the accuracy of EITC claims. Distributed a new EITC CD-ROM, containing forms, electronic documents and publications to help taxpayers meet EITC due diligence requirements.
- Provided increased walk-in service during the 2000 filing season. Five Saturday EITC Awareness Days were held between January 29 and February 26, 2000 to assist low-income taxpayers, who may be eligible for the Earned Income Tax Credit.
- Conducted a nationwide outreach campaign for: (1) individuals who are EITC eligible, (2) organizations that are advocates of EITC eligible and the low-income taxpayer, and (3) tax professionals and small business owners to emphasize EITC requirements and possible penalties.
- Established EITC Coordinator positions nationwide to assume responsibility for all EITC outreach activities, including partnering with other agencies and community organizations to promote the EITC Program. A National EITC Coordinator Conference was held to provide education on new law and to share new initiatives/guidance.
- Established additional volunteer assistance sites to assist EITC eligible taxpayers with return preparation. Conducted special events and outreach sessions in those geographical areas with a high number of eligible taxpayers. The new sites and events were advertised using local media outlets.
- Visited 10,000 preparers to provide education aimed at improving preparer expertise with the EITC filing and due diligence requirements.
- Conducted an EITC Compliance Study to determine compliance rates and to identify the reasons for noncompliance.

- Improved notices/letters used in corresponding with taxpayers about EITC to include more complete explanations of EITC requirements.
- Installed telephone equipment in Service Centers to provide the capability for receiving incoming toll-free calls from taxpayers. The toll-free numbers were used on selected outgoing EITC correspondence.

**FISCAL YEAR 2001 PLANS:**

- Monitor EITC error rate trends to determine if additional improvements are needed to forms and instructions.
- Provide additional computers to IRS walk-in sites and volunteer sites to increase the availability of free electronic tax return filing, which will also increase the accuracy of EITC returns for low-income taxpayers.
- Expand and publicize EITC Awareness Days activities.
- Continue to work with external partners to educate and assist taxpayers in filing correct EITC claims. Expand community-based education activities.
- Continue the development of a nationwide Dependent Database.
- Continue preparer education/outreach activities.

**Taxpayer Advocate  
Service Comments**

*This is another problem that is aggravated by the complexity issue. IRS has expended considerable resources in outreach efforts and error rate reduction. However, the Taxpayer Advocate Service continues to find it necessary to intervene in many cases involving EITC. In Fiscal Year 2000 the Taxpayer Advocate Service processed over 23,000 cases that involved EITC issues.*

*The difficulty in determining eligibility, as well as the amount of credit available, is thrust upon a segment of the public that has little experience in dealing with technical tax matters. These taxpayers are also the least able to afford professional help.*

*While we understand and appreciate the need to identify and eliminate fraudulent claims, we are concerned that review and enforcement efforts are negatively affecting taxpayers who are legitimately entitled to refunds. During the filing season, we receive a large volume of requests for assistance from taxpayers who are suffering financial hardships because of the examination and enforcement process. Although IRS Operations has taken steps intended to streamline the review and processing of EITC claims, we are still contacted by numerous taxpayers complaining about delayed refunds or demands for documents to establish their eligibility. Unless the laws and procedures pertaining to this credit are simplified, continued emphasis on educating taxpayers is essential.*

## 7 Lack of One-Stop Service

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

### Issues Relevant to the 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.
- The IRS is often unable to serve non-English speaking taxpayers at first contact.

### External Stakeholder Comments

*“The one-stop service concept assumes that front-line service personnel are trained to understand the wide variety of taxpayer problems and are empowered to resolve them. Education and empowerment are everything.”*

*Bill Stevenson, National Tax Consultants, Inc.*

### Internal Revenue Service Comments

A number of initiatives are underway to allow the taxpayer the opportunity to make one contact with the IRS to resolve their concern. These initiatives work to consolidate and connect the policies and procedures of the IRS, focus our multi-lingual products and services for non-English speakers in a way that reduces burden, and make use of a wide variety of electronic tools to ease access to all products and services. Future plans will expand the measurement of the customer experience in these areas.

While plans are in place to incorporate the Problem Solving Day Approach of one-stop service to all taxpayer contacts, this will take time and additional resources to fully implement. Another initiative involves our ability to effectively service the non-English speaking community. Pilots were conducted over the last filing season and we plan to expand those for the upcoming filing season to provide service to non-English/non-Spanish speaking taxpayers. We are now measuring our plans against a recent Executive Order focusing on multi-lingual government services.



## IRS Initiatives to Address the Problem

### Standardize Policies and Procedures

- Worked to establish consistent nationwide policy and referral guidelines for the collection and resolution of Examination agreed assessments.
- Began implementing the procedure whereby the first person the taxpayer contacts is the only person who the taxpayer deals with on the related problem or issue. If the first person contacted cannot solve the problem, that person will contact the appropriate operating division or function to get the problem solved and will follow up with the taxpayer to ensure customer satisfaction.
- Held monthly Problem Solving Days at all IRS District Offices, allowing taxpayers to make an appointment to meet with Service personnel to resolve special tax problems. Since its inception, over 63,000 taxpayers have taken advantage of this program.
- Provided Walk-In taxpayer assistance for four hours each day for 14 Saturdays from January 15 through April 15, 2000 during the filing season. Provided service on a Sunday for the first time, on April 16, 2000.
- Placed a Customer Service/Outreach Appeals Officer in each of our 33 key offices. Taxpayers may contact the Appeals outreach representative for a variety of assistance. For example, (1) how to get their case to Appeals, (2) how to prepare a protest of a collection or examination matter, and (3) a wide range of assistance during their administrative appeal.
- Provided interest computations and payment of the amount owed while a case is open in Appeals. Appeals Officers and Settlement Officers assist taxpayers with installment agreements and offers in compromise. When appropriate, other account problems (not related to Appeals) are given consideration.

### **Focusing Non-English Services**

- Provided over-the-phone interpreter service to non-English, non-Spanish speaking taxpayers in 31 languages in the Taxpayer Assistance Centers.
- Developed the Multi-lingual Integrated Plan which provides automated and assistor-based Spanish help, established Puerto Rico and nine call sites to provide telephone assistance to Spanish speaking taxpayers. As of August, 546,453 Assistor Calls were answered on Spanish Applications.
- Hired and trained bilingual employees in the nine call sites and re-assigned existing bilingual employees to the Helplines and Walk-in areas by converting many seasonals to permanent employees.
- Translated into Spanish several key documents, such as the Probe & Response Guide to support the bilingual assistors.

### **Utilizing Electronic Tools**

- Offered the Electronic Tax Law Assistance Program, 24 hours a day, seven days a week, which provided over 320,000 e-mail responses to tax law questions submitted by taxpayers via the Internet. This service offers an alternative to the telephone for taxpayers needing assistance with general tax law and procedural questions.
- Created a Web site where taxpayers can get critical information about their appeal rights and the appeals process. The site contains important information about appeals of collection source cases, innocent spouse issues, bankruptcy, offers in compromise and the industry specialization program. It also provides a link to obtain information on how to contact customer outreach representatives.

## **FISCAL YEAR 2001 PLANS:**

### **Standardizing Policies and Procedures**

- Continue to provide taxpayer assistance in Tax Assistance Centers on Saturdays during the filing season. Saturday service will begin on January 27, 2001 and conclude on Saturday, April 14, 2001. IRS will extend the service an extra two hours on Saturday, April 14th. In addition, all offices will extend their hours an extra two hours on April 16th.
- Offer 7 x 24 service for all IRS toll-free telephone numbers.
- Provide 6 x 16 service for Criminal Investigation year around.
- Provide 6 x 16 service for tax law questions during nonfiling season while continuing 7 x 24 service for other toll-free telephone numbers.

### **Focusing Non-English Services**

- Expand the number of sites providing multi-lingual assistance from 27 to 100, from its beginning in only 11 sites.

### **Measuring the Customer Experience**

- Implement a series of tools (Assistor Response Level; Average Speed of Answer; Level of Access; Assistor Abandon Rate; Average Handle Time; Automated Primary Abandon Rate and Automated Acceptance Rate) to measure speed of service delivery and assess customer satisfaction with automated telephone services.

### **Long-Range Plans**

- Expand over-the-phone interpreter service in all large and mid-size taxpayer assistance centers.
- Use the newly created Tax Resolution Representative position to resolve any taxpayer problems without referring them to one or more other employees.

- Develop numerous E-government options to allow taxpayers and practitioners new ways to reach us and to resolve their accounts. An E-government prototype will be piloted that provides the framework for designing and delivering strategic, prefilling services to taxpayers and practitioners. Examples of services include the development of a web site providing educational tax information specifically geared for selected industries, future interactive tax courses, and open discussions of tax-related issues via the Internet. A focus will be placed on developing formal relationships with nationwide partners to jointly deliver E-government services. Several E-government prototypes are currently under development such as: online Electronic Funds Transfer Processing System, Practitioner Secure Messaging System, and the selfhelp interactive offer in compromise application.

### Taxpayer Advocate Service Comments

*Many initiatives have been undertaken to increase taxpayer access to IRS employees. This one-stop service problem is actually about getting an issue resolved once contact has been made. Taxpayers are frequently referred from one point to another without receiving a final answer to their question or a solution to their problem.*

*We support the goal of resolving all taxpayer problems on the first contact. We also realize that tax law complexity and systems limitations are factors hampering the effort to provide one-stop service. Employees are frequently unable to provide immediate answers to technical questions and find it necessary to refer the inquiry to a specialist. The information systems currently in use at IRS do not allow on-line/real time updates and corrections to taxpayers' accounts. This often leaves taxpayers uncertain of resolution and leads to multiple contacts. Until these issues are resolved, the inability to provide one-stop service will remain a serious problem.*

## 8 Lack of Acknowledgement of Correspondence and Payments

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

### Issues Relevant to the Problem

- IRS assistors cannot confirm to callers that IRS received or acted on their information, payments or tax returns.
- IRS computer systems do not permit timely verification of receipt.
- Third parties are not sure that IRS received their responses to levies or summonses.

### External Stakeholder Comments

*“Regarding acknowledgement of correspondence, my complaint would be the time period. The IRS responds, apparently, when they feel like responding. It is extremely frustrating to be given, say, ten days to respond to IRS correspondence, then wait weeks, sometimes months, for the Service to respond to me.”*

*George J. Meyers, Vice President,  
Pennsylvania Society of Enrolled Agents*

### Internal Revenue Service Comments

Our current computer systems do not allow us to routinely acknowledge receipt of taxpayer correspondence or payments. This business requirement is included in our modernization blueprint.

### IRS Initiatives to Address the Problem

- Implemented a new reporting/control system for tracking the age of customer correspondence.
- Provided additional staffing to service centers to control correspondence more timely.

**Taxpayer Advocate  
Service Comments**

*We regret to report that little progress has been made in addressing this problem.*

*We continue to receive complaints about the lack of acknowledgment of inquiries and payments. The failure to acknowledge correspondence results in a large volume of calls to the toll-free number or to the Taxpayer Advocate Service. Such calls to toll-free aggravate the access problem, while contact with the Taxpayer Advocate Service adds to our caseload. We support the IRS modernization blueprint that calls for an upgrading of information systems.*

## 9 Penalty Administration

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

### Issues Relevant to the Problem

- Generally, the imposition or abatement of a penalty is a judgment call, which often translates into lack of consistency when applying criteria.
- Penalty abatement is sometimes used as a tool to negotiate with taxpayers.
- The administration of penalties is fragmented into many functions at the IRS.

### External Stakeholder Comments

*“I think that the Service is far too quick on the draw with penalties. I think a much better way to handle penalties is when a taxpayer gets into their first penalty situation, or their first in a long time, the Service should write them asking if there is a problem.”*

*Donald G. Campfield, EA, Begley & Company,  
Certified Public Accountants*

*“EFTPS related penalties, specifically the penalty for failure to pay electronically after being deemed an EFTPS payer: this penalty, currently at 10% of the amount deposited incorrectly is flawed in concept and, for obvious reasons, offensive to compliant taxpayers who are paying what is due in a timely fashion. If the purpose of the penalty is to discourage deposits by a method that is administratively less efficient for the government, its application should be related to that administrative burden and not be punitive. Should the government wish to continue to discourage non-EFTPS payments there is a remedy common in the private sector; that would be, at least, palatable to the taxpayer. Eliminate the penalty and assess a fee.”*

*Barton D. Goodeve, EA, Tax Specialists & Private Accountants*

*“When you write a letter requesting penalty abatement for reasonable cause, often the initial response out of Adjustments is pretty superficial. They look at their handbook and, without considering whether the facts do constitute reasonable cause insert a statement from the handbook that the taxpayer should have anticipated the situation and provided some internal control. The taxpayer is then forced to go to Appeals which then must rely upon some published ruling or decided case whereas if the local office had jurisdiction it could reach a fair result by exercising equitable, jurisdiction in considering the unique circumstances.”*

*Mr. Clifton Maxwell, Tax Attorney & CPA*

## Internal Revenue Service Comments

Our goal in this area has been to provide consistency and fairness as we apply penalties. We have also been trying to help taxpayers avoid situations where a penalty could be applied. IRS has proposed, and Treasury has approved, changes to deposit rules. IRS has designed a number of outreach programs for the small business taxpayer. Customer Service Representatives have been granted higher abatement authority to more expeditiously handle taxpayer concerns. We are also providing a new software tool for our employees, which will help to ensure fairness and consistency of treatment.

## IRS Initiatives to Address the Problem

- Increased the de minimis Federal Tax Deposit rule threshold. Developed a comprehensive job aid to assist employees in considering reasonable cause penalty relief in a consistent manner.
- Established a Special Coordination Group to provide assistance for EFTPS transmitters. The goal of this group is to identify problems before penalties are assessed against individuals because of transmitter problems.
- Produced the ABCs of FTDs video in conjunction with the Small Business Lab for distribution to new businesses to explain the Federal Tax Deposit rules.
- Revised Publication 17, Your Federal Income Tax, for 1999 to explain the reduced failure to pay penalty. Several employment tax publications were also revised to reflect the new revenue procedures for designating tax deposits.



**PLANS FOR FISCAL YEAR 2001:**

- Send notification to all taxpayers informing them of their Federal Tax Deposit requirement for the 2001 tax year, even if there is no change in their deposit requirement (previously taxpayers were only notified if their requirements changed).
- Implement the Reasonable Cause Assistant (RCA) software application to assist Customer Service employees in making penalty abatement determinations with consistency.
- Increase the oral abatement authority for Failure to File, Failure to Pay, and Failure to Deposit Penalties from \$250 to \$500 per penalty. This change will be made in conjunction with implementation of the RCA software application.
- Develop a Penalty & Interest Intranet web site that will provide access to training material, job aids, and a forum for technical questions and answers.
- Create a Penalty Appeals Specialist to ensure expertise on penalty issues is available for cases sent to Appeals.

**Taxpayer Advocate  
Service Comments**

*Penalties are supposed to function as a deterrent to non-compliance. We believe the system has become so complex, and application remains so inconsistent, it may be doing just the opposite. We frequently see cases in which taxpayers will never be able to catch up because of the accruing penalties and interest. Past legislation has provided some relief from the Failure to Pay penalty.*

*We applaud the IRS initiatives to increase the oral abatement authority for several penalties, and the increase to the de minimis Federal Tax Deposit rule threshold. We commend the decision to notify all employment tax depositors of their deposit requirements for the year 2001.*

*We would like to reserve judgment on the implementation of the Reasonable Cause Assistant software application. While we recognize the need for consistency and fairness in the application and review of penalties, we are concerned that the use of this tool could reduce the exercise of sound judgment.*

# 10 Offer in Compromise Issues

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant To the Problem

- The Offer in Compromise Program does not assist taxpayers that are suffering from severe or unusual financial hardships.
- The process to submit offers is often difficult and complex.
- Offer in compromise processing time is unacceptable, creating more hardship/burden on the taxpayers.

## External Stakeholder Comments

*“Offers in compromise. As I am sure you know, the delays we are experiencing in this arena are horrendous and getting worse. These days it often takes one full year to have an offer processed to completion. It takes at least 60 days to obtain an acknowledgement of an offer.”*

*Bob Nath, Tax Attorney, Fairfax, VA*

*“First, I believe that the Commissioner’s commitment to the Offer-in-Compromise program needs to be reinforced to field personnel by the newly appointed managers in the functions that have recently stood-up. I believe that his commitment to this program has not been fully communicated to the Offer group managers and personnel, and that they did not yet feel confident in their ability to compromise taxpayer liabilities.”*

*Byron L. Rambo, Rambo & Company Accountants and Tax Consultants*

*“Federally authorized practitioners, including Enrolled Agents, are complaining publicly that offers which, pursuant to Internal Revenue Code section 7122, appear to be adequate and which should be accepted are languishing and that the intent of Congress to resolve disputes by compromise is being thwarted.”*

*Jean & Bryan Gates, EAs*

## Internal Revenue Service Comments

The Offer in Compromise Program has undergone many changes over the last year. Recommendations have been adopted to centralize the case building activities in the service centers leaving revenue officers free to concentrate on the financial analysis of the offer which should streamline the process. The final locations of the consolidated sites are pending. New procedures, guidance, and an IRM governing interaction with the taxpayer and the employees working this program have been issued.

## IRS Initiatives to Address the Problem

- Revised the Offer in Compromise (OIC) Handbook, IRM 5.8, in February 2000. The revision included procedures for processing offers submitted under the new basis for compromise, Effective Tax Administration.
- Conducted pilot (still ongoing) to streamline the OIC process and implement other program improvements in the Fresno Service Center and Upstate New York District. However, a decision has been made to centralize the processing of low dollar (i.e., less than \$50,000), less complex offer cases in one or more sites. The sites have not yet been selected, but implementation of the centralized sites are scheduled for early Fiscal Year 2002.
- Conducted a workshop for all Examination OIC Coordinators to add clarity and consistency to the Examination program. The OIC Handbook was issued containing additional program guidelines, and Collection, Examination, and Appeals established nationwide consistent procedures for handling combination offers.
- Published the Internal Revenue Manual (regarding Appeals) on June 8, 2000, bringing clarity and consistency to the handling of OIC cases. The IRM recognizes the flexibility that exists in determining allowable expense standards. The IRM also provides detailed guidance in working offers submitted through the Collection Due Process (CDP) program.

### **FISCAL YEAR 2001 PLANS:**

- Centralize the OIC processing to two centers that will receive all OICs and perform case building activities on them. Case building will include securing financial data and verification of data where possible via systemic means. A significant number of cases will be completely processed through acceptance, rejection, or withdrawal in the centralized sites within weeks of receipt. The remaining cases will be forwarded to field OIC Specialists with all case supporting documentation included.
- Migrate to a centralized system that will streamline the process, allowing lower graded personnel to process offers while freeing up revenue officers for other work.
- Use internal and external automated programs and data sources to aid in cycle time reduction.
- Consolidate collection support systems. The objective is to create a centralized environment for the Automated Offer in Compromise, Automated Lien System, Inventory Delivery System, Automated Trust Fund Recovery and Automated Insolvency System. Currently, these are separate collection data information systems important to meeting the legal requirements of handling liens, bankruptcies, and offers in compromise. Employees are forced to research multiple systems and applications. This results in time lost accessing each system and unnecessary duplication. With a consolidated system, collection personnel will achieve more efficiency by accessing all the information in these databases on one platform. This will result in greater accuracy, less research time, and reduced staff time.

## Taxpayer Advocate Service Comments

*We commend Operations on the significant improvement to the Offer in Compromise Program that allows more offers to be accepted for processing. The implementation of these procedures has impacted offer inventories and Operations has significantly increased resources to support the program. Despite the increase in resources, time frames for acknowledging and processing offers remain at an unacceptable level of service.*

*We recognize that Operations has made and is continuing to make additional progress with the Offer program. Two significant improvements include streamlining processes for cases under \$50,000, and implementing Doubt as to Collectibility Special Circumstance and Effective Tax Administration criteria.*

*Many taxpayers and tax practitioners have voiced the opinion that the inflexible approach of some collection personnel is a barrier to effective administration of the program. Sustained effort is needed to change the mindsets of those working offer cases. While the implementation of the temporary regulations and provisions in RRA 98 provide flexibility, some field personnel continue to adhere to rigid enforcement of financial standards and to ignore special circumstances that would allow consideration or acceptance.*

*We are also concerned about the significant drop in the percentage of accepted offers from Fiscal Years 1999 to 2000. We understand that there are several factors that could have impacted the program.*

*We support the Collection initiative to streamline offer processing to provide better service, with implementation anticipated in the latter half of Fiscal Year 2001. The proof of the effectiveness of this initiative will be in improved service delivery. We will continue to monitor the Offer in Compromise program.*

# 11 Payment Processing

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

## Issues Relevant to the Problem

- Taxpayers continue to be burdened with resolving lost and misapplied payment issues.
- Taxpayers want alternative methods to pay a balance due when filing individual income tax returns.
- Every year taxpayers are burdened with having to stop payment on checks submitted to the IRS and send replacement checks.
- IRS receives numerous contacts concerning payments mailed with taxpayers' returns that do not clear the taxpayers' banks.

## External Stakeholder Comments

*“You would be amazed at how payments are applied, misapplied, split without authorization, refunded and mysteriously vanish and then the resulting penalties for late filing, late payments, underpayment, whatever you can think of.”*

*Robert T. Zaleski, EA*

*“The IRS misapplication of estimated tax and other payments is the source of many erroneous items sent to taxpayers, causing an unnecessary burden on taxpayers in verifying that the payments were made. In some instances, when payments are never located by the IRS, the taxpayer bears the additional burden of issuing new checks to the Treasury and having stop payment orders placed on the original checks. Additional procedures should be put in place to ensure the proper recording and tracking of payments received by the IRS.”*

*Joe Marchbein, AICPA Member, St. Louis*

## Internal Revenue Service Comments

New equipment and computer programs have been put into place at the service centers to reduce the frequency of misapplied payments. Also the increased use of electronic payment options decreases the probability of errors in recording payments. In fact, this year we have a 99 percent accuracy rate in processing business and individual e-file returns.

## IRS Initiatives to Address the Problem

- Implemented the Service Center Automated Mail Processing System in all 10 service centers, improving the IRS' ability to sort and receive mail, and to detect payments.
- Implemented procedural and systemic changes to the Excess Collection File in order to facilitate a more proactive approach to identifying and resolving misapplied payments in this file.
- Implemented the Remittance Processing Register, a system that allows for immediate research of payments processed, resulting in quicker resolution of payment tracer cases.

### FISCAL YEAR 2001 PLANS:

- Implement a systems change to allow direct on-line access to the automated Remittance Transaction Register. This will ease the payment tracing process to include payments received by the lock-box banks.
- Implement program changes to the Integrated Collection System (ICS) that will allow error resolution technicians to provide feedback to each Submission Processing Center on the accuracy of their processing of delinquent payments collected by Revenue Officers.

