

**Annual Report to Congress**



**Progress on the Implementation of  
The Taxpayer Assistance Blueprint**

**October 2010 to September 2011**

**March 14, 2012**

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## EXECUTIVE SUMMARY

In July 2005, the Congress directed the IRS, the National Taxpayer Advocate, and the IRS Oversight Board to conduct a comprehensive review of IRS services and develop a five-year plan for taxpayer services. The IRS conducted the review to ensure that it made service-related decisions based on the needs and preferences of the taxpayer. Working with the Taxpayer Advocate and the Oversight Board, the IRS delivered the Taxpayer Assistance Blueprint (TAB) Phase 2 Report to the Congress in April 2007.<sup>1</sup>

Each year since the completion of the TAB, the Appropriations Committee has requested that the IRS, the National Taxpayer Advocate, and the IRS Oversight Board provide an update on the implementation of the TAB.<sup>2</sup> This year's progress report is the fourth TAB status update and presents the IRS activities and accomplishments for Fiscal Year (FY) 2011 (October 1, 2010 to September 30, 2011). This update describes the improvements the IRS has made in taxpayer services and its advancements in understanding taxpayer needs, preferences, and behaviors. It also describes proposed service outcome measures that will help the IRS assess its services and inform future services decisions.

### FY 2011 Taxpayer Service Improvements

This report reviews the progress the IRS made in FY 2011 towards improving service to make voluntary compliance easier. Three themes guided the FY 2011 service improvement activities:

- Preventing issues and expediting issue resolution for pre-filing, filing, and post-filing services
- Providing taxpayers a range of service options, including self-service
- Improving IRS.gov and other online services

During FY 2011, the IRS continued to improve the clarity, accuracy, and effectiveness of taxpayer correspondence when it added 74 new and redesigned notices to production. Preparing written guidance taxpayers can understand helps them take the appropriate action to resolve their tax issues and prevents issues from occurring. As of August 2011, the IRS had 104 redesigned notices in production, representing 72 percent of the notice volume the IRS sends each year. The progress the IRS has made in its notice redesign work earned the 2011 Grand ClearMark Award from the Center for Plain Language for the clearest language in two of its redesigned notices.

The IRS improved and expanded many of its taxpayer services in FY 2011, including improving the self-service options for ordering tax return transcripts and expanding its self-service Interactive Tax Assistant. The IRS also expanded its use of social media as a service channel. Taxpayers can now use social media to check refund status, subscribe to tax season updates, and follow IRS news, and small business owners can get retirement plan information. The IRS also improved the technology of the self-service kiosks in Taxpayer Assistance Centers (TACs),

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<sup>1</sup> Internal Revenue Service, *The 2007 Taxpayer Assistance Blueprint Phase 2*, April 11, 2007.

<sup>2</sup> Senate Report 111-238 accompanying S. 3677 (July 29, 2010): "The Committee directs the IRS, the IRS Oversight Board, and the National Taxpayer Advocate to submit to Congress annual updates to the Taxpayer Assistance Blueprint identifying any changes to its strategic plan for taxpayer service, including the results of any new research and relevant findings, and any open issues requiring additional research."

incorporating touch screen technology and a user-friendly configuration. As a result, more taxpayers are using the self-service kiosks. With 100 kiosks in 37 TACs nationwide, kiosk use grew from 9,000 contacts in 2010 to over 21,000 customer contacts in 2011.

In FY 2011, IRS worked with Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites to offer new service options: facilitated self-service return preparation and alternative VITA/TCE sites. With facilitated self-service, taxpayers with simple returns prepared their own tax returns with the assistance of a VITA volunteer. The alternate site model provided a central tax preparation point where certified VITA/TCE preparers completed tax returns based on documents they received from various locations by secure e-mail, scanners, and phone interviews with taxpayers.

The IRS took significant actions in FY 2011 to address taxpayer service gaps and provide transformative service technology over a multi-year time horizon. It established the Office of Online Services to provide the leadership to develop and execute a strategy to update and integrate IRS web services, which reach a potential audience of 200 million users. The IRS is integrating IRS.gov and Registered User Portals, which will provide the foundation for new secure services for America's tax community. This integration will come online in FY 2013. With the planned delivery of Customer Account Data Engine (CADE) 2 in FY 2012, the IRS will establish a new standard for providing account services. These actions will affect virtually all pre-filing, filing, and post-filing service activities.

One of the most important service initiatives the IRS has undertaken in recent years is the Return Preparer Initiative. This initiative establishes IRS oversight of tax return preparers, who now provide tax services to the majority of American taxpayers. For tax years 2008 and 2009, paid tax return preparers or taxpayers using consumer tax preparation software prepared approximately 90 percent of all federal individual income tax returns. The IRS moved to significantly strengthen its partnership with tax return preparers by establishing the Return Preparer Office and registering approximately 740,000 tax return preparers. Registration provides a platform for the IRS to work with tax return preparers, which will have long-term benefits for taxpayers and the IRS.

### **Understanding the Taxpayer Perspective**

Since the completion of the TAB in 2007, the IRS has continued to learn about taxpayers' service needs, preferences, and behaviors. Research, including efforts such as the W&I Taxpayer Experience Survey (TES) and the Benchmark Survey, has provided further insights about taxpayer service performance expectations, delivery preferences and behavior, and service satisfaction. Based on four years of data since the IRS issued the TAB Phase 2 report, service task and channel use trends have remained relatively consistent. The overall percentages related to awareness, use, and propensity to use various tax resources and services have remained consistent, implying that taxpayer opinions, preferences, and behaviors change slowly.

Findings from the 2010 TES demonstrate the importance of IRS efforts to focus on the three themes of this report. For example, 91 percent of taxpayers who called the IRS toll-free lines to order forms and publications, get economic recovery information, or get tax law questions answered had internet access. Among those taxpayers with internet access, 64 percent said that they had tried to obtain this information through IRS.gov. This statistic shows the importance of improving IRS.gov so that taxpayers can effectively use it to find the information they need.

## TAB Measures

The IRS continues to make progress in developing measures that supplement the assessment criteria proposed in the TAB Phase 2 report and align with the current 2009-2013 IRS Strategic Plan. The measures under development fall into three categories: the availability of information, the adequacy of services provided, and the efficiency with which the IRS meets taxpayer service needs. Using these key elements, the IRS developed five aggregate outcome measures to assess its taxpayer services:

- Percentage Aware of Service (under development)
- Toll-Free Assistor Level of Service (existing budget level measure)
- Taxpayer Self-service Rate (existing budget level measure)
- Service Interaction Score (existing long-term measure)
- Issue Resolution (under development)

The proposed measures will not replace current IRS performance measures; rather, they will complement existing measures of performance and provide a consolidated view of taxpayer service delivery from the perspective of taxpayers, partners, and tax professionals. Once the Services Committee finalizes and approves these measures, they will become part of internal business process reviews and business case development and will help the IRS assess the effects of new service initiatives.

## FY 2011 Challenges

As in past years, the IRS continued its improvement efforts in FY 2011 while delivering another successful filing season. The IRS also faced numerous challenges this past year, including late tax law changes, six short-term continuing resolutions during the filing season, and weeks of speculation about a possible government shutdown at the end of FY 2011.<sup>3</sup> The IRS spent most of the year in a hiring freeze, leading to reduced staffing levels. The combination of reduced staffing levels and higher demand for service resulted in aging taxpayer correspondence and reduced levels of telephone service.

The IRS developed contingency plans to deal with the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (PL 111-312), which the Congress passed December 17, 2010, to minimize disruption to the tax community during the filing season. The IRS could not process individual tax returns filed with Schedule A, *Itemized Deductions*, until it reprogrammed its computer systems. When the reprogramming was completed in mid-February, the IRS had received 28.8 million e-file returns and held 102,258 paper returns pending reprogramming. The resulting delays in return filing also altered calling patterns on the toll-free telephone lines, increasing telephone demand by 11 percent for the filing season and driving more telephone calls into peak periods.

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<sup>3</sup> Prepared Remarks of Douglas H. Shulman, Commissioner of Internal Revenue, CERCA Fall Meeting, Arlington, VA, October 12, 2011.

## INTRODUCTION

In July 2005, the Congress directed the IRS, the National Taxpayer Advocate, and the IRS Oversight Board to conduct collaboratively a comprehensive review of IRS services and develop a five-year plan for taxpayer services. The goal of the mandate was to ensure that the IRS made service-related decisions in light of the needs, preferences, and behaviors of the taxpayer. The Taxpayer Assistance Blueprint (TAB) project was a two-phase project the IRS designed to answer questions about the service needs and preferences of individual taxpayers. Working with the Taxpayer Advocate and the Oversight Board, the IRS delivered Phase 2 of the TAB to the Congress in April 2007.<sup>4</sup> Based on extensive research of the taxpayer perspective, TAB Phase 2 included a strategic direction for incorporating taxpayer and partner needs into IRS service improvement decisions.

Each year since the completion of the TAB, the Appropriations Committee has requested that the IRS, the National Taxpayer Advocate, and the IRS Oversight Board provide a performance update to the TAB. In response, the IRS delivered reports to the Congress describing implementation progress of the TAB in April 2008<sup>5</sup>, October 2009<sup>6</sup>, and most recently May 2011<sup>7</sup>. These reports summarized progress it made to improve taxpayer service, highlighted key service challenges, and provided details of research efforts to understand taxpayer needs, preferences, and behavior. The Appropriations Committee has requested an update of the TAB. This year's progress report describes the status of TAB implementation and efforts to improve taxpayer services for FY 2011, or October 1, 2010 to September 30, 2011.<sup>8</sup>

## §1. IRS ADVANCES IN UNDERSTANDING TAXPAYER NEEDS AND PREFERENCES

As a result of the TAB, the IRS is more knowledgeable about the service needs, preferences, and behaviors of taxpayers, partners, and IRS employees. One of the TAB's core objectives was to establish a credible taxpayer and partner baseline of service needs, preferences, and behaviors. While the TAB reports covered the extensive results of research conducted for the blueprint, several findings have particularly influenced the shape and direction of IRS service delivery. Four years ago, the research showed that:

- Most taxpayers do not contact the IRS for service.<sup>9</sup>

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<sup>4</sup> Internal Revenue Service, *The 2007 Taxpayer Assistance Blueprint Phase 2*, April 11, 2007.

The TAB Phase 1 report, delivered to Congress in April 2006, included a baseline of current taxpayer services and outlined key strategic improvement themes. The results of the first phase of the TAB are presented in *The 2006 Taxpayer Assistance Blueprint Phase 1* (April 24, 2006).

<sup>5</sup> Internal Revenue Service, *Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint, April 2007 to February 2008*, April 2008.

<sup>6</sup> Internal Revenue Service, *Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint*, October 22, 2009.

<sup>7</sup> Internal Revenue Service, *Annual Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint, April 2009 to September 2010*, May 24, 2011.

<sup>8</sup> Senate Report 111-238 accompanying S. 3677 (July 29, 2010): "The Committee directs the IRS, the IRS Oversight Board, and the National Taxpayer Advocate to submit to Congress annual updates to the Taxpayer Assistance Blueprint identifying any changes to its strategic plan for taxpayer service, including the results of any new research and relevant findings, and any open issues requiring additional research."

<sup>9</sup> *The Taxpayer Assistance Blueprint Phase 2*, Figure 2-9, p. 29.

- In general, taxpayers use self-service options for information-gathering tasks and use assisted-service options to resolve their problems.
- Service channel preferences vary among taxpayer segments. Also, a substantial percentage of taxpayers indicate they will not use IRS.gov to satisfy any of their service needs.<sup>10</sup>
- In general, the expected burden of completing a task influences taxpayers' service decisions, and the relationship between the expected and actual experience determines their satisfaction. With a positive service experience, a significant percentage of taxpayers will use the same channel to meet their future needs.<sup>11</sup>

Since the completion of the TAB in 2007, the IRS has continued to learn about taxpayers' service needs, preferences, and behaviors. Research, including efforts such as the W&I Taxpayer Experience Survey (TES) and the Benchmark Survey, has provided further insights about taxpayer service performance expectations, delivery preferences and behavior, and service satisfaction. Based on four years of data since the IRS issued the TAB Phase 2 report, service task and channel use trends have remained relatively consistent. The overall percentages related to awareness, use, and propensity to use various tax resources and services have remained consistent, implying that taxpayer opinions, preferences, and behaviors are generally slow to change.

### Taxpayer Awareness of IRS Services

Using IRS resources and services is conditional on taxpayers' awareness—taxpayers cannot use a service if they are not aware it exists. For the most part, service channel awareness among taxpayers for Tax Years (TY) 2008 and 2009 was similar, as shown in Table 1.

**Table 1. Awareness of Service Channel, TY 2008 & TY 2009**

IRS Channel	All Respondents TY 2008	All Respondents TY 2009
IRS.gov	82%	84%
Toll-Free Line	81%	79%
Written Correspondence	60%	61%
Local IRS Office	59%	60%
Volunteer Income Tax Assistance (VITA)	42%	58%
E-mail	50%	49%

For TY 2008, taxpayers who self-prepared their tax returns reported higher awareness of more IRS service channels than taxpayers who used a paid or volunteer preparer (see Table 2). Also, taxpayer awareness of IRS service channels varies by household income—taxpayers in the

<sup>10</sup> *The Taxpayer Assistance Blueprint Phase 2*, pp. 47-48.

<sup>11</sup> *The Taxpayer Assistance Blueprint Phase 2*, pp. 42, 47.

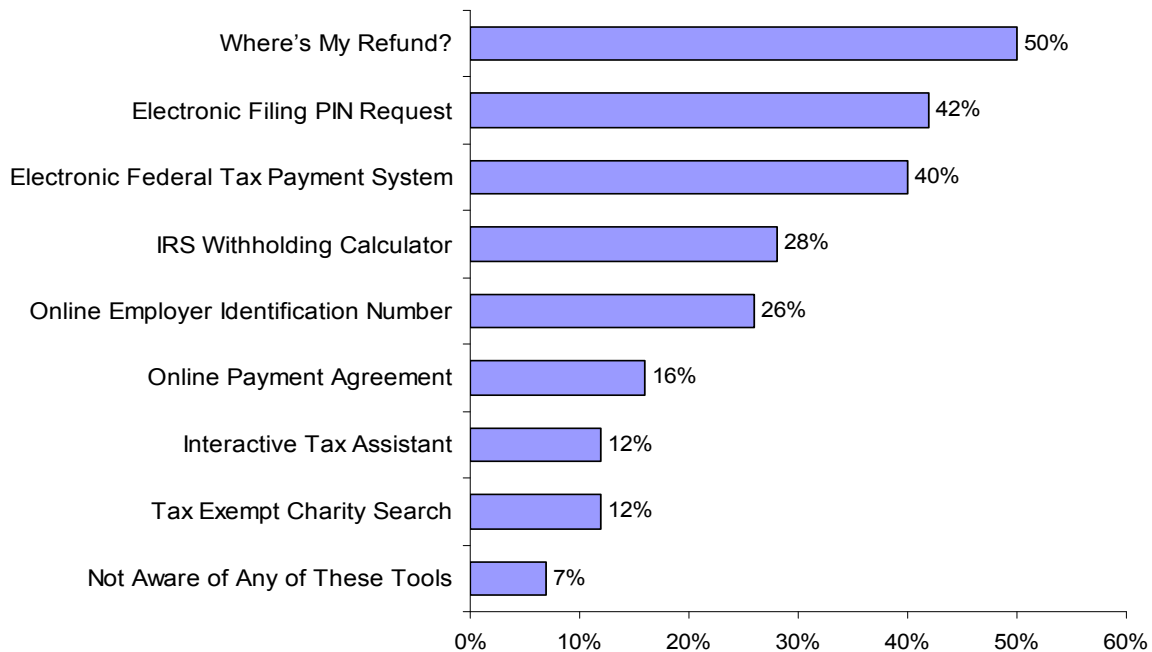


lowest income segment (less than \$15,000 adjusted gross income) reported the lowest awareness level for 12 of the 14 resources or services that were evaluated.

