



Report to Congress

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

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**The Taxpayer Assistance Blueprint**  
**2008 - 2009**

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Internal Revenue Service  
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## Introduction

In July 2005, Congress mandated that the Internal Revenue Service (IRS), the National Taxpayer Advocate, and the IRS Oversight Board collaborate to develop a five-year plan for taxpayer service. Working with the Taxpayer Advocate and the Oversight Board, the IRS delivered the Taxpayer Assistance Blueprint (TAB) Phase 2 Report to Congress on April 11, 2007. This report provided a strategic direction for incorporating taxpayer and partner needs in making service improvement decisions and outlined specific initiatives for potential implementation. It was based on extensive research of the taxpayer perspective and on a set of TAB Guiding Principles reflecting desired service outcomes. The primary Guiding Principles outlined in the TAB Phase 2 Report were:

- *The primary goal of service for individual taxpayers is to facilitate compliance<sup>1</sup> with federal tax obligations.*
- *A portion of the tax gap is attributable to errors by individual taxpayers. The IRS service programs should be designed to prevent, minimize, and correct such errors with due consideration of taxpayer burden.*
- *IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.*
- *Enhance the IRS Web site so that it becomes the first choice of more taxpayers for obtaining the information and services needed to comply with 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.*

In April 2008, in response to an Appropriations Committee request, the IRS, the National Taxpayer Advocate and the IRS Oversight Board provided an update to TAB implementation. The report discussed a governance structure created to facilitate TAB implementation and provided an update on the implementation of TAB-related technology investments. Also highlighted were the IRS improvements to taxpayer service achieved since the TAB Phase 2 Report.

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<sup>1</sup> Compliance is defined as paying the correct amount of tax on time.

This year's TAB report responds to the Appropriations Committees' most recent request<sup>2</sup> for an update on the status of TAB implementation. The objectives are threefold:

Objective 1: To recap efforts made during the prior year to improve taxpayer service.

Objective 2: To explain a few key refinements made during the past year to our approach for improving service and providing a seamless experience for taxpayers.

Objective 3: To highlight key elements of our service improvement focus for 2009 – 2010.

### **Taxpayer Service Challenges**

This past year, the IRS delivered a successful filing season, as is explained more fully below. This achievement was especially significant in light of the challenges resulting from the economic downturn, enactment of legislation such as the American Recovery and Reinvestment Act of 2009 (ARRA), and additional service demand relating to the Recovery Rebate Credit (RRC). The IRS aligned resources to meet the increased demand for services, increased taxpayer access to assistance, reviewed processes to improve efficiency, and delivered modernized systems to help taxpayers meet their tax obligations. Recent challenges include:

- Requests for Transcripts Due to the Housing and Economic Recovery Act of 2008.

The Housing and Economic Recovery Act of 2008 requires mortgage lenders and others within the financial community to use the IRS tax transcripts to confirm the income of a borrower during the processing of a loan application. This contributed to significant growth in the IRS' Income Verification Express Services (IVES) program. Additional staff and an extra shift were added to meet the requirement that the IRS provide these transcripts within two business days. IVES receipt projections for Fiscal Year (FY) 2009 are 5.1 million, a 219 percent increase over FY 2008.

- Notice Volumes due to the Recovery Rebate Credit (RRC) Enacted in 2008;

For the filing season through March 30, 2009, the IRS issued 5.7 million CP12 (*Changes to Tax Return, Overpayment*) notices compared to 478,136 for the same period in 2008. Of those notices, the IRS issued 5.1 million due to only RRC-related issues.

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<sup>2</sup> Public Law 111-8 – Division D of the Joint Explanatory Statement accompanying the FY09 Omnibus Appropriations Act (PL 111-8), stating: "The IRS, the IRS Oversight Board and the National Taxpayer Advocate are directed to submit annually to the House and Senate Committees on Appropriations an update to the Taxpayer Assistance Blueprint, detailing its implementation status and identifying any changes to the strategic plan for taxpayer service, including the results of any new research and relevant findings, and any open issues requiring additional research. The first update shall be submitted 120 days after enactment of this Act".

Recognizing that taxpayers needed special assistance with the Recovery Rebate Credit, the IRS developed a new notice (CP12R, *Recovery Rebate Credit Computed, Overpayment of \$1 or More*) that was sent to taxpayers for whom the IRS calculated the Recovery Rebate Credit on the taxpayers' behalf. The IRS also created a unique telephone number for inquiries about CP12R that explains why taxpayers received this notice and clarifying that no further action is required. The IRS began issuing the new notice on February 26, 2009.

- Increased Toll-free Demand: Online Filing – AGI/PIN;

As part of our strategy to increase electronic filing, the previously optional self-selected Personal Identification Number (PIN) for signature on electronically filed tax returns became a requirement starting in FY 2009. Prior to FY 2009, electronic filers not utilizing a PIN were required to file a paper Form 8453-OL, *US Individual Income Tax Declaration for an IRS e-file Online Return*. In order to establish a new PIN to file online, taxpayers must provide the Adjusted Gross Income (AGI) from their prior year's return for verification and disclosure purposes. Through March 28, 2009, 3.8 million calls were answered from taxpayers asking for their prior year AGI or PIN. This increased Toll-free demand was the result of a combination of callers needing their AGI due to the elimination of Form 8453-OL and a 19.8% overall increase in the number of online electronic returns filed through the end of March (22.6 million in 2009 compared to 18.9 million in 2008).

Based on the increased demand for taxpayer service, the IRS implemented strategies to more effectively provide taxpayers with answers to less complex issues by expanding automated and internet service channels (e.g., "Where's My Refund?" and the Online Payment Agreement). However, while visits to IRS.gov increased 62 percent from 2007 to 2008, and another 13.6 percent during the 2009 filing season, taxpayers still contacted the IRS Taxpayer Service personnel for complex tax issues and to complete adjustments to their accounts.

The unique service challenges of the past year were significant, but so too are many ongoing and emerging taxpayer service issues faced by the IRS, including an increasing need to respond to and help prevent identity theft and the increasing complexity of tax administration. Some of the more significant challenges faced by the IRS in providing excellent taxpayer service are highlighted below:

- Economic Stimulus Act and American Recovery and Reinvestment Act

The IRS issued millions of stimulus rebate checks for taxpayers in 2008.<sup>3</sup> Currently, the IRS has a significant role in the implementation of the American Recovery and Reinvestment Act (ARRA).<sup>4</sup> Both of these Acts required a

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<sup>3</sup> Economic Stimulus Act of 2008: Public Law 110-185, enacted February 13, 2008.

<sup>4</sup> American Recovery and Reinvestment Act of 2009: Public Law 111-5, enacted February 17, 2009.

considerable amount of IRS activity. Where necessary, the IRS expedited and completed technology programming; formed steering committees to guide enterprise decision making; and expeditiously developed and issued tax guidance. The IRS also developed coordinated outreach efforts and national marketing campaigns with national and local news media. Although these unplanned events presented unique challenges, the IRS continued to respond in a proactive manner.

- **Effect of Legislative Changes**

Taxpayers depend on effective, timely service to fully understand the effect of legislative changes on their tax obligations. In 2008, legislative changes affected 413 tax products (forms, publications and instructions) important to returns filed in 2009, over twice the number of tax products affected in the previous year. Despite substantial challenges introduced close to filing season, the IRS adapted to deliver a successful 2009 filing season by processing over 131.5 million returns, issuing more than 96.5 million tax refunds, fielding a 13.6 percent increase in visits to IRS.gov, and achieving a growth of individual e-File receipts of 5.9% to over 90.5 million.<sup>5</sup>

However, due largely to the effects of increased demand caused by requests for prior year AGI and responses to Rebate Recovery Credit (RRC) notices, telephone Customer Service Representative (CSR) Level of Service declined to 67.8% through June 30. For the filing season through June 30, 2009, the IRS received 41 million call attempts directed to assistors. Also, despite this unforeseen spike in demand toll-free, Customer Accuracy still remained high with Tax Law Accuracy at 92.5 percent and Accounts Accuracy at 95.1 percent.<sup>6</sup>

## **Status of TAB Implementation**

Last year's TAB progress report highlighted substantive refinements to the TAB Guiding Principles. The report also provided important details regarding the structure and function of the TAB governance process as summarized below.

### **IRS Services Governance**

The TAB Strategic Plan called for an IRS governance body to provide oversight to the IRS service operations. This governance body, the Services Committee, includes cross-functional, senior executive representation and supplements existing IRS decision-making processes. The primary objective of the Services Committee is to facilitate an integrated agency-wide approach to delivering service and provide enterprise perspective to service decision making.

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<sup>5</sup> 2009 Filing Season Statistics, IRS.gov, <http://www.irs.gov/newsroom/article/0,,id=205034,00.html>, July 23, 2009.

<sup>6</sup> IRS, Customer Accounts Services, Enterprise Telephone Data, Snapshot Report, January 1 through June 30, 2009.

The Deputy Commissioner for Services and Enforcement chairs the Services Committee. Currently, the permanent voting members include the Deputy Commissioner for Operations Support, the Commissioners for Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE), the Chief Technology Officer, the Chief Financial Officer, and the National Taxpayer Advocate. Non-voting members include the Commissioners for Large and Mid-Size Business (LMSB) and Tax Exempt and Government Entities (TEGE), the Chief of Communications and Liaison, and the Directors of Research, Analysis and Statistics, Office of Taxpayer Burden Reduction, Office of Professional Responsibility, Legislative Affairs, and Electronic Tax Administration (ETA).

The Committee's charter, as originally designed, calls for the Services Committee to:

- Oversee, prioritize, and approve an integrated services portfolio;
- Review, prioritize, and approve strategic service investment decisions in the context of agency-wide priorities and resources;
- Assess, revise, and approve agency-wide outcome measures;
- Facilitate an organizational culture that balances and integrates enforcement and service strategies;
- Assign ownership of actions related to major service decisions;
- Consider best practices and relevant research in making decisions relative to services resources;
- Recommend cross-functional taxpayer service research projects; and
- Review budget initiatives for alignment with the strategic plan.

The Services Committee did not meet during the development of the new IRS Strategic plan for 2009-2013, as that activity involved a number of substantially similar activities. Additionally, the IRS conducted significant outreach to external stakeholders as part of the strategic planning process which was instrumental in shaping the future services direction. The new strategic plan was published in April 2009, and meetings resumed in the summer of 2009.

### **TAB Measures Portfolio**

An important aspect of the Taxpayer Assistance Blueprint (TAB) Strategic Plan for taxpayer service delivery was the development of the TAB Performance Measures Portfolio. To assess service from the perspective of the taxpayer, the portfolio contains a set of metrics determined by research to be important in measuring progress in meeting taxpayer service expectations and IRS service objectives. Importantly, the measures were developed to evaluate performance across delivery channels and to provide a high level of assessment of the effectiveness of service delivery. This

portfolio was not intended to replace current IRS performance measures; rather, it was intended to complement our measures of performance and provide a consolidated, rather than functional, view of taxpayer service delivery.

Research into taxpayer needs, preferences, and behavior provided the starting point for TAB measures development. As a result of this research, the TAB recommended five service outcome measures and seven service performance measures (See Table 1). Upon delivery of TAB, further development of these measures was initiated with a two-phase project. The first phase began with establishment of a cross-functional Measures Working Group (MWG) and the objective to further define and develop the structure of the TAB measures.

<b>Outcome Categories</b>		
<b>Compliance</b>	<b>Taxpayer and Partner Value</b>	<b>Government Value</b>
<b>Outcome Measures</b>		
1. National Research Program (NRP) Voluntary Compliance Rate	2. Taxpayer Burden 3. First Contact Resolution Rate 4. Customer Satisfaction	5. Percentage of Taxpayer Service Contacts Delivered Through the Electronic Channel
<b>Taxpayer Service Performance Measures</b>		
1. Filing Compliance Rate 2. Voluntary Payment Compliance Rate	3. Percentage Aware of Channels and Services 4. Partner Satisfaction Percentage	5. Level of Service 6. Accuracy Percentage 7. Taxpayer Self-assistance Rate

Table 1. Original TAB Performance Measures Portfolio

### Measures Development Phase 1

The MWG consisted of a cross-functional team of employees from Research functions and business units within IRS, including the Taxpayer Advocate Service (TAS), which represented each service channel (Correspondence, Walk-In, Web, and Telephone). The team members possessed knowledge and expertise in compliance and taxpayer service operations, existing operational measures, data sources, and the systems that capture performance information.

In Phase 1, completed in September 2008, the MWG created data dictionaries and made recommended changes to the portfolio. The data dictionaries include definitions of data collection methods, data sources, reliability and availability of data, and a proposed frequency of reporting for each measure. The changes to the TAB measures are highlighted in bold in Table 2.

Outcome Categories		
Compliance	Taxpayer and Partner Value	Government Value
Outcome Measures		
1. <b>Voluntary Compliance Rate</b>	2. <b>Monetized Taxpayer Burden</b> 3. First Contact Resolution Rate 4. Customer Satisfaction – <b>ACSI IRS All Individual Tax Filer Score (Overall)</b> 5. <b>Customer Satisfaction – IRS.gov</b>	6. Percentage of Taxpayer Service Contacts Delivered Through the Electronic Channel
Taxpayer Service Performance Measures		
1. <b>Voluntary</b> Filing Rate 2. Voluntary Payment Compliance Rate	3. <b>Percentage Aware of Channels</b> 4. <b>Percentage Aware of Services</b> 5. Partner Satisfaction Percentage	6. Level of Service 7. <b>Service Responsiveness</b> 8. Accuracy Percentage 9. Taxpayer Self-Assistance Participation Rate

Table 2. Revised TAB Performance Measures Portfolio (by MWG)

### Revised TAB Portfolio

The portfolio of measures developed by the MWG during TAB Measures Development Phase 1 consists of 15 cross-functional measures designed to capture performance in the areas of voluntary compliance, taxpayer burden, customer satisfaction, awareness, access, quality of contact, use of web services, and self-assistance described in the TAB report. The revised TAB portfolio reflected the correct measures terminology to clarify what was being measured and added measures that captured additional areas of focus important to evaluating the delivery of effective and efficient taxpayer service. The measures in bold were changed for the following reasons.

- National Research Program (NRP) was removed from the Voluntary Compliance Rate measure to remove the emphasis that it is a NRP measure rather than a measure of filing, reporting, and payment compliance of all taxpayers.
- Monetized was added to the Taxpayer Burden measure due to the work by IRS National Research to convert time into dollars so that compliance burden can be represented as a single measure and facilitate an easier comparison of factors impacting burden.
- American Customer Satisfaction Survey (ACSI) IRS All Individual Tax Filer Score (Overall) was added to the Customer Satisfaction measure name to indicate that IRS uses the ACSI All Individual Tax Filers Score, which reflects the level of satisfaction for all individual electronic and paper tax filers.

- The Customer Satisfaction – IRS.gov measure was added to the portfolio due to the emerging importance of delivering services through the web and gauging the satisfaction of taxpayers with the IRS.gov website.
- Percentage Aware of Channels and Percentage Aware of Services were divided into two measures to show that awareness of channels and services are two distinct areas of measurement.
- Service Responsiveness is a new measure added to the portfolio. It is designed to provide insight into how well IRS is performing in responding to taxpayer contacts for assistance with a reasonable established timeframe for both the taxpayer and the IRS given available resources.

All of the measures in the portfolio seek to capture the big picture of service delivery and performance. Several of the TAB measures are currently used in our suite of performance measures and reported in various stakeholder reports. They are noted below.

- *Compliance Measures:*
  - Voluntary Compliance Rate - Extent to which all taxpayers combined, voluntarily and timely meet all their filing, reporting, and payment obligations.
  - Voluntary Filing Rate and Voluntary Payment Compliance Rate -The number of required returns that are filed on or before the filing deadline, including legitimate extensions and the percent of reported tax liability on timely-filed returns that is paid in a timely manner.
- *Taxpayer and Partner Value Measures:*
  - First Contact Resolution Rate - Percent of taxpayers and partners reporting their issues were accurately and completely resolved upon first contact with the IRS.
  - Customer Satisfaction - ACSI IRS All Individual Tax Filer Score (Overall) - The level of satisfaction for all individual electronic and paper tax filers reported on a 0 to 100 scale.
  - Customer Satisfaction – IRS.gov - The level of customer satisfaction with the IRS.gov public website.
  - Percentage Aware of Channels and Percentage Aware of Services - Percent of taxpayers responding affirmatively to awareness survey questions to particular IRS channels and services.

Table 3

<b>IRS Service Channel</b>	<b>Aware of Channel</b>	<b>Used Channel</b>
IRS.gov	82%	34%
Toll-free Phone Line	80%	21%
Regular Mail	59%	7%
Local IRS Office (TAC)	61%	5%
E-Mail	51%	3%
VITA (Free Volunteer Help)	45%	3%

- **Government Value Measure:**
  - Taxpayer Self-Assistance Participation Rate (TSAPR) - Percent of contacts in the Assistance Category that are resolved by Taxpayer Self-Assistance.