## Taxpayer Advocate Service Comments

*While new equipment and computer programs have been deployed at the Service Centers in an effort to reduce this problem, the sheer volume of payments processed by IRS leads to occasional systemic breakdowns. For example, payments submitted with several thousand timely-filed 1999 income tax returns were processed incorrectly.*

*We encourage and support the effort to expand alternative methods of payment, such as the use of credit cards and electronic funds transfers.*

# 12 Lack of Concern for Taxpayer Problems and Issues

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant to the Problem

- IRS employees often view taxpayers' problems from a job-related perspective rather than seeing the problem from the taxpayers' point of view.
- IRS employees do not have access to current information, training and tools required to provide world-class service that taxpayers expect.
- Toll-free telephone systems do not allow for taxpayers' questions and concerns to be addressed taking into account local considerations such as community property or are designed to maximize coverage versus customizing or targeting segment needs.

## External Stakeholder Comments

*“Offer in Compromise and Innocent Spouse Relief: both of these procedures are painfully broken in the area of administration. Taxpayers, who believe they have a right to speedy trial in this country, find the incongruent treatment of their cases before their government in these areas to be extremely unfair. In light of the mission of the IRS, as it applies to fairness, the current system of processing for the Offer in Compromise and the Innocent Spouse Relief provisions of the Internal Revenue Code appear to be in conflict.”*

*Beanna J. Whitlock, EA, EG Terra Financial Services*

## Internal Revenue Service Comments

Given the customer satisfaction training over the last two years, the redesign of customer service programs, the creation of a new National Taxpayer Advocate Service, a new mission statement, and the customer-focused reorganization of the IRS, the taxpayer is now the center of attention for the IRS.



## IRS Initiatives to Address the Problem

- Focused the IRS customer service oriented initiatives into one coordinating body, the Taxpayer Treatment and Service Improvement Program. It successfully consolidated a compendium of near-term service improvement projects into a manageable portfolio. The majority of these service projects have been successfully implemented resulting in improved customer service.
- Completed its effort to train all front line employees on customer satisfaction and the balanced measures system.
- Worked with 63,000 taxpayers since the inception of Problem Solving Days.
- Worked jointly with national industry associations to develop communications strategies with their members to ensure easier compliance with the tax laws for their clients.
- Developed a number of specialized Web sites to offer public access on the Appeals process and to the Audit Techniques Guides and other resources such as newsletters, publications, and frequently asked questions about particular market segments.
- Conducted local office customer focus group interviews to determine the level of satisfaction with the process and what areas may need improvement. The focus group information supplements the Customer Service Survey data.
- Issued a simplified version of Publication 5, which explains appeal rights. It is also being tested for small tax cases from the Service Centers.
- Issued additional guidance on the Appeals process, “Appeals Expectations Yours and Ours,” which clearly defines the expectations for both the taxpayer/ representative and the IRS. It contains information on how to best be prepared for an Appeals Conference so that all facts and issues are “put on the table” at once. This will speed resolution of a case. Information was also included on what to expect at the conclusion of a case such as payment options and the explanation of interest computations.
- Implemented a “Fast Track Mediation Process” in four pilot sites.

- Issued Policy Statement P-5-60 (June 19, 2000) that provides payments on corporate unpaid employment liabilities will be applied first to nontrust fund taxes, then to the trust fund portion, and then to additions to the taxes. Previously, payments were applied to additions to tax (penalties) first, leaving larger balances of unpaid tax. This new order of payment application may reduce the burden on both the corporation and its potentially responsible officers.

**FISCAL YEAR 2001 PLANS:**

- Continue to implement and refine the customer-focused IRS reorganization.
- Continue to support Market Segment Audit Techniques Guides, by updating and revising current segments as needed and addressing emerging market issues.
- Incorporate the approach of Problem Solving Days as part of our everyday business practice. Once fully implemented, the new procedures will allow taxpayers to schedule appointments at the closest IRS office to them for a face-to-face meeting and one-stop service.

## Taxpayer Advocate Service Comments

*We are concerned by the fact that this problem continues to appear on the Top 20 list. Taxpayers and the practitioner community continue to report a lack of customer focus.*

*The problem stems from the culture of the agency. Systems, policies and procedures are implemented to make tax administration more convenient for IRS. Taxpayer impact seems to be a secondary consideration. Taxpayers and their representatives cite an inflexible approach to offer in compromise processing; the burden of providing extensive documentation for EITC eligibility; and the conservative stance taken in penalty administration as examples of the lack of concern for taxpayers.*

*The IRS has dedicated considerable resources to changing the attitudes of its managers and employees. The reorganization to focus on specific taxpayer segments has put IRS in a position to see things from the taxpayers' point of view.*

*Emphasis should be placed on designing processes that make it easier for taxpayers to comply with their obligations. New procedures should not be developed or implemented without input from taxpayers and practitioners. We believe the Taxpayer Advocate Service and Citizen Advocacy Panels are well equipped to provide taxpayer perspective.*

*We offer Operations the total support and cooperation of the Taxpayer Advocate Service in addressing this problem.*

# 13 Electronic Filing Issues

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant to the Problem

- A lack of standards and efficient platforms on which to host e-Services slows their development and implementation.
- Constant changes to the program, from deadlines to criteria for qualifying, discourage practitioner participation.
- Commercial charges for electronic filing continue to be a burden for low-income taxpayers and others who need their refunds quickly.
- Taxpayers are dissuaded from trying or using e-file due to third party biases against the added workload, complexity and cost.

## External Stakeholder Comments

*“In our opinion electronic filing is the premier method of filing taxes for the following reasons:*

- 1. The tax return is subjected to greater scrutiny prior to transmission to IRS.*
- 2. The Tax Practitioner is also prone to submit only those taxpayers who meet the higher standards required by electronic filing and taxpayer who actually are able to substantiate all of their deductions, such as church contributions with document letters.*
- 3. Many members of our association offer electronic filing as part of the tax preparation service without additional charges because they believe it is a superior way of filing a return and less paperwork for the firm.*

*Issues that preclude tax practitioners from getting involved in electronic filing are:*

- 1. Signature requirements of the taxpayer. Many practitioners never physically see their clients. Everything is done by mail. Consequently, the practitioner cannot satisfy the requirement to have a signed Form 8453 prior to submitting the return for electronic filing.*
- 2. Many practitioners will not participate in the Refund Anticipation Loan (RAL) programs because the fees charged by the commercial institutions are too high.*
- 3. Some practitioners are skeptical of electronic filing because they believe it is too burdensome to add to the already complex rules that they must follow.*

*We believe the Internal Revenue Service should continue their efforts to encourage tax practitioners to become Electronic Return Originators (ERO) by streamlining the process of electronic filing and continuing to inform the public about the benefits of electronic filing.”*

*Huber Turner, EA, Accountant, and  
Shirley M. Turner M.Ed.; Accountant*

## Internal Revenue Service Comments

The IRS continues to partner with the private sector to manage the cost of filing tax returns. This past filing season a number of software providers provided free e-file services for low-income taxpayers and the use of software coupons and discounts, reducing the price, is used by many providers as a marketing tool.

## IRS Initiatives to Address the Problem

- Continued to support IRS Automated Walk-In and Volunteer Income Tax Assistance sites, which provide free electronic filing services to taxpayers.
- Provided computers to Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites to increase the availability of free electronic filing and the accuracy of EITC returns for low income taxpayers.
- Awarded a new contract to ComTeq Federal for the use of TaxWise software. The contract supports a twenty-four hours a day, seven days a week help desk; e-file software; training and materials; and transmission of returns.

**Taxpayer Advocate  
Service Comments**

MOST SERIOUS  
PROBLEMS

**PLANS FOR FISCAL YEAR 2001:**

- Will provide approximately 2,500 laptops and 700 printers to the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs. Also, 700 laptops will be allocated to the Tax Assistance Centers to increase electronic filing.

*IRS must continue its efforts to increase access to free or low-cost electronic filing services. We believe that electronic filing through the Internet is the best approach to attaining this goal. We encourage the continued partnering with the private sector to explore advances that will encourage tax practitioner participation in the program.*

*One of the best ways to educate taxpayers on the benefit of electronic filing is through one-on-one contact with IRS employees. Opportunities to employ this approach should be maximized.*

*We support the expansion of the Tax Preparer Education Program and the mail-out of promotional packets to new employers and small businesses. We concur with the initiative to provide additional support to the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs. This makes free electronic filing available to many more taxpayers.*

# 14 Delays in Compliance Contacts

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant to the Problem

- Compliance contacts are usually initiated one to two years after a taxpayer receives or reports income. Because of these delays, penalty and interest assessments often exceed the actual tax due.
- Significant time delays in resolving cases increases tax record-keeping burden and impacts the collectibility of IRS receivables.

## External Stakeholder Comments

*“Examiners are spending large amounts of time performing customer service duty. In many instances, especially during tax season, this has occurred in the middle of audits causing audit cycle times to be unnecessarily extended. This is very frustrating to both taxpayers and practitioners prolonging a worrisome event the taxpayer would, and all parties should, like to see concluded quickly. At the same time the low audit rate is allowing some taxpayers to play the audit lottery by taking overly aggressive positions on their returns. This in turn causes other taxpayers to wonder if they are paying too much tax and to question the fairness of the system.”*

*Robert L. Goldstein, AICPA Member, New York*

## Internal Revenue Service Comments

An Examination or Collection contact and completion of the process may take place many months after a return is filed. The timeframes can vary by taxpayer type. Inherent in the IRS reorganization is the intent to tailor programs and services to the different types of taxpayers and to improve the levels of service. One objective is to reduce the amount of time for the taxpayer between the filing of the return and the completion of any examination or collection process. However, since many improvements are technology dependent, this issue is still a concern for the IRS and the taxpayer.

## IRS Initiatives to Address the Problem

- Tested the use of a combination initial contact/proposed tax adjustment letter to determine the impact on the amount of time required to complete a taxpayer case.
- Initiated a high-level task force to identify and analyze the reasons for delays in completing the examination of a return, once the return is filed.

### **FISCAL YEAR 2001 PLANS:**

- Contact taxpayers during the returns processing phase to resolve self-employment tax questions immediately, instead of referring potential issues to another unit after processing is complete.
- Establish a national Planning and Special Programs (PSP) Unit to manage case selection. Case selection centralization, as well as development of a new case selection process will improve the ability to select cases more quickly.



**Taxpayer Advocate  
Service Comments**

*Local Taxpayer Advocate offices report progress is being made on the Examination portion of this problem. Legislative, as well as administrative, remedies have been employed to reduce the time involved in auditing returns. We support the studies that are underway to identify additional avenues for reducing the time between filing the return and the completion of an examination. Tax Auditors and Revenue Agents have additional authority to grant installment agreements when an audit results in the assessment of additional tax. This expanded authority reduces the need for involvement by Collection personnel and furthers the concept of one-stop service.*

*Slow contact with non-filers continues to be a major problem. Taxpayers who owe tax frequently hold off on filing their returns. Due largely to technological shortcomings, non-filers generally receive no warning of the consequences of late filing until two years after their returns were due. This has the effect of increasing the balance due by over 50 percent and putting some into a position of financial hardship. IRS needs to aggressively pursue the information systems advancements necessary to speed up contact with non-filers.*

*Perhaps the most serious piece of this problem involves the Collection “queue,” an inactive collection inventory. Taxpayer delinquencies that are not resolved in the notice process or the Automated Collection System can end up in this inventory. These accounts, in many cases totaling hundreds of thousands of dollars, continue to accrue penalty and interest and often lead to further delinquencies, but receive no attention. The process of identifying cases to be placed in this inventory leads to geographical inconsistencies. Delinquent taxpayers residing in one part of the country may be working with a Revenue Officer to resolve their accounts, while the accounts of taxpayers in other parts of the country languish in the queue. IRS must perfect a process that more equitably balances compliance priorities with the availability of resources.*

# 15 Understanding Federal Tax Deposits

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant to the Problem

- Assessment of penalties is excessive when Federal Tax Deposit (FTD) payments are not applied properly.
- Procedures for removal of penalties can be cumbersome and time consuming for the average business.
- Application of FTD payments is often arbitrary, adding to taxpayer confusion and mistrust of the IRS.
- Taxpayers need to be educated about deposit requirements.

## External Stakeholder Comments

*“The failure to timely deposit taxes is subject to penalty, pursuant to section 6656, in amounts ranging from two percent to fifteen percent of the underdeposit, depending on the lateness of the deposit. The deposit rules are unnecessarily complex and adversely affect small businesses as they move from one payroll deposit category to another.”*

*Pamela Olson, American Bar Association Section of Taxation, Testimony at House Small Business Panel Hearing on Tax Code and Small Business, September 7, 2000.*

## Internal Revenue Service Comments

There has been significant effort to reach the small business and self-employed community concerning the Federal Tax Deposit rules. Educational material in paper, video, CD-ROM, and on the IRS Web site, have been made available to this taxpayer segment. The IRS has also sent reminder notices to all affected taxpayers. In addition, the IRS has made recommendations to raise certain thresholds for tax deposits.

MOST SERIOUS PROBLEMS

## IRS Initiatives to Address the Problem

- Distributed 500,000 copies of the Small Business Resource Guide CD-ROM 2000 (Publication 3207), which contains a complete life-cycle reference guide for small businesses, including federal tax deposit requirements. An updated version of the CD-ROM is scheduled for late February 2001.
- Distributed an additional 150,000 copies through the Small Business Administration's Small Business Development Centers, Business Information Centers and Service Corps of Retired Executive (SCORE) locations.
- Produced the ABCs of FTDs video and distributed it to new businesses explaining the Federal Tax Deposit rules.
- Distributed 13,200 copies of the video and workbook to new businesses participating in the Mentor and Monitoring Pilot. Participants will soon be surveyed and if their reactions are positive, the video and workbooks may be distributed to all new business startups.
- Will send notifications in the fall of 2000 to all taxpayers informing them of their Federal Tax Deposit requirements for the 2001 tax year, even if there is no change in their deposit requirement. Previously, IRS only notified taxpayers if their requirements changed.

## Taxpayer Advocate Service Comments

*Despite IRS' extensive outreach efforts, business taxpayers continue to struggle to understand the complex Federal Tax Deposit requirements. One source of confusion for business owners is that deposit requirements change as their businesses grow. This inconsistency leads to uncertainty and unintended non-compliance. As previously indicated, we support the initiative to notify all employment tax depositors of their deposit requirements for the upcoming year.*

*The key to realizing lasting improvement with the Federal Tax Deposit problem is to simplify the method of making deposits, then ensure that the deposit rules don't change. A number of suggestions have been advanced that would make deposit requirements easier or streamline the process. We realize most of these proposals have a significant cost, but we believe the magnitude of this problem merits the additional research and analysis of these recommendations.*

# 16 Divorced and Separated Taxpayers

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/ Self Employed Operating Division

## Issues Relevant to the Problem

- The IRS is unable to reach all parties on joint accounts or separated or divorced taxpayers. Furthermore, the IRS is unable to cross-reference or update related assessments on its computer systems
- The IRS does not recognize divorce decree decisions.
- It is difficult to determine the filing status of married taxpayers living apart.

## External Stakeholder Comments

*“Divorced and separated taxpayers are at the mercy of an insensitive system.”*

*Bill Stevenson, National Tax Consultants, Inc.*

## Internal Revenue Service Comments

New procedures have been put into place to help divorced or separated taxpayers. These include streamlined procedures for granting relief from joint and several liability; updated guidance and training for employees; an interactive application on the IRS Web site focusing on innocent spouse issues; and new procedures for issuing notices to each spouse rather than one joint notice.

## IRS Initiatives to Address the Problem

- Issued Revenue Procedure 2000-15, Guidance for Equitable Relief from Joint and Several Liability (2000-5, IRB page 447), which contained finalized guidance on the equitable relief provisions, simplified the definition of the hardship factor, and added additional factors for consideration.
- Released a new multi-functional Internal Revenue Manual (IRM) and Innocent Spouse training course.
- Established an Innocent Spouse intranet site to provide convenient access to the IRM, training materials, memoranda, job aids and other information on current technical developments.
- Completed plans for the implementation of issuing critical notices separately to each spouse.
- Implemented a system change for determining if the secondary taxpayer's address is the same as the primary taxpayer's address.
- Added an innocent spouse interactive application to the IRS Internet site. This application provides a tool to assist taxpayers in complying with the complex tax law issues related to claims for innocent spouse relief. A comprehensive decision tree with simple yes/no questions is included in the application to assist taxpayers in determining if they qualify for relief.

### FISCAL YEAR 2001 PLANS:

- Complete the simplification of Form 8857, Request for Innocent Spouse Relief, and revise Publication 971, Innocent Spouse Relief.
- Implement improvements to the computer systems used for recording and maintaining information related to separate spousal account transactions. These improvements will provide more accurate information when researching split spousal liabilities.
- Provide training to innocent spouse examiners in the area of marital abuse. This training will be provided by an outside expert and will improve skills in both fact-finding and decision-making for innocent spouse claims.

## Taxpayer Advocate Service Comments

- Expand efforts to educate and inform taxpayers of their rights under the innocent spouse provisions and help them file correct and accurate claims. This strategy will initially target the practitioner community and low-income taxpayers.
- Translate the Innocent Spouse Claim Form and Publication into Spanish.
- Implement separate mailings to each spouse for critical notices.

*Although tax problems of divorced and separated taxpayers are closely related to the issues surrounding Innocent Spouse determinations and claims, there are unrelated matters that merit attention. One issue concerns the difficulty of determining the correct filing status when spouses are separated but still married. Another is the issue of allocating joint estimated payments when separate returns are filed. Also unresolved is the confusion that results when court decisions in divorce decrees conflict with provisions of the Internal Revenue Code.*

*However, we do see progress on this front. The legislated requirement to provide divorced and separated taxpayers with separate notices on jointly assessed accounts eliminated one aspect of the problem. A systems improvement will make it possible to cross-reference and update related assessments. This will allow IRS employees to provide more accurate information to divorced and separated taxpayers.*

*This progress is encouraging, but continuous improvement is necessary to eliminate this problem.*

# 17 Separate Mail Out of Math Error Notices and Refund Checks

MOST SERIOUS PROBLEMS

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

## Issues Relevant to the Problem

- Taxpayers often receive refunds for less than the expected amount, and are confused because they do not receive a notice and explanation at the same time.

## External Stakeholder Comments

*“When taxpayers receive refund checks prior to receiving an explanation, they are reluctant to deposit such checks for fear of the ramifications if the refund check was an error and not theirs. The IRS should mail explanations with the checks and this will facilitate more rapid processing of these items and less confusion on the part of taxpayers.”*

*Nancy K. Hyde, AICPA Member, Oklahoma City*

## Internal Revenue Service Comments

In partnership with the Financial Management Service, the IRS will begin mailing refund checks and notices in the same envelope. The Refund Notices Integration System will be fully implemented by the end of Fiscal Year 2001.

## IRS Initiatives to Address the Problem

- Implementation of Refund Notices Integration System in Philadelphia, Brookhaven, and Andover Service Centers to issue refunds and notices to taxpayers in the same envelope.

### PLANS FOR FISCAL YEAR 2001

- Expand the Refund Notices Integration System to all 10 service centers by the end of Fiscal Year 2001.

## Taxpayer Advocate Service Comments

*We expect this problem to be eliminated with the complete implementation of the Refund Notices Integration System.*

# 18 Audit Reconsiderations

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

## Issues Relevant to the Problem

- Taxpayers and their representatives complain that IRS is neither consistent nor timely in handling requests for audit reconsiderations.

## External Stakeholder Comments

*“Many low-income taxpayers have difficulty reading, as documented by U.S. Department of Education studies. The Service should address this concern in its written correspondence with taxpayers when they are being contacted especially when the correspondence deals with a proposed deficiency.”*

*Jeffrey S. Gold, Chairman, Community Tax Aide, Inc.*

## Internal Revenue Service Comments

The Audit Reconsideration Program has been completely revised. The bulk of the cases in the program are now centralized in the Service Center Examination Branches. The centralization itself and new procedures, forms, and contact letters have been implemented to facilitate resolution of disputes when additional information has been provided by taxpayers.

## IRS Initiatives to Address the Problem

- Centralized Examination and Customer Service in order to provide taxpayers with more timely and fair resolutions of their audit reconsiderations.
- Developed a national reconsideration publication to publicize the IRS policy affirming a taxpayer’s right to request reconsideration.
- Established a unique P. O. Box number at each IRS Service Center for all reconsideration requests to reduce the instances where taxpayer correspondence is misrouted or lost.
- Revised the audit reconsideration manual/handbook to include appeals procedures to ensure that taxpayers can get to Appeals on a reconsideration dispute.



**FISCAL YEAR 2001 PLANS:**

- Implementation of multiple methods - calling the toll free number, walking into any of the IRS sites, or writing to the unique P. O. Box address - to request an audit reconsideration.

**Taxpayer Advocate  
Service Comments**

*IRS implemented several initiatives, such as the National Service Change of Address System and the Audit Reconsideration Centralization Prototype, in an effort to reduce problems related to this process. While we expect that improvement in the capability to maintain current taxpayer addresses will have a positive effect, we would like to reserve judgment on the centralization initiative until the results of this practice can be analyzed.*

*We will monitor Taxpayer Advocate Service casework trends for evidence of improvement in the audit reconsideration process.*

# 19 Innocent Spouse Issues

## IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

## Issues Relevant to the Problem

- IRS has had difficulty in effectively managing the dramatic increase in the number of innocent spouse claims for relief received as a result of the Restructuring and Reform Act of 1998
- Current quality review/assurance practices should be expanded to ensure a higher level of quality in resolving innocent spouse claims for relief.
- Improvement of taxpayer communication related to claims, techniques for ensuring the protection of the rights of non-petitioning spouses, and prevention of refund offsets while claims are being evaluated should be priorities for program improvement.

## External Stakeholder Comments

*“The lack of staffing, among other issues, is causing Innocent Spouse claims to accumulate without any hope of resolution in the near future. Clearly, this is not what the Congress intended when legislating these procedural rights.”*

*Joe B. Marchbein, AICPA Member, St. Louis*

## Internal Revenue Service Comments

IRS implemented a widely publicized new avenue for taxpayers to ask for relief under the new innocent spouse rules. These new procedures resulted in the IRS receiving over 44,000 requests in Fiscal Year 1999 and over 55,000 in Fiscal Year 2000. However, nearly one-third of the requests did not meet the minimum qualifications such as a joint return or owing the IRS tax. Additional efforts such as an interactive application on the IRS Internet site have been added to assist taxpayers in preparing their requests.