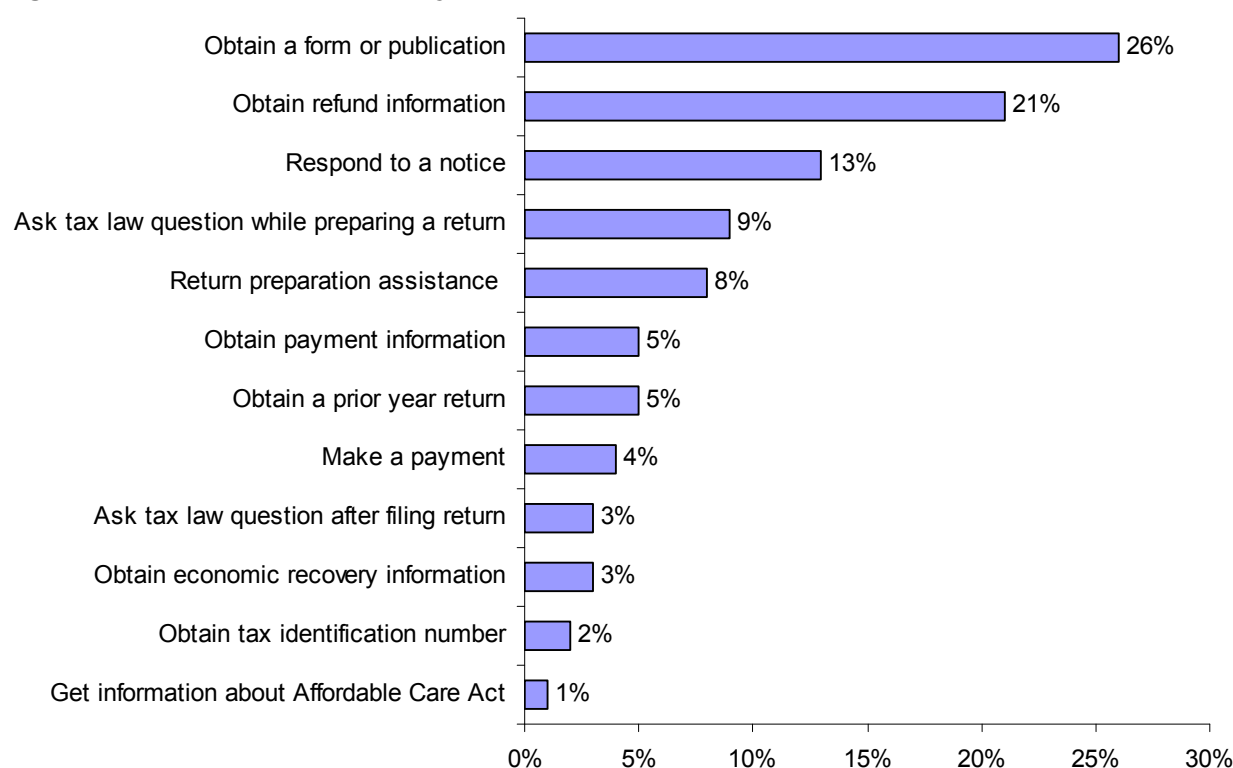
**Table 2. Awareness of Service Channel by Return Preparation, TY 2008**

IRS Channel	Self Preparer, Paper Forms	Self Preparer, Software	Tax Professional, Paper Forms	Tax Professional, Software	Volunteer Tax Preparation
IRS.gov	76%	87%	54%	65%	55%
Toll-Free Line	48%	42%	26%	31%	25%
Written Correspondence	35%	31%	22%	24%	17%
Local IRS Office	42%	33%	33%	31%	44%
VITA	36%	36%	27%	31%	73%
E-mail	25%	26%	14%	17%	13%
Pct. TY 2008 Taxpayer Population	9%	18%	14%	41%	3%

However, even when taxpayers report high awareness of an IRS service channel, they may be less aware of the specific resources available through that channel. For example, although 84 percent of taxpayers are aware of IRS.gov, general taxpayer population awareness of specific online services is low (see Figure 1). This finding suggests that while the IRS has done a good job of making taxpayers aware of IRS.gov, it must do more to help them understand what tasks they can accomplish through the website.

**Figure 1. Awareness of Online Services, TY 2009****Taxpayer Use of IRS Services**

Survey research shows that 58 percent of taxpayers use only non-IRS resources or services, while 16 percent use only IRS resources or services. Additionally, self preparers are significantly more likely to contact the IRS than those who use a preparer—61 percent of self preparers, 29 percent of taxpayers using a paid preparer, and 39 percent of those who use a volunteer preparer contacted the IRS for TY 2009. As shown in Figure 2, the most prevalent reason for contacting the IRS is to get a form or publication (26 percent of taxpayer-reported service interactions), followed by inquiring about a refund (21 percent).

**Figure 2. Service Interactions by Issue, TY 2009**

With the notable exception of obtaining a prior year tax return, taxpayers report they use IRS.gov most often to complete transactional tasks (i.e., tasks that require minimal in-person assistance, such as obtaining a form or publication). However, when responding to a notice or obtaining payment information, taxpayers said that they are more likely to call the IRS toll-free telephone lines. Table 3 presents taxpayer-reported service use by issue and channel.

**Table 3. Service Interactions by Issue and Channel, TY 2009**

Service Task	Channel Used		
	IRS.gov	Toll-Free Line	Other *
Obtain a form or publication	75%	15%	10%
Obtain refund information	49%	39%	12%
Respond to a notice	n/a	48%	52%
Ask tax law question while preparing a return	64%	23%	13%
Return preparation assistance	56%	29%	15%
Obtain a prior year tax return	26%	57%	17%
Obtain payment information	36%	47%	17%
Make a payment	40%	n/a	60%

\* includes local IRS office, regular mail, or e-mail

Taxpayers with lower household incomes reported higher use of non-web-based IRS service channels in the past 12 months than taxpayers in higher income households. Generally, use of non-web-based IRS service channels tends to decrease and use of IRS.gov tends to increase as household income increases (see Table 4).

**Table 4. Use of IRS Service Channels by Household Income, TY 2008**

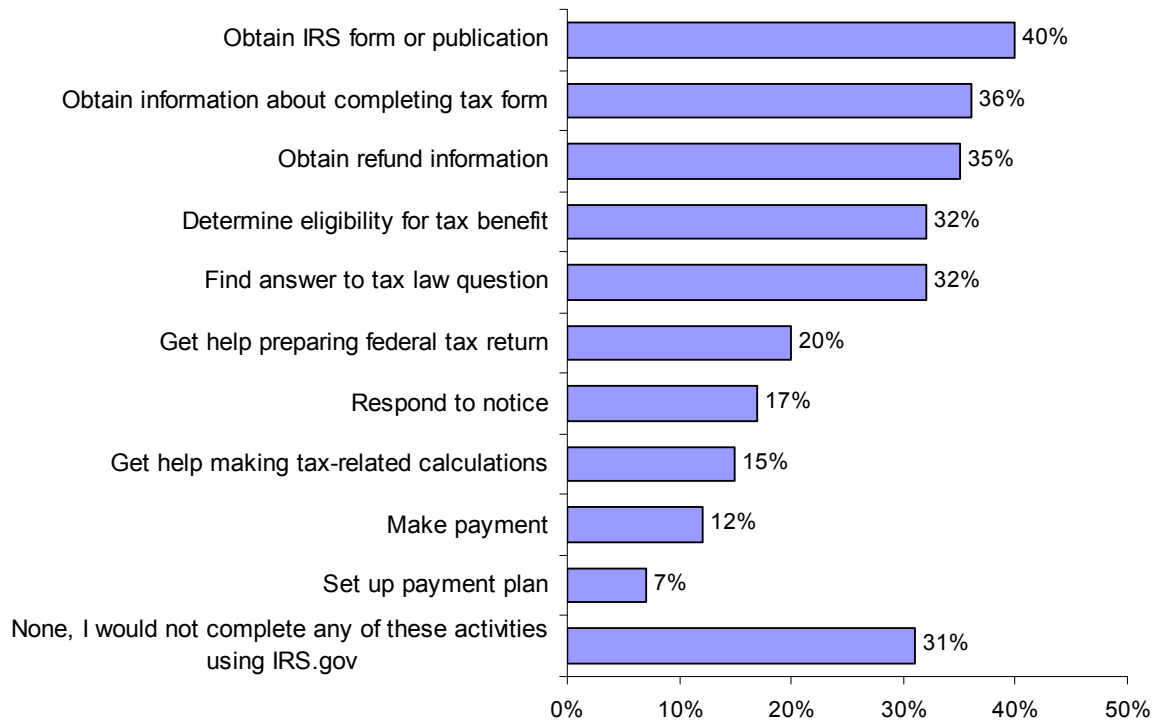
Percentage of Taxpayers Who Used Service Channel in Past 12 Months*	Total Household Income			
	Less than \$15,000	\$15,000 to \$34,999	\$35,000 to \$59,999	\$60,000 and over
Used at least one IRS service channel (excluding VITA)	53%	49%	47%	47%
IRS.gov	31%	30%	36%	37%
Toll-Free Line	31%	24%	18%	18%
Local IRS Office	14%	6%	6%	4%
Written Correspondence	10%	10%	7%	8%
E-mail	2%	4%	3%	3%
VITA	13%	8%	5%	2%

\* Taxpayers could report using multiple channels to contact the IRS during the 12-month period.

Most taxpayers report that they access the internet at home, but by income segment, higher income taxpayers are more likely to access the internet at home than lower income taxpayers. For example, 91 percent of high income taxpayers report accessing the internet at home, compared to 66 percent of low income taxpayers. The notable exception to this finding is in accessing the internet through a wireless device (personal digital assistant, cell phone, etc.). Using wireless devices to access the internet is almost identical between low income (adjusted gross income less than \$15,000) and high income (adjusted gross income greater than \$60,000) taxpayers, with 5.0 percent and 5.1 percent, respectively.

When surveyed about using IRS.gov to perform select tax-related activities, taxpayers reported a greater inclination to use the IRS website for information-gathering (i.e., transactional) activities than for problem-solving tasks (see Figure 3). Additionally, 31 percent of the respondents stated that they would not complete any of the listed activities using IRS.gov.

**Figure 3. Tax-Related Activities Taxpayers Would Perform in the Future Using IRS.gov, TY 2009**



Using the IRS toll-free lines for transactional activities remained high in two areas: obtaining a transcript of a prior year tax return, and getting refund information. Survey research shows that 91 percent of taxpayers who called the toll-free lines to obtain forms and publications, to get refund information or economic recovery information (including the Making Work Pay Tax Credit and the First-Time Homebuyer Credit), or to get their tax law questions answered had internet access. Of these taxpayers, namely, those who called the IRS with these service needs and had internet access, 64 percent reported trying to obtain the information on IRS.gov, which was higher than last year (50 percent). To ensure that IRS.gov is an effective self-service resource for taxpayers, the IRS must learn more about the experiences of taxpayers who are unsuccessful in finding their information online.

Six percent of taxpayers used a local IRS office or a toll-free line instead of IRS.gov to get information. The top reasons for using these channels instead of IRS.gov include:

- Called the IRS toll-free line before ..... 47%
- Letter said to call ..... 26%
- Don't believe questions can be answered by using IRS.gov.... 24%

Meanwhile, the top reasons cited for contacting the IRS using mail instead of other channels included:

- IRS required the information by mail ..... 47%
- Never thought about contacting the IRS any other way ..... 32%

## **Taxpayer Perspectives on IRS Services**

New to the 2010 TES were questions about information clarity by service channel and taxpayer confidence in using the information the IRS provided. Across all channels, most taxpayers understood the information the IRS provided to them (local IRS office, 93 percent; IRS.gov, 91 percent; toll-free lines, 88 percent; and mail, 84 percent) and had confidence in their ability to use the information (IRS.gov, 97 percent; toll-free lines, 91 percent; local IRS office, 91 percent; and mail, 93 percent).

Of those taxpayers who contacted the IRS in the past 12 months, 85 percent expected to resolve or complete their task with just one contact. However, 36 percent of taxpayers who contacted the IRS did so more than once to resolve their most recent issue, which is comparable to last year. Taxpayers who contacted the IRS about post-filing issues were most likely to require multiple contacts (obtain payment information, 60 percent; respond to notice, 53 percent; obtain refund information, 42 percent). Ultimately, most taxpayers (82 percent) felt that they had resolved their issues after their contact with the IRS, but issue resolution rates vary by task. Complete issue resolution was highest for obtaining a form or publication, getting refund information, and making a payment. Resolution was lowest for obtaining tax law information other than information for a notice.

Approximately 16 percent of taxpayers reported receiving a notice on a federal return in the past 12 months, with self-prepared paper filers more likely to receive a notice than the general tax population (31 percent received notices). While 22 percent of taxpayers said it took less than one day to resolve their most recent notices, 11 percent reported that it took longer than three months, and 20 percent reported that their issues remained unresolved. Taxpayers who received a notice reported that improving the notice process was the top improvement priority, emphasizing a need to simplify language, improve ease of understanding, and shorten resolution timeframes.

The 2011 TAB Conjoint Update Survey gathered information about preferences for using social media as a taxpayer service channel. Preliminary results indicate that preference for IRS social media (i.e., Facebook, YouTube, Twitter, etc.) is low compared to more established IRS service channels. The service needs for which taxpayers show the greatest preference for IRS social media are assistance with determining credits or deductions and getting prior year return information. Among taxpayers who own a smartphone, almost one-third prefer receiving notice through a smartphone application when a transaction is resolved. Further analysis of the conjoint survey data will provide greater insight into IRS service channel preferences.

## **Implications of Survey Findings**

While a significant majority of taxpayers would use online resources to complete transactional tasks, a significant minority are not willing or able to use web-based self-service tools. Cluster analysis of attitudinal statements in the 2010 TES revealed three internet-related taxpayer segments: those who are comfortable using the internet (38 percent); those who are concerned about internet security (28 percent); and those who are indifferent (35 percent). Generally, the maximum web application adoption is between 70 percent and 80 percent of the taxpayer population and the estimate for non-adoption is between 20 percent and 30 percent of taxpayers. The IRS's web marketing should make pro-internet taxpayers aware of IRS.gov offerings, emphasize the benefits of using IRS.gov to taxpayers who are indifferent to the website, and adjust non-web work plans to anticipate contacts from taxpayers not interested in using IRS.gov.

An interesting exception to this hypothesis is the growing use of wireless devices, which appears to have relatively equal effect across all taxpayer income ranges. The ubiquity and increasing familiarity with using phone applications presents a rapidly emerging self-service model that increases the number of online users.

Two taxpayer segments use IRS services disproportionately more than the general population—self-preparers and low-income taxpayers. Both segments warrant closer study to shape communication, service development, and outcome measurement strategies.

Survey data suggests several potential areas to manage service channel contact volumes. For example, the IRS needs to keep taxpayers in the IRS.gov channel, as it is increasingly the first service delivery choice for taxpayers looking for tax-related information. Currently, the IRS is working to improve navigation, search effectiveness, interactive capabilities, and tailored answers on IRS.gov to reduce multi-channel contacts. Also, the IRS should consider redesigning taxpayer communications to emphasize and prioritize service options, depending on the nature of the issue or task.

## §2. IRS STRATEGIC PLAN REFLECTS TAB PRINCIPLES

The TAB has effectively enhanced the IRS working culture and service delivery models. The IRS uses information from ongoing research on taxpayer needs and preferences during operational decision-making as well as strategic planning. The *IRS Strategic Plan 2009-2013* and the TAB both show a strong commitment to incorporating the taxpayer perspective into service improvement decisions and performance assessment. Last year's annual TAB progress report to the Congress detailed the alignment of the TAB guiding principles with the IRS Strategic Plan, illustrating how each similarly addresses taxpayer services and service improvements.<sup>12</sup> A crosswalk between the TAB guiding principles and IRS Strategic Plan objectives is in Appendix A.

In 2009, the IRS released its plan for the long-term direction of the organization. The *IRS Strategic Plan 2009-2013* established the following goals and foundations to guide the IRS in achieving its mission to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and to enforce the law with integrity and fairness to all:

Strategic Goal 1: Improve service to make voluntary compliance easier

Strategic Goal 2: Enforce the tax law to ensure everyone meets their obligation to pay taxes

Strategic Foundations: Invest for high performance in people and technology

While taxpayer service is a part of tax enforcement, the first strategic goal most reflects the TAB guiding principles. In the IRS Strategic Plan, four business objectives describe the actions that will help the IRS work towards this strategic outcome:

- Incorporate taxpayer perspectives to improve to all service interactions

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<sup>12</sup> Internal Revenue Service, *Annual Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint, April 2009 to September 2010*, May 24, 2011, pp. 5-8.

- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS
- Provide taxpayers with targeted, timely guidance and outreach
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties in order to ensure effective tax administration

To show the integration of the TAB into the strategic direction of the IRS, this year's progress report will showcase how service improvements support the IRS Strategic Plan. This report reviews the progress the IRS made in FY 2011 towards achieving the first goal of improving service to make voluntary compliance easier and the supporting objectives and strategic foundations. This report will also describe completed and ongoing research that will inform future service improvement decision-making.