The remaining measures in the revised portfolio require additional work such as defining the business requirements and systems programming to collect the data elements.

### Measures Development Phase 2

Beginning in the fall 2009, IRS research organizations, led by Wage and Investment and IRS Research Analysis and Statistics (RAS) will combine with representatives from the operating divisions to reconstitute the TAB Measures Workgroup. This workgroup will assess the value of the recommended TAB Measures relative to the new 2009-2013 IRS Strategic Plan and their value as a management resource to assess IRS service delivery performance and guide future service investment decisions.

Patterned after the Research-led initiative to assess the effectiveness and impact of IRS notice redesign changes, the Measures Working Group (MWG) will assess the current state of TAB recommended measures, propose refinements and then test and monitor the impact and value of this portfolio of service measures.

The MWG analysis and recommendations will be provided to the IRS Services Committee for review and comment.

### **Service Improvements**

During the past year, the IRS implemented several initiatives to address the ever growing challenge of serving America's taxpayers. The initiatives cover a wide spectrum of new services, outreach efforts, international services, multilingual initiatives, Web services, and service initiatives to support the IRS enforcement activities.

Emerging taxpayer service challenges – from the rise in identity theft, to the need to support economic stimulus and recovery programs, to the increased taxpayer demand for electronic services – required the IRS to develop innovative products and services, and the expansion of many others.

Immediately below is a summary of service improvements achieved during the past year as well as other comments. These achievements are grouped according to service improvement categories.

## SERVICE IMPROVEMENTS

### Electronic Interaction Enablement – See Appendix A

- **Free File** - Expanded the program to taxpayers with an adjusted gross income under \$56,000.
- **Free File Fillable Tax Forms** - Offered more than 140 free fillable forms and schedules allowing more taxpayers to electronically file.
- **Key Word Queries of the IRS Frequently Asked Questions (FAQ) Database**- Created key word queries of IRS FAQ knowledge database with the successful launch of Customer Online Decision Support Release 1 (COLDS R1).
- **Improved Navigation of Electronic Tax Documents And Publications** - Improved navigation of electronic tax documents and publications, such as Publication 17, “*Your Federal Income Tax*” through the use of Extensible Markup Language (XML).
- **New and Updated Web-Based Calculators and Wizards** - Easy-to-use tools let taxpayers quickly run through tax scenarios to help them accurately compute their tax positions.
- **IRS.gov Assistance Online Chat** - IRS help desk provides assistance to taxpayers who need help locating information on IRS.gov or using IRS.gov calculators and wizards.
- **Improved Screen Resolution and Other IRS.Gov User Enhancements** -Modified screen resolution allows the IRS to place more information on the IRS.gov home page and provided instructions on how to increase the font size to improve readability and added a “last modified” date on all content.
- **Rotating Spotlight** - Feature provides a graphic and up to seven related articles in the center area of the homepage that changes every few seconds which allows the IRS to advertise many more programs.

### Telephone Service Enhancements – See Appendix B

- **Single Issue Toll-Free Numbers (Product Lines)** - Implemented single issue lines such as Identity Theft. These direct lines reduce taxpayer burden by eliminating extensive searching to determine where to direct the taxpayer.
- **Improved Telephone Call Routing (Enterprise Queue)** - Ensures that taxpayer wait times are as short as possible by holding calls in a central queue until the next assistor is available.

### Partner Services – See Appendix C

- **Disability Initiative** - Expanded service locations from 54 to 62 cities, preparing over 90,000 tax returns for taxpayers with disabilities.
- **Veterans With Disability** - New target market segment for 2009; partnered with new national partners to support this initiative to include the American Legion, Department of Labor Veterans Employment and Training (VETS), United Spinal Association, VETS First Program, and the US Department of Veterans Affairs; served approximately 45 cities in this effort.
- **Visually Impaired** - In 2009 made available 332 “Talking Tax Forms” to help visually impaired taxpayers meet their tax obligations. Also, offered 82 tax instructions and 70 tax publication products for download in large print.

- **Financial Education and Asset Building** - Increased financial education and asset building efforts to offer free debit cards to taxpayers to receive their federal (and state) tax refunds.
- **Rural Initiative** - Increased volunteer return preparation sites in rural areas.

#### **Outreach, Education, and Assistance – See Appendix D**

- **Economic Stimulus “Super Saturday”** - Organized this event to reach Americans eligible for the economic stimulus payment, but who were not normally required to file a tax return.
- **VITA Grant Program** - 111 applicants recommended for the 2009 VITA Grant award representing 47 states (including the District of Columbia) were awarded over \$7.4 million.
- **Expanded EITC Awareness Day** - Inaugurated special Saturday service for Earned Income Tax Credit (EITC) eligible taxpayers to provide assistance in filing tax returns and properly claiming EITC on their 2008 tax returns.
- **Super Saturday** - Established this annual event in March 2009 to provide services routinely available only during weekdays.
- **Canceled Debts, Foreclosures, Repossessions, and Abandonments** - Developed Publication 4681 to assist taxpayers impacted by the mortgage crisis; expanded the services at Taxpayer Assistance Centers, VITA, and Tax Counseling for the Elderly sites to include limited Cancellation of Debt issues.
- **Issue Management Resolution Systems (IMRS)** - Focus included collecting and addressing practitioner/industry questions about new legislation and emerging issues in a uniform and rapid-response.
- **Audit Technique Guides** - Published new information and services via IRS.gov which detail common errors found in conducting audits as a tool for prevention.
- **National Phone Forums** - Provided procedural or technical guidance to tax professionals and directly to small business taxpayers on a variety of topics.

#### **Marketing and Promotion – See Appendix E**

- **EITC Awareness Marketing** - Implemented a new marketing campaign, “Life’s a little easier with EITC,” to provide taxpayers with educational information.

#### **Multilingual Services – See Appendix F**

- **Free File Program Spanish Version** - Expanded the program to Spanish.
- **Economic Stimulus Payments (ESP) Information Center for Spanish Speaking Taxpayers** - Created an ESP information center for Spanish speaking taxpayers.
- **“How Much Was My 2008 Stimulus Payment” for Spanish Speaking Taxpayers** - Launched this interactive application for tax filing year 2009, which mirrors the English version.
- **“Spanish - Where’s My Refund?”** - Provides Spanish-speaking taxpayers access to IRS.gov to determine if the IRS received their tax return and to receive basic refund information.
- **Translated Publications and Forms for the Spanish-speaking Community** - Translated Publication 17, *Your Federal Income Tax*, and Form 2848, *Power of Attorney and Declaration of Representative*,

into Spanish.

- **Basic Tax Responsibility Limited English Proficient (LEP) Initiatives** - Developed “Basic Tax Responsibility” communication tools in Spanish, Vietnamese, Chinese, Korean and Russian.
- **Spanish Tax Practitioner Tool Kit** - Created a Practitioner Tool Kit to facilitate tax communications with Spanish speaking taxpayers.
- **Small Business Tax Gap Articles** - Translated Tax Gap articles, designed to educate and assist the small business owner in meeting filing requirements, into Spanish and posted to *IRS.gov/Español*.

#### **Special Service Delivery through Taxpayer Assistance Centers – See Appendix G**

- **EITC Saturday Service** - Initiated special taxpayer services on three Saturdays during the 2009 filing season at over 170 TACs to assist over 14,000 taxpayers.
- **Increased Services at Volunteer Sites** - Collaborated with partners to provide one-stop service to taxpayers at nine existing volunteer sites using the geographic coverage model to identify the best locations for expanded services.

#### **Taxpayer Advocacy Panel (TAP) – See Appendix H**

- **Taxpayer Assistance Center (TAC) Appointment and Tax Return Preparation Project** - The TAP TAC Issue Committee identified recommendations to improve processes associated with TAC return preparation appointment scheduling and the tax return preparation process.
- **Payment Processing System in the Taxpayer Assistance Centers Project** - The TAP TAC Issue Committee will identify improvement opportunities in the payment processing system located within the Taxpayer Assistance Centers.
- **Taxpayer Assistance Centers (TAC) Receive Input on Taxpayer Service from TAP** - During 2008, the IRS received 36 taxpayer related commentaries concerning taxpayer service from the TAP.

#### **Low Income Tax Clinics (LITC) – See Appendix I**

- **LITC Grant Program** – 162 Low Income Taxpayer Clinics received \$9.5 million in matching grant funds representing every state, the District of Columbia, and Puerto Rico.
- **LITCs Represent Taxpayers in Controversies** – During the 2008 grant year the LITC program assisted 30,648 taxpayers through controversy services and worked 37,391 issues.
- **LITCs Provide Tax Outreach and Education to Taxpayers who Speak English as a Second Language (ESL)** - In 2008, the LITCs conducted 8,890 outreach and education events that reached 154,527 ESL taxpayers.

#### **Assistance to International Taxpayers – See Appendix J**

- **International Brochure, Publication 4732, Federal Tax Information for U.S. Taxpayers Living Abroad** - New brochure focused on educating taxpayers living or working outside the country, and provided highlights of resources on tax topics common to U.S. taxpayers to assist them in meeting their tax obligations.
- **U.S. Citizens and Resident Aliens Abroad Tax Page** - Created a new tax page on *IRS.gov* and linked the web page to Embassy and Consulate websites.

### Services to Large and Mid-Size Business (LMSB) Taxpayers – See Appendix K

- **Communications and Liaison** - Provides extensive guidance and current information on a variety of large taxpayer tax issues that affect taxpayers and their representatives.
- **IRS.gov Web Site** - Provides extensive and readily accessible web-based guidance and information for taxpayers and their representatives on a wide range of issues of mutual interest.
- **LMSB Secure Email and Web Based Surveys** - LMSB Revenue Agents can communicate securely via e-mail with taxpayers and/or their representatives.
- **Two Advisory Groups** - LMSB avails itself of the knowledge and expertise of two advisory groups: Internal Revenue Service Advisory Council (IRSAC) and Internal Revenue Reporting Program Advisory Committee (IRPAC).
- **Major Stakeholder Groups** - LMSB currently serves on several committees including the Tax Executives Institute (TEI), American Institute of Certified Public Accountants (AICPA), and the American Bar Association.
- **Executive Speaking Engagements** – A robust Outreach Program serving constituents who primarily work with large corporate taxpayer issues.

### Services to Non-Profit Organizations and Government Entities – See Appendix L

- **StayExempt.org** - Interactive web-based learning tool that provides user-friendly educational materials on tax compliance topics for exempt organizations.
- **Cyber Assistant** - New web-based software program that will help organizations complete their application for tax-exempt status.
- **Fix-it Guides** - Plain language, self-audit tools to help employers and plan sponsors identify, fix and avoid operational errors in their retirement plans.
- **Enrolled Retirement Plan Agent (ERPA)** - Worked with the practitioner community to create the ERPA designation - an individual who has been approved by the IRS to practice before the IRS on certain retirement plan issues.
- **Tax Tools for Tribes** - CD-Rom sent to nearly 700 tribes and villages includes tax forms, publications, job aids, and newsletters useful to tribes and tribal members in understanding and meeting their federal tax responsibilities.
- **Electronic Newsletters** - *Employee Plans News* and the *Retirement News for Employer* focused on the practitioner community and employers and business owners, respectively.
- **Redesigned Form 990, “Return of Organization Exempt from Income Tax”** - Provide key financial and operating information, governance information, revised compensation and related organization reporting. Also includes new tools to help filers complete the form more easily.
- **Employee Plans Compliance Resolution System (EPCRS)** - Comprehensive system of correction programs for sponsors of retirement plans that are intended to satisfy the requirements of certain sections of the Internal Revenue Code, but have not met these requirements for a period of time.
- **Voluntary Closing Agreement Program** - Revised the general Voluntary Closing Agreement program to include tax-credit bonds and created a specific voluntary program for resolving improperly valued financial derivative agreements.

- **Build America Bond (BAB)** - Implementation included the development of a new form, instructions, a new compliance system to process and monitor requests for BAB payments, development of seven notices and educational documents about the new bond provisions, and conducting outreach presentations including to Indian territories and tribes.

### **Services Supporting the IRS Enforcement Activities – See Appendix M**

- **Soft Notice Test** - Developed an Automated Underreporter (AUR) Soft Notice Test to encourage taxpayers to self-correct income reporting.
- **Form 13930, *Instructions on How to Apply for a Central Withholding Agreement*** - Created form to determine the correct amount of withholding for nonresident alien entertainers and athletes.
- **Expanded Use of E-fax Technology** - Expanded the use of E-fax technology within the Automated Underreporter (AUR) Program to resolve tax compliance cases more quickly and efficiently.
- **Joint Audit Planning Process** - Provides consistent approach to audit planning, encourages audit efficiency, establishes greater accountability, and enhances taxpayer disclosure.
- **Fast Track Settlement (FTS) Program** - Established to expedite examination case resolution and expand the range of dispute resolution options available to taxpayers.
- **Compliance Assurance Process (CAP)** - Designed as a real time compliance review of issues that will have a material impact on federal income taxes by working closely with taxpayers and their advisers; resolving material, post-transactional tax issues in a mutually respectful coordinated manner; and making a determination based on the review of all material issues prior to filing a federal tax return.
- **Large Case Technical Units (LCTU)** - Provides a single point-of-contact to help clarify and resolve account-related issues to corporations with continuous tax issues.
- **Electronic Filing and Disclosure for Small Tax-Exempt Organizations** - System for small tax-exempt organizations that have a new annual filing requirement.
- **ERISA Filing Acceptance System II (EFAST2)** - Will mandate electronic filing and allow for improved disclosure of the annual return for retirement plans beginning in 2010.

## Refining IRS' Approach to Service Improvement

### Refinement of the TAB Guiding Principles

Refinements to the TAB Guiding Principles articulated in last year's report are highlighted in bold type:

- The primary goal of service for individual taxpayers is to facilitate compliance<sup>7</sup> with federal tax obligations.
- A portion of the tax gap is attributable to errors by individual taxpayers. The IRS service programs should be designed to prevent, minimize, and correct such errors with due consideration of taxpayer burden.
- IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.
  - The IRS is committed to offering 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.**<sup>8</sup>
  - Enhance cost-effective, **solution-based**, self-assisted services **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.
  - As taxpayers migrate to self-assisted services, redirect available resources to activities that research determines are cost-effective options for preventing, minimizing, and correcting taxpayer non-compliance.
- Enhance the IRS Website so that it becomes the first choice of more taxpayers for obtaining the information and services needed to comply with 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.
- **Enhance marketing, outreach, and education to targeted populations to improve service awareness, access, and quality.**<sup>9</sup>

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<sup>7</sup> Compliance is defined as paying the correct amount of tax.

<sup>8</sup> Replaced the TAB Guiding Principle "Provide service where the IRS is the only source for the information (e.g., accounts services)".

<sup>9</sup> This last principle was new in the 2007-2008 report. It highlights the critical role information plays to inform and educate taxpayers regarding their obligations and service solutions.

## **TAB Guiding Principles and the IRS Strategic Plan (2009 – 2013)**

The IRS embedded the concept of improving service in every taxpayer interaction in the 2009 – 2013 IRS Strategic Plan.<sup>10</sup> The Plan recognizes the major challenges facing the IRS including increasing expectations of taxpayers, growing complexity of tax administration, increasing globalization and human resource issues. The IRS built the Plan around two goals: Improving service to make voluntary compliance easier and enforcing the law to ensure everyone meets their obligation to pay tax. The foundational support that will assist in accomplishing these goals includes a strong reliance on investing for higher performance by making the IRS the best place to work. The IRS will continue to use research and supporting data across the organization to make informed decisions about how best to allocate resources.

The TAB Guiding Principles are closely aligned to the objectives and strategies of the first goal of the 2009 – 2013 IRS Strategic Plan: Improve service to make voluntary compliance easier. While there is variation in the order and phrasing of the subordinate detail, it is clear that the philosophy and priorities of TAB are thoroughly woven into the entire IRS Strategic Plan. The following chart attempts to illustrate the relationship of the guiding principles to some of the objectives and strategies of the IRS Strategic Plan.

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<sup>10</sup> The IRS Strategic Plan 2009 – 2013, Publication 3744 (4-2009).

<b>Crosswalk of TAB Guiding Principles and IRS Strategic Plan</b>			
<b>Focus</b>	<b>TAB Guiding Principles</b>	<b>IRS Strategic Objective</b>	<b>IRS Strategy</b>
<b>Improve IRS Efficiency and Productivity</b>	Enhance the IRS Web site so that it becomes the first choice of more taxpayers for obtaining the information and services needed to comply with tax obligations.	Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity.	Deliver modernized systems designed to store and manage taxpayer data, strengthen enforcement efforts, and meet service expectations of taxpayers and tax practitioners.
<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 by individual taxpayers. IRS service programs should be designed to prevent, minimize, and correct such errors with due consideration of taxpayer burden.	Incorporate taxpayer perspectives to improve all service interactions.	Ensure that we make 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 in order 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-assistance tools</b>	IRS service investments will focus on preventing, minimizing, and correcting taxpayer noncompliance.	Expand enforcement approaches and tools.	Expand the use of alternative taxpayer treatments, including soft notices and other non-audit contacts.
<b>Proactive Communication is Essential</b>	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>	Support 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.