## IRS Initiatives to Address the Problem

- Centralized casework in the Cincinnati Service Center
- Ensured that these cases were included in the centralized review system.
- Dedicated 145 employees in the Cincinnati Service Center with additional support from area field offices in responding to the innocent spouse requests.

- Issued Revenue Procedure 2000-15, Guidance for Equitable Relief from Joint and Several Liability (2000-5, IRB 447), which contained finalized guidance on the equitable relief provisions, simplified the definition of the hardship factor, and added additional factors for consideration.
- Released a new multi-functional Internal Revenue Manual (IRM) and Innocent Spouse training course.
- Established an Innocent Spouse Intranet site to provide convenient access to the IRM, training material, memoranda, job aids and other information on current technical developments.
- Added an innocent spouse interactive application to the IRS Internet site. This application provides a tool to assist taxpayers in complying with the complex tax law issues related to claims for innocent spouse relief. A comprehensive decision tree with simple yes/no questions is included in the application to assist taxpayers in determining if they qualify for relief.
- Initiated the simplification of Form 8857, Request for Innocent Spouse Relief.

#### **FISCAL YEAR 2001 PLANS:**

- Increase staffing to 160 tax examiners from the Fiscal Year 2000 level of 145.
- Issue interim responses to taxpayers advising them of the status of their request.
- Complete the simplification of Form 8857, Request for Innocent Spouse Relief, and revise Publication 971, Innocent Spouse Relief.
- Implement improvements to the computer systems used for recording and maintaining information relating to separate spousal account transactions. These improvements will provide more accurate information when researching split spousal liabilities.
- Provide training to innocent spouse examiners in the area of marital abuse. This training will be provided by an outside expert and will improve skills in both fact-finding and decision making for innocent spouse claims.

## Taxpayer Advocate Service Comments

MOST SERIOUS  
PROBLEMS

- Expand efforts to educate and inform taxpayers of their rights under the innocent spouse provisions and help them file correct and accurate claims. This strategy will initially target the practitioner community and low-income taxpayers. This will assist in reducing the number of claims that do not qualify for relief such as those taxpayers who did not file a joint return or who do not owe the IRS any money.
- Translate the innocent spouse claim form and publication into Spanish.

*IRS has made some progress in dealing with this problem. While a large backlog of claims still exists, the centralization of processing and the appointment of field program coordinators have enabled IRS to get a handle on the size of the innocent spouse claim inventory. This is important in making informed decisions about the allocation of resources necessary to deal with the problem. It is now imperative to commit the staffing needed to reduce the claim backlog.*

*When discussing the size of the innocent spouse claim inventory another factor for consideration is the confusion created by the complexity of the newly enacted innocent spouse provisions. Many claims are filed by taxpayers who do not meet even the basic requirements. Some taxpayers are seeking relief when no joint liability exists. IRS has addressed this problem by implementing an interactive web site that assists taxpayers in determining eligibility for relief.*

*We are encouraged by IRS efforts to more effectively track the separate liabilities of those taxpayers granted relief under the new innocent spouse provisions. The decrease in the number of IRS accounts stored on information systems files that cannot easily be searched will greatly reduce taxpayer frustration and increase employee efficiency.*

## 20 Third Party Representation Issues

### IRS Responsible Officials

**John Dalrymple** Commissioner, Wage & Investment Operating Division

**Joseph Kehoe** Commissioner, Small Business/Self Employed Operating Division

### Issues Relevant to the Problem

- IRS employees need to be educated on what Enrolled Agents can do for their clients and what information they can receive from IRS regarding their clients' tax accounts
- IRS employees often bypass the representative without determining whether the individual has a valid Power of Attorney (POA) on file.
- The process of recording the POA forms and disseminating information to POAs is cumbersome.
- Practitioners do not mind dealing with IRS processes as long as they can get prompt and accurate resolution to their issues.
- IRS' ability to verify POA signatures should be automated.

### External Stakeholder Comments

*“We had POAs for several of our clients, but more often than not we do not get copies of IRS correspondence although our POAs clearly state that we should. Often this causes avoidable problems. There has, however, been recent improvement in this area, and a noticeable improvement in IRS employee cooperation.”*

*John J. Healy, EA, Margarete S. Healy, EA,  
Marjac Systems Inc., Income Tax Service*

### Internal Revenue Service Comments

The practitioner community has had concerns about the processes that they must follow in order to conduct business on behalf of the taxpayers that they represent. They have made a number of proposals over the years dealing with limited powers of attorney. In reaction to the various proposals and internal concerns raised by employees, the Taxpayer Treatment and Service Improvement Executive Steering Committee chartered a Task Force to review all Third-Party Representation Issues. The Task Force completed its work and received Commissioner approval for a number of changes to allow practitioners and other individuals to discuss issues with the IRS.

## IRS Initiatives to Address the Problem

- Created a Task Force to review all Third-Party Representation Issues with a final report issued in May 2000.
- Approved the addition of a “checkbox authority” on the 1040 family of forms for the 2001 filing season that would allow all practitioners to interact with the IRS during the processing of the taxpayer’s return without the need for any additional authorizations.
- Created new job aids and training courses for IRS employees dealing with third-party representation issues.
- Streamlined the “Central Authorization File” process at the service centers using fax machines and toll-free telephone numbers.

### FISCAL YEAR 2001 PLANS:

- For the 2002 Filing Season expand the “checkbox authority” to all friends and family members rather than preparers only.
- For the 2002 Filing Season expand the “checkbox authority” to most business returns for preparers only.
- Change the architecture of the Central Authorization File to allow for one file rather than distinct files in each service center.
- Deliver training on the checkbox authority and the levels of representation allowed with a power of attorney.

## Taxpayer Advocate Service Comments

*Representation issues are always topics of hot debate during meetings with practitioner groups. Problems with the processing of Power of Attorney Forms and maintenance of the Centralized Authorization File continue to be raised at the national and local levels.*

*The newly implemented checkbox designation feature on individual and business returns is a major step in the right direction. Another improvement in this arena is the pending issuance of regulations related to oral authority. This will allow representatives to exchange return information without written consent. While progress is being made, IRS needs to diligently explore avenues that allow taxpayers to more easily exercise their right to representation.*

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## **MOST LITIGATED TAX ISSUES**

This section of the Fiscal Year 2000 Annual Report to Congress examines the top ten tax issues most litigated by taxpayers. Congress asks the Taxpayer Advocate Service to annually identify these issues and include recommendations for mitigating these disputes.<sup>1</sup> Generally, the Taxpayer Advocate Service is not involved in the litigation of tax issues. However, analysis of the most litigated tax issues may reveal particular areas of tax law that create or increase burden on taxpayers.

We surveyed several types of cases to obtain data for this study. We examined opinions from the U.S. Tax Court, U.S. Court of Federal Claims, and U.S. District Court. These are also known as trial courts. Taxpayers may choose any one of these forums to litigate their tax case.

After we determined the number of court opinions issued during the fiscal year, we sampled cases for Internal Revenue Code section analysis. We selected and examined tax cases for the three-month period, October 1, 1999 – December 31, 1999. This sample of 302 opinions comprised 22 percent of the nearly 1,400 opinions for the year.

We reviewed each of these opinions and categorized them by Internal Revenue Code section. Those Internal Revenue Code sections occurring six or more times during the period sampled were grouped to form the ten most litigated issues, as summarized in the findings below, and detailed in Appendix D.

The vast majority of tax cases moving through the judicial system involve individual and small business taxpayers. This is also reflective of the type of casework that moves through the Taxpayer Advocate Service. Although cases involving large companies and tax-exempt organizations may involve large dollar amounts, they represent a relatively small number of tax cases in the judicial system.

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<sup>1</sup> See IRC Section 7803 (c)(2)(B)(ii)(X)

As previous reports have noted, there is little useful published information concerning litigated tax issues. Through an analysis of court opinions by Internal Revenue Code sections, this report identifies the ten most litigated tax issues. In last year's report, the most litigated issues were categorized as, "individual" or "self-employed." While there is some correlation between Internal Revenue Code sections and taxpayer categories, it is not necessarily a direct correlation, as numerous Internal Revenue Code sections apply to all categories of taxpayers. In order to provide the most useful and meaningful information, this year's analysis focused on litigated tax issues by grouping them as they relate to Internal Revenue Code sections, rather than by taxpayer category.

## Findings

The top ten tax issues most litigated by taxpayers fall into the following groups:

Group 1:	(30.1%)	Penalties and Interest
Group 2:	(16.2%)	Court Procedures
Group 3:	(16.1%)	Deductible vs. Non Deductible
Group 4:	(7.7%)	Filing Status, Earned Income Tax Credit, and Dependency Exemptions
Group 5:	(7.5%)	Gross Income Inclusions and Exclusions
Group 6:	(6.1%)	Accounting Methods, Required Records, and Substantiation
Group 7:	(4.9%)	Statute of Limitations
Group 8:	(4.4%)	Courts' Authority for Credits, Refunds and Abatements
Group 9:	(3.7%)	Self-employed, Independent Contractor vs. Employee Status
Group 10:	(3.3%)	Last Known Address, Notice of Deficiency

Groups one through four represent 70.1% percent of the most litigated tax issues. For additional detail identifying the 37 Internal Revenue Code sections that comprise the Top Ten List, see the table in Appendix D.



## Comparison with Fiscal Year 1999 Most Litigated Tax Issues

Comparison of the top ten most litigated tax issues for 2000 is similar to the results for 1998 and 1999 even though the ordering among the top 10 might change slightly from year-to-year.

## Recommendations for Mitigating Disputes

Seventy percent of the most litigated tax issues fall into four groups. Legislative recommendations and administrative solutions focused in these areas should reduce litigation. More specifically:

### Group 1: Penalties

As in previous years, penalties rank as the most frequently litigated group of issues. Penalty administration is among the most serious and pervasive problems impacting taxpayers. The rigidity and severity of penalties may well cause otherwise compliant taxpayers to slip into non-compliance. In 1999, the Joint Committee on Taxation and the Department of the Treasury completed major reports to Congress on penalties.<sup>2</sup> The adoption of the findings and recommendations of these reports should reduce the burden penalties place on so many taxpayers, as well as the amount of litigation in this area.

### Group 2: Court Procedures:

Litigation concerning various court procedural and jurisdictional issues frequently intersects with statute of limitations issues; issues regarding courts' authority for credits, refunds, and abatements; and issues concerning last known address and statutory notices of deficiency. These court procedural and jurisdictional issues generally fall into three broad categories:

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<sup>2</sup>Section 3801 of the IRS Restructuring and Reform Act of 1998 (RRA '98) directed the Joint Committee on Taxation and the Department of the Treasury to undertake separate studies of the penalty and interest provisions of the Internal Revenue Code, and make any legislative and administrative recommendations they deem appropriate to simplify penalty administration and reduce taxpayer burden. See Joint Committee on Taxation, Study of Present-Law Penalty and Interest Provisions as Required by Section 3801 of the Internal Revenue Service Restructuring and Reform Act of 1998 (Including Provisions Relating to Corporate Tax Shelters) (JCS-3-99), July 22, 1999. See Department of the Treasury, Office of Tax Policy, Report to The Congress on Penalty and Interest Provisions of the Internal Revenue Code, October 1999.

**1. Frivolous Nonfilers:**

A significant number of taxpayers continue to challenge the constitutionality of the tax system. These cases place an undue burden on already strained judicial resources. While some of these frivolous nonfilers may respond to education about our tax system, most are unresponsive. This is one of the few areas where heavy penalties may serve to bring taxpayers back into compliance.

**2. Recent Authority to Award Litigation Costs & Consider Tax/Interest Abatements:**

During the last few years, Congress expanded jurisdiction of all courts to award litigation costs (IRC sec. 7430) and the U.S. Tax Court to abate interest and taxes (IRC sec. 6404). Cases in these areas are partly a result of the courts defining their new jurisdictional parameters. We expect future litigation in these areas, as each case will be decided based on its own facts and circumstances.

**3. Jurisdictional Confusion & Movement to One Tax Court:**

With three courts of original jurisdiction, tax law is one of the few areas where informed citizens may shop for a friendly court. In the U.S. Tax Court, for example, taxpayers file their cases without first paying the alleged tax deficiencies and their cases are decided by judges who are tax experts. Meanwhile, in both the U.S. District Court and the U.S. Court of Federal Claims, taxpayers must first pay all or part of the alleged tax deficiencies and then sue the government for refunds. The judges or juries in these courts may not be as well-versed in the tax law. This forum-shopping often leads to inconsistent application of the tax law between the different courts, and even within one court system. For example, the same issue can have a different result in different district courts. Also, taxpayers may inadvertently choose the wrong court jurisdiction, and as a consequence, may be held to a different standard than the same set of circumstances in another jurisdiction. Considering the specialized and complex nature of our federal tax laws, the adoption of one court to handle all federal tax cases would eliminate confusion and provide consistency in the application of the tax law.

**Group 3: Deductible vs. Non-Deductible:**

Litigation concerning deductible versus non-deductible expenses frequently intersects with gross income issues, record-keeping and substantiation issues, and self-employment tax issues. This area will continue to be highly litigated because the facts and circumstances of each taxpayer's case differ. Significant legislative and administrative efforts to provide tax literacy education to taxpayers should prove very cost-effective.

**Group 4: Filing Status, Earned Income Tax Credit & Dependency Exemptions:**

Head-of-Household filing status, Earned Income Tax Credit, and dependency exemptions are usually intertwined in tax litigation. While generally aimed at helping lower-income individuals, these issues continue to appear among the top ten litigated issues. Administratively, IRS can do more to educate taxpayers. However, statutory complexity remains the root-cause of litigation in this area. Legislative simplification of Earned Income Tax Credit rules is imperative to significantly reduce this taxpayer burden.

**Most Litigated Issues Cross Referenced to Most Serious Problems & Legislative Recommendations: Fiscal Year 2000**

Group & Rank	FY 2000 Top 10 Most Litigated Issues by Group	FY 2000 Related Top 20 Problem Ranking	FY 2000 Related Legislative Recommendations
1	Penalties and Interest	# 9	#3 - #7, #29 and #30
2	Court Procedures	None	#36
3	Deductible vs. Non-Deductible	#s 1 & 2	#23
4	Filing Status, EITC, and Dependency Exemptions	# 6	# 1
5	Gross Income Inclusions and Exclusions	#s 1 & 2	None
6	Accounting Methods, Required Records, and Substantiation	#s 1 & 2	#9 and #19
7	Statute of Limitations	None	#34
8	Courts' Authority for Credits, Refunds and Abatements	None	# 32 and # 36
9	Self-Employed, Independent Contractor vs. Employee Status	# 5	# 21
10	Last Known Address, Notice of Deficiency	None	# 37

MOST LITIGATED TAX ISSUES

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## LEGISLATIVE RECOMMENDATIONS

In trying to meet their tax obligations, taxpayers find the present law so complex they are uncertain how the various legal provisions apply to their individual situations. Many laws have not been updated to keep pace with inflation and the cost of living. Some laws inadvertently cause inequitable treatment of taxpayers, and are particularly troublesome for taxpayers with personal hardships beyond their control.

We appreciate the opportunity to recommend legislative actions to reduce or eliminate problems taxpayers encounter. These recommendations came to us from Taxpayer Advocate Service and IRS employees, tax practitioners and private citizens, the latter primarily through the Citizen Advocacy Panels.

Members of Congress have asked that the National Taxpayer Advocate provide a sense of priority for the recommendations contained in the Annual Report. We have included earned income tax credit, the alternative minimum tax, penalties, interest, and the authority of the IRS to correct errors as recommendations that we feel should be given priority attention.

Our Fiscal Year 1999, National Taxpayer Advocate's Report to Congress included 53 legislative recommendations. Twelve of these recommendations have either been resolved or our Operating Division Taxpayer Advocacy office is reviewing them to determine if an administrative resolution is feasible. The remaining forty-one of these recommendations have been combined or modified and are being resubmitted this year as 27 recommendations. We are also submitting ten new recommendations for a total of 37.

We have listed on the next page all of this year's legislative recommendations. For ease of reference, this report includes a comprehensive table in Appendix E that lists all the legislative recommendations contained in last year's National Taxpayer Advocate's Annual Report with reference to which report they first appeared.

We appreciate the opportunity to work with Members of Congress to find ways to reduce taxpayer burden, simplify tax law complexity, and ensure the tax system provides fairness and equity for all taxpayers.

## Legislative Recommendation: Fiscal Year 2000

### Categories of Issues for Legislative Consideration

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# 1 Earned Income Tax Credit

## Problem

Earned Income Tax Credit is much too difficult to compute.<sup>1</sup> The eligibility tests are cumbersome, calculating qualifying income is difficult, and the definition for dependent status is different from the one for claiming a dependent on the Form 1040. These inconsistencies cause problems for the taxpayer and for the IRS.

## Recommendations

Amend section 32 to simplify Earned Income Tax Credit definitions and calculations in the following ways:

- Redefine “earned income” to be solely wages, salaries, tips, and net earnings from self-employment.
- Eliminate the use of modified adjusted gross income.
- Redefine “qualifying child” to bring it in line with the definition for “dependent child” (identifying information, U.S. residency, and abode requirements will remain the same).<sup>2</sup>
- Allow Earned Income Tax Credit to certain individuals who are not currently entitled to the credit solely because they share household expenses with another potentially eligible adult.
- Allow taxpayers 18 to 24 to qualify for Earned Income Tax Credit.
- Allow taxpayers over 64 to qualify for the Earned Income Tax Credit.

<sup>1</sup> Presently, 11 pages of instructions, worksheets, and tables are needed to compute the Earned Income Tax Credit.

<sup>2</sup> This recommendation will require the removal of the support test from section 152(a).



## 2 Alternative Minimum Tax for Individuals

### Problem

Although originally aimed at the very wealthy, the Alternative Minimum Tax is now affecting a growing number of middle-income taxpayers. Just three years ago, only 600,000 taxpayers were affected by the Alternative Minimum Tax. Over 17 million taxpayers will be subject to Alternative Minimum Tax by the year 2010. Taxpayers with an adjusted gross income of less than \$100,000 will owe 60% of the nation's Alternative Minimum Tax bill by the year 2010.

Taxpayers must make complex and burdensome calculations simply to find out whether they are required to pay Alternative Minimum Tax. Due to the complexities involved, many middle-income taxpayers are not even aware they owe Alternative Minimum Tax until notified by IRS that they have an additional tax liability.

### Recommendation

Repeal section 55 as to Alternative Minimum Tax for individuals.

If repeal is not enacted, change the requirements as follows:

- Substantially increase the Alternative Minimum Tax exemption amount and provide for future indexing.
- Eliminate personal and dependency exemptions as adjustments to regular taxable income in arriving at Alternative Minimum Tax.
- Eliminate Schedule A itemized deductions as adjustments to regular taxable income in arriving at Alternative Minimum Tax.

### 3 Estimated Tax Penalties for Individuals

#### Problem

The estimated tax penalty for individuals is difficult to compute because of the uncertainty of the final liability and because there are confusing exceptions. Moreover, if the tax is later adjusted, the law does not allow estimated tax penalties to be adjusted.

#### Recommendations

- Amend section 6654 to simplify the computation of estimated tax penalties.
- Amend section 6654 to allow estimated tax penalties to be adjusted based on the taxpayer's final tax liability.

## 4 Failure to Pay Penalty

### Problem

The Failure to Pay penalty was originally enacted at a time when interest rates were capped to encourage taxpayers not to substitute the IRS for a lending institution. The law now requires market-based interest rates, which are compounded and adjusted quarterly. This change has significantly increased the amounts charged as interest and obviated the need for a penalty to elevate interest to market rates.

This higher rate is especially unfair to those making installment payments. These taxpayers are voluntarily paying the liability and yet the law continues to penalize them as if they were not paying.<sup>1</sup>

### Recommendation

Repeal the failure to pay penalty provisions of section 6651.

If repeal is not enacted, amend section 6651 to waive the Failure to Pay penalty for any month in which an installment agreement is in effect.

<sup>1</sup>This issue is addressed in pending H.R. 4163, Taxpayer Bill of Rights (TBOR) 2000.

## 5 Ten Percent Additional Tax on Early Withdrawals

### Problem

There exist situations where the 10 percent additional tax on early withdrawals from retirement accounts places an undue burden on taxpayers.

Example 1: When IRS levies on retirement accounts to pay federal taxes, there is no 10 percent additional tax. However, if an individual voluntarily withdraws money from retirement accounts to pay federal taxes, there is a 10 percent additional tax.

Example 2: Caring for a disabled spouse can financially overwhelm a family. The law provides an exception to the 10 percent additional tax on early withdrawals for an individual suffering from a long-term disability. However, the exception does not apply to withdrawals from the non-disabled spouse's retirement account, even if the funds are being used for the support of the disabled spouse.

### Recommendation

- Amend section 72(t)(2) to allow waiver of the 10 percent additional tax for early withdrawal from retirement accounts when such withdrawals are for payment of assessed federal taxes.
- Amend section 72(t)(2) to include both spouses in the disability exception to the 10 percent tax on early withdrawals from retirement accounts, if the funds are used for the support of a spouse with long-term disease or disability.

## 6 Compounded Interest

<b>Problem</b>	Compounded interest is punitive when it is charged against assessed interest and against assessed penalties. Taxpayers who are most burdened by compounded interest are those who cannot pay in a short period of time.
<b>Recommendation</b>	Amend section 6622(b) to limit the compounding of interest to the underlying tax assessment.

## **7 Interest on Installment Agreements**

### **Problem**

The IRS sets interest rates on a quarterly basis. Because the interest rate often changes quarterly, it is not possible to determine the final payoff date or the final payment amount when a taxpayer enters into an installment payment agreement.

### **Recommendation**

Amend section 6621 to allow a fixed rate of interest for the life of installment agreements.

## **8** IRS Authority to Correct Errors

### **Problem**

IRS may sometimes make an error that causes adverse consequences for the taxpayer. For example, IRS can levy on an Individual Retirement Account and take all the funds in the account, thus closing it. When IRS later finds it made a mistake, it can give the taxpayer the dollars that were collected but cannot restore the Individual Retirement Account. The law allows IRS very limited authority to give relief to the taxpayer even though the error was not caused by the taxpayer.

### **Recommendation**

Create a new code section that allows IRS to repair adverse consequences caused to taxpayers through IRS errors.

## 9 Charitable Contributions

### Problem

On contributions of \$250 or more, taxpayers must secure an acknowledgement of the gift from the charity before the taxpayer files his or her return. Some taxpayers are not aware of this requirement and, if they are audited, cannot meet this requirement even when they can get verification from the charity. This requirement burdens both taxpayers and the charities.