### **§3. SERVICES COMMITTEE OVERSEES ENTERPRISE-WIDE ACTIVITIES**

Another way the TAB has changed the way the IRS does business is the IRS Services Committee. This committee meets quarterly to review significant taxpayer service developments and oversee enterprise-wide service strategies. The Deputy Commissioner for Services and Enforcement chairs the Services Committee, which consists of senior executives representing the IRS Operating Divisions and the National Taxpayer Advocate.

The Services Committee recognizes that IRS service, compliance, and technology programs are interdependent and that all contacts with taxpayers affect taxpayer perceptions about service. Therefore, in FY 2011, the IRS expanded the Services Committee membership to include the directors of the new Office of Online Services and the Return Preparer Office. This change is in keeping with the IRS Strategic Plan's emphasis on complementary service, compliance, and technology improvements over time.<sup>13</sup>

In FY 2011, the Business Operating Divisions and the National Taxpayer Advocate provided progress updates on their top service improvement activities and plans. Much of the subject matter presented to the Service Committee is in this report. The majority of the Operating Division activities the Committee discussed focused on issue prevention and expedited issue resolution. These themes are consistent with the high value taxpayers placed on issue resolution.

Some notable FY 2011 Services Committee topics included:

- Redesigning the customer satisfaction survey program to make the results more meaningful for informing servicewide operational change
- Using videos and social media to educate taxpayers about what to expect in an audit
- Improving taxpayer correspondence

The Services Committee also reviewed recent taxpayer service research that showed the effect of taxpayer assistance on compliance. This research demonstrated some of the challenges that taxpayers have in filing accurate tax returns, even when service is available.

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<sup>13</sup> Internal Revenue Service, *IRS Strategic Plan 2009-2013*, April 2009.



In FY 2012, the Services Committee will continue to play a significant role in assuring a servicewide emphasis in, and sharing of, service improvements and best practices that are consistent with the IRS Strategic Plan.

## **§4. FY 2011 SERVICE IMPROVEMENTS MAKE COMPLIANCE EASIER**

The IRS has not significantly changed its desired strategic outcomes since the introduction of the TAB; however, it has refined how it identifies its operational activities and priorities, based on changes in knowledge, experience, and environmental variables. Since the alignment of the IRS Strategic Plan with the TAB guiding principles, the IRS has organized service improvements around its Strategic Plan objectives. The following examples illustrate key themes, activities, and trends that the IRS emphasized in FY 2011 to achieve its service objectives in support of the IRS mission. For information about additional FY 2011 service improvements, see Appendix B.

### **4.1. Incorporate Taxpayer Perspectives to Improve All Service Interactions**

The IRS gathers taxpayer perspectives directly from a variety of sources including surveys, quality assurance programs, taxpayer issue programs, the IRS Oversight Board, the National Taxpayer Advocate, the Taxpayer Advocacy Panel, focus groups, and indirectly from IRS employee feedback and operational data. The IRS uses this information to identify gaps in service performance and opportunities for improvement. The IRS conducts at least 60 different Customer Satisfaction Surveys on taxpayer perspectives. The following examples illustrate how it gathers taxpayer perspectives and incorporates them into IRS service improvement projects. The IRS designed its service improvement projects to meet the needs of the tax community, including subsets of customers with similar preferences, such as taxpayers who prefer self-service resources.

#### **Customer Satisfaction Surveys Redesigned**

The IRS completed a Customer Satisfaction Survey Program review in February 2010 and based on the findings, implemented Phase I of a three-year improvement project in FY 2011. The FY 2011 objectives for the Customer Satisfaction Improvement Program were to: integrate survey design and administration across similar programs, pilot redesigned surveys, and deliver improved analysis and customized reports. This new servicewide approach will help the IRS to apply the taxpayer perspectives it gathers through surveys to improve IRS operations.

The first pilot project using this new approach was to redesign the customer satisfaction surveys for similar compliance programs. Survey questions were mapped to specific business processes and operational improvements, and addressed customers' performance expectations. The redesigned surveys, which the IRS began to administer in May 2011, will allow the IRS to compare customer satisfaction across these programs. The IRS will begin to administer additional redesigned surveys in April 2012. The IRS will use the data and taxpayer perspectives gathered from the surveys to measure customers' expectations and satisfaction on key points of interaction with the IRS.

### **Self-Service Interactive Tax Assistant Expanded**

The IRS designed the self-service Interactive Tax Assistant (ITA) to quickly guide taxpayers using IRS.gov to accurate answers to tax law questions. The ITA uses a probe-and-response model that is similar to the one that IRS customer service representatives use. The system asks taxpayers questions about their circumstances to tailor responses to their specific situations. In addition, the information taxpayers reveal about their needs will provide indicators in the customer service data about how to improve existing programs. For example, analysis of operational data shows that the order that the system presents choices to taxpayers in self-service applications affects their ability to find the information they need and that changing the order can improve the completion rate.<sup>14</sup>

In 2010, the IRS used operational data from frequently asked taxpayer questions to improve the processes for answering questions about seven tax law topics on IRS.gov. In February 2011, the IRS added modules for four new tax law topics to its website and continues to use customer service data to improve interactive applications. Cumulatively through September 30, 2011, taxpayers have visited over 238,000 ITA topics and completed over 176,000 topic modules. The overall completion rate is 74 percent and is increasing steadily as the IRS improves the application. The IRS is developing eight new topics for the ITA that were selected based on analysis of operational data, such as how frequently assistors use the site when providing tax law assistance to the public.

### **Use of Facilitated Self-Service Kiosks at Taxpayer Assistance Centers Increased**

Kiosk use at Taxpayer Assistance Centers (TACs) has increased as technology has improved. Using touch screen technology and a user-friendly configuration, the kiosks allow taxpayers to access e-services through IRS.gov, with live assistance from a TAC employee available as needed. Taxpayers use the kiosks to e-file through the Free File program, print forms and publications, apply for an Employer Identification Number, and perform other tax-related tasks. In FY 2011, 100 kiosks were in use at 37 TACs nationwide. Self-service kiosk use has grown from 9,000 contacts in 2010 to over 21,000 customer contacts in 2011.<sup>15</sup>

Kiosks provide self-service options that many consumers are familiar with from grocery stores, airports, banks, and so on. In TACs, the kiosks have a computer with IRS.gov access and a TAC employee who is available to assist taxpayers as needed. The kiosks give taxpayers the opportunity to receive service with less wait time than traditional face-to-face services. One IRS employee can monitor multiple kiosks, which allows other employees to work with taxpayers on more complex service tasks. In addition to gathering the information that they need, taxpayers who use the kiosks learn what services are available on IRS.gov in a familiar and supportive environment. This technology-driven initiative introduces taxpayers to an alternate way of getting information that does not require the time and expense of visiting the nearest IRS office. Customer feedback indicates that taxpayers preferred to use the kiosks for some services, such as getting forms and publications and preparing their tax returns, and they plan to use IRS.gov in the future.

### **Taxpayer Perspectives Used to Improve Taxpayer Advocate Services**

To improve its service interactions, the Taxpayer Advocate Service (TAS) implemented service initiatives during this fiscal year that incorporated the taxpayers' perspectives. For example,

<sup>14</sup> The completion rate is the percent of taxpayers who complete a task that they begin.

<sup>15</sup> January 1, 2011, through April 30, 2011, compared to the same period in the previous year.

TAS employees who recognize domestic violence and abuse can avoid contributing to the victims' distress and can often alleviate harm simply by reaching the correct tax result. In FY 2011, the National Taxpayer Advocate produced new training, *Recognizing and Working with Taxpayers Who Have Experienced Domestic Violence and Abuse*, which is mandatory for all TAS employees. This training course consists of a video, participant guide for employees, and facilitator guide. IRS employees also received training from experts on domestic abuse and violence, to better serve taxpayers such as those requesting innocent spouse relief.

Another TAS initiative involves routing cases it receives to offices near or in the taxpayer's zip code. This initiative, which is active in 16 TAS local offices, directs referrals from co-located IRS call centers to the local TAS office aligned with the taxpayer's zip code. As a result, the taxpayer's "home" office provides service through case advocates located in the same time zone who have the knowledge and understanding of unique geographic issues and who can provide walk-in service when appropriate.

### **Assessment of Using Taxpayer Perspectives to Improve IRS Services**

The IRS continues to make progress in incorporating taxpayers' perspectives to improve service interactions. Understanding taxpayer behavior is a complex endeavor, but continued research and analysis of taxpayer behavior and decision-making processes has led the IRS to a more nuanced understanding of their preferences. The IRS is revising its extensive survey program to uncover more information about taxpayers' views, preferences, and performance expectations. By adding performance expectations to the mix, the IRS can more effectively align channels and services to meet taxpayer expectations. To address the diversity of IRS customers and their varying needs, behaviors, and preferences, the IRS provides more than one channel for taxpayers to resolve tax matters when it is feasible and cost effective to do so. Regardless of which service channel taxpayers use, better understanding of the taxpayers' perspectives can improve their service experiences.

One theme that has emerged throughout the service improvement projects is the importance of self-service options in meeting taxpayers' information needs. Many taxpayers choose self-service options to perform information-gathering tasks, which reduces the cost of obtaining and providing these services and allows the IRS to deploy resources to address more complex taxpayer needs.

## **4.2. Expedite and Improve Issue Resolution**

Preventing and resolving issues are central themes of IRS service improvement projects. The following examples illustrate actions the IRS took in FY 2011 to expedite issue resolution for various taxpayer segments with different service needs. Expedited issue resolution illustrates the complementary nature of service and enforcement programs—the IRS can help taxpayers avoid issues by answering questions and resolving problems before they file their returns.

The IRS provides multiple channels for taxpayers to complete their information-gathering tasks. Given its finite resources, the IRS is expanding and improving self-service options so that they will be a taxpayer's first choice for their informational needs. This will conserve in-person assistance to resolve more complex issues or problems. For compliance matters, issue prevention and alternatives to traditional issue resolution may be much faster and less costly for both the taxpayer and the IRS and therefore, preferred by both. The following examples show

how the IRS is providing alternatives for taxpayers to help prevent and quickly resolve their issues.

### **Compliance Assurance Process Made Permanent**

Large corporate taxpayers prefer to reach tax certainty as quickly as possible for financial reporting purposes and to minimize the time and cost of issue resolution in audits. The IRS started the Compliance Assurance Process (CAP) pilot in FY 2005 to determine if enhanced transparency between the IRS and large corporate taxpayers would lead to improved issue resolution. In exchange for more openness and transparency before filing, the IRS helps to resolve issues early and ensure they file accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with their tax obligations at the time they file the return, rather than waiting for the IRS to examine issues during the audit.

The CAP involves some of the largest U.S. corporations and has grown from 17 participants in FY 2005 to 140 in FY 2011. In a 2010 survey of CAP business taxpayers, 92 percent reported satisfaction with their experience participating in the CAP program. Other highlights from the survey include:

- Over 94 percent are likely to recommend CAP
- 77 percent had less overall time spent on audit
- 67 percent reported reduced staff burden
- 95 percent reported increased tax certainty under the CAP

Because CAP has successfully resolved issues before taxpayers file their tax returns, the IRS issued guidance in March 2011 that makes CAP permanent in 2012 and available to a greater number of taxpayers. The IRS also expanded the program to include two additional components: a pre-acceptance phase (Pre-CAP), which provides interested taxpayers an opportunity to work with the IRS towards becoming eligible for the CAP, and a CAP maintenance phase for taxpayers who have established a record of working cooperatively with the IRS through the CAP.

### **Self-Service Options for Ordering Tax Return Transcripts Improved**

In FY 2011, nearly two million taxpayers successfully completed automated requests for prior year tax return transcripts by telephone and online without the use of employee assistance. These taxpayers represent over half of the taxpayers who used the automated self-service option for their transcript requests; the remaining taxpayers used employee assistance to complete their automated requests. The number of successful requests in FY 2011 increased almost sevenfold over FY 2010, when less than 290,000 taxpayers completed their requests without assistance. The proportion of taxpayers in FY 2011 who successfully completed their automated transcript requests without being transferred to a telephone assistor tripled from FY 2010—from 18 percent for FY 2010 to 55 percent for FY 2011.

To achieve these improvements, the IRS analyzed telephone response data to determine why the system routed customers to telephone assistors, and then identified process changes that would improve the completion of automated transcript requests. Based on the data analysis, the IRS revised telephone messages to improve self-service issue resolution, and launched a new toll-free telephone line in October 2010 that gives callers direct access to the automated self-service application.

For taxpayers who prefer to use the internet to obtain information, the IRS released a new web application in January 2011 that allows taxpayers to order tax return transcripts on IRS.gov. The IRS streamlined the online prompts to make it easier for taxpayers to complete transactions and resolve issues that do not require an assistor. The high completion rate for online transcript requests (72 percent) relative to automated telephone requests (49 percent) highlights the effectiveness of the online application for taxpayers who choose to use it.

**Table 5. Tax Return Transcript Requests**

	Transcript Requests FY 2011			Total Transcript Requests: Telephone and Online	
	Telephone, Using New Number	Telephone, Using All Other Numbers	Online	FY 2011	FY 2010
Requests Received	920,954	1,655,454	1,045,749	3,622,157	1,615,589
Requests Completed	450,834	772,974	755,831	1,979,639	288,793
Percent Completed	49.0%	46.7%	72.3%	54.7%	17.9%

### Alternative Dispute Resolution Services Expanded

The IRS Appeals Office serves as the administrative dispute resolution forum for any taxpayer contesting an IRS compliance action. The IRS also offers a range of alternative dispute resolution options for taxpayers with different needs and circumstances, including Fast Track Settlement (FTS), Fast Track Mediation, Post Appeals Mediation, Early Referral to Appeals, and Arbitration. The purpose of Alternative Dispute Resolution (ADR) services is to give taxpayers the opportunity for an expedited resolution of their tax issues before their case goes through an administrative appeal or Tax Court filing.

During FY 2011, the IRS expanded the use of ADR programs. The IRS is making permanent a nationwide FTS service for tax-exempt taxpayers. It also extended a FTS pilot program for small business taxpayers and improved the existing FTS service for large business taxpayers. The FTS is a resolution service that uses a trained Appeals mediator to assist a taxpayer and an IRS compliance function with resolving a tax dispute in less time than the traditional administrative appeal process. Taxpayers value the FTS service because it allows them to resolve issues and reach tax certainty much faster and at a lower cost than following the regular appeal process. For example, FTS can typically resolve the issues of large business taxpayers who enter into FTS agreements within 120 days rather than the 500 days or more for a traditional appeal.

### Identity Theft Strategy Implemented

In 2011, hundreds of thousands of taxpayers were impacted by identity theft that occurred outside the tax system, but ultimately impacted their tax returns. A common example is where the victim's social security number (SSN) is used to file a fraudulent tax return. To combat the growing issue of identity theft, the IRS developed a comprehensive identity theft strategy that addresses both fraud prevention and victim assistance. Through the programs and systems created as part of this strategy, the IRS is working to ensure that the taxpayer's tax filing issues are resolved and the possibility of such crimes happening in the future is minimized.

The IRS established the Identity Theft Assessment and Action Group (ITAAG) to address the significant challenges surrounding identity theft and the tax system. The significant challenges facing the IRS are:

- Keeping pace with a growing identity theft case load that is increasing in complexity
- Achieving consistency in the implementation of identity theft procedures across multiple Business Operating Divisions
- Improving taxpayer service and efficiency of processing identity theft cases while managing the complex and distributed nature of the identity theft case resolution process

Among its various duties, the ITAAG is responsible for improving taxpayer services and overall processing efficiencies and identifying key pain points and tools available to reduce taxpayer burden.

The IRS is also expanding a pilot program that provides special identification numbers to identity theft victims to use when filing their tax returns. The special identification number allows the taxpayer's return to by-pass specific filters that may otherwise cause processing delays and prevent processing of the fraudulent return. The pilot was launched in January 2011, with Identity Protection Personal Identification Numbers (IP PIN) issued to over 50,000 taxpayers who were identity theft victims. Based on the positive results of the pilot, the IRS has expanded the program for the 2012 filing season, and has issued IP PINs to more than 200,000 taxpayers who have suffered identity theft in the past.

To make sure that employees have the tools and the sensitivity they need to respond in an appropriate manner to those who have been victimized by identity theft, the IRS developed an identity theft training course that is mandatory for all employees assigned to identity theft case processing and customer service. The training not only references technical issues, but will also remind employees to view identity theft from the taxpayer's perspective.