## **The Taxpayer Communications Task Group**

To support the IRS Strategic Plan's emphasis on improving service and enforcement through strong foundations in technology and people, the IRS established a cross-functional Taxpayer Communications Task Group (TACT). This team will help the IRS study and improve the clarity, accuracy, and effectiveness of written communications to taxpayers.

Each year, the IRS sends out more than 150 million notices and letters to taxpayers about their accounts. Customer satisfaction surveys and other feedback show that the language in notices is confusing, generates phone calls, and can contribute to noncompliance. In August 2008, the IRS Commissioner chartered the TACT to study and improve how the IRS communicates with taxpayers about their accounts.

To meet this objective TACT is working to:

- Improve taxpayer understanding by simplifying and clarifying language;
- Increase taxpayer satisfaction by reducing erroneous correspondence;
- Reduce unnecessary burden by streamlining and improving business processes;
- Reduce costs by eliminating unnecessary correspondence; and
- Institute effective measures

In addition to simplifying the language on the notices, rewritten notices will be geared to provide taxpayers clear information to ensure they understand what action is required. New notices will provide more information on payment options, and will clearly lay out what steps the taxpayer needs to take immediately, and the consequences of inaction. The IRS will use research data to validate the improvement of the IRS notices and create a benchmark for use in future notice redesign efforts. Prior to the implementation of a redesigned notice, the IRS will conduct further testing through actual distribution of the new notice to taxpayers on a piloted basis using a control group with the old notice to measure response rates.

## **Seamless Taxpayer Experience**

In conjunction with the Taxpayer Assistance Blueprint (TAB), the IRS established a Taxpayer Services Program Management Office (TSPMO) to institutionalize continual strategic and operational service improvement. A primary role for the TSPMO was to serve as a conduit and corporate champion for integrating investments and processes aimed towards improving service delivery to taxpayers, partners, and the government.

To continue TAB coordinating efforts, the IRS transitioned the TSPMO into a new group, the Seamless Taxpayer Experience (STE) group, responsible for identifying and coordinating taxpayer-focused, cross-functional service improvement efforts. This group is charged with helping the IRS achieve a more seamless service experience for taxpayers. They will apply a systems approach and use data-driven, research, and

Lean Six Sigma<sup>11</sup> methodologies to look across the IRS and multiple service channels and identify areas of potential improvement for projects. Ideally, these improvement projects will focus on improvement from the viewpoint of the taxpayer. This approach, which will be coordinated through the Services Committee, will use research data to ensure that the IRS incorporates the viewpoint, preferences, and characteristics of taxpayers into operational changes. The STE group will conduct a rigorous process-oriented analysis to reveal specific improvements that will benefit the taxpayer.

The STE group will take a cross-functional view of the organization by identifying situations where taxpayers use multiple service channels to obtain the assistance they need to become compliant and leverage cross-functional resources to make improvements. The STE group will focus on “upstream” solutions to “downstream” symptoms and will engage employees by gathering their input and ideas regarding their interaction with taxpayers, as well as personally observe service interactions with taxpayers across as many service channels as practical. The STE group will ensure their findings are made available to the Service Committee.

The STE group is also actively pursuing the identification of taxpayer “pain points,” that is, processes, missing procedures, or other organizational impediments that cause taxpayers undue burden when they move from one the IRS service channel to another to obtain assistance with their particular service need. The STE group engaged key stakeholders across the IRS to identify and implement solutions to impediments to successful taxpayer navigation between service channels. The STE group will be an enterprise-wide avenue the IRS will use to identify and implement service improvement projects from the viewpoint of improving the taxpayer experience.

A key component of the STE group’s systematic approach is to integrate, to the maximum extent possible, the various components of operations planning, Lean Six Sigma process improvement, taxpayer-focused research, and stakeholder input. Expected benefits of this integrated approach include the following:

- Allows for an integrated planning, research, and process improvement approach to systematically improve operations.
- Helps ensure that improvement gains are systematically built upon over time through a continual process of evaluating, identifying, planning, conducting, and monitoring.
- Facilitates keeping Lean Six Sigma methods central to improvement efforts so that activities are data driven and based on rigorous process analysis.
- Aids in combining Lean Six Sigma and research skills into activities that will improve service from the viewpoint of taxpayers and practitioners.
- Helps to identify improvement opportunities that focus on “upstream” solutions to “downstream” symptoms.
- Facilitates efforts to ensure that improvement projects tie to and support the IRS performance metrics.

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<sup>11</sup> A business improvement methodology that maximizes shareholder value by achieving the fastest rate of improvement in customer satisfaction, cost, quality, process speed, and invested capital (attributed to the Deputy Undersecretary of the Army).

- Aids in identifying new metrics that reflect organizational performance from the viewpoint of the taxpayer.

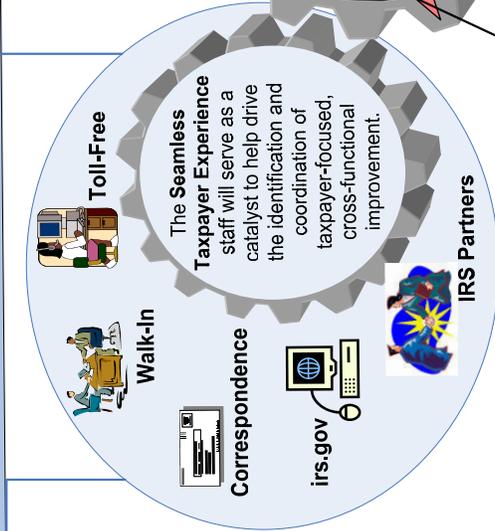
The graphic shown on the following page is an attempt to visually display these interactions:

# The Seamless Taxpayer Experience Group

## - An Integrated Approach to Improving Taxpayer Service -

**The Role of the Seamless Taxpayer Experience Staff:**

- To provide first-hand feedback regarding the point of service interaction between IRS and taxpayers
- To use the service interaction feedback and other indicators to identify taxpayer-focused, cross-functional service improvement opportunities and recommend specific improvement projects.



**Operations Planning & Analysis** will coordinate with W&I Functions to monitor organizational performance data and apprise W&I Senior Executives.

**Senior Executives** will monitor improvement projects and performance data through the **Operations Strategy Board** and the Business Performance Review (BPR) process.

**Lean Six Sigma** will identify process data (e.g., from completed LSSO events) to be monitored on an ongoing basis

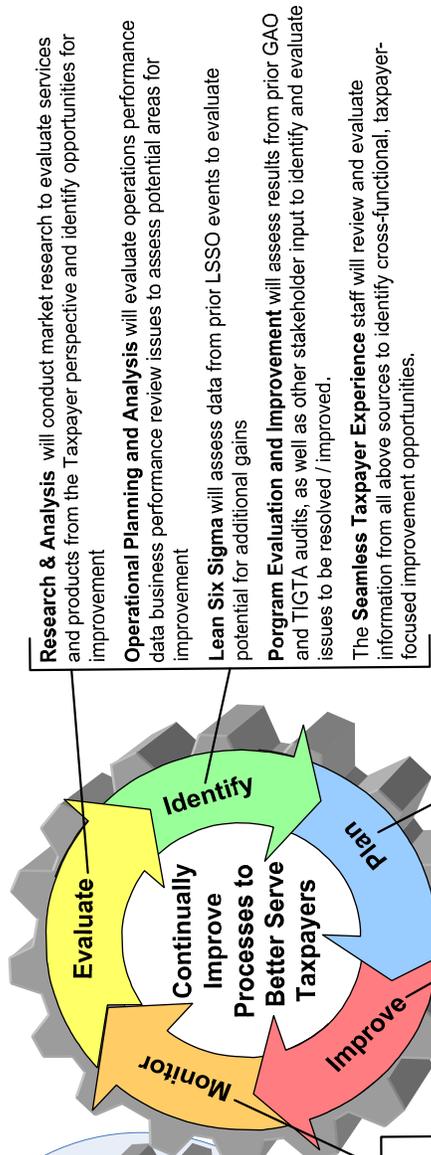
**Lean Six Sigma** will conduct LSSO events and Kaizen events to improve operational processes.

**Research & Analysis** will provide data, operations analysis and statistical expertise to assist in process improvement efforts

**An Integrated Approach to Improving Taxpayer Service**

To integrate planning, research, stakeholder interaction, and process improvement activities in a continual process that will systematically:

- Focus on service improvement from the viewpoint of the taxpayer
- Utilize extensive research to ensure that taxpayers' viewpoints and preferences are incorporated
- Utilize Lean Six Sigma tools to ensure that improvement efforts:
  - are data driven
  - are process-oriented and based on rigorous process analysis
  - are monitored to ensure that gains realized through the improvement efforts are sustained
- Look across Functions / IRS to focus on "upstream" solutions to "downstream" symptoms.



**Research & Analysis** will conduct market research to evaluate services and products from the Taxpayer perspective and identify opportunities for improvement

**Operational Planning and Analysis** will evaluate operations performance data business performance review issues to assess potential areas for improvement

**Lean Six Sigma** will assess data from prior LSSO events to evaluate potential for additional gains

**Program Evaluation and Improvement** will assess results from prior GAO and TIGTA audits, as well as other stakeholder input to identify and evaluate issues to be resolved / improved.

The **Seamless Taxpayer Experience** staff will review and evaluate information from all above sources to identify cross-functional, taxpayer-focused improvement opportunities.

**Operations Planning & Analysis** will coordinate with W&I Functions to document improvement opportunities in W&I annual Operating Plans.

**Senior Executives (Operations Strategy Board)** will approve improvement projects included in annual Operations Plans.

The **Seamless Taxpayer Experience** staff will develop a framework for "mapping" W&I operating processes to aid in identifying, prioritizing and planning taxpayer-focused, cross-functional improvement opportunities.

## TAB Research

A cornerstone of the IRS's efforts to deliver excellent service and a more seamless experience for taxpayers is to have and apply a thorough knowledge of taxpayer needs and preferences. This places research and the various IRS Research staffs center stage in service improvement efforts.

TAB Phase 2 research provided expansive baseline knowledge of taxpayer service needs, service delivery preferences, and actual service channel use. Generally, TAB Phase 2 research was descriptive, depicting how taxpayers were seeking services, and providing preliminary insights into why taxpayers or third parties were making those decisions. On-going TAB research will focus on how to *improve* the IRS services to taxpayers. A separate research initiative is now under way to *quantify the impact* that the IRS services have on taxpayer compliance (see the section on "Other Services-Related Research" below for an overview).

While determining the absolute empirical impact of service on voluntary compliance is extremely difficult, assessing the role service plays to facilitate or make compliance "easier" is possible. TAB Phase 2 research identified key attributes of effective service from a taxpayer's perspective. Subsequent research studies reinforced the primacy of issue resolution as a driver of taxpayer and third party service decision-making. Generally speaking, taxpayers and third parties select the service channel or resources they believe will satisfy their service task with the highest expectation of success, and the least amount of burden. Customer satisfaction is the outcome of taxpayer expectations for issue or task resolution, and their actual experience. And building upon earlier TAB research, expectations for service delivery, service resource choices and tolerances for burden may differ by the nature and circumstances of the tax issue. Other factors such as taxpayer demographic characteristics, awareness of service availability, access to resources, attitudes regarding the use of certain service options, previous experiences, and service performance play a critical role in taxpayer and third party service decision-making.

Toward the latter part of 2008 and into 2009, the IRS began to realign its project portfolio to reduce the emphasis on descriptive research and increase the focus on explanatory and experimentation projects addressing these taxpayer and third party expectations and the service attributes that make voluntary compliance "easier." In many cases, these projects address several overlapping and reinforcing attributes. Examples of this service attribute research are summarized in the table on the next page and explained more thoroughly in the Appendix N.

The table that follows summarizes and more thoroughly explains TAB-related research studies recently completed, currently underway or planned. Each study is numbered for reference purposes. Included in Appendix N is a description of each research study, numbered to correspond to the appropriate summary line.

<b>Research Type / Objective</b>	<b>Research Recently Completed or Underway</b> <b>(see Appendix M for more information)</b>
<b>Segmentation</b> – Reflects demographic characteristics, filing characteristics, service option awareness, service access, attitudes and previous taxpayer (as a group, not individuals) behavior.	<ol style="list-style-type: none"> <li>1. Survey of Customer Service Needs of U.S. Taxpayers Living Abroad (2008-2009)</li> <li>2. W&amp;I Tax Professionals Survey (2008)</li> <li>3. Taxpayer Attitude Survey (2008)</li> <li>4. Multilingual Initiative Customer Base Profile (2008)</li> <li>5. Profile Taxpayer Segments by Tax Return Line Item (2008)</li> <li>6. Benchmark Survey 2009 (2008-2009)</li> <li>7. Telefile Migration (2008-2009)</li> </ol>
<b>Awareness</b> – Addresses how the IRS shapes, delivers and markets communications to target audiences.	<ol style="list-style-type: none"> <li>8. Economic Stimulus Program Outreach (2008)</li> <li>9. Testing Free File Market Strategies (2008)</li> <li>10. Military Annuitants Trend Analysis (2008)</li> <li>11. Due Diligence Results Study (2008)</li> </ol>
<b>Comprehension</b> – Addresses how effectively the IRS explains filing requirements or problems, sources of assistance, effective use of resources and outcomes.	<ol style="list-style-type: none"> <li>12. Letter CP 79 Effectiveness Measures (2008)</li> <li>13. Taxpayer Social Security Worksheet/CP 11 (2008)</li> <li>14. Correspondex Letters 2800 and 2801 (2008)</li> <li>15. Communications Goals of Publication 3498-A (2008)</li> <li>16. Taxpayer Communications Taskgroup Support (CP 21C) (2008-2009)</li> <li>17. Notice Effectiveness Research Initiative (2008)</li> </ol>
<b>Access</b> – Addresses how effectively the IRS has aligned service task, taxpayer/partner preference and service options to increase service coverage and availability.	<ol style="list-style-type: none"> <li>18. Assessing the Impact of Increased Paper Receipts and Phone Demand (2008-2009)</li> <li>19. Deaf Taxpayer Services (2008-2009)</li> <li>20. Talking Tax Forms (2008-2009)</li> </ol>
<b>Capabilities</b> – Addresses how the IRS has improved service choice and options through new or improved service applications.	<ol style="list-style-type: none"> <li>21. Facilitated Self-Assistance Research Project (FSRP)(2008 -2009)</li> <li>22. Taxpayers' Website Tasks and Preferences: A Study of IRS.gov (2008)</li> <li>23. E-Services Applications Assessment (2008 - 2009)</li> </ol>
<b>Performance</b> – Addresses how effectively and efficiently the IRS meets taxpayer expectations and completes the service task.	<ol style="list-style-type: none"> <li>24. Taxpayer Assistance Center (TAC) Customer Expectations Survey (2008)</li> <li>25. First Contact Resolution Studies (2008)</li> <li>26. CQRS Outcome Measures: Tracking the Impact of Changes to the Centralized Quality Review System (2008)</li> </ol>
<b>Cognitive and Behavioral Research</b> – Addresses the topics of how taxpayers define their needs, approach tax-related problems, make decisions regarding assistance and behave in predictable and non-predictable behaviors.	<ol style="list-style-type: none"> <li>27. Multi-City Study of the Effect of Assistance on Compliance (2008 - 2009)</li> <li>28. Evaluation of Taxpayer Decision Points (2008 - 2009)</li> <li>29. Do Free File Taxpayers Continue to e-File? (2008)</li> <li>30. Agent Based Modeling Studies (2008 - 2009)</li> </ol>

## Other Services-Related Research

In addition to the research conducted under the TAB, the IRS has begun a multi-year research initiative on the effect of service on taxpayer compliance. This initiative, coordinated by the RAS Office of Research, supports some of the TAB research (specifically, how to meet taxpayer needs by providing the right channel of communication), but it goes beyond TAB research by focusing on three additional areas:

1. Better Understanding Taxpayer Burden – This research includes updating the taxpayer burden surveys to provide revised estimates of the compliance burden incurred by individuals and businesses. Estimates of taxpayer burden are used to quantify the average time and out-of-pocket expense incurred by taxpayers on specific tax forms. These estimates will aid TAB research projects seeking to improve the IRS services, as well as projects under this research initiative to quantify the impact of service on compliance. The individual taxpayer survey has been completed with 6,968 responses for a response rate of 48 percent. The IRS is reporting non-response bias adjustments are being reported in a paper being presented to the American Statistical Association in August. The IRS is updating the associated Individual Taxpayer Burden Model and is on target for releasing revised estimates at the end of October. An update and expansion of the business survey is expected to start before the end of September. Complementary research seeking to better understand the role of services on burden and burden on compliance is underway with an initial focus on individual taxpayers.
2. Understanding Taxpayer Needs through the Errors They Make – Identifying why taxpayers make errors (and the relationships between errors and unclear notices and publications) will help us both to improve taxpayer service and to increase voluntary compliance. The IRS partnered with a major university to explore the feasibility of using agent-based modeling to provide a mechanism for discriminating between inadvertent errors and intentional errors. Further research will assess the effect of proposed changes to remedy the errors. This research will allow the IRS to channel resources more efficiently to areas with the greatest need and reduce the IRS burden by increasing the accuracy of returns among taxpayers who strive to be compliant.
3. Research on the Impact of Service on Overall Levels of Voluntary Compliance – Understanding the complex relationship between taxpayer, third party, and the IRS behavior and how these affect voluntary compliance continues to be a challenging future goal. The IRS Office of Research coordinates a wide variety of projects that are focused on quantifying the effect that IRS taxpayer service has on taxpayer compliance. Research conducted under this initiative will benefit future taxpayer service-related research by identifying which services are not cost-effective (pointing us to where enhanced service to taxpayers is needed), and improving resource allocation among existing activities to increase voluntary compliance. The IRS has completed a comprehensive research design has been completed, taking advantage of the expertise of a wide range of academics, consultants, and tax administrators.