### Recommendation

Amend Section 170(f)(8) to allow non-contemporaneous written verification of charitable contributions of \$250 or more.<sup>1</sup>

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<sup>1</sup> Section 170(f)(8)(C) requires that contemporaneous acknowledgement be obtained by taxpayers on or before the earlier of the date a taxpayer files a return or the return due date including extensions.

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## 10 Credit for the Elderly and the Disabled

### Problem

During the last 20 years, the number of taxpayers claiming the credit for the elderly and disabled declined by more than 80 percent. In 1975, more than 780,000 taxpayers claimed the credit compared to less than 170,000 in 1998.

Most elderly or disabled taxpayers receive annual Social Security benefits that are higher than the amounts that would make them eligible for the credit. The credit threshold amounts have not been changed since 1983. Currently, a married couple living on Social Security has to receive less than \$625 a month in Social Security benefits in order to receive a credit.

### Recommendation

Amend section 22 to raise the threshold amounts upon which the credit is based and provide for future indexing.

# 11 Death Benefits

## Problem

Tax law used to allow the full exclusion of military death benefits from income. The law also allowed beneficiaries of death benefits paid by the decedent's employer to exclude up to \$5,000 of these benefits from income. Current law taxes the entire amount of these death benefits.

## Recommendation

- Amend section 134 to make all military death benefit payments non-taxable.
- Reinstated section 101(b), which allowed a \$5,000 death benefit exclusion, and add an indexing feature.

## 12 Phase-Outs of Itemized Deductions and Personal Exemptions

### Problem

A number of provisions of the tax law phase out certain deductions, credits, or benefits based on a taxpayer's income. Both itemized deductions and personal and dependency exemptions are subject to this type of limitation.

Virtually all taxpayers impacted by these two phase-outs have tax returns that include exemptions and itemized deductions. The confusing and complex calculations for determining allowable deductions add significant tax and economic burden to a growing number of middle-income taxpayers.

### Recommendation

Repeal the phase-out provisions of sections 68 (itemized deductions) and 151(d)(3) (personal and dependency exemptions).

# 13 Repayment of Previously Reported Income

## Problem

When a taxpayer repays up to \$3,000 that was reported as income in a previous year, the law allows an itemized deduction of that amount on the tax return for the year in which the repayment is made. However, taxpayers not eligible to itemize deductions will receive no tax relief for the repayment.

## Recommendation

Amend sections 67(b) and 62(a) to allow taxpayers to deduct income repayments from gross income.

# 14 Retirement Plan Rules

## Problem

The rules for retirement plans are overly complex. Employers and individual taxpayers must wade through exacting rules regarding mandatory dates, various restrictions on contributions, and required distributions.

Easing the rules on contributions and distributions will make it easier for small business owners to provide retirement benefits for themselves and their employees. Rule changes will help individual taxpayers with their own contribution and distribution calculations.

## Recommendation

Amend sections 72(t), 219(f), 401(k)(11), 408(k), and 408(p) in order to:

- Change the due date for Individual Retirement Account (IRA) contributions to the due date of the Form 1040, including extensions.
- Change required retirement plan distributions from age 70<sup>1/2</sup> to age 71.
- Permit employer-sponsored plans to vary the level of non-elective contribution percentages to range from 3 percent to 15 percent year-to-year.
- Allow return of excess contributions to employers and/or employees without penalty.

## 15 State Income Tax Refunds and Taxable Social Security

### Problem

The treatment of state income tax refunds causes an additional tax burden for many Social Security recipients. A taxpayer who itemized deductions that included the state income tax one year and then has to include a state tax refund in their income the next year will have a higher adjusted gross income. This results in more of their Social Security benefits being taxed.

### Recommendation

Amend section 86(b)(2) to exclude state income tax refunds from the computation of taxable Social Security.<sup>1</sup>

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<sup>1</sup> IRC section 86(b)(2) provides for the exclusion of specific items in the calculation of modified adjusted gross income in the computation of taxable Social Security benefits.

# 16 Taxability of Social Security Benefits

**Problem** Taxpayers who receive Social Security benefits must go through confusing and complex computations to find out how much of those benefits are taxable.

**Recommendation** Amend section 86 to provide specific percentages for determining how much of a taxpayer's Social Security benefits will be taxable. These percentages should be based on a taxpayer's adjusted gross income, plus any non-taxable interest income.<sup>1</sup>

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<sup>1</sup> Section 86 currently requires a taxpayer to compute modified adjusted gross income, which together with one-half of applicable Social Security benefits may or may not exceed his or her base amount. Only after this calculation can the taxpayer compute the taxable portion of the payments received.

## 17 Deduction for Unreimbursed Employee Business Expenses

### Problem

Some taxpayers cannot deduct unreimbursed employee business expenses. This happens when taxpayers do not take itemized deductions, and/or are subject to the two percent floor on miscellaneous itemized deductions.<sup>1</sup> Employees who are reimbursed can deduct their business expenses to arrive at adjusted gross income.

### Recommendation

Amend section 62(a)(2) to allow all employee business expenses to be reported as a deduction to arrive at adjusted gross income.

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<sup>1</sup> Section 63(d) provides for itemized deductions. Section 67 subjects unreimbursed employee business expenses to the two percent adjusted gross income limitation.



# 18 Innocent Spouse Relief

## Problem

RRA 98 significantly expanded the circumstances in which “innocent spouses” may be relieved of tax liabilities that result from joint returns.<sup>1</sup>

One of the considerations in granting or denying relief is whether a taxpayer had knowledge of items that gave rise to the understatement at issue. The standards for knowledge, and the party responsible for proving the presence or absence of such knowledge, differ depending on the taxpayer’s claim. A taxpayer requesting relief, under the expanded existing rules, has the burden of showing that he or she did not know or have reason to know, “constructive knowledge”, of the understatement.<sup>2</sup> When a taxpayer requests allocation of a liability, the burden is on the IRS to demonstrate that the taxpayer did not have “actual knowledge” of any item giving rise to the understatement.<sup>3</sup>

These different standards and responsibilities lead to confusion among taxpayers and the IRS. As a result, taxpayers may not be receiving relief to which they are entitled. In fact, statistics show that approximately 50 percent of all claims under the “actual knowledge” standard are fully or partially disallowed. These same statistics show that the denial rates under the “constructive knowledge” standard are only slightly higher, even though this more difficult standard should logically lead to higher denial rates.

It appears that Congress intended the allocation of liabilities method to be a largely mechanical application of law that permits divorced or separated taxpayers to end their joint financial obligation to the IRS. The “actual knowledge” requirement, in effect, frustrates Congressional intent.

## Recommendation

Eliminate the “actual knowledge” requirement from section 6015(c).

<sup>1</sup> Section 6015.

<sup>2</sup> Section 6015(b)

<sup>3</sup> Section 6015(c)

# 19 Use of the Cash Method of Accounting

## Problem

Current law generally requires business taxpayers to use the accrual method of accounting if the purchase, production or sale of merchandise is an income-producing factor in its business.<sup>1</sup>

Small business taxpayers may be burdened by having to maintain an accrual method of accounting for no other purpose than tax reporting. Because these taxpayers can be relatively unsophisticated about tax and inventory accounting issues, they are likely to hire advisors to help them comply with their tax obligations. Recognizing this burden, the IRS has administratively excepted qualifying taxpayers with gross receipts under \$1 million from using the accrual method of accounting, even when those taxpayers have inventories.<sup>2</sup> This provided relief to 96 percent of the small businesses with gross receipts of \$5 million or less.

Allowing businesses with gross receipts of \$5 million or less to use the cash method of accounting would provide relief to the remaining four percent of small businesses who have gross receipts between \$1 million and \$5 million. It would also provide a measure of certainty to growing small businesses approaching the \$1 million gross receipts threshold, affording them additional time to gain the necessary sophistication about tax and inventory accounting issues as they grow.

## Recommendation

Amend section 448 to allow all business taxpayers with gross receipts of \$5 million or less to use the cash receipts and disbursements method of accounting.<sup>3</sup>

<sup>1</sup> Section 448 generally requires certain businesses with average annual gross receipts exceeding \$5 million to use the accrual method of accounting for tax purposes. However, it does not explicitly permit taxpayers with \$5 million or less in gross receipts to use the cash receipts and disbursements method if the purchase, production or sale of merchandise is an income-producing factor.

<sup>2</sup> Revenue Procedure 2000-22, 2000-20 I.R.B. 1008

<sup>3</sup> This is addressed in section 210 of pending HR 5542, but with a \$2.5 million threshold.

## 20 Deducting Expenses on Depreciable Property

### Problem

Residential rental property considered personal property, such as washers and dryers, must be depreciated over seven years. This is a burden to taxpayers because they must complete complex depreciation schedules for relatively low dollar items. Businesses are currently allowed to claim expense deductions of up to \$20,000 on depreciable property each year. The law should treat residential rental property the same way.

Business software must be amortized over 36 months, which requires taxpayers to complete complex schedules. The law should allow businesses to deduct the purchase of business software as an expense.

Current law does not allow any section 179 deduction until an asset is placed in service. For example, a farmer who purchases equipment in the fall, but places it in service next spring, cannot expense the cost until the next year's tax return. The law should allow section 179 expensing in either the year purchased or the year placed in service.

### Recommendations

- Allow section 179 expensing of residential rental personal property.
- Amend section 179 to include computer software.<sup>1</sup> This would allow the direct deduction of off-the-shelf software.<sup>2</sup>
- Allow section 179 expensing in either the year property is purchased or the year it is placed in service.

<sup>1</sup> This also requires the repeal of section 167(f)(1), which treats computer software as section 197 intangible property.

<sup>2</sup> H.R. 4184 was introduced to address this issue.

## 21 Filing Requirements for Self Employed Taxpayers

### Problem

Taxpayers with annual net self-employment income of \$400 or more must file income tax returns to calculate self-employment tax. This \$400 threshold has not changed since 1951. At that time, \$400 was the minimum amount needed to receive Social Security credit.

Currently, \$740 is the lowest amount of self-employment income needed to receive Social Security credit. Almost 750,000 taxpayers have net self-employment income between \$400 and \$740. These individuals are still required to file and pay self-employment tax.

### Recommendation

Amend section 6017 to increase the net self-employment income threshold amount and provide for future indexing.

## 22 Health Insurance Deductions for Self Employed Individuals

### Problem

Self-employed individuals do not share the same tax advantages as wage-earners. Many wage earners can participate in benefit plans that allow them to pay for their health insurance with pre-tax dollars.

Although self-employed individuals can reduce their taxable income by the cost of their health insurance, they still must pay self-employment tax on this amount. Wage earners who participate in pre-tax plans do not pay Social Security tax on their health insurance payments.

### Recommendation

Repeal section 162(l)(4).<sup>1</sup>

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<sup>1</sup> IRC section 162(l)(4) disallows a deduction for cost of health insurance in computing the net earnings of a sole-proprietor for self employed tax purposes.

## 23 Home Office Deduction

### Problem

The exclusive use test for a home office deduction is too rigid. Many taxpayers are unable to take a home office deduction because a small part of the space is not used exclusively for business purposes.

### Recommendation

Amend section 280A(c) to replace the exclusive use test for the home office deduction with a less restrictive test.

## 24 Income Averaging for Commercial Fishermen

### Problem

Commercial fishermen rely on weather conditions and market prices, as do farmers. They experience hardships, encounter dangers, and must survive disasters in making a living.

The law does not allow commercial fisherman to average income over three years, a tax benefit that is allowed to farmers.

### Recommendation

Amend section 1301 to allow commercial fishermen the benefit of income averaging currently available to farmers.<sup>1</sup>

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<sup>1</sup> This was part of section 604 of previously vetoed H.R. 2488 and is addressed in section 207 of pending H.R. 5542.

## 25 Information Reporting Requirements for Tuition

### Problem

Since 1998, students or their parents have been eligible for Hope and Lifetime Learning Credits.<sup>1</sup> The law requires colleges to provide both taxpayers and IRS with Form 1098T showing tuition paid. Form 1098T is of no use to taxpayers who are not taking a credit. For those taking a credit, the amount reported on a Form 1098T is of marginal use because the student or parent is already aware of the amount of tuition paid. Additionally, preparing and mailing the form is a burden on colleges.

### Recommendation

Repeal section 6050S to eliminate the information-reporting requirement.

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<sup>1</sup> Section 25A provides for the Hope and Lifetime Learning Credits. Section 6050S provides the reporting requirement.



## 26 Married Couple as Business Co-Owners

### Problem

A married couple operating a small business must comply with complex partnership reporting requirements. Even though the married couple files a joint tax return, the law requires them to treat the business as a partnership rather than a sole proprietorship. While the partnership return gives the taxpayers Social Security credit, IRS estimates it takes over 200 hours longer to complete a partnership return than a Sole Proprietorship Schedule C.

### Recommendation

- Amend section 761 to treat as a sole proprietorship a business that is operated as co-owned by married taxpayers who file a joint tax return.
- Amend section 1402 to allow such co-owners to file separate self-employment tax schedules.

## 27 Taxation of Indian Tribal Governments

### Problem

In most instances, federal, state, and local governments recognize Indian tribal governments as sovereign nations.<sup>1</sup> However, current law requires Indian tribal governments to make Federal Unemployment Tax Act (FUTA) contributions while other government entities are not required to make such contributions.

Indian tribal governments are not required to make state unemployment tax contributions. However, some of them voluntarily make these payments in order to protect their employees.

Indian tribal governments are not allowed to offset FUTA with a credit for any state unemployment tax contributions. This is in contrast to all other FUTA employers. The credit offset is disallowed solely because the contributions are paid voluntarily, rather than being required by law.

### Recommendation

Amend sections 3306(c)(7) and 3309(a) to treat Indian tribal governments the same as other government entities for FUTA purposes.<sup>2</sup>

<sup>1</sup> Indian tribal governments are recognized and defined in section 7701(a)(40).

<sup>2</sup> This is currently addressed in section 175 of pending S.3152

## 28 Education Loan Interest

<b>Problem</b>	The 60-month limit for deducting interest on education loans is a confusing rule. Taxpayers must keep track of the remaining balance of time eligible for the deductions.
<b>Recommendation</b>	Repeal section 221(d) and allow a deduction for all education loan interest.

## 29 Home Mortgage Points

### Problem

Taxpayers face a number of confusing rules when trying to compute the correct amount of deductible interest from home mortgage points. Some mortgage points are deductible all at once while others must be spread out over the life of the loan, depending on the method of payment and how the points are incurred.

### Recommendation

Amend section 461(g) to allow home mortgage points to be deducted in the year they are incurred .<sup>1</sup>

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<sup>1</sup> Section 163(h)(3) addresses deductibility of home mortgage interest while section 461(g) addresses deductibility of points.

## 30 Interest on Tax Liability

### Problem

Interest accruals can raise a tax liability to many times its original amount. For instance, taxpayers who take advantage of their appeal rights given to them by Congress may bear a greater economic burden because interest continues to accrue during the appeal process.

### Recommendation

Amend section 6601(a) by limiting accrued interest to 200 percent of the underlying tax.

## 31 Overpayment Credits

### Problem

Taxpayers sometimes feel they are being treated unfairly when IRS credits overpayments to balance due returns. For example, if someone files a 1998 income tax return two years late, and the return shows an overpayment of \$1,000, IRS pays no interest on the overpayment. At the same time, the individual might owe \$1,000 on their 1999 return. When the \$1,000 from the 1998 return is credited to the balance due for 1999, IRS charges the taxpayer interest. The Treasury has the interest-free use of the taxpayer's money for the overpayment year for the same period of time that the taxpayer is charged interest for the underpayment year. In effect the IRS charges the taxpayer interest because the IRS did not move the money from the refund tax year to the balance due tax year.

### Recommendation

Amend section 6601 to apply an overpayment credit (or portion thereof) as of the date the credit would have been applied, had the overpaid return been filed timely.

## **32** Refund of Amounts Obtained Through Levy or Seizure

### **Problem**

IRS sometimes makes an administrative error. Taxpayers have only nine months to request a return of monies taken by levy or proceeds from the sale of seized property. There are times when an error is not found until after this nine-month period.

### **Recommendation**

Amend section 6343(d) to allow taxpayers to request a return of levied or seized funds for up to two years after IRS receives the funds.

## 33 Refund Offsets for Taxpayers with Significant Hardships

### Problem

Taxpayers with significant hardships need their refunds to meet basic needs. IRS cannot reverse or bypass an offset once a return has been processed.<sup>1</sup>

### Recommendation

Amend section 6402 to allow a reversal or bypass of tax refund offsets (excluding child support), for taxpayers with significant hardships.

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<sup>1</sup> Section 6402 generally allows overpayments to be applied in the following order to: any past due federal taxes; child support assigned to a state; past-due federal debt; child support not assigned to a state; state income taxes; and estimated income taxes. If any overpayment is then left, it is refunded to the taxpayer.



## 34 Refund Statute of Limitations

### Problem

The law contains statutory time periods during which taxpayers must submit claims for tax refund or credit. Except for refund requests from financially disabled taxpayers, IRS cannot honor claims for refund that are submitted even one day later than the time period allowed by law.

Taxpayers may, in good faith, file refund returns or claims after the statute date. They then discover they will not receive a refund. In addition, the IRS cannot offset the barred refund amount to pay past due taxes from other years.

Taxpayers also may have made payments of tax or penalty amounts based on an erroneous determination by IRS or another government agency. When the error is discovered and corrected, it may be too late to issue a refund, even though the taxpayer may never have actually owed the tax or penalty.

Other taxpayers may not be able to file timely refund claims because of personal hardship.

### Recommendation

Amend section 6511 to suspend the refund limitation period for tax or penalty claims due to situations of inequity, significant hardships, or government errors.<sup>1</sup>

<sup>1</sup> Section 6511 has strict two and three-year periods during which a taxpayer must file a claim for refund or the amount will not be allowed. Section 6511(h), added by RRA 98, provides an extended time to file refund claims if financial disability is a factor.

## 35 Disclosure of Suicide Threats

### Problem

There are times when taxpayers may threaten suicide because of stress brought on, in part, by a tax-related issue. These situations are extremely sensitive. The IRS employee who hears the threat must comply with privacy laws and does not have the authority to contact local enforcement authorities who could intervene.

### Recommendation

Amend section 6103(i)(3)(B) to allow IRS to contact and provide information to specified local law enforcement agencies.<sup>1</sup>

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<sup>1</sup> Section 6103(i)(3)(B), “Emergency Circumstances”, allows the Service to disclose necessary return information to any Federal or State law enforcement agencies. This can be done in situations involving danger of death or physical injury. IRS may not provide information to local law enforcement authorities, such as county, city, or town police.

## 36 Interest Abatement

### Problem

The narrow definitions of “ministerial acts” and “managerial acts” limit the ability of the IRS to abate interest when there are IRS errors or delays. This is a problem for taxpayers who are experiencing hardships.

In addition, the law allows abatement of interest only for certain types of taxes in case of errors or delays by IRS. These include income, estate, gift, generation-skipping, and certain excise taxes.

A change will provide taxpayers greater relief from incorrect or inequitable interest assessments.<sup>1</sup>

### Recommendations

- Amend section 6404 to expand interest abatement authority.
- Amend section 6404 to allow the abatement of interest on all types of taxes.

<sup>1</sup> Pending H.R. 4163, Taxpayer Bill of Rights (TBOR) 2000, addresses this issue.

## 37 Verbal Agreements to Assess Tax

### Problem

Taxpayers are burdened by repeated contacts with IRS even when they agree to an assessment. IRS does not have statutory authority to accept verbal agreements to assess tax but must secure a signed waiver.

### Recommendation

Amend section 6213(d) to allow taxpayers the option of making a verbal agreement to an assessment.

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**ADVOCACY  
PROGRAM:  
Stopping  
Problems Before  
They Start**

Preventing the problems taxpayers encounter with IRS has always been a part of the Taxpayer Advocate’s mission. Over the years we found that the urgency of taxpayers needing immediate assistance always took priority. This year we implemented a separate advocacy program, with resources committed to identifying the sources of taxpayer problems and working with IRS Operations to address them. The projects would not have succeeded without the cooperation and support of IRS Operations. We received suggestions from taxpayers, tax practitioners, Citizen Advocacy Panels, and Taxpayer Advocate Service and IRS employees. We appreciate the many suggestions of the Taxpayer Equity Committee and the IRS Western Region Advocacy Council.

Taxpayer Advocate Service worked with IRS Operations to develop new processes and procedures to better meet taxpayers needs. These efforts impact significant groups of taxpayers. The following initiatives reflect the contributions of many within IRS Operations, Counsel and the Taxpayer Advocate Service.

**Improving Service**

**Secondary Social Security Number Project**

Legislation passed in 1996 required IRS to strengthen the validation procedures for social security numbers. The final phase of the validation project focuses on secondary social security numbers.

Many of the nearly two million taxpayers with name/social security number mismatches file as a spouse on a joint income tax return. Often, the problem is caused by neglecting to inform the Social Security Administration of a name change upon a change in marital status. The Taxpayer Advocate Service identified a potential disruption of service to these taxpayers during the 2000 filing season in original IRS plans to disallow personal exemptions or Earned Income Tax Credit to those with mismatches. Once we raised the issue, IRS Operations agreed to modify its approach.

ADVOCACY

IRS Operations and Taxpayer Advocate Service worked together to develop a notice for taxpayers with secondary social security number problems. This notification allows time for taxpayers with social security number/name mismatches to correct their official records before filing their next tax return. An estimated 1.8 million taxpayers will receive information notices. IRS Operations coordinated with the Social Security Administration, which prepared to assist taxpayers in resolving their mismatches. The National Taxpayer Advocate also recommended an awareness campaign directed toward the practitioner community and the public.

### **Innocent Spouse Claim Processing**

As a result of a tremendous increase in innocent spouse claims arising from tax reform measures, the IRS established procedures to prevent innocent spouse claimants' overpayments from being applied to a contested joint liability while the cases are pending. Despite these safeguards, IRS offset tax refunds to these accounts in 3,152 instances. Taxpayer Advocate Service worked with IRS Operations to ensure they notified impacted taxpayers and the unintended offsets were returned as refunds. As a result of this project and other improvements, IRS implemented a systemic change to prevent future offsets from occurring while innocent spouse claims are considered.

### **“Tip” to Taxpayers Regarding Additional Postage Requirements**

The United States Postal Service requires additional postage if an envelope is more than 1/4” thick (generally more than five pages). We estimate as many as two million taxpayers may be affected. Mail returned for insufficient postage can result in late filing and the resulting late filing penalties for taxpayers.

The Taxpayer Advocate Service worked with IRS Operations to include a cautionary “tip” in the tax package, alerting taxpayers that additional postage may be required when they mail their federal income tax returns. This cautionary “tip” will also be printed on the return envelope included in this year's Tax Package.

