

# IRS News Release

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## National Taxpayer Advocate Submits Mid-Year Report to Congress; Identifies Priority Challenges and Issues for Upcoming Year

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WASHINGTON — National Taxpayer Advocate Nina E. Olson today released a report to Congress that identifies the priority issues the Taxpayer Advocate Service (TAS) will address during the coming fiscal year. The report expresses particular concern about the impact of IRS budget cuts on taxpayer service and tax compliance and about IRS lien filing practices.

“The IRS has made significant progress on important fronts over the last year, including the implementation of return-preparer regulation, the transition to the Customer Account Data Engine 2 (CADE 2) to improve returns processing, and the streamlined processing of offers-in-compromise,” Olson said in releasing the report. “At the same time, the IRS faces significant challenges in the year ahead, particularly if its budget is reduced.”

**Impact of Possible Budget Cuts on Taxpayer Service and Compliance.** The last few years have been particularly challenging for taxpayers and the IRS, as the recently enacted Economic Stimulus Payments, First-Time Homebuyer Credit, and Making Work Pay Credit, among other tax benefits, have proven complex to claim or substantiate and have led to a significant increase in taxpayer inquiries and problems. At the same time, the IRS’s ability to respond to taxpayer phone calls and correspondence has declined. Comparing FY 2010 with FY 2004, the percentage of phone calls the IRS answered from taxpayers seeking to reach a telephone assistor declined from 87 percent to 74 percent, and the percentage of unanswered correspondence classified as “overage” at year’s end increased by 135 percent.

On the funding side, the IRS’s appropriations in FY 2011 were reduced by 0.2 percent in nominal dollars and by more when increased costs are taken into account as compared with the previous year. The funding level for FY 2012 remains uncertain. “In recent years, the IRS has been given more and more tasks, but it is not receiving the resources it needs to fulfill these tasks without cutting corners,” the report says. “And when the IRS cuts corners, taxpayers can be harmed and revenue collection may suffer.”

The National Taxpayer Advocate has previously suggested that the IRS generally be exempt from budget caps or reductions. She has noted that the “tax gap” (*i.e.*, the amount of tax due but not paid voluntarily and timely) is estimated to be about \$345 billion a year. “As the *de facto* ‘Accounts Receivable Department’ of the federal government, the IRS collects well over 90 percent of all federal revenue,” the report notes. On a budget of about \$12.1 billion, the IRS collected \$2.35 trillion in FY 2010, or about \$194 in federal revenue for each dollar it spent.

The report states: “Despite differing views about the appropriate level of taxation, there is widespread agreement that taxes that are due and owing under the law should be collected. Spending cuts mean the IRS will not have the resources to ensure that all taxpayers pay their fair share, thereby effectively forcing compliant taxpayers to pay more to subsidize noncompliance by others. Moreover, the IRS will not have the ability to meet the service needs of the taxpayers who are paying our nation’s bills.”

The report also expresses concern about the ability of TAS itself to meet taxpayer needs. “Congress created TAS largely to serve as the IRS’s ‘safety net’ for taxpayers who are experiencing significant hardships,” the report says. “In practice, TAS is often a taxpayer’s last resort for resolving a tax problem.” TAS’s case receipts have risen from about 169,000 in FY 2004 to about 299,000 in FY 2010, an increase of 77 percent. The report expresses concern that if TAS does not receive sufficient resources to handle its growing workload, it will have no choice but to decline to accept certain categories of cases, leaving taxpayers to fend for themselves.

In FY 2012, TAS will continue to study the adequacy of the resources available to the IRS to enable it to fulfill its tax collection and taxpayer service responsibilities, and will continue to advocate for a reasonable balance between the IRS’s responsibilities and its resources.

**IRS Collection Practices.** The National Taxpayer Advocate has expressed concern about IRS collection practices in prior reports and has, in particular, made recommendations to reduce the harm that unproductive liens can inflict on taxpayers. This report praises several recent changes the IRS has announced, including making lien withdrawals available to taxpayers in a wider range of cases. However, the report expresses continuing concern about the IRS’s practice of *automatically* filing tax liens based on a dollar threshold instead of basing lien-filing decisions on an analysis of the taxpayer’s financial situation. The National Taxpayer Advocate believes that such an analysis “should balance the need to protect the government’s interests in the taxpayer’s assets with a corresponding concern for the financial harm the lien will create for that taxpayer.”