Projects flowing from this plan will include comprehensive data compilation, theoretical modeling, lab experiments, field experiments, and statistical analyses.

### **Research Impacting the Small Business and Self Employed Segment**

In addition to service improvements and outreach and education activities, the IRS Small Business and Self-Employed Division (SB/SE) has a robust ongoing research portfolio to gather taxpayer input, assess the effect of SB/SE products and services, and identify ways to benefit taxpayers to ensure service improvement efforts. SB/SE Research has conducted focus groups among different practitioner market segments as a way of assessing whether information, education, and outreach products and services were meeting needs. To supplement its portfolio of enforcement-based transaction-specific surveys, SB/SE continued to administer a Tax Professionals survey (November 2008) and a Customer Base survey (January 2009), asking about the entire life cycle of dealing with the IRS from pre-filing through to post-filing interactions and focusing on service needs, expectations, and assessments. In 2008, for example, SB/SE used results of the Tax Professionals survey to support a refocusing of outreach and education activities and channels to ensure they were effective.

As a way of getting rapid feedback, SB/SE Research and the SB/SE Communication, Liaison and Disclosure (CLD) organization's Stakeholder Liaison office have explored the value and feasibility of developing a standing commercial preparer panel to gauge effectiveness of change to service over time. As a first step, working with Stakeholder Relations and their bi-monthly Practitioners' Forum, IRS researchers established procedures for using the members of the Practitioners' Forum (representatives from national professional organizations for return preparers, tax practitioners, and payroll organizations) to complete formal focus group or survey research and informal town halls or polls.

Since initial contacts are often critical to effective and timely resolution of client issues, IRS researchers conducted focus groups with practitioners attending the 2008 Nationwide Tax Forums to learn more about problems that practitioners face during first contact with the Service. Results indicate that that type of issue tends to dictate the contact method chosen. For example, tax professionals tend to favor telephone contact for simple issues, but face-to-face and email for more complex issues. Results also point to the level of expertise of the IRS employees contacted as being another key factor in determining practitioners' success in resolving client issues.

IRS researchers also analyzed audit data to assist CLD in determining potential areas to target for business taxpayer outreach, education, and assistance. Research showed sixty-three percent (63 percent) of the returns included in our sample were prepared by a paid preparer and adjustments to Gross Receipts continue to be one of the top three audit issues for business returns. These findings indicate that focus on Paid Preparers and/or the Gross Receipts line item could potentially improve business return reporting compliance. In a similar direction, the IRS also developed a profile of SB/SE Taxpayer Filing Errors that demonstrated that there are a considerable number and variety of unintentional errors and that a substantial number of these errors are

likely attributable to taxpayers not understanding the tax laws with potential implications for non-enforcement, service-oriented interventions.

Again, as part of a larger commitment to improving the quality of the service interactions that are an important part of enforcement actions, SB/SE Research assisted the Exam Audit Process (EPIC) team by conducting focus groups with tax practitioners that discussed the examination process. Group sessions were conducted at the 2008 Nationwide Tax Forums with preparers who had recently undergone an examination on behalf of a taxpayer. Feedback provided a number of potentially fruitful avenues for improvement, some of which may be explored in an improvement project to be inaugurated later in 2009.

### **TAB Research Council**

The appropriations directive that created the TAB highlighted the importance of research in guiding strategic priorities and operational initiatives. In support of the TAB Phase 2 objective, "To ensure the continuation of research that iteratively and holistically addresses taxpayer and partner needs, preferences, and behaviors,"<sup>12</sup> the Wage and Investment Research organization informally created and chaired the TAB Research Council. The objective of the Council was to bring cross-functional IRS research organizations together to discuss and coordinate services-related research activity.

In support of TAB implementation, IRS research organizations developed a 2008 TAB Research Plan which identified a series of projects that addressed TAB Phase 2 improvement recommendations and opportunities to improve the IRS insight into the behavior and perspective of taxpayers and third party taxpayer service providers. Relevant business areas supported research activity in collaboration with research functions from across business divisions as well as headquarters research and the Taxpayer Advocate Service. This report provides summaries of TAB-related research projects in the TAB Research section.

While the TAB Research Plan addressed a broad range of services-related studies, the Council identified areas of common interest to include improving the value of research through coordinated survey design (such as adopting common TAB segmentation definitions) and sharing research findings. In April 2008, staff from the Taxpayer Services Program Management Office (TSPMO) attended the Servicewide Research Council (SRC) meeting to brief the research community on TAB Phase 2 implementation objectives.

These inaugural efforts to focus and coordinate a large and diverse IRS research community on TAB Phase 2 recommendations proved to be a first step forward; however, balancing operational research efforts with Servicewide studies that address complex issues is an iterative longer term endeavor. The best way to coordinate TAB and other services-related research is currently under review.

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<sup>12</sup> TAB Phase 2, 8.2.1, Future Research Efforts, p. 124.

## **Additional Potential Taxpayer Service Initiatives for 2009 – 2010**

The IRS is committed to continuing the implementation of taxpayer-focused service improvements. The extensive taxpayer-focused research currently underway and planned, coupled with the integrated approach the IRS is taking to achieve a more seamless experience for taxpayers, will ensure continued success in implementing the principles of the Taxpayer Assistance Blueprint.

The IRS identified a number of potential taxpayer service improvement opportunities covering a wide array of research and operations-driven activities. Currently, several initiatives are within the Accounts Management (AM) function to reduce “hand-offs” in work processes and streamline processing, with the goal of improving response time to taxpayers, reducing taxpayer burden, and improving the IRS efficiency. These initiatives include:

- Reducing rework of cases between various IRS operating units and the Taxpayer Advocate Service (TAS);
- Improving the process for routing Operational Assistance Requests (OAR) to Accounts Management;
- Streamlining the processes for handling cases with “scrambled” Social Security Numbers (SSN);
- Reducing the number of erroneous referrals of refund claims from Accounts Management to the Examination function: and
- Improving the efficiency of Amended Returns processing.

Although focused on internal processing, the expected improvements will directly affect taxpayers through reduced burden, reduced processing time, and reduced need to contact the IRS.

Other examples of potential near-term service improvement opportunities include:

- Establishing a Center of Excellence for Contact Analytics – Plans are underway to establish a Center of Excellence within the Wage and Investment Joint Operations Center (JOC) to support the Contact Analytics management tool and identify corrective actions, workflow improvement opportunities and perform ongoing assessments of reengineering efforts.

Contact Analytics is a business information and performance management tool. The IRS will use implementation of a speech analytics tool to assemble taxpayer information and gain insight into critical business issues by analyzing phone conversations. It will capture invaluable information that will drive operational efficiency and enhance the taxpayer experience. The speech analytics function within Contact Analytics will primarily be used to determine the root cause of why taxpayers are calling. This will highlight areas which need improvement to maximize the user experience on the telephone channel and potentially decrease assistor calls.

The primary focus of the Center of Excellence will be to improve satisfaction. Specific activities of the Center will include:

- Identifying potential process improvements from data gathered during telephone conversations with customers (taxpayers, practitioners, etc);
  - Controlling access and distribution of data;
  - Design and creating enterprise-wide procedures for analysis and reporting of data; and
  - Assisting the IRS business unit liaisons with identifying corrective actions.
- Advancing E-file Study Phase II -The IRS completed Phase I of the Advancing e-file Study. Phase I was a major effort to collect, synthesize and analyze substantial data in one document on the IRS *e-file* program to assist the IRS validate and launch future studies, research and other activities to meet the congressionally established goal of an 80 percent *e-file* rate. Phase II of the study is now underway and examines a limited number of options in-depth for increasing e-file participation. The Phase II report is planned to be available by the end of 2009.
  - Web Enhancement –The IRS is working to advance its ability to serve taxpayers through enhanced electronic interactions. A number of strategic and tactical improvements will be explored to improve communication and tax administration services to taxpayers, tax practitioners, and IRS business and government partners. Areas of focus include improving site navigation information architecture; expanding access to and promoting awareness of e-Services; and simplifying online interactions.
  - Bulk Electronic Delivery (BED) – The IRS is working to deliver electronic notices in bulk to third party Reporting Agents; resulting in cost reduction benefits, cutting time for delivery of notices and reducing burden for the Reporting Agents and their clients. Reporting Agents are third party companies that provide payroll services and handle employment issues for employers. Currently, Reporting Agents receive paper notices on behalf of their clients and these notices often contain numerous inserts. A proof of concept is underway with two Reporting Agents receiving BED files on a weekly basis. The IRS is developing plans to expand to four additional Reporting Agents in 2009.
  - Self-Assign – The IRS plans to expand the Self-Assign feature in Correspondence Examination to include discretionary examination and cases in statutory notice status. This feature promotes first contact resolution by allowing any employee to assign cases to themselves when they have the information available to close a case, regardless of the employee or taxpayer location.
  - Customer Online Decision Support Release 2 (COLDS R2) – In February 2010, Wage and Investment will pilot COLDS R2, which provides taxpayers with a Web-based, interactive, “plain language” Tax Law Tool. The pilot will address seven to ten of the most commonly used Tax Law Categories (TLC). Modifications will be made based on taxpayer feedback and pilot performance. Additional TLCs are planned for deployment post filing season through 2012.

## IRS Oversight Board Perspective

The IRS Oversight Board appreciates the opportunity to contribute to this update on the efforts to implement the TAB. As an independent body, the Board's perspective focuses on the long range strategic implications for taxpayer service.

In the eyes of the Board, the need for a comprehensive approach to provide effective and efficient taxpayer service has never been greater. In the past two years, new legislation has been passed to help taxpayers cope with difficult economic times, starting with the Economic Stimulus Payment program in 2008 and continuing with the American Recovery and Reinvestment Act of 2009. Taxpayers are anxious to learn how these new provisions affect them, but the complexity and rapid implementation of these and related programs has left taxpayers with many questions as they strive to fully understand the new benefits to which they are entitled. Consequently, the demand for IRS service to help them understand both their obligations and benefits has never been higher.

The development of the TAB in 2007 has been fortuitous, because it provided a set of guiding principles for providing taxpayer service, identified a set of measures to evaluate how effectively the IRS was serving taxpayers, and defined a governance process to assess, plan, and implement needed new products and services.

Notwithstanding these important foundational elements, the IRS Oversight Board believes the IRS faces a number of serious challenges:

- During the last two years, due to heavier than expected demand, IRS toll-free telephone service has been below planned levels of performance. To the IRS' credit, measures for quality and accuracy remained high even as service levels were declining. However, service levels must improve to keep taxpayer satisfaction levels high. The Board believes that high satisfaction levels will lead to higher voluntary compliance on the part of taxpayers.
- The IRS needs to develop a portfolio of service improvements that will allow agency decision-makers to choose service improvements that deliver the most benefits to taxpayers within available resources. As noted elsewhere in this report, the Service Committee established by the TAB has not met regularly to manage the IRS<sup>1</sup> service improvement program. The IRS has now established a new organization, the Seamless Taxpayer Experience (STE) group, to be responsible for identifying and coordinating service improvement efforts with the IRS<sup>1</sup> Services Committee. The Board expects that the STE group use research findings and proven methodologies, such as Lean Six Sigma, to provide the Service Committee with the information it needs to make effective decisions on service improvements that most effectively benefit taxpayers.
- Although the TAB identified a set of measures to evaluate IRS service, additional effort is required to implement several of these measures, so that the IRS can properly gauge the success of its service programs.

- The surge in demand has outstripped available resources. Taxpayers' demands for service are likely to remain at historically high levels, so creative approaches are needed to steer demand to channels that operate at lower cost per inquiry, such as the Internet. Because taxpayers chose the service channel which they perceive best meets their need, the IRS will have to make Internet service offerings more effective and easier to use to influence more taxpayers to chose this service channel.
- The role of research is critical. The IRS must execute a meaningful research program to evaluate the effects of service and build a solid foundation of knowledge on such key questions as: the needs of taxpayers and how best to meet those needs; why errors occur on tax returns and how best to prevent them; ways to reduce taxpayer burden; and the ways to quantify the impact of taxpayer service programs on compliance.

The Board cannot stress enough the importance of measures. Effective measures allow public policy makers to make informed decisions about allocating resources to future products and services. Measures are used to identify and assess areas of need, estimate benefits of proposed solutions, and monitor implementation to ensure that stated objectives are effectively being implemented. Without measures, the effectiveness of service cannot be ascertained.

Lastly, the Board considers the annual TAB progress report to be a good tool for the Appropriations Committees and other stakeholders to understand the needs of taxpayers and the options that are available to meet those needs. Having this understanding will assist the committee in its decision-making process.

## National Taxpayer Advocate Perspective

In a conference committee report accompanying the FY 2006 IRS funding bill, the House and Senate Appropriations Committees directed the IRS, the IRS Oversight Board, and the National Taxpayer Advocate to develop a five-year strategic plan for taxpayer service activities.<sup>13</sup> In September 2005, the IRS formed the Taxpayer Assistance Blueprint (TAB) team, consisting of employees from several IRS functions including the Taxpayer Advocate Service (TAS), in response to this directive. In support of the TAB, the IRS, the IRS Oversight Board, and TAS conducted in-depth studies to enhance understanding of the needs and preferences of individual taxpayers. However, the work of the TAB was intended to be just a first step. The implementation and continued development of the initial TAB efforts remain critical to improving taxpayer services.

Both Congress and the IRS have continued to demonstrate a commitment to the future of the TAB. Congress has requested annual updates on the progress made toward achieving the TAB's goals.<sup>14</sup> In addition, the guiding principles of the TAB are reflected in the IRS 2009-2013 Strategic Plan and demonstrate the IRS' commitment to increasing voluntary compliance.<sup>15</sup>

Consistent with the principles of the TAB, the IRS has undertaken some important initiatives to improve taxpayer service. In particular, I applaud the efforts of the IRS in forming the Taxpayer Communications Taskgroup (TACT) Notice Team and commend the innovative work the IRS is doing in this area. The TACT Notice Team's

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<sup>13</sup> H. R. Conf. Rep. No. 109-307, at 209 (2005). The Senate Appropriations Committee report provided further detail on the content of the five-year plan. It stated:

The Committee directs the IRS to undertake a comprehensive review of its current portfolio of taxpayer services and develop a 5-year plan that outlines the services it should provide to improve services for taxpayers. This plan should detail how it [IRS] plans to meet the service needs on a geographic basis (by State and major metropolitan area), including any proposals to realign existing resources to improve taxpayer access to services, and address how the plan will improve taxpayer service based on reliable data on taxpayer service needs. As part of this review, the Committee strongly urges the IRS to use innovative approaches to taxpayer services, such as virtual technology and mobile units. The IRS also should expand efforts to partner with State and local governments and private entities to improve taxpayer services.

S. Rep. No. 109-109, at 134 (2005).

<sup>14</sup> See, e.g., H. Comm. On Appropriations, 111<sup>th</sup> Cong., *Committee Print on H.R. 1105, Omnibus Appropriations Act, 2009, Division D-Financial Services and General Government*, at 959 (2009). The report states:

The IRS, the IRS Oversight Board and the National Taxpayer Advocate are directed to submit annually to the House and Senate Committees on Appropriations an update to the Taxpayer Assistance Blueprint, detailing its implementation status and identifying any changes to the strategic plan for taxpayer service, including the results of any new research and relevant findings, and any open issues requiring additional research. The first update shall be submitted 120 days after enactment of this Act.

<sup>15</sup> IRS Pub. 3744, *IRS Strategic Plan 2009 – 2013* (April 2009).

collaboration with a contractor to test with taxpayers the effectiveness of contemplated notice changes has been highly successful. Incorporating the taxpayer perspective as the IRS considers notice changes goes to the heart of the TAB principles – providing clear guidance to taxpayers to assist them in complying with their tax obligations. Testing draft notices with taxpayers who may ultimately receive those notices permits the IRS to perform a sanity check on language and design. Importantly, it increases the likelihood that taxpayers will be able to understand immediately why they are receiving a notice and what actions, if any, they are expected to take.