### **Taxpayer Assistance Orders Used for Hardships**

The National Taxpayer Advocate has the authority to issue a Taxpayer Assistance Order (TAO) when a taxpayer is suffering, or is about to suffer, a significant hardship because of the way the IRS is applying the tax laws.<sup>16</sup> Case advocates can use the TAO to resolve TAS cases, and the TAS has implemented various approaches to enhance Local Taxpayer Advocates' (LTAs) understanding of the types of cases that require TAOs. One such approach involves coordinated monthly discussions with all LTAs about case scenarios that may result in a TAO. These discussions (TAO Cafes) help LTAs share experiences and approaches, and help inform LTAs about what is necessary to resolve cases. The cafes have helped LTAs overcome the reluctance to issue TAOs and have provided a forum to share strategies to make a more effective argument on behalf of the taxpayer.

## **4.3. Provide Taxpayers with Targeted, Timely Guidance and Outreach**

Providing targeted, timely guidance and outreach helps taxpayers understand and meet their tax responsibilities and prevents problems or errors from occurring. One common challenge in

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<sup>16</sup> The Internal Revenue Code under IRC 7811 authorizes the National Taxpayer Advocate (NTA) to issue a Taxpayer Assistance Order (TAO) when a taxpayer is suffering or is about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered.

providing guidance and outreach to taxpayers is assuring that the communication is clear. Providing targeted tax guidance to a U.S. and international taxpayer base of approximately 250 million individuals, businesses, partnerships, nonprofit organizations, and government entities requires identification of manageable segments of taxpayers that have common characteristics and needs. Providing timely guidance requires understanding when taxpayers want and need to receive information from the IRS and how they process that information. Providing effective outreach requires developing communication that does not simply inform, but also motivates the taxpayer to take the required action and provides the information necessary to do so.

Taxpayers may need guidance to fill gaps in knowledge because of changes in the tax law, changes in IRS procedures, or the complexity of the tax law. To meet the needs of a diverse population, which has differing needs and preferences about how and where to get their tax information, the IRS uses multiple communication channels. For example, print media, telephone, broadcast, videos, online, e-mail, social media, and face-to face assistance all provide ways to get information.

The IRS is adopting new technology to provide targeted and timely guidance to the tax community and is encouraging the transition to electronic delivery of forms and information as businesses and the U.S. population adopt these technologies. In FY 2011, getting forms and publications continued to be the single most frequent reason that taxpayers contacted the IRS. Communication through traditional channels for these tasks continues to form a significant, but declining, portion of IRS interaction with the public, and this trend is likely to continue.

The following examples illustrate developments in using new and traditional communication channels to reach IRS customers, identifying information gaps, and using best practices in clear writing to prevent issues from occurring.

### **Service Channels Expanded to Provide Targeted Tax Guidance**

In FY 2011, the IRS continued to provide targeted and timely guidance on IRS.gov on a wider range of tax topics. By posting Frequently Asked Questions (FAQs) and other information on IRS.gov, the IRS can supplement formal guidance, such as field directives, revenue procedures, and instructions, and respond to taxpayer questions quickly. Some of the new FAQ topics covered in FY 2011 include the Offshore Voluntary Compliance Program, filing requirements for uncertain tax positions, the Adoption Credit, the First-Time Homebuyer Credit (FTHBC), and the Gulf Oil Spill. Webinars are another popular means to reach a targeted audience with a live interaction that the IRS can record and store on IRS.gov for future use by the tax community.

The IRS continued to expand services for the disabled. For the 2011 filing season, the IRS made available for public use:

- 642 "talking tax forms"
- 295 tax forms and 142 tax publications for download in Braille
- 195 tax instruction booklets and 140 publications for download in large print

### **IRS Guidance and Refund Status Made Available on Social Media**

In FY 2011, the IRS designed and released IRS2Go, its first smartphone application (app) designed specifically for mobile device users. Launched on January 15, 2011, the first release allowed users to check refund status, subscribe to tax season updates, and follow IRS news

through a Twitter feed. The IRS created the IRS2Go app from the perspective of the taxpayer, with features based on an analysis of how they use IRS.gov, as well as mobile application trends. The IRS made design updates to the application based on user experience and now offers self-service capabilities to taxpayers who want information on their smartphone. The number of IRS Twitter followers increased significantly after the release due to the easy access from mobile devices. The press coverage was so extensive that IRS2Go's download numbers reached approximately 360,000 as of September 2011.

This application is particularly significant because the IRS TES data shows that across income ranges, taxpayers who own mobile devices use them to complete information-gathering tasks at similar rates. This suggests that the IRS may have the ability to reach taxpayers who have traditionally preferred assisted interaction with self-service applications like IRS2Go. Plans for future releases of the application include YouTube and limited IRS.gov integration.

### **Social Media Channels Used to Provide Information to Small Business Owners**

Small business owners usually do not have dedicated retirement plan staff or help from retirement plan professionals. To assist them, the IRS conducted a focus group study to learn more about their needs, and to identify new ways to deliver retirement plan information. Using data from the study, the IRS developed a comprehensive suite of targeted guidance and outreach activities, including webinars, YouTube videos, targeted electronic newsletters, Tax Forum presentations, and other channels such as Twitter, to improve small businesses' understanding of tax aspects of retirement plans.

### **Taxpayer Correspondence Redesigned**

Data from the TES indicates that improving the notice process is a top priority for taxpayers who receive notices, and that using simple, easy-to-understand language in notices is their top suggestion for improving the process. During FY 2010, the IRS created the Office of Taxpayer Correspondence (OTC) to address the consistency, clarity, and effectiveness of IRS communications to taxpayers about their accounts. The OTC focused on improving the taxpayer service experience through more effective communications with taxpayers. The IRS formed a servicewide research and analysis team to create a method for evaluating the effectiveness of new and revised notices. This team gathers taxpayer input at a usability lab that conducts web-based surveys and assesses taxpayer behavior. They use this information to evaluate taxpayer perception and comprehension of IRS notices and the effect of redesigned notices on issue resolution.

In FY 2011, the IRS continued to improve the clarity, accuracy, and effectiveness of taxpayer correspondence by adding 74 new and redesigned notices to production. As of August 2011, 104 notices were in production, representing 72 percent in volume of the over 220 million notices IRS sends each year. The February release of redesigned notices included new language in delinquent account collection notices that helps taxpayers better understand the collection process. The revised notices explain payment options in plain language, and for high-volume notices, the IRS included links to translations of the notices into five languages (Spanish, Chinese, Korean, Vietnamese, and Russian).

In July 2011, IRS received the 2011 Grand Prize ClearMark Award from the Center for Plain Language for two of its redesigned notices. The winning notices stood out for their use of easy-to-find instructions, active voice, and clear, concise language. The ClearMark Awards honor the



best in communication and plain language, celebrating documents and websites that succeed in communicating clearly.

### **Assessment of Providing Taxpayers with Targeted, Timely Guidance**

The IRS continues to improve its communications, proactively providing taxpayers with targeted, timely guidance by using both new and traditional communication channels to reach its audience. Receiving the Grand Prize ClearMark Award illustrates the progress the IRS has made in assuring that taxpayers understand its written correspondence. Clearly written letters and notices often prevent additional issues from occurring, which is a recurring theme in FY 2011 service improvement projects. Expanding the FAQs can also prevent issues from occurring by allowing the IRS to reach specific segments of taxpayers with targeted guidance. In addition to traditional communication channels, the IRS has begun to use a variety of new channels, including social media like YouTube videos, webinars, and Twitter, to reach taxpayers with different communication preferences. Electronic communication is faster, less costly, and allows more precise targeting of guidance to taxpayers who need it. The smartphone application IRS2Go signals a new way to reach a broad spectrum of the tax community.

## **4.4. Strengthen Partnerships with Tax Practitioners and Other Third Parties**

The IRS research data shows that the majority of taxpayers use intermediary resources such as paid and unpaid preparers or commercial tax preparation software to prepare their tax returns, get information, and resolve account problems. Taxpayer representatives have numerous contacts with the IRS on behalf of their clients. The IRS is working to strengthen its relationship with third parties to help promote competent and accurate assistance to taxpayers. The IRS established the Return Preparer Office to strengthen its partnership with the tax professional industry. Further, working through volunteers to provide tax preparation assistance allows the IRS to expand the scope of its services. The following examples illustrate how the IRS is working with partners to identify gaps and provide new services.

### **Return Preparer Office Established**

One of the most important service initiatives that the IRS has undertaken in recent years is the Return Preparer Initiative. This initiative establishes IRS oversight of paid tax return preparers, who now provide tax services to the majority of American taxpayers. Between 1993 and 2005, the number of taxpayers who prepared their own tax returns without outside assistance fell more than two-thirds. For TY 2008 and TY 2009, paid tax return preparers or taxpayers using tax preparation software prepared approximately 90 percent of all federal individual income tax returns.

In addition to preparing tax returns, tax return preparers have an opportunity to educate taxpayers about the tax laws, facilitate electronic filing, and reduce the stress and anxiety often associated with the tax filing season. Tax return preparers may explain to taxpayers their rights and responsibilities. Tax return preparers advise their clients, identifying issues where the guidance is unclear and assessing the risks associated with a possible reporting position. A competent tax return preparer can prevent inadvertent errors, possibly saving the taxpayer from problems later and the IRS from using valuable compliance resources.

In June 2009, IRS Commissioner Douglas Shulman launched the Return Preparer Review that identified gaps in IRS oversight of return preparers. In January 2010, recommendations were announced in Publication 4832, *Return Preparer Review Final Report*.

Before launching the return preparer initiative, paid tax return preparers were not consistently subject to any government or professionally mandated registration, suitability or competency requirements before they prepared federal tax returns. As a result, any person could prepare a federal tax return for any other person for a fee. Some tax professionals were subject to some IRS oversight, but the type and level of oversight depended on such things as whether they held a professional license, were enrolled to practice before the IRS, or chose to file returns electronically. Other tax return preparers were generally not subject to any government or professionally mandated competency requirements before they prepared federal tax returns.

After considering input from a large and diverse tax community and a public comment process, the IRS determined that taxpayers, tax administrators, the tax professional industry, and related service providers would greatly benefit from a change in the oversight of the tax preparation industry. The new initiative requires that all paid federal tax return preparers obtain a Preparer Tax Identification Number (PTIN) and that certain preparers also pass a competency test and take continuing education courses. Those preparers who pass the test, a suitability check, and take annual continuing education courses will have a new designation: Registered Tax Return Preparer.

In FY 2011, the IRS established a Return Preparer Office to administer the program requirements and implement Phase 1 of the program, which requires all preparers to register with the IRS and obtain a PTIN. As of October 2011, approximately 740,000 return preparers have registered. Beginning January 1, 2011, the PTIN became the mandatory identification number that all tax return preparers must enter on federal tax returns they prepare. A single, unique preparer identification number enables the IRS to collect a range of data on individual tax return preparers, and enables a more comprehensive evaluation of the preparer population based on demographic characteristics captured at the time of registration.

The new registration process will also help the IRS build a publicly accessible database of preparers who are authorized to prepare returns. This database is an important service for consumers as they will be able to search it to ensure that their preparer is registered. It will also make it easier for the IRS to find preparers who steal taxpayer identities or prepare returns with overstated refunds.

The IRS has launched Phase 2 of the return preparer initiative. This phase includes mandatory competency testing for certain preparers to help ensure taxpayers are hiring knowledgeable preparers, as well as continuing education requirements.

### **New Service Options Offered at VITA and TCE Sites**

The IRS is working with Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) partners to develop new approaches to providing service to qualifying taxpayers in rural areas where service has not been available and to leverage valuable VITA/TCE resources with technology. The IRS is offering two new tax preparation options—facilitated self-service and alternative VITA/TCE sites—that will leverage volunteer resources and address geographic coverage gaps the TAB identified.<sup>17</sup>

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<sup>17</sup> *The Taxpayer Assistance Blueprint Phase 2*, pp. 116-118.

With facilitated self-service, taxpayers with simple returns can prepare their own tax returns with the assistance of a VITA volunteer, if needed. This approach allows a single assistor to help multiple taxpayers at the same time, freeing up other VITA resources to prepare more complex returns. As a bonus, taxpayers learn how to use a computer to prepare their own tax returns, if they choose. In FY 2011, taxpayers prepared 4,213 returns using facilitated self-service in 106 sites.

The alternative site model provides a central tax preparation point where certified VITA/TCE preparers complete tax returns based on documents they received from various locations by secure e-mail, scanners, and phone interviews with taxpayers. After two years of pilot testing at rural sites, the alternative site model became available to all qualified taxpayers in both urban and non-urban geographic locations for the 2011 filing season, with 32 alternative sites preparing more than 250 returns

### **Assessment of Partnerships with Tax Practitioners and Other Third Parties**

The IRS has moved to strengthen its partnership with tax return preparers by establishing the Return Preparer Office and registering 740,000 tax return preparers. Registration provides a platform for the IRS to work with tax return preparers that will have long-term benefits for taxpayers, tax professionals, and the IRS. At the same time, the IRS continues to work closely with its VITA and TCE partners to test new technology for taxpayers in locations where assistance was not available and to serve more taxpayers through facilitated self-service. Using technology to reach more taxpayers and to leverage resources are recurring themes throughout the FY 2011 taxpayer assistance initiatives and are trends that will continue through FY 2012.

## **4.5. Build and Deploy Advanced Information Technology Systems and Tools**

Throughout FY 2011, taxpayer service improvements have centered on the use of technology to provide pre-filing, filing, and post-filing services to taxpayers and provide self-service options to leverage resources where possible. The IRS website is the face of the IRS and the center of the taxpayer experience for those who prefer completing transactional tasks and getting tax information and forms electronically. However, a sizable percentage of taxpayers indicate that they will not use IRS.gov, reinforcing the need to maintain multiple channels. While IRS.gov has been successful by most measures, gaps in technology platforms that provide authentication, search capability, and content management exist. Addressing these issues is key to furthering the IRS's mission of providing America's taxpayers top-quality customer service. In FY 2011, the IRS took several strategic actions that, when completed, will assure a sound technology foundation for providing essential pre-filing, filing, and post-filing services to the tax community for the next 10 years.

### **Office of Online Services Established**

The IRS recently established a new Office of Online Services (OLS) to provide leadership for IRS web strategy and operations, which includes identifying and prioritizing online initiatives, developing web-based tools and content, and operating IRS.gov and other related web properties. The target audience for the OLS initiatives is taxpayers, tax practitioners, and internal IRS stakeholders, all of whom need online services to interact with the IRS. This initiative allows the IRS to build capabilities toward a world-class web channel operation while

delivering a new suite of online services for taxpayers. New services, functionality, and content in FY 2011 include:

- A service that provides taxpayers the ability to order an account or tax return transcript online
- A payment gateway with streamlined access to payment information
- Improved website content for key programs such as installment agreements and offers-in-compromise
- Comprehensive information about notices
- A redesigned home page, which provides faster access to critical information and tools, while improving the overall IRS.gov experience

The creation of new online options on IRS.gov consists of two main efforts targeting the taxpaying public: a simplified online experience, and self-service transactional web applications and services. Simplifying the online experience on IRS.gov means developing intuitive navigation, organizing existing content, improving search functionality, and redesigning the user experience based on the needs of taxpayer segments so that they can easily find information. The new self-service transactional web applications on IRS.gov will allow taxpayers to authenticate their identities and conduct account business with the IRS using the internet. The focus of initial efforts will be on high-volume transactions where both the IRS and taxpayers benefit from using online transactions.

The IRS will also develop a new suite of online self-service options for tax practitioners and professionals. By delivering high-quality information and services to taxpayers through practitioners, the IRS will improve overall service, prevent some issues from occurring, and facilitate voluntary compliance. In collaboration with the Return Preparer Office, OLS will develop self-service web options that focus on developing simplified online experiences and transactional tools and increasing awareness within the practitioner community.

An important part of the IRS online strategy is to mitigate risks when launching new applications to the full public. Any new application or content the IRS adds to its website has the risk that it will not meet the needs of taxpayers or will have unintended effects on taxpayers or IRS operations. The IRS will launch new content and applications in a measured fashion to taxpayers who can use the applications in a full online experience. By launching incrementally, the IRS can better understand the taxpayers' needs and intentions and fix issues before they get to the full audience, thereby reducing taxpayer frustration and burden when it launches new applications and content to the broader population.