In cases where the IRS has determined a taxpayer is suffering an economic hardship or possesses no significant assets, the filing of a lien is unlikely to further tax collection but will further damage a taxpayer’s credit rating, thus harming the taxpayer, increasing the taxpayer’s cost of living, and reducing the chance the taxpayer will be able to obtain a job and pay off the tax debt. In FY 2012, TAS will work with the IRS to fully evaluate the results of its limited changes to the lien-filing process and identify additional opportunities for improvement. In addition, TAS is conducting its own study of the impact of lien filings on future tax compliance and will refine its recommendations based on the study results.

**Other Areas of Focus.** Additional areas on which the National Taxpayer Advocate intends to focus in the coming year include the following:

- **Taxpayer Impact of Possible Government Shutdown.** As part of the federal government’s preparations for the possibility of a government shutdown earlier this year, the IRS revised its contingency plan to identify the limited functions it could perform. The plan identified excepted activities relating to the protection of *government* property, but it made no allowance for the protection of *taxpayers’* lives or property, including the processing of paper tax returns and related refunds. The

National Taxpayer Advocate believes the permissible activities defined in the Anti-Deficiency Act should be clarified to provide protection for *taxpayers'* lives and property, and will address this issue in her 2011 Annual Report to Congress.

- **Tax Reform and Tax Complexity.** The National Taxpayer Advocate will continue to engage the taxpaying public in a dialogue about fundamental tax simplification. To help advance this process, TAS has established an electronic suggestion box to solicit comments from taxpayers regarding which tax breaks they would be willing to give up to achieve a simpler tax system and which tax provisions they consider to be particularly unfair. To date, TAS has received some 1,500 comments. A selection of these comments is posted at <http://www.taxpayeradvocate.irs.gov/2012-Objectives-Report>.
- **Earned Income Tax Credit (EITC) Improvements.** The EITC is often criticized for the relatively high level of “improper payments” associated with the credit. While some overclaims result from purposeful false claims, considerable noncompliance results from the difficulty taxpayers face in substantiating their claims to the satisfaction of the IRS, notably by proving that a qualified child lived with the taxpayer for more than half the year and bears the requisite familial relationship. In FY 2012, TAS will review proposals and apply previous research findings to help reduce EITC noncompliance.
- **Tax-Related Identity Theft.** Despite significant IRS efforts to reduce tax-related identity-theft problems, the IRS continues to experience difficulties in expeditiously resolving these cases and TAS’s identity theft-related cases continue to increase. TAS will continue to work with the IRS to mitigate identity theft problems, improve identity theft case processing, and follow up on the National Taxpayer Advocate’s previous recommendations in this area.
- **Innocent Spouse Relief.** The tax code currently contains “innocent spouse” rules designed to shield individuals from responsibility for joint tax liabilities generally attributable to their spouse (or former spouse) in appropriate cases. However, equitable relief for otherwise eligible taxpayers is barred if an “innocent spouse” request is not filed within two years from the date of the first IRS collection action. For reasons detailed in prior National Taxpayer Advocate reports, this “two-year rule” can lead to harsh results. TAS looks forward to working with the IRS to improve the rules. TAS is also partnering with a domestic violence coalition to provide training for TAS and IRS public contact employees about assisting and working with taxpayers who are victims of domestic violence and abuse.

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The National Taxpayer Advocate is required by statute to submit two annual reports to the House Committee on Ways and Means and the Senate Committee on Finance. The statute requires these reports to be submitted directly to the Committees without any prior review or comment from the Commissioner of Internal Revenue, the Secretary of the Treasury, the IRS Oversight Board, any other officer or employee of the Department of the Treasury, or the Office of Management and Budget. The first report is submitted mid-year and must identify the objectives of the Office of the Taxpayer Advocate for the fiscal year beginning in that

calendar year. The second report, due on December 31 of each year, must identify at least 20 of the most serious problems encountered by taxpayers, discuss the ten tax issues most frequently litigated in the courts, and make administrative and legislative recommendations to resolve taxpayer problems.

### **About the Taxpayer Advocate Service**

The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can reach TAS by calling the TAS toll-free number at 1-877-777-4778 or TTY/TDD 1-800-829-4059. For more information, go to [www.irs.gov/advocate](http://www.irs.gov/advocate). You can learn about your rights and responsibilities as a taxpayer by visiting our tax toolkit at <http://www.TaxpayerAdvocate.irs.gov>. You can get updates on hot tax topics by visiting our YouTube channel at [www.youtube.com/tasnta](http://www.youtube.com/tasnta) and our Facebook page at <http://www.facebook.com/YourVoiceAtIRS>, or by following our tweets at <http://twitter.com/YourVoiceatIRS>.

### **Related Items:**

- National Taxpayer Advocate's [FY 2012 Objectives Report to Congress](#)
- Tax Toolkit: <http://www.TaxpayerAdvocate.irs.gov>