Despite notable progress the IRS has made in this and other areas toward achieving the TAB goals, there are three areas, in particular, on which I think greater focus is required:

1. Meeting the Service Needs of All Taxpayers. The IRS has four operating divisions that are structured primarily based on taxpayer segments:

- The Wage & Investment (W&I) Division generally has jurisdiction over individual taxpayers who earn wage income and are not self-employed and over general tax-filing issues.
- The Small Business/Self-Employed (SB/SE) Division generally has jurisdiction over taxpayers who are self-employed or otherwise are operating a small business and over most examination and collection issues for both wage earners and self-employed taxpayers.
- The Tax Exempt & Government Entities (TE/GE) Division generally has jurisdiction over, among other entities, tax-exempt organizations.
- The Large & Mid-Size Business (LMSB) Division generally has jurisdiction over businesses with assets in excess of \$10 million.

In general, the IRS's response to the Appropriations Committees' directive has been to focus primarily on the needs of W&I taxpayers and to place comparatively little focus on the needs of other taxpayer segments. For example, the IRS has completed comprehensive and rigorous research into the W&I taxpayer population, but it has not conducted similar comprehensive research into the service needs of taxpayers falling under the jurisdiction of the other operating divisions.

It should be emphasized that all taxpayer segments, particularly small businesses and tax-exempt organizations, have service needs. SB/SE taxpayers face a bewildering array of tax rules, including requirements for the withholding, filing and payment of employment taxes, a patchwork set of rules that govern the depreciation of equipment, and a vague set of factors that govern the classification of workers as either employees or independent contractors. Because IRS Research believes that SB/SE taxpayers are responsible for a significant portion of the tax gap, there is even an argument that dollars put into SB/SE taxpayer service, particularly education and outreach, may have a greater potential to improve compliance than dollars put into W&I taxpayer service.

Similarly, tax-exempt organizations, especially small ones, often have little knowledge of the tax requirements with which they must comply to maintain their tax-exempt status. Absent better IRS outreach and education, exempt organizations stand at risk of inadvertently jeopardizing their exempt status and the IRS may find itself allocating its limited enforcement resources to address compliance failures that could be avoided.

I believe the Appropriations directive to create a taxpayer service strategic plan envisioned that the plan would address the needs of all taxpayer segments, and the House Appropriations Committee emphasized the point in a July 2009 report: “[T]he Committee urges the IRS to continue to expand upon its TAB-related work with regard to small business and self-employed taxpayers and tax-exempt and government entities, and to include these additional categories in the annual IRS update to the TAB.”<sup>16</sup>

Better education and outreach can improve compliance and reduce the need for IRS enforcement actions. Thus, it is the right thing to do for all taxpayers and it is likely cost-effective as well.

2. Vigorous, Cross-Functional Governance. In 2003, the IRS created the position of Deputy Commissioner (Services and Enforcement) and established a senior-level Enforcement Committee to drive cross-functional enforcement decisions. At that time, the IRS was focused primarily on strengthening its enforcement function, and no parallel Services Committee was created to drive cross-functional taxpayer service decisions. It was not until 2007, after the Appropriations Committees directed the development of a strategic plan for taxpayer service, that a Services Committee was created. Yet while the Enforcement Committee continues to meet regularly, the Services Committee has largely existed in name only. From August 2008 until late June 2009 – a period of almost a year -- the Services Committee did not meet at all.

The need for a cross-functional governance structure is closely intertwined with the objective of meeting the service needs of all taxpayer segments. The IRS is a stove-piped organization whose functions often do not communicate frequently or effectively. To improve the delivery of high-quality taxpayer service and ensure the integration of service-related research projects, all IRS functions must work collaboratively. I appreciate that the IRS has committed in this report to resuming meetings of the Services Committee and to promoting greater cross-functional integration. If given adequate emphasis, these steps should help ensure that taxpayer services throughout the IRS are prioritized and coordinated more effectively.

3. Performance Measures for Taxpayer Service. One of the principal objectives of the TAB was 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. I believe it is important that the IRS

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<sup>16</sup> H.R. Rep. No. 111-202, *Financial Services and General Government Appropriations Bill, 2010*, at 21-22 (2009).

complete the development of its service measures expeditiously and that the IRS takes the additional step of fulfilling its TAB 2 commitment both to establish a baseline for these measures and to set goals.

With respect to IRS service goals, I am deeply concerned about the reduction in the toll-free telephone level of service (LOS) that occurred last year and is projected to continue into 2010. Degradation in toll-free LOS was unavoidable last year and to some degree this year, given the extraordinary demands placed on the IRS by the Economic Stimulus Act of 2008. But the reduction in projected LOS for FY 2010, beyond the end of the stimulus program, is disturbing. The LOS peaked at 87 percent in FY 2004, up from 62 percent in FY 2001. The LOS remained at a relatively high level of 82 percent in FY 2007, but it plummeted to 53 percent in FY 2008. Now, looking beyond the time when the impact of the stimulus program will have ended, the IRS has set a reduced LOS "goal" for FY 2010 of 71.2 percent. Former IRS Commissioner Charles Rossotti has written:

Some critics argue that the IRS should solve its budget problem by reallocating resources from customer support to enforcement. In the IRS, customer support means answering letters, phone calls, and visits from taxpayers who are trying to pay the taxes they owe. Apart from the justifiable outrage it causes among honest taxpayers, I have never understood why anyone would think it is good business to fail to answer a phone call from someone who owed you money."<sup>17</sup>

I agree with former Commissioner Rossotti on this point and find it unacceptable that the IRS has set a "goal" of failing to answer nearly 3 out of every 10 phone calls from taxpayers seeking to speak with a customer service representative. The IRS can and should do better.

Notwithstanding these concerns, I believe the IRS has substantially expanded its knowledge of W&I taxpayer service needs and preferences as a result of the TAB. Its main challenges in the coming year are to gather similar information for other taxpayer segments, to use research data to make further improvements to taxpayer service, and to develop an effective suite of measures to gauge its success in meeting the needs of America's taxpayers.

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<sup>17</sup> Charles O. Rossotti, *Many Unhappy Returns: One Man's Quest to Turn Around the Most Unpopular Organization in America* 285 (2005).

## Appendices

### Appendix A: Electronic Interaction Enablement

The IRS.gov Web environment has been in place for nearly seven years. The IRS implemented the environment based on best practices of the day. However, the platform is now aging rapidly and, when compared to current technologies, very limited. The IRS cannot appropriately leverage current information delivery/design methodologies and emerging technologies associated with modern Web platforms. The structural framework and configuration of the current Web platform is not flexible, does not scale well, and is not agile. As a result, the IRS is extremely limited from a resource perspective with regard to enhancements to its e-Service delivery model.

The current infrastructure on which the IRS.gov web environment sits is reaching the end of its useful life. Addressing this increasing obsolescence presents an opportunity for the IRS to both upgrade the site in line with modern best practices while realizing significant cost savings.

The IRS will build and deploy a new Web platform that will allow the Service to optimize the value of its Web environment to better serve taxpayers, partners, and employees. Specifically, a new environment will allow the IRS to better meet the following challenges:

- Improve stability, performance, and reliability;
- Improve site navigation and information architecture;
- Repurpose Web content to advance understanding;
- Deliver content in an appropriate, timely, and meaningful manner;
- Leverage collaboration capabilities and emerging technologies to better deliver tools and information;
- Expand access to and promote awareness of e-Services;
- Integrate dynamic applications and static content for a richer, seamless experience;
- Eliminate redundancies by leveraging content and systems for multiple audiences;
- Reduce redundancy in data and logic;
- Ensure technology independence for distribution of services;
- Ensure transaction integrity and consistency;
- Leverage existing IT investments;
- Manage and share knowledge;
- Facilitate the establishment and adoption of online communication and application delivery standards;
- Simplify online interactions and improve overall user experience;

- Illustrate and reinforce the IRS brand;
- Streamline design and navigation changes as well as implementation of enhanced features; and
- Support a policy and administrative framework that leads to better assessment of critical business needs and drives business value.

The current environment severely limits the IRS' ability to take on these challenges. In addition, components of the underlying infrastructure of IRS.gov are well beyond their end-of-service life, requiring extensive efforts to customize solutions within our environment, as well as additional resources to extend the life of a system that is no longer supported by our vendors.

Through release of a Request for Information (RFI) the IRS is seeking comments from industry about how to deliver the best value for the government, taxpayers, and the tax service community. The IRS is currently evaluating these industry responses. Our goal is to acquire and deploy a completely new Web environment.

In its current state, the IRS uses IRS.gov as a primary electronic resource to house current information, allowing taxpayers, partners, and practitioners to obtain information needed to comply with tax obligations. The site experienced record traffic in 2008 with visits<sup>18</sup> to the site increasing over 60 percent. The site supported more than 353 million visits and 2.2 billion page views.<sup>19</sup> As more and more people use IRS.gov, the IRS continues to enhance the site through new initiatives and improvements. However, overall upgrades to the underlying infrastructure of IRS.gov are necessary to be on par with industry standards.

- Free File – The IRS expanded the Free File program for the 2009 filing season and now provides free federal income tax preparation and free electronic filing for taxpayers with an adjusted gross income under \$56,000. This free service is offered in both English and Spanish. The number of Free File returns received through March 31, 2009, was 2,370,842 as compared to 3,596,351 returns for the same period in 2008<sup>20</sup>.
- Free File Fillable Tax Forms – For the 2009 filing season, the IRS offered more than 140 Fillable Tax Forms and Schedules supporting the 1040, 1040A, and 1040EZ family. The IRS designed these tax forms as another option for taxpayers to prepare and electronically file their federal returns. This allows an increased number of individuals to file electronically without the assistance of a paid preparer or tax

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<sup>18</sup> Visits: Session of activity that an Internet visitor has with IRS.gov over a specified period of time or activity. A visit begins when a visitor views the first Web page from the IRS server. It ends when the visitor leaves the IRS.gov Website, or remains idle beyond a fixed time limit.

<sup>19</sup>Page Views: Measurement of the number of times that a Web page is viewed on IRS.gov.

<sup>20</sup> The decline in the number of Free File returns between 2008 & 2009 is because taxpayers now have many free e-File options. Leading commercial software vendors now heavily promote free options outside of the IRS Free File program and a number of tax software companies have eliminated electronic filing fees – 2009 Filing Season Reports.

preparation software. As of April 30, 2009, 260,803 Free File Fillable Tax Forms had been accepted by the IRS.

- Key Word Queries of the IRS Frequently Asked Questions (FAQ) database – In November 2008, the IRS successfully launched the Customer Online Decision Support Release 1 (COLDS R1). This application enables users to conduct key word queries on the IRS Frequently Asked Questions (FAQ) knowledge database and increases the use of FAQs as a reliable source of tax law information. It provides both taxpayers and the IRS Customer Service Representatives access to the same content through IRS.gov and increases the consistency of technical IRS information. Taxpayers can provide feedback on the usefulness of each FAQ, thereby providing valuable feedback to improve content effectiveness. Taxpayers' response to the COLDS R1 customer satisfaction survey has been favorable. In its first four months, this application accounted for more than 5.5 percent of all visits to IRS.gov during this period, with nearly 7 million visits and more than 26.3 million page views.
- Improved Navigation of Electronic Tax Documents and Publications – Through the use of modern technology (on IRS.gov), the IRS made it easier for taxpayers to navigate and search electronic tax forms and publications, especially large documents such as Publication 17, "*Your Federal Income Tax*." Available for several years, the modern technology, Extensible Markup Language (XML),<sup>21</sup> enabled the creation of a new feature, hyperlinked indexes, for publications. Transitioning from documents in Portable Document Format (PDF) to hyperlinked versions eases taxpayer burden.

Hyperlinks that allow readers to jump from one page or topic to another with just a mouse click add product value and reduce burden for taxpayers. Other publications that have been adapted to contain these links include:

- Publication 3, *Armed Forces' Tax Guide*
  - Publication 15, *Circular E Employers Tax Guide*
  - Publication 334, *Tax Guide for Small Business* (for individuals who use Schedule C or C-EZ)
  - Publication 501, *Exemptions, Standard Deduction and Filing Information*
  - Publication 550, *Investment Income and Expenses*
- New and Updated Web-Based Calculators and Wizards – These easy-to-use tools let taxpayers quickly run through various tax scenarios to help them more accurately compute their tax positions. These Web products helped taxpayers more accurately understand their tax circumstance in the following areas: Economic Stimulus Payment (ESP),<sup>22</sup> Recovery Rebate Credit,<sup>23</sup> Alternative Minimum Tax (AMT),<sup>24</sup>

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<sup>21</sup> Extensible Markup Language (XML): Simple, very flexible text format, designed to meet the challenges of large-scale electronic publishing, used in the exchange of a wide variety of data on the Web.

<sup>22</sup> Economic Stimulus Payment (ESP) Tool: An online tool that helps taxpayers find out the amount of their Economic Stimulus Payment (from previous year, 2007).

<sup>23</sup> Recovery Rebate Credit Calculator: An application that helps taxpayers determine whether they qualify for the credit and how much credit they may claim, if any.

Earned Income Tax Credit (EITC),<sup>25</sup> Sales Tax Deduction,<sup>26</sup> Withholding,<sup>27</sup> and Free File provider locator.

- IRS.gov Assistance Online Chat – The IRS help desk provides assistance to taxpayers who need help locating information on IRS.gov or using IRS.gov calculators and wizards. Assistance is available via phone, e-mail, and online chat in both English and Spanish. Online chat encourages continued use of the Web as a means of resolving inquiries.
- Improved Screen Resolution and Other IRS.Gov User Enhancements – This modified screen resolution allows the IRS to place more information on the IRS.gov home page. The IRS provided instructions on how to increase the font size to improve readability and added a “last modified” date on all content, which helps Web administrators more easily maintain current tax guidance. There is now a link to USA.gov from IRS.gov pages. Additional user enhancements included content management updates that increase ease of use, improved data display, enhanced search capabilities, and easier data location and retrieval. In addition, the IRS.gov Website administrators can obtain download reports more quickly, increasing the ability to promptly respond to taxpayer feedback.
- Rotating Spotlight – This filing season the IRS added a “spotlight” to IRS.gov. This feature provides a graphic and up to seven related articles in the center area of the homepage that changes every few seconds. This rotation allows the IRS to advertise many more programs than in previous tax seasons and delivers additional information into taxpayer’s hands to help them more accurately complete their returns.

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<sup>24</sup> Alternative Minimum Tax (AMT) Assistant for Individuals: An electronic version of the AMT Worksheet in the 1040 instructions, that provides a simple test for taxpayers who fill out their tax returns without using software to determine whether they may be subject to the AMT.

<sup>25</sup> Earned Income Tax Credit (EITC) Assistant: Application helps taxpayers find out if they are eligible for the Earned Income Tax Credit by answering some questions and providing basic income information – available in English and Spanish.

<sup>26</sup> Sales Tax Deduction Calculator: An application that calculates the amount of optional general sales tax taxpayers may be eligible to claim.

<sup>27</sup> Withholding Calculator: An application that helps employees ensure they do not have too much or too little income tax withheld from their pay (not a replacement for Form W-4).

## Appendix B: Telephone Service Enhancements

The IRS is dedicated to providing the best possible service regardless of the channel the taxpayer chooses. In 2010, the Service plans to continue to support the Toll-free program as in prior years. However, increased customer demand, the introduction and expansion of new programs such as the Identity Protection Specialized Unit, and increased complexity of the calls handled by assistors is expected to result in lower service levels than the IRS delivered prior to 2008.

During the 2009 filing season, the IRS received 4.8 million calls from taxpayers asking for their prior year Adjusted Gross Income (AGI) or Personal Identification Number (PIN) which is required by online filers to submit their returns electronically. For 2010, we are developing both a Web and automated telephone application to provide this information to taxpayers without requiring interaction with an assistor. This service will free up assistors to handle more complex taxpayer questions. We will be implementing improvements in our Toll-free menus to give taxpayers faster access to the right resources. Lastly, we will be expanding the use of estimated wait time announcements to more phone applications to help more taxpayers understand where they are in the service process.

The discussion that follows lists two telephone service enhancements the IRS has made this past year.

- Single Issue Toll-Free Numbers (Product Lines) – The IRS recently implemented single issue phone lines such as Identity Theft, Volunteer Income Tax Assistance (VITA) locations and Piloting Notices. These direct phone lines reduce taxpayer burden by eliminating extensive searching to determine where to direct the taxpayer. For example, on the VITA location product line, the customer is asked only language preference, then immediately routed to an assistor queue, where they can obtain the location and hours of their nearest VITA site. The IRS established the Piloting Notices product line to be used during testing of new or revised notices and allows the IRS to easily quantify the notice response rate. Calls of this type can be segregated and analyzed to determine why taxpayers are calling and use the results to improve the notice before it goes into full production.
- Improved Telephone Call Routing (Enterprise Queue) – The Enterprise Queue (EQ)<sup>28</sup> routing system routes calls to the next available assistor anywhere in the country and minimizes the taxpayer wait time for a specific location. Although the IRS initially implemented EQ in some locations a few years ago, FY 2008 represented the first year of full deployment. This new system ensures that taxpayer wait times are as short as possible by holding calls in a central queue until the next assistor is available.