Improvements to existing content and applications under consideration include:

- Revising *Where's My Refund?* application
- Revising Forms and Publications home page
- Expanding online transcript delivery capability
- Improving IRS.gov search functionality
- Providing new electronic payment capability
- Revising content areas across IRS.gov

## **Web Modernization Efforts Launched**

In 2011, the IRS moved forward to improve the web portals that provide taxpayers access to IRS information on the World Wide Web. Currently, two distinct websites built on different technology platforms provide services to taxpayers. IRS.gov allows anyone with internet access to conduct non-secure tasks, while the Registered User Portal (RUP) enables authenticated users, including individual taxpayers, preparers, and IRS employees, to complete secure transactions. Services provided through the RUP include *Where's My Refund?* for individual taxpayers, and IRS eServices, which is used by about 400,000 registered return preparers for transcript delivery, account resolution, power of attorney, e-File registration, modernized electronic filing (MeF) services, and taxpayer identification number (TIN) matching.

The Portal Acquisition Project will improve IRS.gov and the RUP in key service areas to meet taxpayer and IRS needs and address gaps in service. For example, one of the biggest taxpayer service gaps on IRS.gov today is the outmoded search capability that makes it difficult to quickly find relevant information, forms, and publications. The new IRS.gov search interface will offer advanced search capabilities, including auto-completion, self-learning spell checker, mistyped entry handling, spelling correction/suggestion, phonetic search, and synonyms in multiple languages. Research shows that IRS.gov is the most widely used taxpayer service channel and that finding forms and publications is the most common task. Advanced search capabilities will ensure that taxpayers can find their forms and publications more easily, thereby improving their service experiences.

The Portal Acquisition Project will also integrate the new RUP website with IRS.gov. By sharing IRS.gov's platform, the new RUP will give tax preparers access to IRS content and search capabilities within the preparer channel and provide a simplified and consistent user experience. Moreover, by eliminating the complexity of managing two separate environments, the consolidated IRS.gov/RUP environment will deliver significant cost savings, greater security, and higher site availability.

## **Customer Account Data Engine 2 Introduced in 2012**

The Customer Account Data Engine (CADE) 2 establishes a single authoritative database for individual taxpayers' accounts and will reduce gaps the outdated data systems cause in providing taxpayer service. In 2012, the IRS will establish a single CADE 2 database that will house all individual taxpayer accounts and will provide daily processing, rather than the weekly processing that currently exists. This will improve taxpayer service by providing daily processing of refunds, notices, payment postings, and account updates. For instance, with the current computer systems, which CADE 2 will replace, IRS account representatives sometimes must wait a week to get updated taxpayer account records and may not have the latest data to discuss with taxpayers who call. The daily processing in the new CADE 2 system will ensure that IRS account representatives have updated information daily, which will reduce the number of times taxpayers will need to call before resolving their issues.

## **Assessment of Information Technology Improvements**

The IRS took three significant actions to address service gaps and to provide transformative service technology over the next 10 years. By establishing the OLS, the IRS has provided the leadership to develop and execute a strategy to update and integrate IRS web services that reach a potential audience of 200 million users. By integrating IRS.gov and the RUP, the IRS is providing a foundation for a simplified and consistent online experience for all IRS customers.

Lastly, with the planned delivery of CADE 2 in FY 2012, the IRS will establish a new standard for providing account services. These three actions will affect virtually all pre-filing, filing, and post-filing service activities.

## **§5. TAXPAYER SERVICE MEASURES WILL TRACK PROGRESS**

To help create a manageable, consistent frame of reference for the condition of, and changes in, the service environment, the TAB Phase 2 report recommended developing a set of taxpayer service performance and outcome measures. The performance metrics will measure the level of an activity during the service process while outcome measures will assess the results of the service activity on the objective, such as changes in taxpayer behavior. The extensive research into taxpayer needs, preferences, and expectations that formed much of the original TAB report provided the foundation for the TAB measures.<sup>18</sup>

During 2010, the IRS drafted a preliminary set of outcome measures that supplement the assessment criteria proposed in the TAB report. These draft measures incorporate subsequent research into taxpayer service needs, preferences, and expectations, as well as changes in the taxpayer service environment. Further, the new draft measures align with the *IRS Strategic Plan 2009-2013*, which incorporated and refined the work laid out in the TAB. These measures evaluate both the efficiency and effectiveness of service from the perspective of the taxpayer and the IRS. Their intent is to provide a clear picture of the landscape of taxpayer service and offer information to help with future business decisions.

To make certain that the service outcome measures complemented the IRS Strategic Plan, the IRS aligned the measures with the objectives of the Plan's first goal of improving service to make voluntary service compliance easier, namely:

- Improve service interactions
- Expedite and improve issue resolution
- Provide targeted and timely guidance and outreach
- Strengthen partnerships with tax practitioners and other third parties

Additionally, the IRS refined the measures so that the evaluation of service programs would address areas that make taxpayer compliance easier, including:

- Taxpayer Burden
- Customer Satisfaction
- Awareness of Services and Channels
- Access to Services and Channels
- Service Performance

The measures fall into three categories: the availability of information, the adequacy of services provided, and the effectiveness of the IRS in meeting taxpayers' service needs. Using these three important elements of taxpayer service, the IRS developed five aggregate outcome measures to assess taxpayer services.

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<sup>18</sup> *The 2007 Taxpayer Assistance Blueprint Phase 2*, pp. 69-76.

Measures for **Availability of Information** assess how well the IRS provides information to increase awareness, knowledge, and understanding of individual tax obligations, benefits, and service-delivery options:

**Table 6. Availability of Information Outcome Measures**

Taxpayer Service Expectation	Measure of Successful Service
Taxpayers know about and can obtain the information or service they need: <ul style="list-style-type: none"> <li>Awareness &amp; Education</li> <li>Access to Services</li> </ul>	<p><b>Percentage Aware of Service</b> - percentage of taxpayers responding affirmatively to survey questions about awareness of particular IRS services.</p> <p><b>Toll-Free Assistor Level of Service</b> - relative success rate of taxpayers who call for toll-free services seeking assistance from a customer service representative.</p>

Measures for **Adequacy of Service** assess how well the IRS provides a timely and accurate answer in a professional manner and meets the needs of taxpayers with information that assists in meeting tax obligations and receiving benefits:

**Table 7. Adequacy of Service Outcome Measures**

Taxpayer Service Expectation	Measure of Successful Service
Taxpayers receive prompt and accurate service from the IRS using their channel of choice	<b>Taxpayer Self-Assistance Rate</b> - percentage of taxpayer assistance requests resolved using automated self-service options.
Taxpayers and practitioners are satisfied with the service they receive	<b>Service Interaction Score</b> - percentage of taxpayers satisfied with their interactions with major IRS service programs.

The measure for **Effectiveness of Government** assesses how well the IRS uses its resources to resolve issues in an efficient manner and provide a high level of service to taxpayers and practitioners at the least cost to the government.

**Table 8. Effectiveness of Government Outcome Measure**

Taxpayer Service Expectation	Measure of Successful Service
The IRS is operating effectively	<b>Issue Resolution</b> - percentage of taxpayers who indicate their recent service need was "completely resolved" after their last IRS contact on that issue.

The five outcome measures are at different points of development. The Toll-Free Assistor Level of Service, Taxpayer Self-Assistance Rate, and Service Interaction Score measures are already available, and the Percentage Aware of Service and Issue Resolution measures will be developed in FY 2012. The measures will be reviewed to ensure that they:

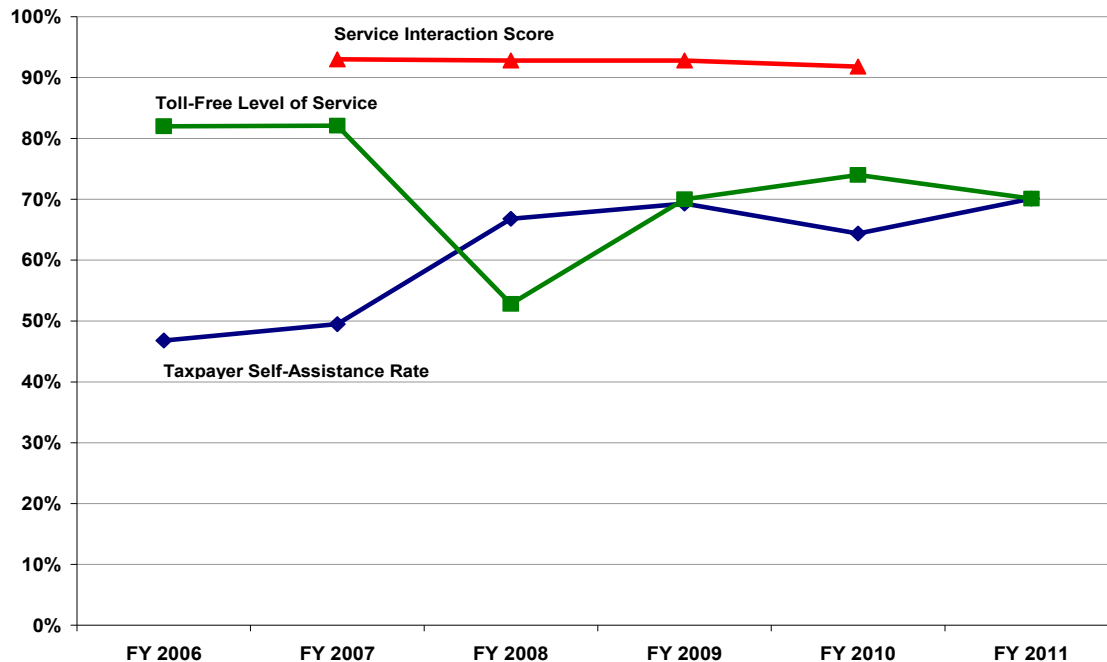
- Assess taxpayer value, government value, and partner value at key points in the service process

- Assess overall taxpayer service outcomes
- Align with the IRS Strategic Plan's objectives for improving service to make voluntary compliance easier

Following are recent trends for the three existing measures (see Figure 4):

- The Toll-Free Assistor Level of Service (LOS) measure is sensitive to changes in taxpayer demand for telephone service and the ability to accurately forecast and meet the demand with existing resources. In FY 2006 and FY 2007, the Toll-Free LOS was near 82 percent, but fell to approximately 53 percent in FY 2008 as the IRS answered an unprecedented number of calls related to the Economic Stimulus Act of 2008. More recently, the Toll-Free LOS ranged between 70 and 74 percent, from FY 2009 to FY 2011.
- The Taxpayer Self-Assistance Rate increased by about 23 percentage points, from 47 percent to 70 percent, from FY 2006 to FY 2011. Over this period, the IRS offered new self-service options that taxpayers used, and improved existing self-service options which made them the taxpayers' first choice to complete transactional tasks.
- The Service Interaction Score was introduced in FY 2007 and has held steady at 92 to 93 percent from FY 2007 to FY 2010; the FY 2011 score is not yet available.

**Figure 4. Taxpayer Service Outcome Measures, FY 2006 – FY 2011**



These five outcome measures will not replace current IRS performance measures; rather, they will complement existing measures of performance and provide a consolidated view of taxpayer service delivery from the perspective of taxpayers, tax professionals, and other partners. The IRS will submit the completed suite of Taxpayer Service Measures, including their methodology, to the IRS Services Committee for review and approval. The approved set of measures will become part of internal business process reviews and business case development, and will help the IRS assess the impact of new service initiatives. Importantly, the IRS will use these



measures to evaluate performance across delivery channels and provide a high-level assessment of the effectiveness of service delivery. The IRS will continue to use its lower level performance measures, including by service channel and task, to help identify service improvement opportunities and inform service improvement decisions.

## **§6. FY 2011 INCLUDED SUCCESSFUL FILING SEASON, NUMEROUS CHALLENGES**

As in past years, the IRS continued its improvement efforts in FY 2011 while delivering another successful filing season. By the end of FY 2011, the IRS had processed 144.7 million individual returns and issued 109.4 million refunds, up from 141.9 million returns and 109.5 million refunds for the same period in 2010. The IRS direct-deposited more than 79.0 million refunds, compared to 74.6 million in 2010.

Electronic filing was the predominant filing method, accounting for 76.9 percent of individual returns filed during the 2011 filing season—up seven percentage points from 2010. The IRS processed more than 111 million individual tax returns electronically, setting a new record. Encouraged by the record-breaking results, President Obama used the IRS as a model for how federal agencies can successfully provide customer-friendly technology such as electronic filing.

### **Continuing Resolutions and Hiring Freeze**

This year, the IRS faced more than the usual number of challenges, including late tax law changes, six short-term continuing resolutions during the filing season, and weeks of speculation about a possible government shutdown at the end of FY 2011.<sup>19</sup> The IRS spent most of the year in a hiring freeze, leading to reduced staffing levels. The combination of reduced staffing levels and higher demand for service resulted in aging taxpayer correspondence and reduced levels of telephone service.

### **Late Tax Law Changes**

The IRS developed contingency plans to deal with the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which the Congress passed December 17, 2010, to minimize disruption to the tax community during the filing season from the late legislation. The IRS drafted the tax products the legislation affected to reflect potential tax law changes based on the various versions of the pending legislation, and it released some publications to print before the Congress passed the legislation with cautionary language explaining possible changes.

Taxpayers who filed individual tax returns with Schedule A, *Itemized Deductions*, were affected at the beginning of the filing season because the IRS could not process these returns until it could reprogram its computer systems to reflect the tax law changes. Consequently, the IRS rejected e-filed returns with itemized deductions and held paper returns until February 14, 2011. As of that date, the IRS had received 28.8 million e-file returns, a decrease of almost 19 percent from the prior year (35.5 million), and held 102,258 paper returns pending reprogramming. The resulting delays in return filing also altered calling patterns and drove more telephone calls into peak periods during the filing season.

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<sup>19</sup> Prepared Remarks of Douglas H. Shulman, Commissioner of Internal Revenue, CERCA Fall Meeting, Arlington, VA, October 12, 2011.

The IRS balances the same resources to provide toll-free telephone assistance and to answer taxpayer correspondence, and the IRS experienced a higher than planned demand for both of these services in FY 2011. In an attempt to meet the increased call volume, the IRS updated scripting, informational announcements, and call routing relative to issues affecting the 2011 filing season. The IRS also implemented call processing changes to further segment individual taxpayer account calls to allow for prioritization and handling of their calls by agents specifically trained on their issues. Despite higher demand for telephone service, the IRS delivered a 74.6 percent Level of Service during the filing season through April 23, 2011. After the filing season, the IRS reallocated resources to respond to a growing inventory of taxpayer correspondence, resulting in a four percentage point decrease in telephone level of service from the prior year.

Through September 30, 2011, the IRS:

- Responded correctly to 93.4 percent of tax law questions and 96.0 percent of account questions received by telephone
- Provided free tax assistance to almost 6.4 million taxpayers at 401 TACs
- Provided free tax preparation assistance, including the preparation of more than 3.1 million tax returns, at the more than 12,000 VITA and TCE sites

The late tax law changes also delayed the availability of tax return preparation software, which affected TAC as well as VITA/TCE return preparation activity, but timely IRS media communications mitigated the effect of the delay. The IRS provided VITA/TCE sites with procedures and tools, such as posters and flyers, to explain the delay and keep the volunteers informed. TAC employees and VITA/TCE volunteers prepared affected tax returns and “held” them electronically until they could transmit them on February 14, 2011.

The uncertainty related to the possible expiration of several Health Coverage Tax Credit (HCTC) provisions illustrates the challenges related to complex late tax law changes. Through the American Recovery and Reinvestment Act of 2009, several provisions of the HCTC, including an increased tax credit amount, reimbursement credits, and extended credit eligibility, were set to expire December 31, 2010. As the expiration date approached, the Congress considered extending the provisions and ultimately extended them through February 13, 2011. In addition to the communication challenges the uncertainty of the extension presented, the IRS had to ensure that it flagged the proper participants as ineligible and dealt with the numerous taxpayer and partner questions about the effect of the expiration and subsequent reinstatement.

### **Addressing Technology Gaps**

The IRS continued its efforts to improve efficiency in handling paper checks (remittances). In FY 2011, the IRS deployed its Remittance Strategy for Paper Check Conversion in nearly 400 TACs and four Campus Support Sites. This system immediately converts paper checks to electronic transactions at the time and place of receipt, enabling timely crediting of the payment to the taxpayer's account. Future initiatives include electronic processing of bulk remittances at major tax return processing sites.

In addition, the IRS is pursuing technology to improve the authentication process for taxpayers who call the IRS. Currently, taxpayers must repeat their authentication information when the system routes their calls between assistors. Authentication Retention technology will streamline the taxpayer's experience by ensuring that the taxpayer need only authenticate once during a

telephone contact with IRS. Reducing the number of times an agent has to authenticate callers decreases the risk of unauthorized disclosures, increases efficiency, and reduces taxpayer burden.