### **Stolen IRS Tax Payments**

Seventy-three tax payments made by check were stolen from the lock-box site in Pittsburgh where IRS payments are processed. The checks have not been negotiated and appear to be part of an “identity theft ring”. The Treasury Inspector General for Tax Administration is investigating. The checks are being held as evidence in the case and will not be returned to either the taxpayer or the IRS for deposit.

Taxpayer Advocate Service secured a list of the affected taxpayers and worked to stop balance due notices from being issued to these taxpayers. The Treasury Inspector General for Tax Administration will send letters advising taxpayers that their payments were intercepted and informing taxpayers how they can send replacement checks to IRS. The letter also advises taxpayers that the IRS will reimburse them for any bank charges and offers to waive any penalty/interest incurred.

### **Child Tax Credit Computation Discrepancies**

Taxpayer Advocate Service is working with IRS Operations to correct discrepancies between the computation of the Child Tax Credit during return processing and the computations required in Publication 972 (Child Tax Credit) as well as in commercial tax packages. The discrepancies occur when other credits, such as adoption credit and mortgage interest credit, are also applied.

### **Earned Income Tax Credit – Computation of Investment Income**

The Taxpayer Advocate Service worked with IRS Operations to resolve a problem with the computation of investment income arising from the sale of certain business assets. The problem had also occurred in 1999. The IRS computed this investment income incorrectly for Earned Income Tax Credit purposes and erroneously disallowed the credit. The Taxpayer Advocate Service intervened to develop an immediate correction and took steps to put a systemic solution in place for subsequent years. We worked with IRS Operations to identify and correct approximately 3000 taxpayer accounts and to issue news releases to on-line sites for tax professionals. New programming will be in place beginning January 2001 and the problem should not recur.

### **Incorrectly Dated Payments with Tax Returns**

More than 80,000 individual returns received timely were assessed interest and/or late payment penalties in error. The IRS processed the returns as timely filed, but the attached payment bore a late received date, causing interest and/or penalty to be assessed. Taxpayer Advocate Service worked with IRS Operations to issue an “alert” for employees handling inquiries, outlining procedures to correct the affected taxpayer accounts. Taxpayer Advocate Service and IRS Operations are working to identify the root cause of the problem to prevent recurrence.

### **Final Notices Issued on Collection Due Process Cases in Appeals**

IRS erroneously issued notices to several dozen taxpayers while their Collection Due Process cases were still under consideration by Appeals. Taxpayer Advocate Service worked with IRS Operations and Appeals to correct the problem on the affected accounts to prevent inappropriate Collection actions.

### **Patriots’ Day Holiday – Extensions of Time to File Denied Erroneously**

IRS rejected approximately 350 applications for extension of time to file Forms 1040 on the basis that they were not received timely in some areas of the country. Practitioners had until April 18, 2000 to mail extensions by certified mail for tax returns processed in Massachusetts due to the Patriots’ Day State Holiday on Monday, April 17, 2000. Taxpayer Advocate Service worked with IRS Operations to correct the problem and ensure the returns and extensions received on April 18th were handled properly.

### **Electronic Refunds for Business Taxpayers**

The Taxpayer Advocate Service worked with IRS Operations to make available a direct deposit option for Form 1120, Form 1120S and Form 1120A for the 2002 filing season. The project is the result of an idea submitted by a national accounting firm. Implementation will give corporate taxpayers the same opportunity as individuals to obtain prompt and secure tax refunds. Other business forms will be included in future years.



### **Form 8871 – Political Organization Notice of Section 527 Status**

Public Law Number 106-230, signed by the President on July 1, 2000, required that Forms 8871 be filed for organizations that were in existence, by July 31, 2000. Many of the organizations required to file Form 8871 did not have an employer identification number and needed to file Form SS-4 with the IRS to secure one. Taxpayer Advocate Service worked with Operations to help expedite issuance of the employer identification numbers for political organizations.

### **Allocation of Joint Estimated Tax Payments**

The Taxpayer Advocate Service worked with IRS Chief Counsel to clarify instructions for allocating joint estimated tax payments between spouses when they file separate tax returns. The problem arises when the taxpayers fail to agree on how to divide the payments. The new instructions will be included in the next revision of the Internal Revenue Manual. In addition, the Taxpayer Advocate Service recommended a revision to Form 1040-ES, Estimated Tax Payment, and its instructions that will permit married taxpayers, if they choose to file separate tax returns, to allocate joint estimated tax payments. IRS Operations is considering the proposal.

### **Domestic Workers**

The Department of Health and Human Services distributes several billion dollars to the states each year under Title XX of the Social Security Act for funding in-home domestic help (chore workers). These workers help people who are disabled and cannot afford these services. Title XX funds paid to “chore workers” are subject to both Federal Insurance Contribution Act and Federal Unemployment Tax Account tax.

Because there is no single standard for how payers should handle compensation for these half million or more workers, the tax treatment of them varies. Some states treat the workers as state employees, others as employees of the recipient of the service, and still others as employees of the agency with which the state contracts. The underlying issue is that in some states, the workers are not being provided with documentation of their services that would: (1) enable them to qualify for Social Security credit; or (2) result in reporting their earned income to the IRS.

The Taxpayer Advocate Service continues to work with IRS Operations, Chief Counsel and Department of Health and Human Services to develop recommendations for alleviating the burden placed on affected taxpayers.

### **Pro Bono Assistance Program**

The Pro Bono program is an advocacy outreach initiative currently in the initial stages of discussion with members of the tax practitioner community and IRS Operations. The program would augment existing services for taxpayers such as Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE) and low-income tax clinics. As envisioned, the nationwide program would be a partnership between the IRS and professional volunteers from the practitioner community who wish to offer free, professional tax assistance to individuals and small businesses with limited income and to individuals with special needs.

The program, while not intended as a tax preparation service, could offer assistance for taxpayers who need professional representation before IRS, but who are unable to pay for it. The Taxpayer Advocate Service views this initiative as an innovative way to help reduce taxpayer burden and complexity, enhance IRS customer service and protect taxpayers' rights.

### **Penalty Abatement Procedures for Magnetic Tape/Electronic Filers**

We identified disparities in the handling of inquiries from reporting agents requesting abatement of penalties for their clients. Form 8655, Reporting Agent Authorization for Magnetic Tape/Electronic Filers, provides authority for reporting agents to receive copies of Federal Tax Deposit related notices and correspondence from the taxpayer, and to request or submit information to the IRS on deposits made.

Some IRS offices were requesting that reporting agents submit Forms 2848, Power of Attorney and Declaration of Representative, before discussing the treatment of penalties with the agents. We determined that the Internal Revenue Manual needed revision to clarify instructions and recommended changes to IRS Operations.

### **Guidance on Oral Authority**

The Taxpayer Advocate Service collaborated with Chief Counsel to ensure that IRS regulations provided adequate field guidance regarding oral authority pursuant to section 1207 of The Taxpayer Bill of Rights II. This provision allows a taxpayer, without written consent, to authorize a representative to receive and exchange tax return information on their behalf with the IRS. Chief Counsel has released draft regulations regarding oral authority for review and comment. The Taxpayer Advocate Service has offered feedback for inclusion in the regulations and field guidance. We expect issuance of the regulations on or before December 31, 2000.

### **Disaster Education Response Team**

Partnering with IRS Operations, the Taxpayer Advocate Service reached out to individuals impacted by the spring 1999 tornadoes in Oklahoma. The IRS set up special locations to help taxpayers file returns to claim casualty losses. Assistance was provided in three phases:

- soon after the disaster for those with no insurance
- several months later for those awaiting insurance settlements
- the following spring for taxpayers claiming losses on their 1999 returns

Nearly 300 refund returns prepared were monitored through the Taxpayer Advocate Service to ensure those taxpayers facing hardship were given expedited treatment in refund handling. The joint team of IRS employees received a Hammer Award for their contribution toward helping taxpayers.

### **Federal Payment Levy Program**

On July 6, 2000, the IRS began issuing levies directly against certain federal payments processed by the Department of Treasury, Financial Management Service. The first phase of this program affected 264,000 payments to federal contractors/vendors and federal retirement payments. Over the next several years, the IRS will expand the program to include other types of federal payments including Social Security benefits and federal employees' wages. The Taxpayer Advocate Service has worked with IRS Operations to ensure protection of taxpayer rights and will continue to monitor this program as it becomes fully operative.

### **Fed/State Coordination**

The Taxpayer Advocate Service handled nearly 500 cases involving problems affecting state income tax returns. An adjustment affecting a taxpayer's federal income tax return may impact the amount due on a taxpayer's state income tax return. This could potentially impact any taxpayer living in a state served by an income tax that receives a notice of unreported income or an audit report from the IRS.

The Taxpayer Advocate Service in North Carolina worked with IRS Operations to develop a desk reference guide for employees of the North Carolina Department of Revenue for use in assisting affected taxpayers. The guide is currently being tested in field offices and will reduce the likelihood of a state tax agency referring a taxpayer to the IRS for more information.

### **Certifications of Tax Compliance**

All resident aliens and certain non-residents are required to obtain Certificates of Compliance from the IRS prior to leaving the country. The certification signifies that the taxpayer has filed and paid all tax due to the United States. In the recent past, the practice of checking and verifying of clearances has been the subject of inconsistent treatment and lax enforcement. There have been a number of different proposals for change.

An advocacy project prompted by these concerns recommended a number of alternatives to the current policy to foster consistent treatment. Elimination of the requirement to file Form 2063, U.S. Departing Alien Income Tax Statement, is also suggested since the form is not used to collect revenue.

### **Tax Shelter Cases**

The Taxpayer Advocate Service was involved with a large group of tax shelter cases. The IRS offered a settlement several years ago and because many of these cases are still unsettled and in tax court, we worked with IRS Operations and secured a temporary stay of enforcement action. Working with the IRS, a new settlement agreement was offered. While this agreement may not satisfy taxpayers who were looking for a better result, the settlement proposal is viewed as favorable considering the IRS has won each of the court cases that has been tried.

*See Appendix F for a listing of additional advocacy projects.*

## Administrative Recommendations

During Fiscal Year 2000, the National Taxpayer Advocate initiated six Advocacy Memoranda, one Proposed Taxpayer Advocate Directive, and one Taxpayer Advocate Directive to improve the performance of IRS systems and customer satisfaction.

Of the 13 administrative recommendations reported in last year's report, three issues remain open; Examination Currency, Close All Open Income Tax Years on Accepted Offers in Compromise (OIC), and Review Law Enforcement Manual (LEM) Criteria for Penalty Abatements Based on Oral Statements. Discussion of the closed administrative recommendations and directive are contained in Appendix G. The Taxpayer Advocate Service is monitoring open issues until IRS Operations implements agreed upon recommendations.

## Advocacy Memoranda

Advocacy Memoranda are issued to IRS Operations with formal recommendations from the National Taxpayer Advocate. A formal written response is required within 90 days of issuance.

### #2000-01 Abatement of Tax Balances

- **Recommendation:** Rewrite sections of the Internal Revenue Manual to increase administrative abatement authority of tax assessments when the IRS is unable to substantiate the additional assessment. These abatements require concurrence by the immediate supervisor rather than by Chief Counsel to reduce burden on both the taxpayer and the Internal Revenue Service.

- **Response:** The Office of Chief Counsel responded that the recommendation of the National Taxpayer Advocate did not provide sufficient empirical data to support a conclusion that the administration and collection costs associated with audit reconsideration cases exceeded the \$500 threshold. In Counsel's view, a request to increase the Internal Revenue Service's abatement authority under Internal Revenue Code Section 6404(c) should not be presented to the Commissioner without the requisite empirical data to support the conclusion. Counsel expressed concern that increasing the abatement authority may subject the IRS to indefensible and avoidable criticism.
- **Status:** The Taxpayer Advocate will initiate an advocacy project to provide necessary data in support of increasing IRS administrative abatement authority for audit assessments.

#### **#2000-02 Daily Delinquency Penalty on Exempt Organizations**

- **Recommendation:** The daily delinquency penalty (failure to file) should not be a computer-generated penalty in the first instance of late or incomplete filing by an exempt organization. Instead, the IRS should send an educational notice to the taxpayer. The notice should offer guidance on the requirements for proper tax compliance, indicate the amount of penalty the IRS can legally assess but will waive, pending future compliance. Reasonable cause provisions will apply to any subsequent penalties that incur.
- **Status:** This recommendation is pending approval.

### #2000-03 Electronic Federal Tax Payment System (EFTPS) and the 10 Percent Avoidance Penalty (IRC Section 6656)

- **Recommendation:** Internal Revenue Code requires that certain taxpayers begin making tax deposits electronically using the Electronic Federal Tax Payment System (EFTPS). Taxpayers were advised that the “avoidance” penalty would be waived during the system phase-in period. Effective July 1, 1999, the IRS ceased providing a waiver for failure to use EFTPS to those taxpayers whose aggregate deposits exceeded \$200,000 in 1998. However, the IRS continued to waive such penalties until December 31, 1999, for those taxpayers whose aggregate deposits in 1998 were \$200,000 or less. Confusion about the effective date of the waiver period caused taxpayers to incur penalties. Taxpayers served with these penalties raised legitimate concerns about their treatment based on unclear communication about these provisions. Taxpayer Advocate Service asked IRS Operations to provide reasoned guidance to allow employees to extend waivers where appropriate and to issue a press release to clarify the application of these provisions.
- **Response:** The Director, Office of Interest and Penalty Administration, has issued reasoned field guidance and has agreed with our recommendation.
- **Status:** The IRS is considering the issuance of a press release.

### #2000-04 Filing Date for a Tax Return

- **Recommendation:** Section 7502 of the Internal Revenue Code, which defines the date of a timely tax return, has caused confusion among taxpayers and IRS employees. The National Taxpayer Advocate offered a legislative proposal in FY 1999 to allow the postmark date to be considered the filing date for all documents except payments.

Section 7502(a) allows a postmark to be considered the date of delivery for an original tax return or a claim, if that postmark falls within the due date for filing the return or claim. However, it does not allow an amended or delinquent return to be considered timely filed unless the delivery date of the return, regardless of the postmark, is within the statute of limitations for filing.



- **Response:** Based on recent court case decisions, Chief Counsel has reconsidered its opinion of how this and related code sections are to be interpreted.
- **Status:** Treasury will issue revised guidance, and the appropriate IRS functions will issue operating instructions for handling delinquent and amended returns, and those currently in inventory, which meet revised timely filing criteria based on the postmark date. Treasury will issue further guidance for claims that taxpayers filed and the IRS denied in the past according to the interpretation of the law at that time.

#### **#2000-05 Notice of Federal Tax Liens Filed by ACS**

- **Recommendation:** The National Taxpayer Advocate has reported on progress made by IRS in ensuring that taxpayers' current addresses are properly maintained and updated when appropriate. In addition, for the past two years, the National Taxpayer Advocate has advanced the IRS' position not to assess delinquent returns on behalf of a taxpayer when it cannot locate a taxpayer. The NTA believes that the IRS' ability to file Notices of Federal Tax Lien when it does not have a correct address for the taxpayer is an extension of the problem of maintaining current addresses. The IRS should extend every opportunity to a taxpayer to contest an assessment or arrange for a payment agreement before a lien is filed. The NTA asked the Commissioner of Small Business/Self-Employed Division to take the following actions:
  - Ensure that a reasonable timeframe is extended following the mailing of a collection notice to update IRS account records to reflect undeliverable mail before making a tax lien filing decision.
  - Require the use of locator sources before filing of a tax lien when correspondence is returned "undeliverable" and there is no evidence of prior research for a valid taxpayer address.
- **Status:** Recommendations are pending with IRS Operations.

### #2000-06 Oral Testimony

- **Recommendation:** The National Taxpayer Advocate has recommended that the IRS re-evaluate the criteria for the treatment of oral testimony as a means to increase utilization where practical and to standardize acceptance. The IRS should create a cross-functional group to develop consistent procedural guidelines for service-wide treatment of oral testimony and reinforce the use of oral testimony to resolve tax matters.
- **Status:** A response is pending from IRS Operations.

## Open Prior Year Administrative Recommendations

### #9903 Examination Currency

- **Recommendation:** Taxpayer Advocate Service proposed that the Chief Operations Officer implement two recommendations to improve the timeliness of examinations. These recommendations will reduce taxpayer confusion about the process, improve customer service and lower interest charges on deficiency assessments.
- **Response:** The IRS agreed to implement both of these recommendations in modified form:
  - The Examination Program Letter emphasizes the need to improve cycle time, as appropriate, as a means to reduce taxpayer burden and improve effectiveness. The extent of time in which an examination case is pending is a quality measure for Examination casework.
  - Examining the timeframe for ordering returns is only part of improving the currency of examinations. This process must be accompanied by other Examination initiatives such as working returns in a timely fashion once received. Examination also commented that it is important to remember that ordering returns ratably throughout all filing cycles is crucial to a balanced examination program.

- **Status:** The Assistant Commissioner, Examination, issued a memorandum establishing three business measures for Examination in Fiscal Year 2000. Overage status was one of those measures implemented. In Fiscal Year 2000, the IRS ordered more returns in earlier filing cycles than in any previous year. Nonetheless, an accelerated ordering process will not meaningfully influence the time for an examination unless examinations begin sooner.
- **Special Note:** Implementation of Internal Revenue Code Section 6404(g) restricts the charging of interest and certain penalties, in most examinations, until 21 days after the IRS notifies the taxpayer of a tax liability. Section 6404(g) will apply, unless the notice is issued within 18 months of a timely filed tax return, for tax returns filed before January 1, 2004. After January 1, 2004, this 18 month period is reduced to 12 months from the timely filing of a tax return. This statute will no doubt have impact on the IRS' emphasis on improving examination cycle time.

#### **#9906 Close All Open Income Tax Years on Accepted Offers in Compromise (OIC)**

- **Recommendation:** We asked the Chief Operations Officer to consider a proposal that the IRS close all income tax years prior to the year in which a taxpayer's Offer in Compromise, based on doubt as to collectability, has been accepted.
- **Response:** IRS Operations has concurred and will implement the proposal with modifications to timeframes and prescribe certain exceptions.

- **Status:** The Internal Revenue Service has revised Internal Revenue Manual 5.8, to clarify that it has no statutory authority to compromise unassessed taxes. The Internal Revenue Manual directs employees to amend Form 656 to include all outstanding liabilities before accepting an Offer in Compromise. Further, employees must check all internal sources to determine if there is a potential for an examination, or if an examination is in process. If there are indications of examination activity, the collection and examination functions must come to agreement, so that the examination issue is resolved before the offer is accepted. The compliance functions are negotiating to update the Internal Revenue Manual with specific instructions to formalize this procedure.

#### **#9910 Review Law Enforcement Manual (LEM) Criteria for Penalty Abatements Based on Oral Statements**

- **Recommendation:** We recommended that the Chief Operations Officer increase the tolerance level for abatement of penalties based on oral statements as a means to ease taxpayer burden and promote efficiency.
- **Response:** IRS Operations concurred and implemented guidelines that were to be effective October 1, 1999.
- **Status:** Delays occurred during the implementation plan. The IRS conducted a test of the increased tolerance level on a limited scale and concurred with the National Taxpayer Advocate's recommendation. They determined that before implementation, service-wide training and the development of a software application to improve accuracy and consistency of abatement decisions was needed and postponed implementation until January 1, 2001. Taxpayer Advocate Service will continue to monitor this issue until implementation occurs.

## Proposed Taxpayer Advocate Directives

Proposed Taxpayer Advocacy Directives are formal memorandums that recommend changes to functional operations and notifies the recipient that the issue may be included in the NTA's Annual Report to Congress.

**Centralized Authorization File (CAF) Indicator** - In February 2000, the Internal Revenue Service experienced a processing problem involving the Centralized Authorization File (CAF) indicator. The processing problem resulted in the inadvertent temporary reversal of the CAF indicator potentially affecting 4.4 million taxpayer accounts. Consequently, the IRS mailed several hundred refunds directly to taxpayers instead of to their designated representatives. IRS Operations quickly identified the impacted taxpayers and took immediate steps to correct the problem. The National Taxpayer Advocate issued a memorandum commending IRS Operations for their pro-active response to this inadvertent mailing. The National Taxpayer Advocate proposed an additional step; a notification to the affected representatives regarding the processing error in instances where refund checks were involved.

In June 2000, the National Taxpayer Advocate issued a directive to the Chief Operations Officer with the following recommendations:

1. Contact the 322 representatives who, although designated, did not receive the refunds because of the CAF indicator problem.
  2. Establish guidelines for the most expeditious method to notify affected parties of similar IRS processing problems or errors that may occur in the future.
- **Response:** IRS Operations issued apology letters to the 322 affected representatives, as requested. IRS Operations developed procedures to issue manual apology letters to affected parties if similar problems occur in the future. IRS Operations also has begun placing "alerts" on the IRS Internet site to advise taxpayers and practitioners of important processing changes.
  - **Status:** Taxpayer Advocate Service considers this issue retired.

## Taxpayer Advocate Directives Fiscal Year 2000

Taxpayer Advocate Directives are formal memorandums which direct changes to functional operations. The recipient is advised that the issue will be included in the National Taxpayer Advocate's Annual Report to Congress.

**Flood Claims** - In 1998, the IRS Criminal Investigation Division initiated an investigation into flood claims prepared by a specific group of tax practitioners, which resulted in the IRS placing freezes on more than 9,000 taxpayer claims for refund. The IRS held these claims for refund from seven to ten months without action or correspondence. In December 1999, the National Taxpayer Advocate issued a Taxpayer Advocate Directive to the Chief Operations Officer preventing the disallowance of all claims identified, and requesting fair and equitable treatment for the taxpayers adversely affected by this return preparer investigation. While many of the claims were fraudulent, there were legitimate taxpayer claims for refund affected by the investigation. The National Taxpayer Advocate directed IRS Operations to provide appeal rights to all impacted taxpayers before disallowing the claims for refund. This additional step in the process would provide taxpayers an opportunity to submit a properly prepared claim for refund and documentation to support their claim.

- **Response:** IRS Operations agreed to promptly work these claims and provide taxpayers with appeal rights before disallowing their claims. In addition, the IRS has established a task force, which will convene in Fiscal Year 2001, to develop procedures to ensure the future protection of taxpayer rights when Criminal Investigation Division investigates a return preparer.
- **Status:** IRS Operations issued 9,066 disallowance letters with Appeal rights information on claims for refund related to the return preparer investigation. Approximately 1,500 taxpayers responded with additional information. This resulted in 256 claims forwarded to Appeals, four claims allowed in full, three formal examinations initiated, and 1,237 claims disallowed in full. Taxpayer Advocate Service will continue to monitor the progress of any remaining cases. Taxpayer Advocate Service will also have a representative on the task force.

## **THE NEW TAXPAYER ADVOCATE SERVICE IN THE MODERNIZED IRS**

In response to the provisions in the Restructuring and Reform Act of 1998, we completely reorganized the Taxpayer Advocate Service. The major outcome of this legislation was the heightened independence given to the new Taxpayer Advocate Service.