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<sup>28</sup> Enterprise Queue (EQ): Incoming taxpayer calls form a waiting line in a central network location for the next available tax assistor, instead of in individual call sites. Queuing calls at an enterprise level is more efficient, preventing calls from being fixed at one site while there are available resources available at another site.

## Appendix C: Partner Services

The services and assistance provided by the IRS partners also continued to expand. Partners offer a unique opportunity for the IRS to provide assistance and education to taxpayers in a much broader manner than traditional channels of service that may not be readily accessible.

- Disability Initiative – The IRS continues to expand services to persons with disabilities by partnering with organizations that focus on the disabled community. The IRS currently partners with the National Disability Institute (NDI). As a result of this partnership, in 2008 the Disability Initiative expanded service locations from 54 to 62 cities, preparing over 90,000 tax returns for taxpayers with disabilities. This level represents a 150% increase over returns prepared in 2007. Additionally, 555 local partners participated in this initiative in 2008. This involvement represents a 355 percent increase over the number of partners involved in 2007. These partnerships also led to a pilot arrangement with Schwarz Financial Services to provide volunteer return preparation services to individuals that use American Sign Language. This pilot provides real-time translation services to taxpayers who are deaf or hard of hearing through volunteers assisting with video phone technology. The IRS used specialized marketing brochures and flyers to highlight the availability of these services in four pilot cities.<sup>29</sup>
- Veterans with Disabilities – One new target market segment in the Disability Initiative for 2009 is the Veterans with Disabilities Initiative. New national partners engaged to support this initiative include the American Legion, Department of Labor Veterans Employment and Training (VETS), United Spinal Association, VETS First Program, and the US Department of Veterans Affairs. Approximately 45 cities partnered in this initiative, a significant increase over the 14 cities providing services during the 2008 filing season. Through this initiative the IRS may have provided assistance to 2.9 million veterans with disabilities. The Department of Veterans Affairs and Department of Labor also partnered in this initiative allowing the IRS the unique opportunity to provide tax preparation and outreach to homeless veterans and their families while they receive basic necessities.
- Visually Impaired – Another new marketing segment in the Disability Initiative for the 2009 filing season is blind and visually impaired taxpayers. In 2009 the IRS made available 332 “Talking Tax Forms” to help visually impaired taxpayers meet their tax obligations. In addition, the IRS offered 82 tax instructions and 70 tax publication products for download in large print. The National Disability Institute (NDI) recognized the IRS and other partners for their efforts to provide free tax preparation for persons with disabilities.
- Financial Education and Asset Building – The IRS and its partners worked on a number of fronts over the last several years to assist taxpayers outside of traditional banking channels. Financial education and asset building are cornerstones of this effort. One effective entrance strategy for un-banked taxpayers has been the use of stored value debit cards. Partnering with Chase Bank, the IRS helped offer Federal

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<sup>29</sup> The four pilot cities are: New York City, NY; Rochester, NY; Charlotte, NC; and Denver, CO.

and state tax refunds through free debit cards to taxpayers in nine cities across the nation. This program reported tremendous success.

IRS partners utilize several vehicles to leverage the opportunities presented at tax time to encourage their clients to save, invest, or otherwise manage their refunds, including Low/No Fee Savings and Checking Accounts; Second Chance Banking Programs; Individual Development Accounts; Extra Credit Savings Programs; Home Ownership Programs; Stored Value Cards; and Financial Education Classes.

- Rural Initiative – The IRS Rural Initiative focuses on assisting partners in rural locations who lack the resources available to train, staff, and provide computers to volunteer return preparation sites in rural areas.<sup>30</sup> The IRS identified and expanded national partner relationships to increase both investment and local affiliate engagement. The IRS identified ten states<sup>31</sup> as Rural Best Practice Models. These models will be used to expand services to rural taxpayers in other states where coverage gaps exist. The goal of the initiative is to provide equal access to free tax return preparation for rural populations using an existing network of partners. For the 2009 filing season, the IRS developed and implemented an Alternative Rural Site Policy to specifically address the needs of rural taxpayers.

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<sup>30</sup> Rural is defined as “places” with less than 50,000 in population.

<sup>31</sup> The ten states identified as Rural Best Practice Models are: Alaska, Indiana, Iowa, Louisiana, Montana, New Mexico, North Carolina, Oklahoma, Utah and West Virginia.

## Appendix D: Outreach, Education, and Assistance

The IRS is addressing Outreach, Education, and Assistance related gaps identified in the TAB Phase 2 Report are being addressed through a variety of well coordinated organizational activities. As taxpayer and partner needs and expectations evolve, the IRS continues to deliver a number of key outreach efforts geared towards satisfying the needs of taxpayers and partners to promote education and increase voluntary compliance.

- Economic Stimulus “Super Saturday” – The IRS continues to use nationwide outreach campaigns to expand outreach efforts in key areas. On March 29, 2008, the IRS implemented an aggressive “Super Saturday” event, designed to help reach Americans eligible for the economic stimulus payment that were not normally required to file a tax returns. IRS employees, including executives, partners, and volunteers provided education and return preparation assistance to taxpayers who may not have been reached through traditional outreach campaigns. The IRS provided these services at approximately 700 IRS offices as well as free tax preparation sites specifically opened for this non-traditional outreach event. This national outreach effort provided assistance to over 23,000 taxpayers and answered more than 24,000 phone calls, introduced a new taxpayer-focused marketing dynamic in the organizational culture and provided the impetus for future expansion in traditional taxpayer service channels, including face-to-face, toll free assistance, and partner services.
- VITA Grant Program – The 2008 Treasury Appropriations Act enacted on December 26, 2007, appropriated \$8 million dollars to establish a matching grant demonstration program for community VITA programs. The VITA Grant Program, developed in consultation with the Taxpayer Advocate Service, directs the IRS to award funds that would enable VITA programs to extend services to underserved populations and hardest to reach areas (both urban and non-urban); increase the capacity to file returns electronically; heighten quality control; enhance training of volunteers; and significantly improve the accuracy rate of returns prepared by VITA sites.

The IRS awarded over \$7.4 million in 2009 VITA Grant awards to 111 applicants representing 47 states (including the District of Columbia). The selected applicants best demonstrated the ability to provide and/or expand services to the underserved populations, ensure geographic coverage where service gaps may exist, provide electronic filing, and commit to following the quality processes the IRS developed for the VITA program.

- Expanded EITC Awareness Day – On January 30, 2009, the IRS promoted EITC Awareness Day, highlighting also, an array of free services for tax preparation and filing including Free File. The IRS designed this day to meet the goal of providing taxpayers with timely guidance and outreach. The IRS held the event just prior to when the majority of workers receive their wage and other income statements and most free sources for return preparation are available. The IRS issued more than 100 promotional press releases; held more than 85 news conferences around the country; and conducted radio interviews reaching more than 700 radio stations. The IRS also held English and Spanish satellite media tours resulting in air time on 43 television programs. IRS Commissioner, Douglas Shulman; House Appropriations

Subcommittee on Financial Services Chairman Jose Serrano; House Ways and Means Subcommittee on Oversight Chairman John Lewis; House Ways and Means Chairman Charles Rangel; other Members of Congress; and city mayors participated in various media events.

- Super Saturday – During the FY 2009 filing season, the IRS and hundreds of community partners offered free tax help to the public on Saturday, March 21, 2009. In an effort to assist taxpayers during this economic downturn, the IRS developed a collaborative cross-functional campaign to make it easier for people to get the help they need. The event, called “Super Saturday,” provided services routinely available only during weekdays. Taxpayers obtained assistance with federal tax return preparation, processing payments or establishing payment arrangements, letters and notices, levies on wages or bank accounts, obtaining copies of tax returns and transcripts, and securing blank tax forms.

During “Super Saturday” the IRS opened more than 250 Taxpayer Assistance Centers (TACs) from 9 a.m. to 2 p.m. to provide a variety of services to approximately 11,000 taxpayers. In addition, 1,700 VITA sites participated preparing over 53,000 returns while the IRS toll-free phone assistants answered over 33,000 calls. The IRS also opened numerous Tax Counseling for the Elderly (TCE) sites providing tax return preparation assistance. IRS executive leadership as well as national, state, and local elected leaders were also actively engaged in this effort.

- Canceled Debts, Foreclosures, Repossessions, and Abandonments – In response to the *Mortgage Forgiveness Debt Relief Act of 2007*,<sup>32</sup> the IRS developed a comprehensive new publication to assist taxpayers impacted by the mortgage debt crisis. Publication 4681, *Canceled Debts, Foreclosures, Repossessions, and Abandonments*, reflects the new exclusion for qualified principal residence indebtedness. This publication provides needed guidance to taxpayers who face the mortgage crisis and includes detailed examples to more effectively help taxpayers understand remedies available. This publication addresses one of the National Taxpayer Advocate’s (NTA) most serious problems regarding the tax consequences of cancellation of debt income. The IRS expanded the scope of services at TAC, VITA, and TCE sites to include limited Cancellation of Debt issues associated with primary residences for tax law and return preparation assistance in order to maximize service to affected taxpayers.
- Issue Management Resolution Systems (IMRS) – SB/SE increased focus on IMRS as the method to provide an online forum for tax preparers and other stakeholders to raise concerns about policies, practices, and procedures. The focus includes collecting and addressing practitioner/industry questions about new legislation and emerging issues in a uniform and rapid-response fashion. For example, the IRS used IMRS analysis was used to guide the development of “Key Messages” for Tax Professionals and to select topics for National Phone Forums and to capture questions and concerns on new EIN procedures for Limited Liability Companies, Preparer Penalties, and Economic Stimulus/Rebate Recovery Credit.

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<sup>32</sup> Public Law 110-142 [H.R.3648](#): Mortgage Forgiveness Debt Relief Act of 2007

- Audit Technique Guides – SB/SE’s Communications, Liaison, and Disclosure (CLD) Division has continued to develop and publish new information and services via IRS.gov. In the past year, for example, the Service posted and marketed revised, industry-specific *Audit Technique Guides* which detail common errors that the IRS find in conducting audits as a tool for prevention. In addition, the IRS established a link on IRS.gov to the Department of Homeland Security (DHS) launching a one stop Web portal ([www.DisasterAssistance.gov](http://www.DisasterAssistance.gov)) to apply for federal disaster relief.
- National Phone Forums – The IRS developed a number of national phone forums to provide procedural or technical guidance to tax professionals and directly to small business taxpayers on a variety of topics. These topics include Recordkeeping for Small Businesses and Self Employed Individual; e-File updates for tax year 2008; 94X (Amending the F940 Series; Preparer Penalties; the IRS e-File; Correcting Employment Taxes; S Corporation Stock Basis and Cancellation of Debt (COD); Proper Worker Classification; and a three-part series on the Correspondence Examination process.

## **Appendix E: Marketing and Promotion**

### EITC Awareness Marketing

The new EITC marketing campaign, “Life’s a little easier with EITC,” began early in January 2009, in order to provide taxpayers with EITC educational information just prior to the issuance of W-2s and before heavy return filing began. The IRS incorporated a multi-lingual campaign, available in both Spanish and English, into all EITC marketing, outreach, and communication products. Another feature of the campaign is an electronic marketing toolkit for EITC partners and tax preparers.

The campaign has two major objectives. The first objective is to reach pockets of EITC-eligible workers that the IRS knows failed to claim the credit such as those taxpayers whose circumstances recently changed, rural workers, the Limited English Proficient (LEP), the disabled and non-traditional families such as grandparents raising their grandchildren. The second objective is to encourage only eligible workers to claim the credit.

## Appendix F: Multilingual Services

The IRS is committed to providing top quality service to each taxpayer, including those who lack a full command of the English language. Continued globalization and the rise in immigration provide an ever increasing challenge to providing quality taxpayer service to those with limited English language capability.

- Free File Program Spanish Version – Launched in 2007, visits to the Spanish version of “Free File” totaled 205,193 for 2008, an increase of 45 percent over 2007. Spanish Free File visits through March 2009 were 100,833, a 23 percent increase over the same period last year (March 2008 visits were 82,219). For 2009, an additional provider offered services in Spanish, for a total of three providers. In addition to the “Free File” services available in Spanish, individuals not meeting the income requirements could file electronically utilizing “Free File” fillable forms in Spanish. “Free File” continues to be an effective initiative in reducing math errors on tax returns, providing faster refunds to taxpayers, reducing processing costs to the Service and increasing compliance.
- Economic Stimulus Payments (ESP) Information Center for Spanish Speaking Taxpayers – The IRS created this site to mirror English language pages and provides taxpayers with filing information, eligibility criteria, and scheduled payment dates. The information center also contains Questions & Answers (Q&A) on ESP and provides easy to use and navigation friendly Web pages. Visits to this page in 2008 totaled over 800,000.
- “How Much Was My 2008 Stimulus Payment” for Spanish Speaking Taxpayers – The IRS launched this interactive application for tax filing year 2009, which mirrors the English version. This tool provides the user with information about Economic Stimulus Payments received.
- “Spanish - Where’s My Refund?” – The Spanish “Where’s My Refund” enhancement provides Spanish-speaking taxpayers access to IRS.gov to determine if the IRS received their tax return and to receive basic refund information. For the 2009 filing season, as of March 31, 2009, more than 262,752 taxpayers received refund information from their returns. This level reflects a 3.3 percent increase from the 254,278 taxpayers who used the site during this same time period last year.
- Translated Publications and Forms for the Spanish-speaking Community – In 2009, the IRS translated Publication 17, *Your Federal Income Tax*, and Form 2848, *Power of Attorney and Declaration of Representative*, into Spanish. The newly translated documents, Publication 17 (SP) and Form 2848 (SP), improve service to Spanish-speaking taxpayers by providing a broader selection of topics and additional information needed to meet their federal tax obligations. The IRS also launched an electronically searchable version of Publication 17(SP) in January 2009 and posted it to *IRS.gov/Español*.
- Basic Tax Responsibility Limited English Proficient (LEP) Initiatives – The IRS developed communication tools for LEP taxpayers to provide information about basic tax filing responsibilities. Communication tools include a DVD titled “Basic Tax Responsibility” and a series of brochures “Opening the Door” (Publication 4346),

produced in Spanish, Chinese, Vietnamese, Korean, and Russian. The series includes topics such as “Basics of Tax Processing”; “Why Pay Taxes?”; “Toll Free Telephone Service (Spanish Only)”; “EITC”; “Understanding Your IRS Notice”; and “Getting Help with Unresolved Tax Problems.”

- Spanish Tax Practitioner Tool Kit – The IRS developed a Spanish Tax Practitioner Tool Kit (Publication 4445 series), which includes tools and other information designed to facilitate tax communications with Spanish speaking taxpayers.
- Small Business Tax Gap Articles – The IRS translated Tax Gap articles, designed to educate and assist the small business owner in meeting filing requirements, into Spanish and posted to *IRS.gov/Español*. These articles educate the business owner on recordkeeping, income reporting, and allowable deductions. An ever increasing number of LEP Spanish-speaking taxpayers begin new businesses each year. This new section represents an increase of Spanish language information available to the small business owner. Previously, the IRS designed *IRS.gov/Español* primarily to assist the individual taxpayer in meeting their filing requirements.

## Appendix G: Special Service Delivery through Taxpayer Assistance Centers

- EITC Saturday Service - To help taxpayers with EITC filing and questions, the IRS initiated special taxpayer services on three Saturdays during the 2009 filing season (January 31, February 7, and February 21) located at over 170 TACs and assisted over 14,000 taxpayers with EITC return filing. The IRS devoted this weekend service to providing taxpayers with assistance in filing tax returns and properly claiming EITC on their 2008 tax returns.
- Increased Services at Volunteer Sites – During the 2009 filing season, the IRS collaborated with partners to provide one-stop service to taxpayers at nine existing volunteer sites<sup>33</sup> using the geographic coverage model.<sup>34</sup> The IRS ran the geographic coverage model for each population segment to identify potential new service areas. The results helped determine the best locations for expanded services. While the taxpayers received free tax return preparation, the IRS and its volunteer partners provided over 1,300 taxpayers were provided limited services with accounts, transcripts, individual taxpayer identification numbers (ITIN), and answers to tax law questions.

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<sup>33</sup> The nine existing volunteer sites include: Central Library, Brooklyn, NY; Horizon Convention Center, Elwood, IN (one day site); John H. Bonner Center, Indianapolis, IN; Center for Working Families, Atlanta, GA; Bellrose Library, Douglaston, NY; Foundation Communities Tax Center, Arlington, TX; Tomball Community HCP Library, Magnolia, TX; Novato Human Needs Center, Novato, CA; and Glendale Community College, Burbank, CA.

<sup>34</sup> Geographic Coverage Model: Facilitates using geographic data driven decisions to increase face-to-face assistance to low income, elderly, Limited English Proficient (LEP), and disabled taxpayers and to enhance coverage utilizing existing resources, new service delivery channels and optimize future decisions based on taxpayer needs.