## **§7. RESEARCH INFORMS FUTURE TAXPAYER SERVICES DECISIONS**

The TAB Phase 2 report presented a comprehensive profile of taxpayer service needs, preferences, and behaviors, and as presented earlier in this report, the IRS continues to update and enhance its understanding of the taxpayer perspective. Research provides information that will help the IRS improve service to make voluntary compliance easier. The IRS is committed to conducting ongoing research about the effect of services on compliance, as well as research that identifies improvements in education and outreach. During FY 2011, the IRS has undertaken various studies that further its understanding of the taxpayer experience. The following are some highlights of key research that expanded the IRS knowledge base in FY 2011.

### **Service and Compliance Research Initiative**

The Service and Compliance Initiative is an ongoing research program that helps tax administrators understand the relationship between effectively providing taxpayer services and improving compliance. While the initiative seeks to better understand taxpayer needs, the objective is to support IRS efforts to improve compliance behavior by increasing taxpayer knowledge, ability, and willingness to comply with requirements of the tax code. By providing improved services to taxpayers, the IRS believes that taxpayers can resolve issues faster, with more certainty, and at a lower cost to both the taxpayer and the IRS. The following are descriptions of some key initiatives the IRS completed in FY2011.

*Testing Taxpayer Filing and Reporting Decisions under Tax Liability Uncertainty.* The IRS used data it gathered in experiments that tested filing and reporting decisions taxpayers made under tax liability uncertainty. The experiments tested the effects of information service programs provided to taxpayers on enhancing tax reporting. The laboratory setting mimicked the naturally occurring environment: the subjects earned income, they chose whether to file a tax return, and then they chose how much of their net income to report to a tax authority that may do audits. To investigate the effects of taxpayer services, the researchers introduced uncertain tax liabilities (a range of values represented tax deduction and credit levels), then provided the subjects with “services” from “tax administration” that allowed the subjects to resolve the uncertainties. Those who acquired information demonstrated significantly less evasion than those who did not. Furthermore, whether or not they used the information service, the availability of information services reduced tax evasion overall. The evidence suggests that the IRS can increase compliance through the availability of information services, which lowers the cost to the taxpayer of preparing and filing an accurate tax return and improves reporting compliance.

*Predicting the Effect of Service Provision on Taxpayer Compliance Behavior.* The IRS designed a method for predicting taxpayer reporting behavior (including taxpayer compliance behavior). The data collection effort led to a robust database containing detailed state-level longitudinal data on taxpayer characteristics and IRS activities from TY 1982 through TY 2009. The IRS collected data from over 20 different sources, resulting in approximately 200 updated variables from previous studies and 550 new variables, including economic, demographic, and where available, IRS data on services. These variables incorporate available measures of IRS

activities and tax burden indicators, including audit rates, criminal sentencing rates, call attempts on the IRS information helpline, work hours of IRS employees in “mission critical” service occupations, taxpayer burden, tax complexity, and the combined state-federal marginal tax rate. The IRS is using the data to develop predictive models to show how significant changes in service provision and tax complexity influence reporting behaviors.

**Compliance Burden Survey Data Collection and Modeling Efforts.** The IRS uses data it collected from taxpayer burden surveys to develop improved methods for measuring, estimating, and modeling taxpayer compliance burden and the corresponding effect on taxpayer compliance. The IRS uses survey response data to estimate taxpayer burden for a variety of purposes, including providing updated burden estimates for individual and business tax forms and instructions and responding to ad hoc burden estimate requests. The FY 2011 survey projects underway include: TY 2009 Business Taxpayer Burden Survey, TY 2010 Individual Taxpayer Burden Survey, TY 2010 Tax-Exempt Burden Survey, and TY 2011 Post-Filing Burden Survey.

### **Customer Satisfaction Survey on Over-the-Phone Interpreter Service**

The IRS has been using Over-the-Phone Interpreter (OPI) services in the TACs for about 10 years. These services allow IRS employees to communicate with limited English proficient (LEP) customers to provide them with customer service and enhance their access to government information. As more LEP taxpayers need to communicate with the IRS, the IRS needed to know how well the service was working. To this end, the IRS studied whether Spanish-speaking LEP customers who use the OPI services are satisfied with the service, and whether using the OPI services to support Spanish-speaking LEP customers as they resolve their issues with the IRS is effective.

Overall, the Spanish-speaking LEP survey respondents are highly satisfied with the OPI service. The results showed that about 97 percent are satisfied or very satisfied with the OPI service experience, and about 98 percent found it to be helpful and necessary to resolve tax questions and issues. In addition, 98 percent believe the IRS should continue using the service. Little evidence showed any dissatisfaction with the OPI service, and thus no basis for recommending the IRS modify the OPI service.

### **Exempt Organizations Outreach and Education**

During FY 2011, the IRS started the multi-phase Exempt Organization Services and Assistance (EOSA) project. Tax-exempt organizations must adhere to many laws and filing requirements to obtain and maintain tax-exempt status. In the past few years, a number of legislative changes affected Exempt Organizations’ federal tax filing obligations, particularly the smallest organizations. Through its research, the IRS had determined that small tax-exempt organizations are the least likely to have professional support, making them most in need of IRS help with understanding and complying with their tax responsibilities. Previous IRS research also showed that many of these organizations preferred not to rely on the internet for answers or filing information.

As a result, the IRS initiated a project to study the communication preferences and educational needs of small tax-exempt organizations. To collect the necessary data, the IRS conducted a series of focus groups and administered a survey. The results of this information will help the IRS develop a targeted multi-year outreach plan to provide improved education and outreach services to these organizations.

## **Indian and Tribal Government Entities Outreach and Education**

To improve its educational materials, written and electronic, the IRS studied the education and outreach needs of Indian and Tribal Government (ITG) Entities. The IRS conducted focus groups with representatives of these entities whose primary responsibilities involved tax issues. Feedback from these users on how the IRS can improve its materials to better meet their needs will ultimately benefit the recipients of the tools, the Tribal representatives.

## **§8. LOW INCOME TAXPAYER CLINICS**

In 1998, the Congress enacted the Internal Revenue Restructuring and Reform Act of 1998 (RRA), in which it authorized matching grants for Low Income Taxpayer Clinics (LITCs). This initiative launched a new era in low-income taxpayer outreach, education, and representation. For the 2011 grant year, IRS awarded funding of nearly \$10 million to 165 grantees to operate clinics in every state, the District of Columbia, and Puerto Rico.

Clinics may represent taxpayers in controversies with the IRS, provide tax outreach and education to taxpayers who speak English as a second language (ESL), or both. In 2011, 17 clinics provided only ESL services, 52 clinics provided only controversy services, and 96 clinics provided both ESL and controversy services.

During 2010, LITCs that were funded to provide controversy services assisted 44,692 taxpayers and worked 53,007 issues, including 22,211 collection issues (levy, lien, installment agreement, currently not collectible, offer in compromise, etc.), 11,094 examination issues (correspondence exam, office or field exam, audit reconsideration, automated underreporter, substitute for return, etc.), and 8,778 nonfiler issues. The clinics opened 16,621 new cases and worked 1,269 cases that were in the U.S. Tax Court.

Through outreach events and educational workshops targeted to ESL taxpayers, clinics provide tax information directly to taxpayers and generate awareness of the clinic program among taxpayers who may be in need of tax assistance. In 2010, the clinics conducted 11,490 outreach and education events.<sup>20</sup> In addition, clinics provided one-on-one consultations with 23,039 ESL taxpayers.

## **§9. TAXPAYER ADVOCACY PANEL**

The IRS continues to receive input and recommendations from the Taxpayer Advocacy Panel (TAP), which the TAS supports. The TAP is a Federal Advisory Committee comprised of citizen volunteers who listen to taxpayers, identify their issues, and make suggestions for improving IRS service and customer satisfaction. A number of TAP projects have addressed a variety of taxpayer service related issues.

### **Signs and Visual Communication in TACs Reviewed**

Early in FY 2010, IRS Field Assistance (FA) management asked the TAC Project Committee [of the TAP] for help in reviewing the signs in the TACs and recommending improvements to

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<sup>20</sup> This number includes 3,819 outreach events conducted by controversy programs.

current communication methods. The TAP members visited 26 TAC offices and interviewed TAC managers and employees in 15 states. The purpose of the visits was to gain a better understanding of the communication process and signs in the TACs, receive insight from TAC employees and managers who interact with taxpayers, and identify ways to improve the instructional and informational signs, thus, improving the customer experience in the TACs.

After arriving at several general conclusions on signs in the TACs, the committee submitted a report to the IRS in December 2010 that presented nine recommendations for the FA managers, including:<sup>21</sup>

- Determine sets of message points for each type of TAC
- Eliminate unnecessary signs
- Modify and standardize the content, format, and “Psychology of Color” to maximize the communication effect of approved signs
- Display the TAC signs externally where possible, and improve access to information about TAC locations
- Consider alternate communication methods
- Develop a taxpayer communication assessment process

The TAC Committee concluded that implementing the nine recommendations could significantly improve communications with taxpayers and the appearance of the TACs. The TAP report goes further than just reworking the existing signs and suggests opening the door to new technological ways to communicate with customers in the TACs.

### **Forms and Publications Distribution in TACs Reviewed**

In 2011, FA asked the TAP TAC Committee to review the forms and publications availability in the TAC offices and:

- Recommend improvements for the self-service form racks
- Provide suggestions on which products it should stock on the racks in the TACs
- Determine if it needs new products for the taxpayer to prevent a return visit to the TAC

The findings from this review were part of the TAP annual report, which was delivered to the IRS on September 30, 2011.

### **TAC-Related Taxpayer Service Comments Provided**

During 2010, the IRS received 35 TAC-related comments from the TAP on taxpayer service. Most comments fell into two categories for improvement opportunities: wait time and hours of operation and taxpayer experience, including professional taxpayer relations, services offered, return preparation, and scheduling appointments.

Through August 2011, TAP sent the IRS 27 comments related to taxpayers’ experiences in TAC offices. The comments dealt primarily with: wait time and staffing; lack of efficiency, privacy, and professionalism; and forms availability.

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<sup>21</sup> Taxpayer Advocacy Panel, TAC Project Committee, *Signs and Visual Communication*, 2010, <http://improveirs.org/recommendations/#2010ProjectCommitteeRecommendations>.

**Support for TAB-Related Events Provided**

The IRS received assistance and support from the TAP on multiple taxpayer service-related events and activities including: Earned Income Tax Credit (EITC) Awareness Day, the EITC Project, the VITA Project, the Tax Forums, and a taxpayer expectations focus group.

## §10. IRS OVERSIGHT BOARD PERSPECTIVE

The IRS Oversight Board appreciates the opportunity to contribute to this progress report on IRS' efforts to implement the TAB. With responsibility to approve strategic plans of the IRS, the Board's perspective focuses on the long range strategic implications for taxpayer service.

In the view of the Board, taxpayer service must remain a priority for the IRS and the Congress. The TAB provides a mechanism for the IRS to focus its attention on taxpayer service, evaluate the effectiveness of its service products and services, and govern the development of new products and services that will have the greatest impact on taxpayer satisfaction.

The development of the TAB, combined with annual progress reports, is of strategic importance to tax administration because it encourages long-term, focused attention on how best to meet the service needs of taxpayers.

A positive development in this year's report is the inclusion of more concrete descriptions of the IRS' measures to evaluate progress in taxpayer service. Tables 6, 7, and 8 define five outcome measures that the IRS will use to measure its service, and Figure 4 presents trend data for three of the five outcome measures. The availability of quantitative outcome data will be a valuable tool for assessing IRS progress in the future. The Board is encouraged with the development of these measures and encourages the IRS to remain focused on completing the final actions needed to fully implement the entire suite of measures it has identified for the TAB.

2011 saw a continuation of high demand for IRS service, in part driven by various programs and special tax credits enacted in recent years to provide tax relief in difficult economic times. Today, nearly three of every four taxpayers (i.e., 74 percent) consider it "very important" that the IRS provide toll-free telephone service to answer their questions, a higher share than even for an IRS website to provide such information (70 percent)<sup>22</sup>, so the Board places high importance on service levels associated with IRS toll-free telephone lines. Hence, the Oversight Board, and other oversight organizations, use the level of service on IRS toll-free telephones as a key barometer of the effectiveness of IRS service. In FY2011 the IRS achieved a 70.1 percent level of service on its toll-free telephone lines. Although this service level is slightly above the 70 percent target based on the IRS budget, it is a decline from FY2010, and, more importantly, it is substantially below the 80 percent level the Board considers the minimum acceptable to taxpayers.

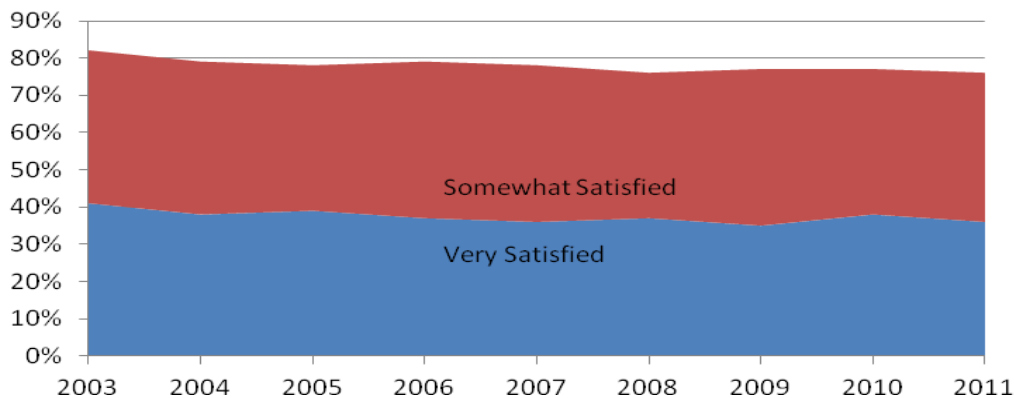
Another broadly-based measure the Oversight Board uses to evaluate the effectiveness of IRS taxpayer service is overall taxpayer satisfaction in their interactions with the IRS. The figure below, based on data from the Oversight Board's *Taxpayer Attitude Surveys* from 2003 through 2011, indicates that taxpayer service declined slightly from 2003 through 2008, but has been relatively stable since 2008. The Board is concerned that lower levels of telephone service may cause taxpayer satisfaction to erode should toll-free telephone LOS remain below 80 percent for extended periods.

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<sup>22</sup> 2011 Taxpayer Attitude Survey, IRS Oversight Board



### Percent of General Public Satisfied with Their Interaction with the IRS



Source: IRS Oversight Board *Taxpayer Attitude Surveys*, 2003-2011

In the longer run, additional applications on the IRS website, IRS.gov, will provide an alternative service channel for more taxpayers as the IRS continues to upgrade its web site and develop new services. However, such enhancements require substantial investments of time and money. The recent creation of the Office of Online Services (OLS) is expected to provide leadership to the IRS web strategy and allow it to focus on developing new services and tools for taxpayers. At the Oversight Board's 2011 public meeting, industry panelists noted that innovation in tax administration can be enhanced if the IRS partners with external stakeholders. Panelists stressed the idea of developing and implementing a joint IRS industry services strategy to provide service quickly and efficiently to taxpayers. Panelists stated that both the IRS and industry will be challenged to deliver the right data to an authenticated user, to a platform of the taxpayer's choice, with minimum burden to taxpayers. The Board encourages IRS to continue to work closely with its tax partners in industry to provide taxpayers the best tax administration system possible.

The Board is concerned that decreased funding for customer service will have a negative effect on taxpayer satisfaction and ultimately taxpayer confidence in the tax administration system. Funding for taxpayer service in FY2012 is \$2.240 billion, which includes a \$15.4 million earmark for funds that were previously provided in a separate account and are unavailable for traditional service activity. Hence, FY2012 funding for taxpayer service is approximately \$50 million less than FY2011 levels and more than \$100 million below the Board's recommended FY 2012 funding level for taxpayer service. Although the Board recognizes that all federal expenditures are under pressure, the Board believes that the effect of these reductions bear watching to ensure that they don't result in a false economy that ultimately costs more, either through increased burden or reduced voluntary compliance, than was saved.

## §11. NATIONAL TAXPAYER ADVOCATE PERSPECTIVE

### Taxpayer Service and the IRS Mission

The purpose of the Taxpayer Assistance Blueprint (TAB) is to provide an evolving framework for enhancing and modernizing IRS service delivery to taxpayers. I believe that any attempt to develop a framework for IRS service delivery should begin with a discussion of the mission of the Internal Revenue Service and how taxpayer service relates to our mission. It is universally acknowledged that the IRS is the principal organization responsible for collecting the revenues necessary to fund the numerous and diverse functions performed by the federal government, *i.e.*, that taxes are “the life blood” of government. On further inspection, however, it should be clear that the mission of the IRS is really broader than merely collecting tax revenue. In fact, with the expansion of refundable tax credits for individuals and businesses, the IRS today is a significant disburser of government payments.