### **Independence**

The stand-up of the independent, modernized Taxpayer Advocate Service took place on March 12, 2000. During the past fiscal year we completed the hiring and initial training of our staff of Associate Advocates, Senior Associate Advocates, Technical Advisors, and of our managers and support staff. We finalized and implemented work processes and procedures, and formally published them as part of the Internal Revenue Manual.

We hired and trained a cadre of analysts, initiated a number of advocacy projects and had a number of successes in working with IRS Operations to correct or improve systems and procedures. We designed and implemented a Web-based process for elevating, prioritizing, and tracking advocacy work.

We implemented a set of casework, advocacy, and outreach measures of organizational performance, and began measuring our accomplishments. We began using the President's Quality Award criteria to assess our organizational performance and focus improvement efforts. We have contracted with a private polling organization to conduct regular surveys of taxpayers we have served to help us more accurately measure customer satisfaction.

We began building collaborative relationships with the other newly modernized components of the Internal Revenue Service, and we are working with them to refine our organizational and work processes. We are discussing the need for additional delegated authorities with IRS Operations, so that we can provide the best possible customer service to taxpayers while minimizing duplication of effort and conflicting responsibilities.

Our reporting structure allows us to independently recruit, select, and evaluate the performance of every member of the Taxpayer Advocate Service. Our separate financial plan allows us to deploy staffing and other resources in the way we determine will help us to most effectively reach our goals. Our approach to casework ensures that we give an independent, objective look at the problems taxpayers experience, and work with IRS Operations to ensure a fair outcome. We continue to receive legal support from the Counsel to the National Taxpayer Advocate, an executive-level attorney, and her staff within the Office of the Chief Counsel to the Internal Revenue Service.

Our focus during the coming year will be on conducting the business of the Taxpayer Advocate Service in a manner that meets or exceeds the expectations of taxpayers, external stakeholders, and the rest of the Internal Revenue Service.

In a prior section of this report, I discussed our efforts to work with IRS Operations to identify and implement solutions for issues that are causing problems for groups of taxpayers. In this section, I will provide an update on our processes and procedures that will focus on helping one taxpayer at a time. Included in this section are the following topics:

- Strengthening the Taxpayer Advocate Service
- Advocacy Councils and Taxpayer Equity Committee
- Taxpayer Advocate Service Casework
- Congressional/Senate Finance Committee Casework
- Taxpayer Advocate Service Toll-free Number
- Problem Solving Days
- Balanced Measures
- Taxpayer Advocate Service Communications & Outreach Initiatives



## Strengthening the Taxpayer Advocate Service

As we look for opportunities to reduce taxpayer burden throughout IRS Operations, we also continuously strive to improve our own products and services. We took steps to strengthen identification of cases for referral to the Taxpayer Advocate Service, implemented improved case quality standards, and implemented a new system of balanced measures.

**Proper Identification of Taxpayer Advocate Service Cases:** The proper and timely identification of cases is important in providing taxpayers quality service and fair treatment. Changed case referral criteria left IRS Operations employees without a clear and complete understanding of criteria for referring cases to our program. To enhance identification of appropriate cases, we developed and distributed a functional training handbook that explains the criteria. Customer Service also revised its Internal Revenue Manual to reflect the new criteria. We also recommended and delivered mandatory criteria awareness training for IRS public contact employees.

**Improvement of Service Provided to Taxpayers:** Our organization's leadership developed a new quality measurement system to capture how effectively we deliver on critical elements of quality customer service. These elements are ones taxpayers told us were important in working their cases and resolving their problems. Managers review these results at the local, area, and national levels. The reviews identify trends in case processing and are then used to focus on opportunities for improvement and training needs.

We also provided the initial training that employees needed to do a high quality job in their interactions with taxpayers.

**Identification and Evaluation of Issues:** We recently developed measures for Advocacy that embrace the Balanced Measurement System - Customer Satisfaction, Employee Satisfaction, and Business Results. These measures are intended to evaluate program effectiveness and determine the success of our improvement initiatives.

We designed and implemented a Web-based tracking system that allows us to monitor the progress of advocacy issues, administrative suggestions and/or legislative recommendations. This system also allows our employees to search the site before elevating issues which helps avoid duplications in reporting problems.

## Advocacy Councils

Under the former Taxpayer Advocate organization, each regional office had formed Taxpayer Advocacy Councils. The primary function of these Councils was to address taxpayer issues and review completed advocacy projects they either commissioned or endorsed. They also participated in marketing organizational support for changes in tax administration. They submitted administrative, procedural and legislative recommendations. Many of these recommendations are included in the appropriate sections of this report.

As part of the IRS redesign, the Taxpayer Advocate Service will establish a new Service-wide Advocacy Council. The new Council will consist of managers and employees from the new IRS Divisions. These individuals will work collaboratively with the Taxpayer Advocate Service to address problems and develop solutions to reduce taxpayer burden. Advocacy Council members will also be an important link to the Taxpayer Equity Committee on highly visible and complex issues. The Service-wide Advocacy Council will fill the essential role of providing leadership, guidance, and support to advocacy initiatives.

## Taxpayer Equity Committee

The Taxpayer Equity Committee serves as a critical communication link between the Taxpayer Advocate Service and the IRS, emphasizing collaborative problem solving across IRS division and functional boundaries. Additionally, the Committee serves as a forum to obtain input from all levels of the IRS organization; as an independent sounding board; and as a forum to provide guidance, leadership and perspective on issues. Taxpayer Equity Committee activities and recommendations are included in the appropriate sections of this report.

During Fiscal Year 2001, committee membership will be revised to make it consistent with the new IRS redesign. The Deputy National Taxpayer Advocate will continue to serve as co-chair of the committee and membership will consist of top management from the four IRS Operating Divisions, National Treasury Employees Union, and Operating Division Taxpayer Advocate.

## **Taxpayer Advocate Service Casework**

The highest priority for our organization continues to be working with taxpayers who are suffering or are about to suffer significant hardship. Our goal is to resolve taxpayer problems completely and correctly, within a reasonable period of time.

In Fiscal Year 2000, the Taxpayer Advocate Service independently reviewed and took action to resolve over 256,000 cases. Of those cases, 237,885 cases came into the program as Applications for a Taxpayer Assistance Order, a 250 percent increase over Fiscal Year 1999. This increase can be attributed, in part, to the provisions in the Restructuring and Reform Act of 1998 that require certain criteria be automatically included in the program as hardship cases.

In 68.8 percent of the Applications for a Taxpayer Assistance Order, we provided relief or partial relief to taxpayers or provided the appropriate assistance to resolve their issue. In cases where we were unable to provide relief, it was because the existing tax law prevented change, the hardship was not validated or, it was determined that the actions taken by the Internal Revenue Service were proper. The following table depicts the detailed Taxpayer Advocate Service program activity for the year:

**Taxpayer Assistance Order Program Activity: Fiscal Year 2000**

<b>Assistance Provided to Taxpayer</b>	<b>Volume</b>	<b>Percent</b>
Relief Provided (Includes 5 Taxpayer Assistance Orders)	159,421	67.0
General Assistance/Referred to Function	4,262	1.8
<b>Subtotal</b>	<b>163,683</b>	<b>68.8</b>
<b>Other</b>		
Relief Provided Prior to TAS Intervention	5,932	2.5
Relief Not Appropriate	60,642	25.5
No Relief- Hardship not validated	1,662	0.7
No Relief- Law Prevented Relief	2,294	1.0
Other *	3,672	1.5
Subtotal	74,202	31.2
<b>Total</b>	<b>237,885</b>	<b>100.0</b>

\* Due to changes in the Taxpayer Advocate Management Information System, the coding of these cases did not allow us to place them into other categories listed above.

In addition to the Applications for a Taxpayer Assistance Order, we also closed 18,783 taxpayer cases that came into the program under criteria other than hardship.

We use the Operations Assistance Request process to resolve a taxpayer's case. An Operations Assistance Request allows IRS Operations the opportunity to review the taxpayer's problem so they can take the appropriate action, in consultation with the Taxpayer Advocate Service, to resolve the taxpayer's problem. However, when the Taxpayer Advocate and IRS Operations are unable to reach an agreement on the resolution of the problem, the Local Taxpayer Advocate may issue an Enforced Taxpayer Assistance Order. There were five Enforced Taxpayer Assistance Orders issued on cases closed in Fiscal Year 2000. The issues included innocent spouse, a request for a lien withdrawal, a penalty abatement and two lien subordinations.

The Taxpayer Advocate Management Information System is the nationwide database used to track information regarding cases within the Taxpayer Advocate Service. Major Issue Codes are used to identify cases by type and to determine the underlying cause of the taxpayer's problem.

A comparison of the top ten sources of Taxpayer Advocate casework for Fiscal Years 1999 and 2000 revealed refund inquiries and requests for refunds remained the number one source for casework. Installment agreements dropped off the top ten list and examinations of tax returns prior to assessment are now among the top ten. The following table outlines the top ten issues for Taxpayer Advocate casework for Fiscal Year 1999 and 2000.

### Taxpayer Advocate Sources of Casework: Fiscal Year 2000

FY 2000 Major Issues Ranking		FY 1999 Major Issues Ranking	FY 2000 % of Total Cases	FY 1999 % of Total Cases
1	Refund Issues	1	12	10
2	Processing of claims/amended returns	3	9	8
3	Processing of original returns	5	6	8
4	Audit reconsiderations	2	5	8
5	Abatement of penalties	6	5	7
6	Revenue Protection Strategy Examinations	4	4	6
7	Payment/credit problems	8	4	5
8	Examination of tax returns prior to assessment	--	3	4
9	Collection notices	7	3	2
10	Lost/Stolen refunds	10	2	2

As you will note below in the sections labeled, Congressional Casework and Senate Finance Committee Casework, the problems that taxpayers contact their congressional representatives or the Senate Finance Committee about almost mirror those referred as regular Taxpayer Advocate cases. These issues also comport with the top 20 problems reported earlier.

## Congressional Casework

The Taxpayer Advocate Service plays a key role in supporting the Congressional Affairs Program. We have implemented new procedures for enhancing our ability to provide service to your constituents. Primary among these is that all tax account related inquiries are worked within the Taxpayer Advocate Service. These new procedures will provide your constituents with the same independent review of their problem or complaint as any other Taxpayer Advocate Service case. Data about the types and volumes of inquiries will also be provided to IRS Functional Divisions on an ongoing basis so they may study the impact of their actions and/or identify systems or procedures that need to be changed.

This year, we responded to approximately 17,000 congressional inquiries. Following is a list of top 10 major issues identified:

1. Refund issues
2. Adjustment or abatement of penalties
3. Miscellaneous, i.e., requests for tax law interpretations
4. Taxpayer not receiving response or receiving incorrect response to technical inquiry
5. Offers in compromise
6. Collection notices
7. Employee plans and exempt organization issues
8. Audit reconsiderations
9. Taxpayer unable to make balance due payments
10. Processing of individual tax returns

**Senate Finance Committee Casework**

Taxpayer Account Operations in Washington, D.C., an office in the Taxpayer Advocate Service, is responsible for overseeing the work coming into the IRS from the Senate Finance Committee. The staff in this office works closely with the Senate Finance Committee staff to review each piece of correspondence, identify the taxpayer’s issue(s), and determine the appropriate location for the case to be worked. In addition, they monitor all activities on Senate Finance Committee cases from their inception to completion. Monthly reports are provided to the Committee, the Commissioner, and the National Taxpayer Advocate concerning the volume, disposition, and major issues of Senate Finance Committee cases.

While the Senate Finance Committee continues to receive correspondence and telephone contacts from the public, the number of new Senate Finance Committee cases is declining. Fiscal Year 2000 yielded 329 cases. One of the reasons noted for the decline in new cases is the focus away from structured Senate Finance Committee hearings about IRS abuses, to a focus on investigating IRS administration of specific programs/tax law. The innocent spouse issue is one such topic of review.

The following table depicts Senate Finance Committee case results for fiscal year 2000:

**Senate Finance Committee Casework: FY 2000**

<b>Assistance Provided to Taxpayer</b>	<b>Volume</b>	<b>Percent</b>
Relief Provided	189	35.0
General Assistance-Referral to Function	68	13.0
Subtotal	257	48.0
<b>Other</b>		
Relief Provided Prior to TAS intervention	3	0.5
Relief not appropriate	209	39.0
Law Prevented relief	64	12.0
Non Criteria Cases	4	0.5
Subtotal	280	52.0
<b>Total</b>	<b>537</b>	<b>100.0</b>

During Fiscal Year 2000, we closed 537 Senate Finance Committee cases. Because of their complexity and the issues involved, resolution of these cases took longer. In some situations, resolution of the problem required assistance from other federal agencies such as the Social Security Administration or Financial Management Services.

In 48 percent of the Senate Finance Committee cases, we were able to provide full relief, partial relief, or some assistance to the taxpayer to resolve the problem. Where relief was not provided it was either because the tax law prevented us from granting the relief or we agreed with the actions taken by IRS Operations.

Following is a list of the top ten major issues for Senate Finance Committee cases closed in Fiscal Year 2000:

1. Audit reconsiderations
2. Allegations of taxpayer rights abuses
3. Innocent spouse
4. Offers in compromise
5. Miscellaneous, i.e., requests for tax law interpretations
6. Adjustment/abatement of penalties
7. Lien issues
8. Notices
9. Refund issues
10. Other collection issues

Audit reconsiderations and taxpayer treatment still remain the top issues representing 20 percent of the total cases closed. Innocent Spouse issues, which did not make last year's top 10 list, is third with eight percent of the cases. Offers in compromise which was sixth in Fiscal Year 1999, is fourth in Fiscal Year 2000 representing seven percent of the total cases closed.



**Taxpayer Advocate  
Service Toll-Free  
Number**

In November 1998, the Taxpayer Advocate Service established a dedicated toll-free telephone number for taxpayers having difficulty with IRS. Prior to implementation of this dedicated number, 877-777-4778, taxpayers dialed the general IRS 800 number.

This program has proven to be an effective avenue for taxpayers seeking special assistance. Taxpayer Advocate Service phone assistors are trained to identify issues that meet Taxpayer Advocate Service criteria. If they cannot resolve the problem on-line, they can transfer the inquiry to the appropriate Local Taxpayer Advocate for resolution.

The Taxpayer Advocate Service toll-free line has resulted in better service to taxpayers. Taxpayers have a special number they can call when faced with an IRS problem, rather than having to queue up with all the other calls coming into the general IRS telephone number. This telephone number is included in publications and local telephone directories, as well as used on marketing materials for the Taxpayer Advocate Service's publicity program.

More than half a million attempts (the number of times the number was dialed) were made in Fiscal Year 2000, an increase of 90 percent from Fiscal Year 1999. We answered nearly 300,000 calls, 70 percent more than Fiscal Year 1999, and resolved more than 19,000 inquiries on-line.

We are using technology to be more efficient and flexible to accommodate this considerable increase in toll-free traffic without expending resources proportionate to this increase. The Taxpayer Advocate Service toll-free calls are routed through a system that uses the most efficient means to get the call to the next available assistor. This improvement enhanced our ability to improve two critical taxpayer needs: IRS accessibility, and burden reduction. We will continue to use employee suggestions and customer feedback to make adjustments and ensure the success of this vital resource.

## **Problem Solving Days**

The IRS Operating Divisions were responsible for the coordination of Problem Solving Days in Fiscal Year 2000. The Taxpayer Advocate Service supported local Problem Solving Day events by providing staff with the expertise to handle sensitive issues. In Fiscal Year 2001 the Commissioner, Wage and Investment Division, has the responsibility for incorporating the Problem Solving Day philosophy into day-to-day IRS operations. We will be serving on the Office of Tax Administration Coordination Committee which will address any problems or issues identified with this program.

## **Balanced Measures**

The IRS Balanced Measurement System was developed as part of the effort to modernize the IRS and to reflect the Service's priorities, as articulated in the IRS mission. This new approach to measures is intended to help shift the focus from individuals and the organization achieving a specific target or number, to achieving the overall mission and strategic goals of the IRS.

Each of the three components of balanced measures -- customer satisfaction, employee satisfaction, and business results -- will be carefully considered by the IRS when setting organizational objectives, establishing goals, assessing progress and results, and evaluating individual performance.

During Fiscal Year 2000, the Taxpayer Advocate Service identified and implemented new balanced measures. In most cases, Fiscal Year 2001 will serve as a baseline year to help establish future goals and to validate the impact of improvement initiatives. The current menu of measures is as follows:

- Internal Customer Satisfaction
- Immediate Interventions
- Number of Advocacy Projects
- External Customer Satisfaction Score
- Outreach Resources Spent vs. Plan
- Outreach Effectiveness/Results
- Closed Cases
- Case Cycle Time
- Casework Quality Index
- Employee Satisfaction

**Taxpayer Advocate  
Service  
Communications  
and Outreach  
Initiatives**

Seven of the ten measures have been fully implemented. The two outreach measures are defined and an automated tracking system is being designed. We are still formulating the Internal Customer Satisfaction measure.

Communication and outreach continued to be one of the primary initiatives of the Taxpayer Advocate Service for Fiscal Year 2000. Because we recognize that it is critical that the public become more informed about the Taxpayer Advocate Service, we expanded the public awareness campaign during Fiscal Year 2000 by developing and distributing bilingual public service ads and radio spots to media outlets. The marketing products created during Fiscal Year 1999, in conjunction with a nationally recognized advertising agency, were distributed nationwide to Local Taxpayer Advocates for their use in their outreach efforts. All marketing materials also contain the dedicated Taxpayer Advocate Service telephone number.

We also continued with our development and improvement of the Taxpayer Advocate Internet Web site. The site includes information relating to the Taxpayer Advocate Service, its mission and the criteria for qualifying for the program. The site also includes a link that provides the address and phone number for Local Taxpayer Advocates, the prior Annual Reports to Congress, and information on how to complete and file the Form 911, Application for Taxpayer Assistance Order. A separate site for taxpayer rights is available at [www.irs.gov](http://www.irs.gov), under 'Tax Info for You'. We continue to work on improving the site to meet changing taxpayer needs.

Due to the extensive reorganization of the Taxpayer Advocate Service and massive hiring of employees to work in the new organization, outreach efforts also focused on re-establishing relationships with key stakeholders, including practitioner groups and congressional offices. The primary messages delivered to these groups included information regarding the new Taxpayer Advocate Service and its relationship to IRS modernization efforts. In addition, we also re-emphasized the changes to the Taxpayer Advocate Service that were mandated by the Restructuring and Reform Act of 1998.

The leadership of our organization met with stakeholder groups throughout the year regarding our organization and its programs. We made speeches and gave presentations at tax symposiums, as well as met with congressional staffs, and tax practitioner groups and associations. We engaged in dialogue with the leaders of groups such as the American Bar Association, the Tax Executives Institute, the American Institute of Certified Public Accountants, and the National Society of Enrolled Agents, among others.

We think it is critical that other IRS employees are familiar with Taxpayer Advocate Service criteria and understand how to refer a problem into the program. Local Taxpayer Advocates took the lead in educating their counterparts in IRS Operations through attendance at staff meetings, Continuing Professional Education opportunities, training classes, employee newsletters, and the Taxpayer Advocate Service Intranet Web site.

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## CITIZEN ADVOCACY PANELS

The Citizen Advocacy Panels provide a public forum for independent citizen input for enhancing IRS customer service. They have worked toward their mission by identifying problems and making recommendations for improvement to IRS systems and procedures. The Panels elevate problems to the appropriate IRS officials and monitor the progress to effect changes, as well as refer individuals to the appropriate IRS office for assistance.

The four Citizen Advocacy Panels were originally established along IRS district boundaries. The members worked in partnership with IRS District Directors and their staffs. As IRS implements its modernization initiative, the Taxpayer Advocate Service is assisting the Citizen Advocacy Panels in developing relationships with the new Operating Divisions.

The Commissioner and Taxpayer Advocate Service leadership met with Treasury and agreed to continue this program because of its potential for improving IRS operations. We will increase geographic coverage, with a goal of having Citizen Advocacy Panel participation throughout the country within a few years. The first step is to recruit new members to broaden geographic representation on the Panels, and to replace non-continuing members. We will ask future members to serve staggered terms in order to ensure continuity.

Each Panel has operated for over two years and each has made significant recommendations for change. Many of these changes were implemented at the local office level. The Panels have also served as sounding boards for improvement initiatives within IRS, including notice clarity and modernization efforts.

All four Panels have completed their first annual report/self assessment. For a complete list of their accomplishments, taxpayers can visit the Web site at [www.improveirs.org](http://www.improveirs.org).

**Accomplishments:  
Fiscal Year 2000**

The following is a list of some of the activities each panel was involved in during the fiscal year:

In Pacific Northwest, the IRS Small Business Lab continues to work with the Citizen Advocacy Panel to restructure the Question and Answer portion of the IRS Digital Daily Web site. This includes presenting the material in plain, easy to understand language. The site will contain cross-references to help taxpayers gain a more complete understanding of issues. Updates will be available during the upcoming filing season.

In Brooklyn, the Citizen Advocacy Panel worked in partnership with the IRS to test a multi-lingual kiosk at a local library that provides access to forms and answers to questions in five different languages. This initiative will be expanded to other locations as funding permits. The Panel also worked with IRS to re-format Small Business Workshops into modular segments. This allows small business owners to select only the workshop segments they wish to attend. The Panel's suggestions for improving the layout and signage of the Brooklyn walk-in site also improved service to taxpayers.

The South Florida and Midwest Panels worked closely with their local IRS filing season readiness teams to improve IRS walk-in assistance. Improvements included opening additional assistance sites and offering walk-in services in IRS offices that had previously not been open to walk-in traffic. They also helped identify potential locations for the upcoming filing season.

The South Florida Panel's recommendation to include a checkbox designation authority on federal tax returns is being implemented on individual income tax returns for 2000. This allows other individuals to serve as a designee in limited circumstances, such as questions on the preparation of the tax return and math error notices.