## Appendix H: Taxpayer Advocacy Panel (TAP)

The Internal Revenue Service partnered with the Taxpayer Advocacy Panel (TAP) which is supported by the Taxpayer Advocacy Service (TAS). The TAP is 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:

- Taxpayer Assistance Center (TAC) Appointment and Tax Return Preparation Project  
The TAC Issue Committee identified recommendations to improve processes associated with TAC appointment scheduling and tax return preparation such as:
  - Improving the return preparation checklist;
  - Ensuring appointment timeframes are compliant as listed in the Internal Revenue Manual (IRM);
  - Encouraging TAC managers to use discretion and judgment in scheduling and managing the return preparation workload;
  - Reviewing the requirement for all taxpayers and dependents to provide their original Social Security cards before being considered for return preparation; and
  - Making certain a computer is available where the employees prepare tax returns.
- Payment Processing System in the Taxpayer Assistance Centers Project - The TAP TAC Issue Committee will identify improvement opportunities in the payment processing system located within the Taxpayer Assistance Centers (TACs). The committee's outlined areas of focus include:
  - Analyzing the payment process and provide recommendations for improvements;
  - Reducing taxpayer wait time when making a payment;
  - Automating the official receipt process for non-cash/cash payments;
  - Reducing the number of instances where payments are not accepted;
  - Analyzing the current QMATIC process for recommended improvements; and
  - Identifying alternative methods of rotating the official receipt book (Form 809) to allow employees to utilize all employee skills.
- Taxpayer Assistance Centers (TAC) Receive Taxpayer Service from TAP - During 2008, the IRS received 36 taxpayer related commentaries concerning taxpayer service from the TAP. Comments fell into two major categories for improvement opportunities: 1) TAC Operations (including employee actions); and 2) taxpayer experience, including wait time issues and the Q-MATIC ticket system; taxpayer relations; hours of operation; service delays; return preparation; forms issues; and payments.
- TAB Related Issues Relative to TAP – The IRS received assistance and support from the TAP on multiple taxpayer service related events which include EITC Awareness Day; EITC Project; and VITA Project.

## **Appendix I: Low Income Tax Clinic**

In 1998, Congress enacted the Internal Revenue Restructuring and Reform Act of 1998 (RRA), in which it authorized \$6 million in matching grants for Low-Income Taxpayer Clinics (LITCs), thereby launching a new era in low-income taxpayer outreach, education, and representation. In each subsequent year, Congress has appropriated additional funding, permitting the Taxpayer Advocate Service to award grants to more clinics. For the 2009 grant cycle, 162 clinics received total funding of \$9.5 million, with clinics operating in every state, the District of Columbia, and Puerto Rico.

LITCs 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 2009, 20 clinics provide only ESL services, 45 provide only controversy services, and 97 provide both ESL and controversy services. During the 2008 grant year the LITC program assisted 30,648 taxpayers through controversy services and worked 37,391 issues, including 3,520 levy issues, 1,684 lien issues, 2,999 currently not collectible issues, and 1,791 installment agreement issues. The clinics opened 10,142 cases and submitted 1,804 cases to the U.S. Tax Court.

The efforts of ESL clinics to educate taxpayers through outreach events and educational workshops provide service to large numbers of taxpayers and generate awareness of the clinic program among taxpayers who may be in need of tax assistance. In 2008, the LITCs conducted 8,890 outreach and education events. These events reached 154,527 ESL taxpayers. Additionally, clinics provided one-on-one consultations with 29,342 ESL taxpayers.

## Appendix J: Assistance to International Taxpayers

Globalization continues to affect us all. It is estimated that more than 7 million Americans reside outside of the United States (excluding military personnel). The IRS recognizes that it must continue to find innovative ways to meet the needs of the growing number of U.S. taxpayers who live in other countries.

- International Brochure, Publication 4732, Federal Tax Information for U.S. Taxpayers Living Abroad – This new international resource brochure focuses on educating taxpayers living or working outside the country, and provides highlights of various resources on tax topics common to U.S. taxpayers in order to assist them in meeting their tax obligations. Working with the U.S. Department of State, the IRS distributed printed copies of the brochures to all 252 U.S. Embassy and Consulate offices worldwide. The product is also available electronically on IRS.gov. The IRS plans to expand this effort by delivering the product directly to taxpayers, with the assistance of the U.S. Department of State, and by sharing the publication with organizations offering assistance to taxpayers living abroad.
- U.S. Citizens and Resident Aliens Abroad Tax Page – the IRS developed a new comprehensive tax page on IRS.gov and linked this new page to U.S. Embassy and Consulate websites. This new page contains basic tax information pertinent to U.S. taxpayers residing overseas with links to more detailed topics. This page also provides "one stop shopping" for U.S. citizens abroad and information on how to contact the IRS for additional assistance.

Additionally, the IRS addresses international taxpayer service in a number of ways through establishing concrete goals to improve service and one-stop shopping. Improving service to make voluntary compliance easier is one of the key goals of the "Servicewide Approach to International Tax Administration." This is a far-reaching plan that ties into the IRS Strategic Plan to address international customer service and compliance across every operating division. As part of this plan, the IRS has achieved the following customer service accomplishments:

- Developed additional international Frequently Asked Questions for placement on IRS.gov;
- Improved the focus of the Overseas Tax Assistance tours;
- Published articles by London tax attaché in the Tax Journal and Consular newsletter targeting U.S. taxpayers residing in the United Kingdom;
- Presented Foreign Tax Withholding and International Issues sessions at six 2008 Tax Forums;
- Made presentation to over 100 finance office staff members of Federal agencies on Section 1441, Withholding of Tax on Nonresident Aliens, and Section 1442, Withholding of Tax on Foreign Corporations;
- Redesigned Form 1040NR and instructions to reduce burden on taxpayers;

- Developed Form 8804-C and instructions to ensure consistency and reduce burden in complying with regulations in Section 1446, Withholding Tax on Foreign Partners' Share of Effectively Connected Income;
- Expanded Foreign Athlete and Entertainer page on IRS.gov to provide more information to taxpayers;
- Developed Administrative Lead Sheets to assist international examiners in addressing taxpayer issues. These sheets ensure that the taxpayer received a copy of the return, offering fast track mediation and a conference with the manager, soliciting payment, and coordinating with Collection are just some of the services offered as part of our compliance efforts.

## Appendix K: Services to Large and Mid-Size Business (LMSB) Taxpayers

To address the changing environment, the IRS has implemented a number of taxpayer assistance programs to Large and Mid-Size Business Taxpayers such as Joint Audit Planning Process, Appeals Fast Track, Compliance Assurance Process, Compliance programs, Large Case Technical Units assistance, International outreach and education, and external stakeholder programs. The accomplishments of these programs have received positive feedback, and details of each follow:

- Communications and Liaison – The IRS Large and Mid-Size Business Division maintains a robust stakeholder relationship program providing extensive guidance and up-to-date information on a variety of large taxpayer tax issues that affect taxpayers and their representatives. The IRS is able to reach a wide audience of corporate taxpayers using a variety of methods including interaction with advisory boards and major stakeholder groups. LMSB program priorities and the latest information particular to the corporate tax arena are also shared through meetings, conferences, numerous speaking engagements, and the IRS Web site.
- IRS.gov Web Site - LMSB provides extensive and readily accessible Web-based guidance and information for LMSB taxpayers and their representatives on a wide range of issues of mutual interest.
- LMSB Secure Email and Web Based Surveys - LMSB Revenue Agents now can communicate securely via e-mail with taxpayers and/or their representatives. With the deployment of LMSB Secure Email, employees have an appropriate tool that can be used to safely exchange sensitive information with taxpayers/representatives via encrypted e-mail.
- Two Advisory Groups - The LMSB Division avails itself of the knowledge and expertise of two advisory groups: Internal Revenue Service Advisory Council (IRSAC) and Internal Revenue Reporting Program Advisory Committee (IRPAC).
- Major Stakeholder Groups - LMSB executives currently serve on several committees with major stakeholder groups, including the Tax Executives Institute (TEI), American Institute of Certified Public Accountants (AICPA), and the American Bar Association.
- Executive Speaking Engagements – The IRS has a robust Outreach Program serving constituents who primarily work with large corporate taxpayer issues. For calendar year 2008, LMSB executives participated in 158 speaking engagements which include keynote luncheon speeches, panel presentations, and committee meeting discussions.

## Appendix L: Services to Non-Profit Organizations and Government Entities

The IRS continues to evolve its service portfolio to help meet the changing needs of non-profits and governments served by its Tax Exempt and Government Entities (TEGE) division.

- StayExempt.org – An interactive Web-based learning tool that provides user-friendly educational materials on tax compliance topics for exempt organizations. The tool has been recently expanded to include ten new mini-courses (with five more in production) on topics of interest to the tax-exempt community. This web-based outreach ensures that resources and guidance are available 24 hours a day, 7 days a week to any taxpayer with access to the Internet.
- Cyber Assistant – A new Web-based software program that will help organizations complete their application for tax-exempt status (Form 1023). The program alerts the filer to errors, prompts for missing information, refers the applicant to applicable educational materials, and uses bar codes to capture the data, resulting in an error-free application and enabling more expeditious processing.
- Fix-it Guides – Plain language, self-audit tools to help employers and plan sponsors identify, fix and avoid operational errors in their retirement plans. We currently have Fix-It Guides for 401(k) and IRA-based plans (SIMPLE, SEP and SARSEP plans).
- Enrolled Retirement Plan Agent (ERPA) - The IRS, working with the practitioner community, has created the Enrolled Retirement Plan Agent (ERPA) designation. An ERPA is an individual who has been approved by the IRS to practice before the IRS on certain retirement plan issues. To support this program, we have developed a Webpage that explains the new designation, including information on how to become an ERPA (from testing to application).
- Tax Tools for Tribes – The IRS created “Tax Tools for Tribes,” a CD-Rom sent to nearly 700 tribes and villages. The CD-Rom includes tax forms, publications, job aids, and newsletters useful to tribes and tribal members in understanding and meeting their federal tax responsibilities.
- Electronic Newsletters – The IRS created two electronic newsletters; The *Employee Plans News* (with over 66,000 subscribers) is geared toward our practitioner community attorneys, accountants, actuaries, etc., while the *Retirement News for Employers* (with over 57,000 subscribers) is designed for employers and business owners.
- Redesigned Form 990, “Return of Organization Exempt From Income Tax” – The IRS has implemented the redesigned Form 990, the annual return filed by most tax-exempt organizations. Throughout the revision process, the IRS Tax Exempt Government Entity division sought and incorporated input from stakeholders, including exempt organizations, tax professionals, the media, and the general public. The extensive input from the tax-exempt community helped ensure that the new Form 990 reflects the diversity and complexity of their operations. To give exempt organizations time to adjust to the new form, the IRS adopted a three-year phase-in period, allowing more organizations to file the shorter and simpler Form 990-EZ. By redesigning the Form 990, the IRS eliminated the burdensome Advanced Ruling

Process, which required public charities to prove they had sufficient public support (a requirement for public charity status) and therefore could remain public charities after five years of operation.

- Employee Plans Compliance Resolution System (EPCRS) – The IRS continues to enhance EPCRS as it offers a comprehensive system of correction programs for sponsors of retirement plans that are intended to satisfy the requirements of certain sections of the Internal Revenue Code, but which have not met these requirements for a period of time. This system allows plan sponsors to correct these failures and thereby continue to provide their employees with retirement benefits on a tax-favored basis.
- Voluntary Closing Agreement Program – The IRS revised its general Voluntary Closing Agreement program to include tax-credit bonds (Notice 2008-31) and created a specific voluntary program for resolving improperly valued financial derivative agreements. As part of this initiative, IRS' Tax Exempt Bonds unit within the TE/GE division, worked with its Advisory Committee members to develop recommendations for a streamlined closing agreement program with standardized closing agreement settlement terms.
- Build America Bond (BAB) – The IRS implemented BAB provisions and other tax credit bond provisions added by the American Recovery and Reinvestment Act (ARRA). The implementation included the expeditious development of a new form (Form 8038-CP) and instructions, a new compliance system to process and monitor requests for BAB payments, development of seven new notices and several educational documents about the new bond provisions, and presentation of several outreach demonstrations, including ones to underserved Indian territories and tribes.

## Appendix M: Services Supporting the IRS Enforcement Activities

### Relationship between Taxpayer Service and Tax Enforcement

The impact effective IRS enforcement programs have on the demand for taxpayer service (and, correspondingly, the positive effect of quality taxpayer service on the effectiveness of tax enforcement) is significant. In 2008, the IRS mailed over 112 million notices to taxpayers. A vast majority of notices, 96 percent, refer the taxpayer to taxpayer service phone lines as the primary point of contact. Out of every 1,000 notices mailed, the IRS receives 123 phone calls from taxpayers. In 2008, the IRS mailed approximately 108 million notices that included the taxpayer service toll-free phone number, an increase of 12 percent over 2007. Of these, 75 million were enforcement related.

Although the IRS provided telephone assistance to 3.4 percent more callers in 2008 than in 2007, the level of service provided declined as demand for services increased. In 2008, individual “balance due” calls alone exceeded 2.2 million. The IRS assisted service to taxpayers for post-filing tax account adjustments reached almost 12 million in 2008, a 12 percent increase from 2007, while individual amended returns increased 16 percent over 2007. Installment agreements prepared by Taxpayer Service personnel exceeded \$4.9 billion in 2008, a 2.5 percent increase over 2007.

The IRS continues its focus on tax enforcement activities. A majority of these actions result in downstream taxpayer service activities including account adjustments, assisted phone calls, amended returns, and the preparation of installment agreements. In 2008, the IRS closed 1.4 million individual audits, completed 1.2 million Automated Substitutes for Return, and completed 3.5 million Automated Underreporter (AUR) contact closures. Taxpayers depend on effective, timely taxpayer service in order to fully understand the effect of legislated changes on their tax obligations. The IRS continues to focus on improving the quality of notices, post-filing contacts, increasing customer satisfaction, and increasing case resolutions.

- Soft Notice Test – The IRS designed the Automated Underreporter (AUR) Soft Notice Test to encourage taxpayers to self-correct income reporting with minimal burden and resources expended in the AUR operations of Compliance. Mailing soft notices as early as possible provides taxpayers with an opportunity to self-correct by submitting amended returns during the current year, prior to filing for the next year. The IRS implemented the test in October 2008, when it mailed approximately 28,660 notices to taxpayers. Data analysis of the responses to the notices is currently underway. In August 2009, subsequent year behavior will become available upon receipt of the Tax Year (TY) 2008 AUR cases. The IRS scheduled an additional test of TY 2008 for FY 2010. In that test, the IRS will seek to identify additional case attributes to refine our selection for future soft notice cases.
- Form 13930, Instructions on How to Apply for a Central Withholding Agreement – In an on-going effort to identify Web-based solutions to address taxpayer needs and reduce taxpayer burden, the IRS developed and published Form 13930, *Instructions on How to Apply for a Central Withholding Agreement*. This form provides

instructions to determine the correct amount of withholding for nonresident alien entertainers and athletes when they plan to work in the United States.

- Expanded Use of E-fax Technology – E-fax technology delivers faxes to employees' desktops. It is an improvement to assist case resolution during calls. The IRS implemented this technology in the Automated Underreporter (AUR) Program, enabling AUR tax examiners to close a case with a faxed signature while the taxpayer is still on the phone. The continuing rollout of E-fax technology to all Compliance functions will enhance both taxpayer satisfaction and business results by reducing the number of times an employee must touch a case, streamlining case processing and permitting more case resolution.
- Joint Audit Planning Process - The IRS designed the process to provide a consistent approach to audit planning, encourage audit efficiency, establish greater accountability, and enhance taxpayer disclosure. LMSB recognizes that thoroughly involving the taxpayer in audit planning is an initiative that will have a positive impact on the way we conduct future examinations. Joint participation in this process benefits both the taxpayer and the IRS by increasing the timeliness of examinations. It also provides certainty of results for both taxpayers (i.e. financial statements) and the IRS (i.e. completed examinations) by minimizing open tax years.
- Fast Track Settlement (FTS) Program - The FTS Program was established to expedite examination case resolution and expand the range of dispute resolution options available to taxpayers. The Large and Mid-Size Business Division and the Office of Appeals jointly administer the FTS Program. This program provides an opportunity for IRS personnel and LMSB taxpayers to mediate disputes with an Appeals Official acting as a neutral party. In addition, in certain circumstances, other IRS Operating Divisions and taxpayers may participate in the FTS Program. As a successful accelerated dispute resolution program, the FTS Program provides numerous benefits by shortening the audit process and reducing taxpayer burden by decreasing the LMSB and Appeals cycle time.
- Compliance Assurance Process (CAP) - LMSB designed the CAP building on the corporate governance requirements and looking to the financial statement model of real time issue resolution. This solution establishes tax law compliance more quickly and efficiently while maintaining customer service and audit integrity. The IRS designed the CAP as a real time compliance review of issues that will have a material effect on federal income taxes by working closely with taxpayers and their advisers; resolving material, post-transactional tax issues in a mutually respectful coordinated manner; and making a determination based on the review of all material issues prior to filing a federal tax return. Through this process, the IRS will rebalance its resources to improve taxpayer relations, provide compliance assurance, and operate in an environment of transparency and disclosure of all significant post-transactional issues that have a material impact on the federal income tax liability, which occur throughout the current financial period.