There is also general agreement that the IRS is supposed to collect the correct amount of tax. This implies that the IRS's responsibility extends beyond ensuring that everyone pays the taxes they owe, for example, through enforcement. We also have a responsibility to ensure that taxpayers don't pay more taxes than they owe. Further, there is general recognition that the IRS must weigh the burden it imposes on taxpayers against its mission to collect the taxes owed. No one would agree, for example, that it is acceptable for the IRS to conduct extensive audits of every taxpayer every year. Besides being far too intrusive, this would place an unreasonable financial burden on the vast majority of honest taxpayers.

Our system is based on self-assessment, but the tax laws are complicated (and become more so each year). Computing the correct amount of tax poses a daunting challenge for many of our citizens, and they frequently require assistance. While some can readily afford to pay for the assistance they need, millions cannot. For these taxpayers, paying for tax assistance creates a significant financial burden. In addition, millions of low and middle income taxpayers are “touched” annually by IRS programs that propose additional assessments, such as correspondence audits and our math error and automated underreporter (AUR) programs. Other programs hold refunds that IRS filters have identified as questionable or potentially fraudulent. These proposed additional assessments and refund holds are not always correct, but taxpayers frequently need help understanding IRS notices and other communications. Following is a discussion of a study we recently published in our 2011 Annual Report to Congress that effectively illustrates this point.

For tax year 2009, nearly 300,000 returns contained errors with dependent taxpayer identification numbers (TINs). During math error processing, the IRS disallowed over \$200 million of credits claimed on these returns, but subsequently reversed at least part of its dependent TIN math errors on 55 percent of them. Ultimately about 150,000 taxpayers had their refunds restored. On average, the IRS allowed nearly \$2,000 per return after the initial disallowance, with a delay of nearly three months.<sup>23</sup> Furthermore, analysis of a sample of

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<sup>23</sup> The total restored to taxpayers was about \$292 million. This amount exceeds the amount of credits that were initially disallowed, because it includes both restored credits and related tax reductions (*e.g.*, taxpayers got the benefit of exemptions that were initially disallowed when the credits were disallowed). See National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 116-120 (*Math Errors Committed on Individual Tax Returns – A Review of Math Errors Issued on Claimed Dependents*).

taxpayers who did not contest these assessments showed that about 40,000 taxpayers were denied refunds they were probably entitled to receive.<sup>24</sup>

The IRS's effort to block fraudulent refunds provides another telling example of how honest taxpayers can be inadvertently harmed if they don't have access to responsive taxpayer service. The IRS has the authority to correct over-reporting of withholding credits without conducting examinations and issuing notices of deficiency.<sup>25</sup> In calendar year (CY) 2011, the IRS's Electronic Fraud Detection System (EFDS), a program that screens all returns claiming refunds to try to identify questionable wages or withholding credits, flagged 1,054,704 returns for further review.<sup>26</sup> There is no easy way, however, to distinguish proper claims from improper ones. Filters are, at once, both under-inclusive and over-inclusive, and inevitably block large numbers of proper refund claims. By its own estimate, the IRS was unable to "verify bad" 11 percent of these returns, leaving about 116,000 "good" taxpayers improperly caught up in the EFDS filter.

Low and middle income taxpayers generally cannot afford to pay practitioners to work with the IRS to resolve these kinds of issues. They rely on IRS assistance through our various service channels, such as the toll-free line, correspondence, and our walk-in sites. If we accept that these taxpayers have a right to pay "the correct amount of tax," *i.e.*, that they should not pay taxes that they don't actually owe, and that they should not be subjected to unreasonable financial (or other) burden, it becomes clear that the IRS has an obligation to provide them with a reasonable level of service. Similarly, practitioners who interface with the IRS on behalf of taxpayers require a reasonable level of service. In fact, I think we must acknowledge that service delivery is as integral to the IRS mission as collecting taxes and enforcing the tax laws.

### **The IRS is Judged on Measures that Undercut Taxpayer Service**

Unfortunately, the measures stakeholders routinely apply to the IRS do not acknowledge the importance of service delivery. Invariably, the focus is on reducing the tax gap through enforcement efforts, or improving efficiency as measured by return on investment (ROI). These are, of course, measures of fundamental importance, but they tell us nothing about the level of service the IRS is providing to taxpayers, nor do they tell us anything about the taxpayer's experience from the taxpayer's perspective. In fact, a focus on these measures to the exclusion of a meaningful set of service delivery measures ensures that the IRS will not provide a reasonable level of service to taxpayers.

The IRS's service activities compete with our enforcement programs for funding. The heavy focus in recent years on collecting more revenue with fewer dollars (*i.e.*, as measured by a narrow definition of ROI) has resulted in the allocation of a growing proportion of the IRS's budget to enforcement activities at the expense of its taxpayer service programs. Between fiscal year (FY) 2006 and FY 2012, spending for the Enforcement account remained essentially

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<sup>24</sup> See National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 116-120 (*Math Errors Committed on Individual Tax Returns – A Review of Math Errors Issued on Claimed Dependents*).

<sup>25</sup> IRC § 6201(a)(3) authorizes the IRS to assess overstatements of income tax withholding or estimated income tax payments in the same manner as in the case of mathematical or clerical errors described in IRC § 6213(b), except that the taxpayer is not given an opportunity to file a request for an abatement of a tax assessment or challenge the assessment in the Tax Court.

<sup>26</sup> The number of returns selected to be screened rose from 611,845 in CY 2010 to 1,054,704 in CY 2011. Wage and Investment (W&I) division response to TAS information request (July 27, 2011, as updated Nov. 4, 2011). CY 2011 data is only through October 15, but relatively few returns are received after that date.

unchanged on an inflation-adjusted basis while spending for the Taxpayer Services account declined by seven percent.<sup>27</sup>

While funding for core taxpayer services has declined in real terms in recent years, the IRS workload has grown significantly, driven by the increasing complexity of the tax laws,<sup>28</sup> a surge in tax-related identity theft,<sup>29</sup> and growing refund fraud.<sup>30</sup> The deleterious effects of underfunding IRS services during this time frame are readily apparent.

Two key indicators of taxpayer service are the IRS's ability to answer telephone calls from taxpayers who wish to speak with an assistor, and the IRS's ability to respond to taxpayer correspondence. From FY 2004 to FY 2011, the percentage of calls that the IRS answered dropped from 87 percent to 70 percent.<sup>31</sup> For FY 2012 through March 1, this level of service is at 65.7 percent.<sup>32</sup>

Over the same period, the IRS's ability to timely process taxpayer correspondence has also declined. Comparing the final week of FY 2004 with the final week of FY 2011, the backlog of taxpayer correspondence in the tax adjustments inventory jumped by 158 percent (from 357,151 to 920,768), and the percentage of taxpayer correspondence in this inventory classified as "over-age" increased by 309 percent (from 11.5 percent to 47.0 percent of correspondence).<sup>33</sup> Correspondence generally is considered over-age when it is 45 days old or older and the issue it addresses has not been resolved.<sup>34</sup>

Telephone calls and correspondence are the two main ways taxpayers communicate with the IRS. While the decline in these key measures is deeply disturbing, the IRS's budget is currently under intense pressure,<sup>35</sup> and taxpayer service levels may decline even further if additional

<sup>27</sup> Compare Department of the Treasury, *FY 2013 Budget-in-Brief* with Department of the Treasury, *FY 2008 Budget-in-Brief*. (The fiscal year 2006 budget was adopted using a different budget structure. The proposed FY 2008 budget shows the enacted FY 2006 totals as translated into the current budget structure.) Inflation adjustments were made using the Bureau of Labor Statistics inflation calculator, available at [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm).

<sup>28</sup> As we noted in the National Taxpayer Advocate 2010 Annual Report to Congress, there had been approximately 4,428 changes to the code over the preceding ten years, an average of more than one a day, including an estimated 579 changes in 2010 alone. See National Taxpayer Advocate 2010 Annual Report to Congress 4.

<sup>29</sup> In FY 2011 alone, the IRS's centralized Identity Protection Specialized Unit (IPSU) received more than 226,000 cases, an increase of 20 percent over FY 2010. See IRS, *IPSU Identity Theft Report* (Oct. 1, 2011); IRS, *IPSU Identity Theft Report* (Oct. 2, 2010); IRS, *IPSU Identity Theft Report* (Oct. 3, 2009). This inventory includes all identity theft cases controlled by the IPSU paper unit, including self-reported non-tax-related identity theft cases, cases the IPSU monitors, and cases undergoing global account review. It does not include 26,695 cases that meet TAS's "systemic burden" case criteria, which the IPSU tracks separately.

<sup>30</sup> In CY 2011, the IRS's Electronic Fraud Detection System flagged 1,054,704 returns for further review, an increase of 72 percent over CY 2010. W&I response to TAS information request (July 27, 2011, as updated Nov. 4, 2011).

<sup>31</sup> Compare IRS, Joint Operations Center, *Snapshot Reports: Customer Account Services – CAS* (week ending Sept. 30, 2011) with IRS, Joint Operations Center, *Snapshot Reports: Customer Account Services – CAS* (week ending Sept. 30, 2004). These percentages reflect the number of calls that reached telephone assisters among all calls seeking to do so.

<sup>32</sup> Joint Operations Center, *Executive Level Summary Report: Customer Account Services – CAS* (Oct. 1, 2011 through Mar. 1, 2012).

<sup>33</sup> Compare IRS, Joint Operations Center, *Weekly Enterprise Adjustments Inventory Report* (week ending Oct. 1, 2011) with IRS, Joint Operations Center, *Weekly Enterprise Adjustments Inventory Report* (week ending Sept. 25, 2004).

<sup>34</sup> W&I FY 2012 Account Management Program Letter and Operating Guidelines (Dec. 12, 2011). In some instances, the definition of over-age varies based on factors such as the type of work, the program, the site, and inventory levels. TAS conversation with Joint Operations Center Paper Inventory Analyst (Dec. 13, 2011).

<sup>35</sup> The IRS's budget was reduced slightly from FY 2010 to FY 2011. See Department of Defense and Full-Year Continuing Appropriations Act, 2011, Pub. L. No. 112-10, § 1119, 1125 Stat. 38, 107 (2011). It has been cut by an

budget reductions are enacted. In a recent letter to the chairmen and ranking members of key committees of the Congress, the Commissioner of Internal Revenue warned:

[C]uts of the magnitude contemplated in the current appropriations bills (approximately \$525 million from core IRS accounts in the Senate bill and \$650 million in the House bill) would lead to noticeable degradation of both service and enforcement and would have a serious detrimental impact on voluntary compliance for years to come. . . .

Responses to taxpayers' letters (including taxpayers who have received a notice and are trying to resolve account issues) would be delayed up to 5 months. Approximately half of the nation's taxpayers attempting to call the IRS would either be unable to get through or hang up in frustration.<sup>36</sup>

While research shows that taxpayer service contributes to voluntary compliance,<sup>37</sup> measuring the impact of service on compliance (*i.e.*, the ROI of IRS services) is at best very difficult, and should not be the basis for funding IRS service delivery. If we acknowledge that quality taxpayer service is an integral component of the IRS's mission, then funding for IRS services should be based on service measures and set at a level that ensures that the IRS will be able to provide an adequate level of service to the nation's taxpayers.

## IRS Needs Better Taxpayer Service Measures

The IRS should develop and publish a comprehensive suite of service measures that can serve as the basis for funding decisions, while holding the IRS accountable for efficient service delivery. The measures the IRS proposes in this TAB update report are a good start, but lack sufficient scope and detail to enable stakeholders to accurately assess how effectively and efficiently the IRS is serving the nation's taxpayers.

In my perspective for last year's TAB update report,<sup>38</sup> I offered detailed guidelines for the creation of a portfolio of measures that would enable both the IRS and external stakeholders to evaluate the effectiveness of IRS service delivery. These measures would also enable the IRS to identify performance gaps that could guide the creation of performance improvement goals. A principal feature of this proposed framework is the inclusion of the following types of measures for each of our service delivery channels:

- Access – level of service, wait time (including, where applicable, time waiting for service, and time waiting for a response).

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additional 2.5 percent for FY 2012. See H.R. 2055, Consolidated Appropriations Act, 2012, Division C, Title I (112<sup>th</sup> Cong.).

<sup>36</sup> Letter from Douglas H. Shulman, Commissioner of Internal Revenue, to the Chairs and Ranking Members of the House and Senate Appropriations Subcommittees on Financial Services and General Government, the House Committee on Ways and Means and its Subcommittee on Oversight, and the Senate Committee on Finance (Oct. 17, 2011).

<sup>37</sup> The classic economic model of compliance, that compliance depends upon the risk (or perception of risk) of being caught and the cost (punishment) if caught, doesn't really explain our high compliance rate in the tax system. Research shows that other factors, such as taxpayers' attitudes about government and their perception that they are being treated fairly by the tax system, also influence taxpayer compliance decisions. Many researchers refer to these factors collectively as "tax morale." For an introduction to the concept of tax morale, see National Taxpayer Advocate 2007 Annual Report to Congress vol. 2, 138-182 (*Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers*).

<sup>38</sup> See Annual Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint (April 2009 to September 2010) 54-57.

- Customer satisfaction.
- Accuracy.
- Issue resolution (i.e., did the IRS completely resolve the taxpayer's problem(s)?).

The current IRS proposal includes these kinds of measures, but does not provide them for all of our service channels. For example, the IRS currently provides a level of service measure for IRS telephone service, but does not provide comparable access measures for our other channels: internet, correspondence, and walk-in assistance.

Stakeholders are also keenly interested in how well the IRS is delivering each of its major services (e.g., return preparation, refund inquiries, tax law inquiries). In last year's perspective, I recommended that the IRS report select service delivery measures for each of its major service activities:

- Taxpayer awareness of the availability of the various service types by channel.
- Customer satisfaction with each service type by channel.
- Issue resolution for each service type by channel.
- Access for Limited English Proficiency and disabled taxpayers for each service type by channel.
- Number of returns prepared by Taxpayer Assistance Centers and Volunteer Income Taxpayer Assistance programs.

The IRS is developing these kinds of measures for its major service activities, but should report on each activity separately. For example, the service interaction score included in this report, i.e., the percentage of taxpayers satisfied with their interactions with major IRS service programs, is a single aggregate score. It does not enable stakeholders to separately assess taxpayer satisfaction with each of our major service activities.

I commend the IRS for the work it has done to date on developing a meaningful portfolio of measures, but urge the IRS to develop a more comprehensive suite, consistent with my recommended guidelines. Good measures will help the IRS determine where it needs to improve and will assist the Appropriations Committees in determining where the IRS requires additional resources.

## Conclusion

The IRS lacks sufficient resources to deliver the quality service that our taxpayers deserve. Taxpayers calling the IRS with tax-law or account questions often cannot get through, creating considerable frustration and potentially reducing compliance. Compliant taxpayers whose refunds are held up or who are audited do not receive timely responses to their phone calls and correspondence. If additional budget cuts are enacted, IRS levels of service will likely further deteriorate.

I urge the IRS to complete development of a comprehensive suite of service measures and recommend that these measures serve as the basis for future taxpayer service funding decisions. This will ensure that our taxpayers receive the level of service that they deserve. Failure to do so places an unreasonable burden on our taxpayers, and could erode voluntary compliance in the long run.

## APPENDIX A. TAB GUIDING PRINCIPLES

The TAB Guiding Principles provided the groundwork for developing the TAB Strategic Plan, which represents the objectives and operational priorities for service investment decisions for the next five years. The current guiding principles, reflecting desired service outcomes, are:<sup>39</sup>

- The primary goal of service for individual taxpayers is to facilitate compliance with federal tax obligations.
  - Compliance means that taxpayers will pay no more and no less than what they owe.
- A portion of the tax gap is attributable to errors individual taxpayers made. The IRS service programs should prevent, minimize, and correct such errors with due consideration of taxpayer burden.
- IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.
  - Offer a portfolio of service options delivered across multiple channels, including face-to-face service
  - Support expedited issue resolution across all channels through improved access to information and decision-making resources
  - Enhance cost-effective, solution-based, self-service options where appropriate for the subject matter (e.g., forms and publications, automated telephone responses, and IRS.gov access)
  - Provide opportunities for taxpayers to migrate to lower cost channels while ensuring that alternative channels are available
  - Expand use of e-file to reduce math errors, increase reporting compliance, and reduce submission processing costs
  - Redirect available resources as taxpayers move to self-service options to activities that research determines are cost-effective options for preventing, minimizing, and correcting taxpayer non-compliance
- The IRS will enhance its web site so that it becomes the first choice of more taxpayers for obtaining the information and services they need to comply with their tax obligations.
- The IRS recognizes the significant role that partners play in tax administration. As such, the IRS will look for opportunities to assist these third parties in helping taxpayers understand and meet their tax obligations.
- The IRS will enhance marketing, outreach, and education to targeted populations to improve service awareness, access, and quality.