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## APPENDICES

- A. Taxpayer Advocate Service Directory
- B. Web Site Directories
- C. Acronyms Used in the “Most Serious Problems Encountered by Taxpayers”
- D. Most Litigated Issues Table
- E. Comprehensive Legislative Recommendations Table
- F. Open Advocacy Projects
- G. Closed Fiscal Year 1999 Administrative Recommendations & Directive

# TAXPAYER ADVOCATE SERVICE DIRECTORY

# APPENDIX A

## National Taxpayer Advocate

1111 Constitution Ave., NW  
Rm 3017, C:TA  
Washington, DC 20224  
Phone (202) 622-4300  
FAX (202) 622-6113

## Area Offices

**Dallas**  
4050 Alpha Rd., Stop 1005 MSRO  
Dallas, TX 75244-4203  
Phone (972) 308-7019  
FAX (972) 308-7166

**Ft. Lauderdale**  
7850 Southwest 6th Court  
Plantation, FL 33324  
Phone (954) 423-7600  
FAX (954) 423-7593

**Manhattan**  
290 Broadway - 14th Floor  
New York, NY 10007  
Phone (212) 298-2015  
FAX (212) 298-2016

**Milwaukee**  
310 W. Wisconsin Ave., Stop 1009 MIL  
Milwaukee, WI 53203-2221  
Phone (414) 297-1646  
FAX (414) 297-3485

**Oakland**  
1301 Clay Street, Suite 1030N  
Oakland, CA 94612  
Phone (510) 637-2070  
FAX (510) 637-3189

**Richmond**  
400 North 8th St., Room 916  
Richmond, VA 23240  
Phone (804) 916-3501  
FAX (804) 916-3535

**Seattle**  
915 Second Ave., Stop W-404  
Seattle, WA 98174  
Phone (206) 220-4356  
FAX (206) 220-4930

**Operating Division Taxpayer Advocate**  
401 W. Peachtree St. N.W.  
Room 600, Stop 143-R  
Atlanta, GA 30308-3539  
Phone (404)338-8677  
FAX (404) 338-8689

**Small Business Service Center**  
P.O. Box 141118, Suite 2250  
Cincinnati, OH 45250  
or  
312 Elm St., Suite 2250  
Cincinnati, OH 45202  
Phone (513) 684-2507  
FAX (513) 684-2742

**Wage & Investment Service Center**  
401 W. Peachtree St., NW  
Room 1970, Stop 101-R  
Atlanta, GA 30308-3539  
Phone (404) 338-8710  
FAX (404) 338-8709

## Service Centers

**Andover**  
PO Box 9055, Stop 121  
Andover, MA 01810  
or  
310 Lowell Street, Stop 121  
Andover, MA 01812  
Phone (978) 474-5549  
FAX (978) 474-5640

**Atlanta**  
PO Box 48-549, Stop 29A  
Chamblee, GA 30341  
or  
4800 Buford Hwy., Stop 29-A  
Chamblee, GA 30341  
Phone (770) 986-5700  
FAX (770) 234-4443

**Austin**  
PO Box 934, Stop 1005  
Austin, TX 78767  
or  
3651 S. Interregional Hwy., Stop 1005  
Austin, TX 78641  
Phone (512) 460-8300  
FAX (512) 460-8267

**Brookhaven**  
PO Box 960  
Stop 102, Holtsville, NY 11742  
or  
1040 Waverly Ave.  
Stop 102, Holtsville, NY 11742  
Phone (613) 654-6686  
FAX (613) 447-4879

**Cincinnati**  
PO Box 12267, Stop 11  
Covington, KY 41012  
or  
201 W River Center Blvd.,  
Stop 11, Covington, KY 41019  
Phone (606) 292-5316  
FAX (606) 292-5405

**Fresno**  
PO Box 12161, Stop 01  
Fresno, CA 93776  
or  
5045 East Butler Ave.  
Fresno, CA 93888  
Phone (559) 443-7590  
FAX (559) 443-7595

**Kansas City**  
PO Box 24551, Stop 1005  
Kansas City, MO 64131  
or  
2306 E. Bannister Rd., Stop 1005  
Kansas City, MO 64131  
Phone (816) 926-2493  
FAX (816) 823-1932

**Memphis**  
PO Box 30309, Stop 12  
Memphis, TN 38130  
or  
5333 Getwell Rd., Stop 12  
Memphis, TN 38118  
Phone (901) 546-2180  
FAX (901) 546-2181

**Ogden**  
PO Box 9941, Stop 1005  
Ogden, UT 84409  
or  
1160 W. 1200 South St., Stop 1005  
Ogden, UT 84201  
Phone (801) 334-3651  
FAX (801) 334-3682

**Philadelphia**  
PO Box 16053, DP 1300  
Philadelphia, PA 19114  
or  
11601 Roosevelt Blvd.  
DP 1300, Philadelphia, PA 19154  
Phone (215) 516-2499  
FAX (215) 516-2677



**Local Offices by State & Location**

**Alabama**

801 Tom Martin Dr., Room 150-PR  
Birmingham, AL 35211  
Phone (205) 912-5631  
FAX (205) 912-5091

**Alaska**

949 E 36th Ave., Stop A-405  
Anchorage, AK 99508  
Phone (907) 271-6877  
FAX (907) 271-6824

**Arizona**

210 E. Earll Dr., Stop 1005 PX,  
Phoenix, AZ 85012-2623  
Phone (602) 207-8240  
FAX (602) 207-8250

**Arkansas**

700 West Capitol St., Stop 1005 LIT  
Little Rock, AR 72201  
Phone (501) 324-6269  
FAX (501) 324-5183

**California (Laguna Niguel)**

PO Box 30225  
Laguna Niguel, CA 92607-0025  
or  
24000 Avila Rd., Room 3362  
Laguna Niguel, CA 92677-3491  
Phone (949) 389-4804  
FAX (949) 389-5033

**California (Los Angeles)**

PO Box 531791  
Los Angeles, CA 90053  
or  
300 N. Los Angeles St., Room 5119  
Los Angeles, CA 90012  
Phone (213) 576-3199  
FAX (213) 576-5038

**California (Oakland)**

1301 Clay St., #1540S  
Oakland, CA 94612-5210  
Phone (510) 637-2703  
FAX (510) 637-2715

**California (Sacramento)**

PO Box 2900  
Stop SA 5043  
Sacramento, CA 95812  
or  
4330 Watt Ave.  
North Highlands, CA 95660  
Phone (916) 974-5007  
FAX (916) 974-5902

**California (San Jose)**

PO Box 100, Stop HQ0004  
San Jose, CA 95103  
or  
55 S. Market St., Rm. 710  
San Jose, CA 95113  
Phone (408) 817-6850  
FAX (408) 817-6851

**Colorado**

600 17th St., Stop 1005  
Denver, CO 80202-2490  
Phone (303) 446-1012  
FAX (303) 446-1011

**Connecticut**

135 High St., Stop 219  
Hartford, CT 06103  
Phone (860) 756-4555  
FAX (860) 756-4559

**Delaware**

409 Silverside Rd.  
Wilmington, DE 19809  
Phone (302) 791-4502  
FAX (302) 791-4511

**District of Columbia (Baltimore Office)**

PO Box 1553, Rm. 940  
Baltimore, MD 21203  
or  
31 Hopkins Plaza, Rm. 940  
Baltimore, MD 21201  
Phone (410) 962-2082  
FAX (410) 962-9340

**Florida (Ft. Lauderdale)**

PO Box 17167  
Plantation, FL 33318  
or  
7850 SW 6th Ct., Rm 285  
Plantation, FL 33324  
Phone (954) 423-7677  
FAX (954) 423-7680

**Florida (Jacksonville)**

400 West Bay St.  
Stop C:TA:FTL:JFL  
Jacksonville, FL 32202-4437  
Phone (904) 665-1000  
FAX (904) 665-1818

**Georgia**

PO Box 1065  
Stop 202-D, Rm. 1520  
Atlanta, GA 30370  
or  
401 W. Peachtree St., NW  
Summit Bldg.  
Stop 202-D, Rm. 1520  
Atlanta, GA 30308-3539  
Phone (404) 338-8099  
FAX (404) 338-8096

**Hawaii**

300 Ala Moana Blvd.  
Stop H-405, Rm 2104,  
Honolulu, HI 96850-4492  
Phone (808) 539-2870  
FAX (808) 539-2859

**Idaho**

550 W. Fort St.  
Box 041, Boise, ID 83724  
Phone (208) 334-1324  
FAX (208) 334-1977

**Illinois (Chicago)**

230 S. Dearborn St.  
Rm. 2300, Stop 1005-CHI  
Chicago, IL 60604  
Phone (312) 886-9183  
FAX (312) 886-1564

**Illinois (Springfield)**

320 W. Washington St.  
Stop 1005SPD  
Springfield, IL 62701  
Phone (217) 527-6382  
FAX (217) 527-6373

**Indiana**

PO Box 44976, TA770  
Indianapolis, IN 46244  
or  
575 N Pennsylvania St., Stop TA770  
Indianapolis, IN 46204  
Phone (317) 226-6332  
FAX (317) 226-6222

**Iowa**

210 Walnut St., Stop 1005  
Des Moines, IA 50309-2109  
Phone (515) 284-4780  
FAX (515) 284-6645

**Kansas**

271 W. 3rd St, North  
Stop 1005-WIC  
Wichita, KS 67202  
Phone (316) 352-7506  
FAX (316) 352-7212

**Kentucky**

PO Box 1735, Stop 120  
Louisville, KY 40201  
or  
600 Dr. Martin Luther King Jr. Pl.  
Federal Bldg, Rm. 622  
Louisville, KY 40202  
Phone (502) 582-6030  
FAX (502) 582-6463

**Louisiana**

600 South Maestri Pl., Stop 2  
New Orleans, LA 70130  
Phone (504) 558-3001  
FAX (504) 558-3492

**Maine**

68 Sewall St., Rm. 313  
Augusta, ME 04330  
Phone (207) 622-8528  
FAX (207) 622-8458

## Local Offices by State & Location

### Maryland

PO Box 1553, Rm. 940  
Baltimore, MD 21203  
or  
31 Hopkins Plaza, Rm. 940  
Baltimore, MD 21201  
Phone (410) 962-2082  
FAX (410) 962-9340

### Massachusetts

JFK PO Box 9112, Room 775  
Boston, MA 02203  
or  
25 New Sudbury St., Room 775  
Boston, MA 02203  
Phone (617) 316-2690  
FAX (617) 316-2700

### Michigan

PO Box 330500, Stop 7  
Detroit, MI 48232-6500  
or  
McNamara Federal Bldg.  
477 Michigan Ave., Room 1745  
Detroit, MI 48226-2597  
Phone (313) 628-3670  
FAX (313) 628-3669

### Minnesota

316 N. Robert St., Stop 1005 STP  
St. Paul, MN 55101  
Phone (651) 312-7999  
FAX (651) 312-7872

### Mississippi

100 W. Capitol St., Stop JK31  
Jackson, MS 39269  
Phone (601) 292-4800  
FAX (601) 292-4821

### Missouri

PO Box 66776, Stop 1005-STL  
St. Louis, MO 63166  
or  
Robert A. Young Bldg.  
1222 Spruce St., Stop 1005-STL  
St. Louis, MO 63103  
Phone (314) 612-4610  
FAX (314) 612-4628

### Montana

Federal Bldg., 301 S. Park  
Helena, MT 59626-0023  
Phone (406) 441-1044  
FAX (406) 441-1045

### Nebraska

1313 Farnam St., 2nd Floor, Stop 1005OMA  
Omaha, NE 68102-1836  
Phone (402) 221-4181  
FAX (402) 221-3051

### Nevada

4750 W. Oakey Blvd., Rm. 303  
Las Vegas, NV 89102  
Phone (702) 455-1241  
FAX (702) 455-1216

### New Hampshire

PO Box 6667  
Portsmouth, NH 03802  
or  
Federal Office Bldg.  
80 Daniel St.  
Portsmouth, NH 03801  
Phone (603) 433-0571  
FAX (603) 430-7809

### New Jersey

PO Box 745  
Springfield, NJ 07081  
or  
955 S. Springfield Ave., First Floor  
Springfield, NJ 07081  
Phone (973) 921-4043  
FAX (973) 921-4355

### New Mexico

5338 Montgomery Blvd., NE  
Stop 1005 ALB  
Albuquerque, NM 87109  
Phone (505) 837-5505  
FAX (505) 837-5519

### New York (Albany)

Leo O'Brien Federal Bldg., Rm 617  
Clinton Ave. & N. Pearl St.  
Albany, NY 12207  
Phone (518) 427-5413  
FAX (518) 427-5494

### New York (Brooklyn)

GPO Box R 10  
Brooklyn, NY 11202  
or  
10 Metro Tech Center  
625 Fulton St.  
Brooklyn, NY 11201  
Phone (718) 488-2080  
FAX (718) 488-3100

### New York (Buffalo)

PO Box 219  
Buffalo, NY 14255-0219  
or  
201 Como Park Blvd.  
Buffalo, NY 14227-1416  
Phone (716) 686-4850  
FAX (716) 686-4851

### New York (Manhattan)

PO Box 408, Church Street Station  
New York, NY 10008  
or  
290 Broadway, 7th Fl.  
New York, NY 10007  
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FAX (212) 436-1900

### North Carolina

320 Federal Pl, Room 125  
Greensboro, NC 27401  
Phone (336) 378-2180  
FAX (336) 378-2495

### North Dakota

657 2nd Ave., N. Stop 1005-FAR  
Fargo, ND 58102  
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FAX (701) 239-5323

### Ohio (Cincinnati)

PO Box 2057  
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or  
550 Main St., Room 3530  
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Phone (513) 263-3260  
FAX (513) 263-3257

### Ohio (Cleveland)

PO Box 99709  
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FAX (216) 522-2947

### Oklahoma

55 N. Robinson, Stop 1005OKC  
Oklahoma City, OK 73102-9229  
Phone (405) 297-4055  
FAX (405) 297-4056

**Local Offices by State & Location**

**Oregon**

1220 SW 3rd, Stop O-405  
Portland, OR 97204  
Phone (503) 326-2333  
FAX (503) 326-5453

**Pennsylvania (Philadelphia)**

PO Box 12010  
Philadelphia, PA 19105  
or  
600 Arch St., Rm. 7426  
Philadelphia, PA 19106  
Phone (215) 861-1290  
FAX (215) 861-1613

**Pennsylvania (Pittsburgh)**

PO Box 705  
Pittsburgh, PA 15230  
or  
1000 Liberty Ave, Rm 1102  
Pittsburgh, PA 15222  
Phone (412) 395-5987  
FAX (412) 395-4769

**Rhode Island**

380 Westminster St.  
Providence, RI 02903  
Phone (401) 525-4200  
FAX (401) 525-4247

**South Carolina**

1835 Assembly St., Room 571, MDP03  
Columbia, SC 29201  
Phone (803) 253-3029  
FAX (803) 253-3910

**South Dakota**

115 4th Ave. SE,  
Aberdeen, SD 57401  
Phone (605) 226-7248  
FAX (605) 226-7246

**Tennessee**

PO Box 1107, Stop 22  
Nashville, TN 37202  
or  
801 Broadway, Stop 22  
Nashville, TN 37203  
Phone (615) 250-5000  
FAX (615) 250-5002

**Texas (Austin)**

300 E. 8th St., Stop 1005-AUS  
Austin, TX 78701  
Phone (512) 499-5875  
FAX (512) 499-5687

**Texas (Dallas)**

1100 Commerce St., MC1005DAL  
Dallas, TX 75242  
Phone (214) 767-1289  
FAX (214) 767-0040

**Texas (Houston)**

1919 Smith St., Stop 1005-HOU  
Houston, TX 77002  
Phone (713) 209-3660  
FAX (713) 209-4779

**Utah**

50 South 200 East, MS1005  
Salt Lake City, UT 84111  
Phone (801) 799-6958  
FAX (801) 799-6957

**Vermont**

Courthouse Plaza, 199 Main St.  
Burlington, VT 05401-8309  
Phone (802) 860-2008  
FAX (802) 860-2006

**Virginia**

PO Box 10113, Rm. 316  
Richmond, VA 23240  
or  
400 North 8th St., Room 316  
Richmond, VA 23240  
Phone (804) 916-3501  
FAX (804) 916-3587

**Washington**

915 2nd Ave., Stop W-126  
Seattle, WA 98174  
Phone (206) 220-6037  
FAX (206) 220-6047

**West Virginia**

425 Juliana St., Room 3012  
Parkersburg, WV 26101  
Phone (304) 420-6616

**Wisconsin**

310 W. Wisconsin Ave.  
Stop 1005-MIL  
Milwaukee, WI 53203  
Phone (414) 297-3046  
FAX (414) 297-3362

**Wyoming**

5353 Yellowstone Rd.  
Rm. 206A, Stop 1005CHE  
Cheyenne, WY 82009  
Phone (307) 633-0800  
FAX (307) 633-0918

**Puerto Rico**

PO Box 193479  
San Juan, PR 00919  
or  
San Particio Office Building  
7 Tabonuco St. Rm. 200  
Guaynabo, PR 00919  
Phone: (787) 622-8932  
FAX (787) 622 8933

You can reach the Taxpayer Advocate Service by calling our Toll-Free Number (1-877-777-4778), or by calling or writing to the Taxpayer Advocate Service office nearest you.

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## TAXPAYER ADVOCATE SERVICE WEB PAGE HIGHLIGHTS

## APPENDIX B

You can learn more about the Taxpayer Advocate Service on the IRS Digital Daily Web site: [www.irs.gov](http://www.irs.gov). Look under “Tax Info for You,” and click on the “Taxpayer Advocate Service,” heading to find:

- Taxpayer Advocate Service contacts near you
- Form 911, Application for Taxpayer Assistance Order
- Information about getting help from, and providing information to, the Taxpayer Advocate Service.
- Copies of National Taxpayer Advocate Reports to Congress, and
- Copies of National Taxpayer Advocate Testimonies before Congress

## CITIZEN ADVOCACY PANEL WEB SITE HIGHLIGHTS

The Citizen Advocacy Panel (CAP) Web site: [www.improveirs.org](http://www.improveirs.org) provides taxpayers with an easy way to provide input into enhancing IRS customer service, find the appropriate IRS office for assistance, or learn about Citizen Advocacy Panel meetings near by. Areas to explore on the [improveirs.org](http://improveirs.org) Web site include:

- Information about each CAP: South Florida; Brooklyn, Queens & Long Island; Midwest; or Pacific Northwest.
- A listing of events such as regular meetings
- Meeting minutes
- The ability for taxpayers to send a comment to CAP
- A listing of CAP members
- Links to other sites that may be helpful to taxpayers

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**ACRONYMS USED  
IN THE MOST  
SERIOUS  
PROBLEMS  
ENCOUNTERED  
BY TAXPAYERS**

**APPENDIX C**

1. **ATG:** Audit Techniques Guide
2. **CDP:** Collection Due Process
3. **COBRA:** Consolidated Omnibus Budget Reconciliation Act
3. **EFTPS:** Electronic Federal Tax Payment System
4. **FTD:** Federal Tax Deposit
5. **ICP:** Integrated Case Processing platform
6. **ICS:** Integrated Collection System
7. **IRB:** Internal Revenue Bulletin
8. **NPR:** National Partnership for Reinventing Government
9. **OIC:** Offer in Compromise
10. **POA:** Power of Attorney
11. **PSP:** Planning and Special Programs Unit
12. **RCA:** Reasonable Cause Assistant Software
13. **RGS:** Report Generation Software
14. **R-MAIL:** Referral Mail
15. **RRA'98:** Restructuring and Reform Act of 1998
16. **TEFRA:** Tax Equity & Fiscal Responsibility Act of 1982
17. **VBA:** Veterans Benefit Administration

**MOST  
LITIGATED  
ISSUES:  
FISCAL YEAR  
2000**

**APPENDIX D**

IRC Section Ranking by Group	Description of Group & Description of Code Sections	Percentage IRC Sec. Occurs Among Most Frequently Litigated Issues
<b>Group #1</b>	<b>Issues re. Penalties &amp; Interest</b>	<b>30.10%</b>
6621	Interest: determination of rate of interest	1.60%
6651	Penalties: failure to file tax return or to pay tax	7.30%
6653 (pre-1990)	Penalties: additions to tax for negligence & fraud	2.10%
6654	Penalties: failure by individual to pay estimated income tax	2.80%
6662	Penalties: imposition of accuracy-related penalty	10.30%
6663	Penalties: imposition of fraud penalty	1.60%
6664	Penalties: definitions & special rules	2.80%
6672	Penalties: failure to collect & pay over tax, or attempt to evade or defeat tax	1.60%
<b>Group #2</b>	<b>Issues re. Court Procedures</b>	<b>16.20%</b>
7421	Proceedings: prohibition of suits to restrain assessment or collection	2.10%
7422	Proceedings: civil actions for refund	4.40%
7426	Proceedings: civil actions by persons other than taxpayers	1.60%
7430	Proceedings: awarding of costs & certain fees	3.30%
7433	Proceedings: civil damages for certain unauthorized collection actions	2.40%
7609	Discovery: special procedures for third-party summonses	2.40%
<b>Group #3</b>	<b>Issues re. Deductible vs. Not Deductible</b>	<b>16.10%</b>
162	Deductions: trade or business expenses	7.70%
165	Deductions: losses	1.40%
166	Deductions: bad debts	1.60%
183	Deductions: activities not engaged in for profit	1.90%
262	Not Deductible: personal, living & family expenses	1.90%
274	Not Deductible: disallowance of certain entertainment, etc., expenses	1.60%

## APPENDIX D

IRC Section Ranking by Group	Description of Group & Description of Code Sections	Percentage IRC Sec. Occurs Among Most Frequently Litigated Issues
<b>Group #4</b>	<b>Issues re. Filing Status, Earned Income Tax Credit (EITC) &amp; Dependency Exemptions</b>	<b>7.70%</b>
2	Definitions: definitions and special rules	1.60%
32	Credits: earned income	2.10%
151	Deductions: personal exemptions of deductions for allowance	2.10%
152	Deductions: dependent defined	1.90%
<b>Group # 5</b>	<b>Issues re. Gross Income Inclusions &amp; Exclusions</b>	<b>7.50%</b>
61	Gross income: gross income defined	4.70%
72	Gross income: annuities certain proceeds of endowment and life insurance contracts	1.40%
104	Gross income: compensation for injuries or sickness	1.40%
<b>Group #6</b>	<b>Issues re. Accounting Methods, Required Records &amp; Substantiation</b>	<b>6.10%</b>
446	Accounting Periods & Methods: general rule for methods of accounting	2.10%
6001	Procedure & Administration: notice or regulations requiring records, statements, & special returns	4.00%
<b>Group# 7</b>	<b>Issues re. Statute of Limitations</b>	<b>4.90%</b>
6501	Limitations: limitations on assessment & collection	2.10%
6511	Limitations: limitations on credit or refund	2.80%
<b>Group # 8</b>	<b>Issues re. Courts' Authority for Credits, Refunds &amp; Abatements</b>	<b>4.40%</b>
6402	Abatements: authority to make credits or refunds	2.80%
6404	Abatements: abatements	1.60%