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<sup>39</sup> Based on the Department of Treasury Strategic Plan and assessment of implementation activity, the Services Committee revised several of the original TAB Guiding Principles subsequent to the submission of the TAB Phase 2 report.

Integration of TAB Guiding Principles into the IRS Strategic Plan			
Focus	TAB Guiding Principles	IRS Strategic Objective	IRS Strategy
<b>Improve IRS Efficiency and Productivity</b>	The IRS will enhance its website so that it becomes the first choice of more taxpayers for obtaining the information and services they need to comply with tax obligations.	Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity	Expand online tools and services
<b>Make Compliance Easier</b>	The primary goal of service for individual taxpayers is to facilitate compliance with federal tax obligations. Compliance means that taxpayers will pay no more and no less than what they owe.	Proactively enforce the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden	Proactively identify and promptly address areas of tax avoidance to minimize their corrosive effects and deter future activity
<b>Prevent, Minimize, and Correct Errors</b>	A portion of the tax gap is attributable to errors individual taxpayers made. The IRS service programs should prevent, minimize, and correct such errors with due consideration of taxpayer burden.	Incorporate taxpayer perspectives to improve all service interactions	Ensure that the IRS makes operational decisions only after considering the views of affected taxpayers
<b>Emphasize Partners Role</b>	The IRS recognizes the significant role that partners play in tax administration. As such, the IRS will look for opportunities to assist these third parties in helping taxpayers understand and meet their tax obligations.	Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration	Treat partners as the "first line of compliance" by providing them with the tools and information to encourage taxpayer compliance and prevent mistakes
<b>Improve Self-correction and Self-service Tools</b>	The IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.	Expand enforcement approaches and tools	Expand alternative taxpayer treatments, including soft notices and other non-audit contacts
<b>Proactive Communication is Essential</b>	The IRS must enhance marketing, outreach, and education to targeted populations to improve service awareness, access, and quality.	Provide taxpayers with targeted, timely guidance and outreach	Develop a more sophisticated understanding of taxpayer segments to allow for targeted communication to taxpayers
<b>Expedite Issue Resolution</b>	The IRS will increase support for expedited issue resolution across all channels through improved access to information and decision-making resources.	Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS	Create explicit opportunities for taxpayers to proactively resolve issues at the earliest possible moment



## APPENDIX B. ADDITIONAL FY 2011 SERVICE IMPROVEMENTS BY IRS STRATEGIC OBJECTIVE

FY 2011 Service Improvement	Brief Description
<b>Incorporate taxpayer perspectives to improve all service interactions</b>	
The IRS expands self-service Interactive Tax Assistant	The Interactive Tax Assistant is a logic-driven decision tool that provides taxpayers a self-service capability by guiding them to timely and accurate answers to tax law questions.
Social Security Number (SSN) redaction/elimination	The IRS introduced 2-D bar coding on notices to reduce the risk of identity theft from potential disclosure of personally identifiable information. In July 2011, IRS initiated a pilot to introduce 13 notices that now have redacted SSNs.
Plain Writing Act	The IRS implemented the provisions of the Plain Writing Act and launched a new Plain Writing Act webpage on IRS.gov with a section for public comments. The IRS posted the first annual compliance report as required, and rolled out communications and training to all employees.
The IRS announces changes in Levy Program	The IRS included National Taxpayer Advocate (NTA) and taxpayer perspectives when revising the Federal Payment Levy Program in fiscal year 2011. Beginning in January 2011, the system removes individuals who meet low income criteria from the Federal Payment Levy Program automated process. The IRS issued a one-time notice in February 2011 to notify affected taxpayers of this change. The notice explained that their accounts are no longer under the automated process. However, these taxpayers could be subject to regular IRS collection procedures to resolve their accounts.
<b>Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS</b>	
Fresh Start Initiative	On February 24, 2011, the IRS announced a new effort to help financially struggling taxpayers get a “fresh start” in managing their tax liabilities. The Fresh Start Program included several changes to the process for filing and withdrawing Notices of Federal Tax Lien. The IRS presented a webinar about the Fresh Start Program to tax professionals in August 2011. The webinar explained how individual and small-business taxpayers can get a fresh start with their tax liabilities, including information about Lien Filing Thresholds, Lien Withdrawals, Installment Agreements, and Offers in Compromise.

Volunteer Income Tax Assistance (VITA) site locations on IRS.gov	The IRS posted the location of VITA and other partner sites on IRS.gov. This allows taxpayers to locate the nearest VITA site online instead of calling the IRS toll-free number for the information. There were 167,804 hits to the web page on IRS.gov through September 30, 2011.
Industry Issue Resolution Program	The Industry Issue Resolution Program resolves frequently disputed or burdensome business tax issues that affect a significant number of taxpayers by providing clear guidance that business taxpayers can use to reduce the time and expense associated with resolving issues on a case-by-case basis during tax examinations.
Streamlined Offer in Compromise	The IRS implemented a streamlined Offer in Compromise process for taxpayers meeting a specified income and liability threshold.
First-Time Homebuyer Credit (FTHBC) look-up tool	The IRS developed and implemented a FTHBC web-based look-up tool that will eliminate millions of notices and provide taxpayers with information to accurately report a repayment requirement.
Taxpayer Advocate Service (TAS) FTHBC Initiative	<p>In late February 2011, the TAS began receiving large volumes of cases due to delayed return processing that programming problems caused, which prevented regular processing of returns involving the FTHBC. This experience helped the TAS develop a process for handling future influxes of cases. This process includes:</p> <ul style="list-style-type: none"> <li>• Moving inventory effectively to TAS offices across the country</li> <li>• Providing additional resources to work these cases through details and temporary promotions</li> <li>• Developing and delivering training more quickly</li> <li>• Monitoring case activity</li> </ul>
New and expanded measures for the TAS Case Quality Product Review	The TAS implemented redesigned quality measures in FY 2011 to address numerous casework and case processing changes. The quality measures now include 38 quality attributes and fall into four main categories: timeliness, communication, accuracy, and technical. The new attributes will provide a more comprehensive review of TAS casework and enable the TAS to strengthen its advocacy, improve performance, and ensure appropriate managerial involvement. The TAS will use information from its quality reviews with customer satisfaction, employee satisfaction, and business results data to identify trends and TAS-wide opportunities for improving the taxpayer's experience with the TAS.
The IRS revised time limit for consideration of Innocent Spouse claims	Based on taxpayer input, the IRS announced changes to the two-year time limit for consideration of Innocent Spouse claims under 6105(f) to improve issue resolution. The IRS issued a press release and frequently asked questions on IRS.gov in July 2011. Taxpayers with claims in IRS inventory were sent a letter explaining that the IRS will consider their claims based on the new policy, while taxpayers whose claims the IRS denied based on the old timeframes can re-file their claims.

Provide taxpayers with targeted, timely guidance and outreach	
Guidance to taxpayers who no longer receive unsolicited tax packages	The IRS developed Publication 4893, <i>Important Information for Taxpayers Who No Longer Receive Tax Packages</i> , to help taxpayers determine what forms and tax products they need to meet their tax year 2010 filing obligation. The IRS distributed the new publication in TACs and through other outlet partners.
Prisoner pre-release education	The IRS worked with the Department of Justice and other federal agencies to educate prisoners on their tax compliance responsibilities prior to their re-entry into society. The IRS developed the "Get Right With Your Taxes" material, including a DVD, a brochure, and facilitator guide.
Gulf Oil Spill claims guidance	The IRS developed specialized guidance in anticipation of the needs of taxpayers who received claims payments resulting from the 2010 Gulf Oil Spill. The IRS team created guidance, developed talking points, and participated in outreach events to educate the public about the tax treatment of oil spill claims payments. The team also developed training for volunteers serving at VITA/TCE sites to help them assist taxpayers who received the payments.
Spanish translation of e-learning course for volunteers	The IRS translated the e-learning training course it uses to train VITA and TCE volunteers into Spanish.
New Spanish Language Tax Topics	The IRS created approximately 200 new Tax Topics for the IRS Spanish Language website.
Establish Combat Zone Toll-Free support	The IRS established a dedicated toll-free number to handle inquiries about combat zone status for taxpayers whose status the IRS did not receive from the Department of Defense. The purpose is to ensure that individuals serving in a Combat Zone receive the tax benefits the law intended.
Federal Employee/Retiree Delinquency Initiative Outreach	The IRS provided demographic information to certain federal agencies so that the agencies could develop programs to improve their employee tax compliance rates.
Enhance Installment Agreement Letter for balance due taxpayers	The IRS revised payment plan letters it issued to taxpayers to include simplified language, the cause of the tax debt, information on how to prevent future delinquencies, and the next steps in the collection process.
Adoption Credit outreach	The IRS implemented an extensive outreach strategy to ensure taxpayers, preparers, adoption organizations, and software developers understood the new Adoption Credit requirements.

FTHBC Repayment outreach	Prior to the 2011 filing season, the IRS sent notices to over 5.2 million taxpayers to remind 2008 home purchasers of their repayment obligation and to inform purchasers in other years of their requirement to report a disposition within three years of purchase. The IRS also revised website content for a separate section on the repayment and recapture of the FTHBC.
Increase Earned Income Tax Credit (EITC) Awareness	<ul style="list-style-type: none"> <li>• In collaboration with its stakeholders and partners, the IRS delivered over 600 events, including news conferences, news releases, e-mail blasts, newsletters, and more. The IRS provided over 42,000 airings and insertions from the Spanish and English marketing campaigns, which had an estimated donated value of approximately seven million dollars. Provided English and Spanish satellite media tours, which received over \$119,000 in donated media and reached an audience of almost 1.9 million</li> <li>• Circulated over 2.4 million English and Spanish print calls</li> <li>• Conducted radio interviews in English and Spanish, which reached over 1,300 affiliate markets</li> <li>• Organized IRS executives and representatives, members of the Congress, and other elected government officials at 47 different locations for Awareness Day Events</li> <li>• Held two EITC Saturdays in local IRS offices, assisting over 15,000 taxpayers</li> <li>• Provided key messages to supplement partner outreach efforts and communicated to over 57,000 people through social media, including Facebook, blogs, and Twitter</li> <li>• Ran the EITC Public Service Announcement (PSA) campaigns, in both English and Spanish, including TV, radio, and print, almost 43,000 times in targeted markets (urban) and underserved markets (rural markets nationwide)</li> </ul>
IRS.gov Notice Web Pages	The IRS created an additional 72 new specific notice webpage, bringing the total to 102. In FY 2011, the IRS has had 836,638 web hits on the main notice-landing page and 317,939 hits on the specific notice web pages.
Notice translation for Limited English Proficient taxpayers	To address the needs of limited English-proficient taxpayers, the IRS had high-volume notices translated into five of the most common foreign languages (Spanish, Chinese, Korean, Vietnamese, and Russian). The IRS translated 12 notices into these five languages, bringing the total number translated to 25.
Improved tax form instructions	The IRS identified and made changes to the Form 1040 instructions to clarify how a taxpayer should determine gross income.

Indexing Revenue Procedures	The IRS provides annual updates for various tax and credit tables, including the amounts of the individual income tax withholding, the EITC, and the sales tax deduction. The IRS uses the individual income tax withholding amounts to support the online Withholding Calculator, and the sales tax deduction for the online Sales Tax Deduction Calculator.
Quality Examination Process	Quality Examination guidelines for large-business taxpayers provide a framework for effectively working with taxpayers to manage even the most complex tax examinations. Examinations typically progress in three phases: planning, execution, and resolution. By adhering to their respective responsibilities and communicating regularly and effectively, exam teams and taxpayers can facilitate an exam process that progresses efficiently and concludes as quickly as possible.
Improve Internal Management Documents to assure consistent guidance to taxpayers	The IRS improved the Internal Management Documents process to ensure employees have access to the instructions they need to perform their jobs accurately. In turn, this ensures that the employees treat taxpayers consistently and fairly.
Webinars for small-business and tax-exempt taxpayers	The IRS expanded its educational efforts by offering extensive webinars on timely topics such as: international issues; new forms relating to direct pay bonds; easy, low-cost ways to start your small business; and basic rules for charities and other tax-exempt organizations. Thousands of stakeholders viewed these successful webinars, which continue to be available on IRS.gov.
<b>Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration</b>	
Return preparer outreach and education	The IRS continues to provide outreach and education to return preparers by making presentations at key stakeholder events, delivering outreach at nationwide stakeholder events, and using a range of communication tools for sharing information.
TAC/VITA collaboration	The IRS continued to collaborate with VITA to provide on-site technical support at 31 volunteer sites in 2011. Taxpayers the VITA sites assisted typically do not visit TACs.
Schedule C pilot at selected VITA/TCE sites	The IRS collaborated with two national partners in a pilot to determine the effectiveness of expanding Schedule C tax preparation to the VITA/TCE Program. The VITA/TCE Schedule C pilot sites prepared 3,216 Schedule C returns during the 2011 filing season with a 95 percent accuracy rate. The IRS plans to expand the pilot to more locations in the next filing season because of the popularity of the pilot with taxpayers.

<b>Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity</b>	
<i>Where's My Refund?</i> Phase I	The IRS has proposed a set of <i>Where's My Refund?</i> application design, content, and user experience improvements. These improvements will provide clearer refund status information to IRS.gov visitors and ease telephone volume concerns for the 2012 filing season. Fewer <i>Where's My Refund?</i> telephone calls will ensure the highest possible telephone service levels are available to taxpayers with more complex tax filing concerns.
Online calculators	The IRS updated the following calculators on IRS.gov: withholding calculator, state and local sales tax calculator, and the eligibility and benefits calculator for the Making Work Pay tax credit.
Account Management Services Correspondence Imaging System	The IRS expanded the use of the Account Management Services-Correspondence Imaging System to every Individual Taxpayer Advisory Specialist. This imaging system capability helps provide timely service to taxpayers who correspond with the IRS.
New technology for electronic processing of paper checks	The IRS installed new paper check conversion technology in all permanently staffed TACs to process checks and money orders electronically. This technology improved remittance internal controls and reduced mailing costs, lost remittances, and interest lost on mailed remittances by over 70 percent.
New customer queuing ticket printers	The IRS refreshed 175 customer queuing ticket printers at remote TAC locations. The last update of the customer queuing printers was in 2000.
Tax Stats Wizard	To improve the IRS.gov experience, the IRS introduced its Tax Stats Table Wizard in May 2011 and is averaging 150 users per day. This application allows users to create customized data tables that use previously tabulated or public-use data in several subject-matter areas, including corporate, individual, foreign, international, tax-exempt, and estate and gift taxes.
Automated Liens System (ALS)	The TAS deployed the ALS to 2,100 case advocates. The users can conduct research on lien unit assignments and view and print lien documents, such as the Notice of Federal Tax Lien or Release of Lien.
Enterprise Electronic FAX (EEFax)	The TAS deployed EEFax to its Low Income Taxpayer Clinic office to support the FY 2011 grant application process. EEFax allows electronic receipt of faxed application documents, which eliminates paper fax receipt and storage requirements.
Request Return Display	The TAS implemented Request Return Display, which allows TAS caseworkers to view specific tax return and status information for electronically filed tax returns. Caseworkers can also print tax returns, forms, and schedules.

TAS Integrated Automation Technology (IAT) Tools	<p>The TAS developed a series of IAT tools that will improve efficiency and productivity, as well as save costs for the IRS:</p> <ul style="list-style-type: none"><li>• The TAS Letter Tool— automates letters that case advocates had manually prepared. The tool reduces the potential for disclosure issues by populating letters with the current taxpayer addresses. It also contains validation checks for case advocate input and performs calculations for follow-up dates. Case advocates benefit from the reduced time they spend writing letters, and taxpayers receive correspondence quicker and at the correct addresses.</li><li>• The TAS Disclosure Tool—reduces inadvertent disclosures and streamlines the taxpayer authentication process for case advocates. It helps users verify the identity of a caller and determine if the taxpayer has authorized the caller to receive confidential tax information or represent the taxpayer.</li><li>• Full Service Research Tool— helps users research compliance issues and allows them to update account conditions with one click of a button.</li><li>• Quick Command Tool—helps users navigate the Integrated Data Retrieval System (IDRS) to acquire taxpayer account information and allows IDRS to print two screens per page.</li></ul>
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