## APPENDIX D

IRC Section Ranking by Group	Description of Group & Description of Code Sections	Percentage IRC Sec. Occurs Among Most Frequently Litigated Issues
<b>Group # 9:</b>	<b>Issues re. Self-Employed, Independent Contractor vs. Employee Status</b>	<b>3.70%</b>
1401	SE Tax: rate of tax	1.60%
1402	SE Tax: definitions	2.10%
<b>Group # 10</b>	<b>Issues re. Last Known Address &amp; Notice of Deficiency</b>	<b>3.30%</b>
6212	Assessment: notice of deficiency	1.90%
6213	Assessment: restrictions applicable to deficiencies; petition to Tax Court	1.40%
<b>TOTAL</b>		<b>100%</b>



**COMPREHENSIVE TABLE  
OF LEGISLATIVE  
RECOMMENDATIONS:  
FISCAL YEARS  
1996 - 2000**

**APPENDIX E**

	Subject/Topic	IRC Section	Year First Proposed	1999 Report Number	Page No.
<b>Primary Recommendations</b>					
1	Earned Income Tax Credit	32	1997-99	10-13	74
2	Alternative Minimum Tax	55-59	1999	50	75
3	Estimated Tax Penalties for Individuals	6654	1996	30	76
4	Failure to Pay Penalty	6651	1996 & 1998	29, 31, 32	77
5	Ten Percent Additional Tax on Early Withdrawals	72(t)(2)	1999	8	78
6	Compounded Interest	6622(b)	1998	19	79
7	Interest on Installment Agreements	6221	1999	18	80
8	IRS Authority to Correct Errors	New	1999	23	81
<b>Individual Income Tax Issues</b>					
9	Charitable Contributions	170(f)(8)	1999	45	82
10	Credit for Elderly and Disabled	22	2000	-	83
11	Death Benefits	101(b),134	2000	-	84
12	Phase-Outs of Itemized Deductions & Personal Exemptions	68,151(d)(3)	1999	53	85
13	Repayment of Previously Reported Income	62(a) 67(b)	1997	52	86
14	Retirement Plan Rules	72(t), 219(f), 401(k)(11), 408(k), 408(p)	2000	-	87
15	State Income Tax Refunds and Taxable Social Security	86(b)(2)	2000	-	88
16	Taxability of Social Security Benefits	86	1999	46	89
17	Deduction for Unreimbursed Employee Business Expenses	62(a)(2)	1998	15	90
18	Innocent Spouse Relief	6015(c)	2000	-	91
<b>Small Business Tax Issues</b>					
19	Use of Cash Accounting Method	448	2000	-	92
20	Deducting Expenses on Depreciable Property	167(f)(1)	1998	5, 6,16	93
21	Filing Requirements for Self Employed Taxpayers	6017	2000	-	94
22	Health Insurance Deductions for Self Employed Individuals	162(l)(4)	2000	-	95
23	Home Office Deduction	280A(c)	2000	-	96
24	Income Averaging for Commercial Fishermen	1301	1999	47	97
25	Information Reporting Requirements for Tuition	6050(s)	1998	26	98
26	Married Couple as Business Co-Owners	761,1402	1999	44	99
27	Taxation of Indian Tribal Governments	3306(c)(7), 3309(a)	2000	-	100

	Subject/Topic	IRC Section	Year First Proposed	1999 Report Number	Page No.
<b>Penalties and Interest</b>					
28	Education Loan Interest	221(d)	1998	3	101
29	Home Mortgage Points	163(h)(B),461(g)	1998	4	102
30	Interest on Tax Liability	6601(a)	1998	20	103
<b>Refunds and Overpayment Credits</b>					
31	Overpayment Credits	6601	1998	1	104
32	Refunds of Amounts Obtained through Levy or Seizure	6343(d)	1998	2	105
33	Refund Offsets for Taxpayers with Significant Hardships	6402	1997 & 1999	40, 41	106
34	Refund Statute of Limitations	6511	1996 - 99	34,36,38, 39,42	107
<b>IRS Authorities</b>					
35	Disclosure of Suicide Threats	6103(i)(3)(B)	1997	7	108
36	Interest Abatement	6404	1998 - 99	17, 21, 22	109
37	Verbal Agreements to Assess Tax	6213(d)	1998	24	110
<b>Prior Recommendations Not Included in this Year's Report</b>					
1	Waiver in Cases of Hardship	72(t)	1997	9	--
2	Exempt from Offsetting	6402(a)	1997	14	--
3	Filing Date	7502	1997	25	--
4	Installment Payments	6159(a)	1999	27	--
5	Abatement of Tax	6404(b)	1998	28	--
6	Reasonable Cause—Frivolous Return	6702	1998	33	--
7	Undeliverable Notification	6103( m)(1)	1998	35	--
8	Credit Elects	6513(d)	1997	37	--
9	Limitation on Collection Waiver	6502(a)	1999	43	--
10	Automatic Extension to File	6081	1999	48	--
11	Rounding	6102(b)	1997	49	--
12	End of Year Repayment	61	1998	51	--

	<b>Project Name</b>	<b>Description</b>
1	Backup Withholding on Brokerage Firm Margined Accounts	TAS is considering changes to the regulations that require backup withholding on Brokerage Firm Margined Accounts to minimize financial burden on taxpayers.
2	Child Support Obligations on Non-Master File (NMF)	TAS is collaborating with Operations regarding an issue that the IRS retains outdated taxpayer delinquent accounts for child support obligations when the state agency has not provided current account information.
3	Claim for Refund on Trust Fund Recovery Penalties	TAS is collaborating with Operations regarding conflicting procedures in the Internal Revenue Manuals for Field Collection and Counsel regarding how much taxpayers must pre-pay to initiate a claim for refund related to Trust Fund Recovery Penalties.
4	Collection Techniques	TAS is working with Operations to develop training for Revenue Officers that would enhance their skills in assisting taxpayers in meeting their tax obligations.
5	Computation for Injured Spouse Refunds with Tax and Non-tax Offsets	TAS is working an issue involving the computation of injured spouse refunds in Community Property States to ensure correct allocation to injured spouses.
6	CP 518, Final Notice Requesting a Taxpayer to File a Tax Return, Project	TAS is reviewing the language of this notice for accuracy, tone, and clarity.
7	Direct Deposit Refund Stops on Hardships	TAS is collaborating with Operations to issue definitive instructions on deleting direct deposit refunds when the IRS has already issued manual refunds due to hardship.
8	Direct Deposit Refunds to Incorrect Accounts (CAP-Pacific Northwest Initiative)	TAS is analyzing a suggestion that would require the IRS to institute procedures with participating banks that require the matching of names and bank account numbers before the banks accept the direct deposit.
9	Disaster Relief Program - Changes to Procedures and Internal Revenue Manual	TAS is reviewing changes to the IRM and to the procedures used in the Disaster Relief Program.
10	Earned Income Tax Credit - Discrepancy Between Instructions in Publication 596 & Form 1040 Instruction Booklet	TAS is reviewing new training material to ensure that it has been updated to reflect the changes to the Earned Income Tax Schedule and worksheets made for the 1999 Tax Year.

	<b>Project Name</b>	<b>Description</b>
11	Extended Hours Test for Office Exam	TAS is collaborating with Operations to test the response of taxpayers when offered audit appointments outside of normal business hours.
12	Extension of Time to File Return (Form 4868) (CAP–S. Florida Initiative)	TAS is collaborating with Operations to study the feasibility of eliminating the requirement to file a Form 4868 for an extension to file a tax return, except in the instances of a balance due return.
13	Field Contacts	TAS is collaborating with Operations to develop procedures for field contact with taxpayers when promised by ACS sites.
14	Form 1040/1040A Consistency with Form 1040EZ	TAS is working with Operations to determine the feasibility of making Forms 1040/1040A consistent with the Form 1040EZ which has a check box to indicate if a taxpayer can be claimed as a dependent. Form 1040EZ is the only form that allows for this.
15	Form 8606, IRA Rules, and Notice 1240	Form 8606, IRA Contributions, general IRA Rules, and Notice 1240 are confusing and hard to understand. TAS is researching the issue as it relates to tax complexity.
16	Improve Earned Income Tax Credit (EITC) Filing (CAP–Brooklyn Initiative)	TAS is analyzing an issue regarding the addition of a signed attestation requirement to the Schedule EIC (Earned Income Credit).
17	Information Returns Master File (IRMF)	TAS is considering a proposal offered by a practitioner group that asks the IRS to expand the data on the IRMF transcript to include state withholding information.
18	Injured Spouse Claim Processing	TAS is analyzing the processing of Injured Spouse Claims to ensure that they are worked timely.
19	Lockbox and TeleFile Cost Analysis	TAS is researching a concern raised by an outside party related to the cost of running the lock box and TeleFile programs.

	<b>Project Name</b>	<b>Description</b>
20	Movement of Estimated Payments Between Ex-Spouses (CAP- Pacific Northwest Initiative)	TAS is researching the automatic transfer of estimated taxes when the amount paid is greater than the total due. This becomes a problem when recently divorced taxpayers are involved and they no longer have a joint account.
21	National Print Strategy (Print Consolidation)	TAS is proactively monitoring the implementation of the National Print Strategy (Print Consolidation) to ensure that internal/external customer impact is considered. Printing of all notices will be consolidated in Ogden Service Center and Detroit Computing Center.
22	New Trust Fund Recovery Penalty Guidelines	TAS is reviewing the new guidelines and will recommend whether or not these guidelines should be made retroactive.
23	Non-filer Strategy Working Group	The National Taxpayer Advocate and a member of the Operating Division Taxpayer Advocate currently serve on this group. They are considering proposals to mitigate the penalty for non-filers that voluntarily file and to lift the credit ban on self-employed filers to receive social security credit.
24	Partnership Return (Form 1065), Penalty Issue (CAP- Pacific Northwest Initiative)	TAS is analyzing a suggestion that the IRS reevaluate its procedures on assessing late filing penalties on partnership returns when there are 10 or less partners.
25	POA Requests when Processing Offers in Compromise	TAS is reviewing the requirements for the completion of Form 2848 for practitioners representing taxpayers who have filed Offers in Compromise.
26	Predictive Dialer	TAS is collaborating with Operations to institute the use of the Predictive Dialer System by the Automated Collection System. This system would be used to contact taxpayers who may qualify for a penalty waiver stemming from changes to the Internal Revenue Code by RRA '98 section 3304(b).
27	Procedures on Claims for Lost or Stolen Refund Checks	TAS is reviewing a possible inconsistency between service centers in procedures once a determination has been made regarding the validity of a lost or stolen refund claim.

	<b>Project Name</b>	<b>Description</b>
28	Public Notice of Delinquent Taxpayers	Section 3802(3) of RRA98 requires the Joint Committee on Taxation and Treasury to conduct individual studies on whether the IRS can achieve greater levels of compliance by publicly disclosing the names of delinquent taxpayers. TAS will conduct the necessary research as to the status and findings of each report and determine taxpayer impact.
29	Publication 3453, "Thank You for Not Filing"	TAS is researching a concern that a taxpayer raised regarding the disclosure of information to the postal service, since the IRS does not mail Publication 3453 in an envelope
30	Refund Holds on Returns with Form 4136	TAS is collaborating with Operations to review examination selection criteria for returns under the Revenue Protection Strategy to avoid unnecessary repetitive audits. The issue involves returns filed by taxpayers with both a credit for federal tax paid on fuels, Form 4136 and a Schedule C, Profit or Loss from a Business.
31	Revenue Procedure 98-43	TAS is researching a concern raised by an outside source regarding Revenue Procedure 98-43, which limits the number of employees that can be listed on a power of attorney for large companies. This Revenue Procedure reduces the number of employees who may be listed.
32	Resident/Non-Resident Alien Certification of Compliance	TAS is researching the equitable application of Internal Revenue Code 6851(d) that requires all resident and non-resident aliens receive a certificate of compliance before leaving the United States.
33	Review of Publication 2194, Disaster Losses Kit	TAS is collaborating with Operations to review the revised Publication 2194, Disaster Losses Kit, to ensure that it is easy to use.
34	Self Employed Tax on Proceeds from Agricultural/Horticultural Leases (CAP-Midwest Initiative)	TAS is researching a request that the Service provide equitable treatment of agricultural and horticultural lease proceeds as related to Tax Court Memorandum 1995-571.
35	Statutory Notices concerning EIC combined with Incorrect Filing Status	TAS is collaborating with Operations to add information to the Statutory Notice of Deficiency issued to taxpayers who filed a tax return as either Head of Household or Single, and are subsequently denied the Earned Income Tax Credit. This statutory notice directs the taxpayers to file a petition in tax court. It should also explain the ramifications of a tax court hearing.

	<b>Project Name</b>	<b>Description</b>
36	Systemic Levy Release	TAS is collaborating with Operations to review the levy release process.
37	Telephone Requests for Address Change	TAS is reviewing procedures to allow Customer Service Representatives to make address changes when the taxpayer's call is not related to his/her account.
38	Theft of Taxpayer Identification Numbers	TAS is collaborating with Operations to develop procedures on cases where undocumented aliens illegally purchase Social Security Numbers.
39	Update of Computer Command Code BMFOL (Business Masterfile on Line)	TAS is collaborating with Operations to implement a change to command code BMFOL on the Integrated Data Retrieval System (IDRS). This change would expedite account inquiries for businesses.
40	Use of Incorrect Addresses on Some Business Master File (BMF) Taxpayers	TAS is collaborating with Operations to identify the cause of incorrectly addressed IRS notices where the IRS is addressing notices of Business Master File (BMF) taxpayers to the taxpayer's bank.

**# 9901 Unperfected Assessments**

- **Recommendation:** We asked the Chief Operations Officer to reconsider the practice of making assessments in the Substitute for Return Program in situations where the IRS is unable to verify a valid address for the taxpayer.
- **Response:** In Fiscal Year 1999, the assigned office agreed to three proposals:
  - The IRS would process “No Responses” through the Undeliverable Mail System.
  - If the IRS were unable to find a better address, the IRS would issue a new letter and attempt to contact the taxpayer by telephone.
  - Operations would reevaluate making assessments where the IRS cannot verify the current address.

In response to a fourth recommendation, Collection would review the best practice that the IRS is developing to identify and resolve inaccurate assessments.

- **Status:** The IRS has revised Internal Revenue Manual, 21.8, to include procedures for processing no response cases through the Undeliverable Mail System (UMS). Additionally, the IRS has implemented procedures to purge unlocated taxpayers from the Automated Substitute for Return Program after extensive research is unsuccessful. The IRS will refrain from making assessments to those accounts.

Taxpayer Advocate Service now considers this issue retired.

**#9902 Transfer of Refund Programs to Financial Management Service**

- **Recommendation:** We asked the Chief Operations Officer to provide research capability to IRS employees to provide better service to taxpayers when working cases involving non-tax obligations and hardship refund requests.



- **Response:** Financial Management Service provided staff to respond to Taxpayer Advocate Service inquiries for the Fiscal Year 1999. In Fiscal Year 2000, some Financial Management Service data is available on the IRS computer system.
- **Status:** Taxpayer Advocate Service considers this matter retired.

### #9904 Electronic Suitability Process

- **Recommendation:** In response to a concern raised to the National Taxpayer Advocate about the number of rejected applications, we asked the Assistant Commissioner, Electronic Tax Administration, to review application guidelines and timeframes for granting Electronic Return Originators suitability certifications.
- **Response:** The IRS will review all rejected applications within 48 hours to re-assess suitability of the applicant. A task group will review the process to prevent a recurrence of this problem.
- **Status:** The IRS centralized the Electronic Return Originator suitability process in order to apply Revenue Procedure guidelines in a uniform manner. Since the initial transition years, the IRS has streamlined and modified the process in a number of positive ways
  - the suitability process now begins in March;
  - potential “failing” applications are subjected to three levels of review before the determination is final;
  - suspensions do not take effect until appeal rights have been exhausted;

Taxpayer Advocate Service considers this issue retired.

**#9905 Exemption from Discharge of Property from Federal Tax Lien**

- **Recommendation:** We asked the Chief Operations Officer to consider allowing an exemption from the discharge of property from federal tax lien for taxpayers suffering a hardship. This exemption would allow a portion of the proceeds from the sale of a personal residence, which the IRS would otherwise take to satisfy a tax liability, to be set aside to assist a taxpayer in paying relocation expenses.
- **Response:** Chief Counsel has issued an opinion favorable to this proposal and Collection has agreed to develop and implement appropriate procedures.
- **Status:** The IRS revised Internal Revenue Manual, 5.12, to include procedures for considering a Request for Relocation Expense Allowance. Under these guidelines, taxpayers are allowed limited funds from principal residence sale proceeds to pay relocation costs. Taxpayers apply for such consideration by submitting Form 12451, Request for Relocation Expense Allowance.

Taxpayer Advocate Service will continue to monitor this matter until a final Internal Revenue Manual update is issued.

**#9907 Taxpayer Attempts to Pay by Credit Card**

**Recommendation** (Originated by the Taxpayer Equity Committee): Taxpayer Advocate Service recommended to the Chief Operations Officer that a failure to pay penalty not be asserted, and abated if asserted, in certain situations where a taxpayer filed a balance due return and misunderstood the instructions regarding payment with a credit card.

**Response:** IRS Operations agreed to waive the penalty for the 1999 filing season and will reconsider the process in the future.

- **Status:** IRS Operations continues to use guidelines for returns identified with either credit card information or a credit card attached to be processed for non-assertion of the failure to pay penalty. The IRS issues a letter to the taxpayer to advise them of:
  - the proper processes available to pay tax with a credit card,
  - the normal failure to pay tax penalty is not being charged, and
  - the IRS is returning any credit card received.

The letter has been standardized and numbered for routine use. In addition, instructions to waive the failure to pay tax penalty for reasonable cause, in the event it is charged, is still in effect for customer service representatives.

Taxpayer Advocate Service considers this issue retired.

### #9908 Electronic Fund Transfers on Hardship Returns

- **Recommendation:** We recommended that the Chief Operations Officer adopt, at all service centers, the practice of depositing hardship refunds directly into a taxpayer's bank account when a taxpayer's bank account is available.
- **Response:** Operations agreed to issue Internal Revenue Manual procedures instructing all Service Centers to permit the direct deposit of refunds in hardship situations.
- **Status:** Operations incorporated these procedures into Internal Revenue Manual 3.17.79, effective January 1, 2000. Additionally, Taxpayer Advocate Service developed and issued procedures for all employees in June 2000, regarding the expedited issuance of refunds in hardship situations.

Taxpayer Advocate Service considers this issue retired.

**#9909 Direct Deposit Refunds**

- **Recommendation:** We made two recommendations to the Chief Operations Officer to correct the inconsistent treatment of refunds electronically transmitted in an incorrect bank account due to taxpayer error:
  - Financial Management Service should work with banks to ensure that refunds into the wrong account can be recovered and returned to FMS, eliminating the need for the IRS to have to recover an erroneous refund.
  - In instances where the money is never recovered, the IRS should issue the taxpayer a replacement refund based on the same criteria used in cases involving paper checks.
- **Response:** IRS Operations would not adopt the recommendations based on the Chief Counsel opinion that an erroneous direct deposit refund caused by the taxpayer is an issue between the bank and the taxpayer.
- **Status:** Taxpayer Advocate Service investigated alternative solutions to this problem through an advocacy project team. The team was successful in arranging for the IRS to print an additional warning in all Form 1040 series instruction books. The warning advises taxpayers that it is their responsibility to ensure the accuracy of the account numbers, and that the IRS is not responsible for any “lost” refund, if the taxpayer uses an incorrect account number.

Taxpayer Advocate Service considers this issue retired.

**#9911 Application of Allowable Expense Standards**

- **Recommendation:** We asked the Chief Operations Officer to issue additional guidelines regarding allowable expenses for all collection cases. This would help to alleviate concerns that current guidelines are inflexible and application results in inequitable treatment of taxpayers.

- **Response:** IRS Operations considered our recommendations and agreed to implement three of them:
  - The IRS will develop a new training module to emphasize employees’ flexibility in applying existing guidelines.
  - The IRS will permit taxpayers to pay a tax liability over a five-year period rather than over three years after which the taxpayer’s home may be seized to satisfy the obligation.
  - IRS will review the methodology for determining housing standards using 2000 Census data when it is available.
  - The IRS has also included in the National Standards for Allowable Expenses a fourth recommendation that will re-institute a miscellaneous expense allowance category.
- **Status:** The IRS developed Collection Training Module (#2242). Instructions require employees to consider the facts and circumstances of each case when deciding if national or local standards are adequate to meet a taxpayer’s basic living expenses. The training provides examples of acceptable deviation from the basic standards and requirements to support those decisions. Further, Internal Revenue Manual, 5.15 replaces a “three year rule” with a “five year rule,” which allows that conditional and other expenses may be accepted if the tax liability will be paid within five years.

Taxpayer Advocate Service considers this issue retired.

### **#9912 Proposed Amendment to Regulations in Treasury Circular No. 230**

- **Recommendation:** We asked the Director of Practice to expand the definition of a family member who is eligible to represent a taxpayer before the IRS to accommodate individuals in non-traditional family relationships.

- **Response:** The Director of Practice advised the National Taxpayer Advocate there is no need to address a specific definition for “non-traditional family relationships” and will address these relationships under Section 10.7(d) Special Appearances, in the existing Treasury Circular 230.
- **Status:** Taxpayer Advocate Service plans to request that the Director of Practice provide to the public information to ensure understanding of any changes.

### #9913 Federal/State Sharing of Examination Data

- **Recommendation:** We recommended that the Chief Operations Officer build safeguards into Federal/State agreements to prevent enforcement action while cases are pending in Appeals or in litigation. In addition, the result of any subsequent abatement action taken should be timely shared with the appropriate state as necessary.
- **Response:** Operations agreed with our recommendations. The National Director, Governmental Liaison and Disclosure issued a memorandum to all Federal/State Program managers and Disclosure Officers dated January 4, 2000. The memorandum requested that these officials review all Federal/State agreements in their respective states and revise them, as needed, in connection with the above recommendations.
- **Status:** Taxpayer Advocate Service considers this issue retired.

### Closed Fiscal Year 1999 Taxpayer Advocate Directive

Relief from Joint and Several Liability – The National Taxpayer Advocate directed the Chief Operations Officer to waive accrued penalties on unpaid tax liabilities on claims for consideration of relief from joint and several liability under Internal Revenue Code section 6015(f) (Innocent Spouse.) Although the IRS placed these claims in suspense pending issuance of procedures required by the statute, penalties continued to accrue. Additionally, taxpayers could not obtain a decision concerning their qualification for relief and could not appeal or petition the Tax Court.

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## APPENDIX G

- **Response:** The IRS acted on this directive and implemented waiver procedures. The IRS revised Internal Revenue Manual, 104.5 to include procedures for the abatement of penalties during the period a claim under Internal Revenue Code section 6015(f) is pending until procedures were in place.
- **Status:** Taxpayer Advocate Service considers this issue retired.

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