Taxpayers can realize significant benefits from participating in the CAP. For example, the process:

- Eliminates the need for an extensive post-filing examination;
  - Saves time and resources;
  - Addresses emerging issues consistently and contemporaneously;
  - Consists of a financial statement model of real time issue resolution;
  - Provides tax certainty at time of filing;
  - Facilitates compliance with the Sarbanes-Oxley Act, including tax reserve integrity affecting financial statements reporting;
  - Enhances public/investor confidence and corporate reputation; and
  - Focuses on material issues;
- Large Case Technical Units (LCTU) - The purpose of the LCTU is to provide a single point-of-contact to help clarify and resolve account-related issues to corporations with continuous tax issues. LMSB assigns a tax examiner in the appropriate geographic location is assigned to the taxpayer to work on account-related problems.

The services provided by the LCTU on large corporation accounts include:

- Account-related Issues
    - ♦ Employment Tax
    - ♦ Corporate Income Tax
    - ♦ Penalty Issues
    - ♦ Notice Holds
    - ♦ Freeze Condition Issues
    - ♦ Balance Dues
    - ♦ Analyzing Accounts
  - Data Processing Adjustments
  - Credit Transfers
  - Service Center Liaison
- Electronic Filing and Disclosure for Small Tax-Exempt Organizations – The IRS developed an electronic filing and disclosure system for small tax-exempt organizations that have a new annual filing requirement. This electronic system allows organizations to file Form 990-N, also known as the e-Postcard, in just a few minutes. Filing the form protects the organization’s tax-exempt status and provides both donors and volunteers with the most up-to-date information about the organization.
  - EFAST2 – The IRS coordinated with the U.S. Department of Labor to implement the ERISA Filing Acceptance System II (EFAST2), which will mandate electronic filing and allow for improved disclosure of the annual return for retirement plans (Form 5500) beginning in 2010. In addition to helping streamline tax administration, the IRS believes that the improved accuracy, speed, and security of the system will be welcome by plan sponsors and the practitioner community.

## Appendix N: TAB Research

### Segmentation

Taxpayer and third party/partner segmentation reflecting demographic characteristics, filing characteristics, service option awareness, service access, attitudes, and previous behavior is the baseline for any improvement related research.

1. Survey of Customer Service Needs of U.S. Taxpayers Living Abroad – In support of the Multiyear Plan for Servicewide International Tax Administration, the IRS designed a survey to identify the tax administration issues, service use, and service needs for U.S. taxpayers living abroad. The objective of the survey is to develop an accurate baseline of these taxpayers' service needs, preferences, and current service-related behaviors. To guide the survey design, the IRS held focus groups with tax practitioners, developed a profile of filing behavior and demographics, conducted tax attaché and corporate interviews, and completed cognitive pre-testing. The IRS administered the survey in June 2009 and is currently being performed. Information from the survey will help identify and prioritize service improvement opportunities for this taxpayer segment. Information from the survey will help identify opportunities for service enhancement, targeted outreach, and education of international taxpayers as well as help the IRS target resource allocation.
2. W&I Tax Professionals Survey – The TAB Phase 2 Report recommended that the IRS conduct additional research to query tax professionals to determine how the IRS might best help them operate as service intermediaries. The W&I Tax Preparers Survey expands on previous and ongoing studies of tax professionals, such as the Small Business/Self-Employed Tax Professional Survey and the TAB Practitioner Online Survey, administering a multi-channel (phone, Web, mail) survey to a sample of 2,400 paid preparers.

The findings confirmed the operational assumption that the majority (62 percent) of preparers serving W&I taxpayers are unenrolled. Most tax professionals are aware of and use the IRS tax publications (96 percent) and the IRS Website (97 percent). Overall, about 68 percent of tax professionals reported being satisfied to very satisfied with the IRS services. About half (51 percent) reported satisfaction with the Toll-Free telephone service and 78 percent indicated satisfaction with IRS.gov. Based on this survey's findings, the IRS launched two 2009 projects refining commercial and enrolled tax preparer segmentation based on their respective business models (Whom do they serve? What services do they provide? How do they use the IRS and other services?) and the specific use of the IRS e-Services and the Practitioner Priority Service telephone lines. Information from these studies will help refine outreach, marketing, and service application decisions.

3. Taxpayer Attitude Survey – In August 2008, the IRS Oversight Board repeated its annual Taxpayer Attitude Survey of the general public, which focuses on taxpayer views regarding various dimensions of tax administration including the IRS customer service and enforcement activities. The IRS Oversight Board has regularly conducted this annual survey since 2002 and it provides helpful insights into the longer term trends in taxpayer opinions on key tax administration matters.

Overall, taxpayers continue to report a high degree of satisfaction with the IRS. Approximately 76 percent of those surveyed in 2008 stated they were either “very satisfied” or “somewhat satisfied” with their interaction with the IRS. Despite remaining quite high, the 2008 survey satisfaction measurement may represent a gradual decline in taxpayer satisfaction with the IRS, as a similar question garnered 78 percent of responses in 2005 and 82 percent in 2003.

4. Multilingual Initiative Customer Base Profile – The IRS included a profile of the Limited English Proficient population in the "Demographic Assessment" section of the MLI Customer Base Report, which represented an update to analysis that the IRS conducted three years ago. U.S. Census American Community Survey (ACS) data indicated that for 2006 the total Limited English Proficiency (LEP) population represents 4.5 percent or 13.4 million (compared to 12.3 million in 2003), of the total U.S. population. Spanish continues to be the prominent LEP language, representing 74 percent (9.9 million) of the total LEP population. Including individuals that are English proficient, there are 34 million speakers of Spanish, which is 11.4 percent of the U.S. population. The next four LEP language groups are as follows: Chinese (3.3 percent); Vietnamese (3.0 percent); Korean (2.3 percent); and Russian (1.5 percent). Of the top five LEP groups, the Spanish speaking population has the greatest proportion (39 percent) that speaks no English at all. After the top five LEP segments, the remaining 16 percent is comprised of 96 language groups. This information is used by the IRS Language Services Office to guide decisions regarding the development and improvement of service resources designed to assist LEP taxpayers.
5. Profile Taxpayer Segments by Tax Return Line Item – The objective of this project was to address the question of what are the most frequently occurring taxpayer errors shown on the Form 1040. Using Tax Year 2005 data, the IRS identified the top six errors using a selection criterion based on volume of returns, taxpayer burden, and treatment potential. The top errors included five math errors (including Qualified Dividends and Capital Gains, and incorrectly calculated Earned Income Credit) and one e-file reject error. Results from this study have been forwarded to the IRS Media and Publications and W&I Communication and Liaison organizations to be included in filing season guidance and outreach.
6. Benchmark Survey 2009 – The IRS is updating the TAB Phase 2 Benchmark Survey data, addressing taxpayer pre-filing and filing service use (IRS and non-IRS ), by re-administering the survey to a new group of taxpayers in August 2009. As was the case in 2006, the IRS will draw the survey sample from existing databases of tax filers, allowing specific filing analysis, including compliance. This research represents the largest data set addressing the longitudinal review of specific service use and potential relationship with compliance issues.

The 2006 Benchmark Survey results were instrumental in establishing taxpayer preference for selecting self-assisted or assisted service channels to fulfill pre-filing tasks, based on demographics and technology affinity. The IRS will use the expanded taxpayer data base will be used to analyze changes in taxpayer segment profiles relative to service awareness, use, and relationship between service

provision and compliance issues. The IRS will use these insights to identify opportunities to align service performance and voluntary compliance improvements.

7. Telefile Migration – In the 1990s, the IRS developed a system known as Telefile, which allowed taxpayers who filed relatively simple returns and met specific requirements to file their tax returns by a touch-tone phone. The IRS started Telefile as a test in one state and eventually expanded the availability to qualified taxpayers nationwide.

Telefile was a type of electronic filing that has helped the IRS progress toward its goal of having 80 percent of tax returns filed via electronic means. However, the IRS discontinued the Telefile system in 2005, citing increasing maintenance costs and decreasing use. Proponents of the system suggest that the IRS abandoned Telefile prematurely and consequently left a segment of the taxpaying population with no means of filing electronically.

TAS is evaluating the filing patterns of former Telefile users to understand how these taxpayers filed their tax returns after the IRS eliminated Telefile. TAS is also developing estimates of the eligible population for a new telephone-based electronic filing approach based on various assumptions about the scope of the new approach. This information will allow the IRS to make informed decisions on how the IRS can reach its electronic filing goal. TAS expects to complete this project by the middle of fiscal year 2010.

## Awareness

This research addresses the questions of how the IRS shapes, delivers, and markets communications to target audiences.

8. Economic Stimulus Program Outreach – In late 2008, the IRS conducted online and telephone surveys of taxpayers who qualified for the Economic Stimulus Payments to determine their awareness of the stimulus payments. The survey results indicated that 94 percent of taxpayers were aware of the stimulus payments, with 80 percent satisfied overall with the information about when they would receive the payments and the amount. The most common sources of information regarding the stimulus payments were the IRS mailings, television, newspaper, radio, and IRS.gov. When asked what the IRS could have done differently in communicating, the majority of taxpayers who responded said “nothing,” or that the IRS did a good job.
9. Testing Free File Marketing Strategies – Free File provides a free filing electronic alternative to select groups below a specified income level. One of the critical factors to the success of the program is taxpayer awareness and ease of taxpayer accessibility. To further these goals, research designed a study to evaluate taxpayer preference related to two potential designs for the front of a postcard intended to promote Free File. Research attempted to assess taxpayer ability to understand the communication goals of the postcard, and attempted to assess taxpayer ability to understand and accurately begin the Free File process.

Besides providing technical suggestions regarding how the IRS presented the layouts of the post cards were presented, Research identified several areas where there was a disconnect between the intended the IRS message regarding Free File and taxpayer comprehension. Based on the identified gaps in understanding, IRS researchers suggested several ways to provide the information so as to better facilitate taxpayer awareness of Free File messages. As a result, the IRS changed the design of the postcard and updated the content and format features on the Free File Web page to improve the taxpayer experience. Improvements included more detailed prompts and links for improved navigation, clearer statements regarding the main page and how it works, clearer statements regarding what tax forms are supported by the program and additional links to the forms. The effect of these changes will be part of 2009 research.

10. Military Annuitants Trend Analysis – Previous research indicated that military retirees have the highest rate of non-compliance (based on dollars owed) among the Federal Employee/ Retiree Delinquency Initiative (FERDI) population. The IRS conducted an analysis of ten years of FERDI data and concluded that military retiree non-compliance increased almost 19 percent since 1998. Based on the research, the IRS will conduct preemptive outreach and education initiatives in 2009 with a test group of new retirees to determine the impact on compliance.
11. Due Diligence Results Study – The Restructuring and Reform Act of 1998 established due diligence requirements for professional tax preparers in an effort to reduce Earned Income Tax Credit (EITC) over-claims. Research posed the question of whether the Due Diligence visits conducted between August 2006 and December 2006 (based on TY04 returns) have a ‘positive’ impact on the paid preparers’ behavior in 2007 (based on TY06 returns). The IRS interpreted a ‘positive’ impact as having an improved compliance rate, or a decrease in the amount of EITC claimed, or a combination of both.

The IRS found that it appears that the Due Diligence visits had a ‘positive’ impact on the performance on preparers: compliance rate improved and the sum of EITC claimed decreased. This result is consistent with the findings in a previous study which examined preparers based on Tax Year 2003 data and experienced a Due Diligence visit in 2005. The magnitude of the decrease in total amount of EITC claimed, however, is more significant in the 2008 study compared to the previous one. In view of the conclusions of this report, Research recommends that the measuring of the impact of Due Diligence visits be explored and tested in future studies.

### Comprehension

Over the past four years, W&I Research has worked extensively with the Notice Improvement Office to develop and refine new research methods for testing taxpayer comprehension of the IRS notices, letters, and forms. In 2008, the IRS adopted a new approach to assess the value of the written content. This newly developed method requires participants to independently perform a specific task or action and then answer a series of comprehension-based questions (for example, “What does a taxpayer need to do upon the receipt of this notice?”). This type of questioning provides a method for

evaluating whether a notice meets its communication and business goals independent of potential group-inherent biases.

The development of comprehension testing has been an iterative process, with each new project's results feeding into the development and refinement of method. One significant advance has been in the area of identifying effectiveness measures. Examples include the development of the CP 79 Effectiveness Measures project, which focused on identifying specific measures of taxpayer behavior (such as whether the taxpayer filed the required form) following the receipt of a notice, and the Schedule M project, which assessed measures regarding taxpayer comprehension (such as whether the taxpayer calculated the credit correctly) in the completing of the Making Work Pay Credit Form (a provision of the American Recovery and Reinvestment Act of 2009). The IRS has developed the process into the foundation for the effectiveness measures work that the Service is currently pursuing in support of TACT.

12. Letter CP 79 Effectiveness Measures – In 2008, the IRS conducted research on the effectiveness of the revised CP 79, a notice of disallowance to taxpayers who claimed the Earned Income Credit (EIC). The notice explains that Form 8862, *Information to Claim Earned Income Credit after Disallowance*, will be required to claim EIC with children in future years. Based on taxpayer testing and input, the IRS redesigned the CP 79. Recent analysis indicates that failure to submit the form, dropped from 22 percent to 10 percent with the redesigned notice.

13. Taxpayer Social Security Worksheet/CP 11 – In 2008, the IRS completed a test project with 21 participants. Each participant used fictitious taxpayer data to 1) complete the Social Security Benefits Worksheet used for computing the taxable portion of social security benefits and 2) read a CP 11 notice which is sent when an error is made in the computation of taxable Social Security benefits. The objectives of this test were threefold:

1. Assess a taxpayer's ability to understand and accurately calculate taxable Social Security benefits using the Social Security Benefits Worksheet;
2. Quantitatively test the CP11's communication goals; and
3. Evaluate the feasibility of testing both a form and notice in the same testing session.

The results of the test found that:

Less than half of the participants used the worksheet;

Participants who did not use the worksheet failed to compute the amount correctly;

For participants who used the worksheet, only two thirds computed the amount correctly. For the CP11, less than one third were able to state the specific changes made as indicated on the notice. Including the specific Form 1040 line item from the associated error within the table contained in the CP11 may clarify the issue.

Results also indicated that based upon the quality of the response received, and comments of participants following the testing session, testing both a form and notice in the same testing session was feasible.

14. Correspondex Letters 2800 and 2801 – In 2008, the IRS completed a testing project assessing the communication goals of the revised Correspondex Letters 2800 and 2801 (C Letters 2800/2801), which are sent to employers and taxpayers when there is a discrepancy in a taxpayer’s withholding amount. Results indicated the C Letter 2800 met all of its communication goals. Overall, participants understood why the IRS sent the letter, what actions needed to be taken, and the correct timeframe for completing these actions. The C Letter 2801 met a majority of its communication goals. Over half of the participants understood why the IRS sent the letter, correctly identified the steps that should be taken to avoid adverse consequences, and understood the processes involved with completing these steps. Research shared the results of this project with the business owners and the IRS Taxpayer Communications Task Force (TACT).

15. Communication Goals of Publication 3498-A (The Examination Process) – In 2008, the IRS assessed the communication goals of the revised publication which the IRS had distributed to over 8.1 million taxpayers over the past four years. Research shared the results of this project with the business owners indicating that:

Only half of the participants reading the CP 75<sup>35</sup> understood why the IRS sent the notice. Two thirds of the participants, however, correctly identified the steps that should be taken to avoid adverse consequences, understood the consequences involved if they failed to complete these steps, and identified the correct timeframe for completing these actions.

Less than two thirds of the participants understood why the IRS sent Letter 566.<sup>36</sup> More than two thirds of participants correctly identified the steps that should be taken to avoid adverse consequences, understood the consequences involved if they failed to complete these steps, and identified the correct timeframe for completing these actions.

More than two-thirds of participants who received Publication 3498-A understood the correspondence exam process and correctly identified the timeframe and process for filing an appeal. Only half of participants were able to identify the different types of examinations available to taxpayers (correspondence exam and face-to-face exam). It is suggested that including additional information regarding the types of examinations may clarify this issue.

16. Taxpayer Communications Taskgroup Support (CP 21C) – The TACT is chartered by the IRS Commissioner. Research is currently conducting a study to assess the taxpayer perceived value in the receipt of the CP 21C notice (sent to taxpayers after the IRS makes a requested adjustment to their tax accounts and results in a minimal credit or debit balance). The results of this survey, which will be administered in mid-July 2009, should guide policy makers in deciding whether to continue mailing the CP21C notice.

17. Notice Effectiveness Research Initiative – In support of Commissioner Shulman’s Taxpayer Communications Taskgroup (TACT), the IRS initiated a cross-functional

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<sup>35</sup> CP 75: Notice indicates a portion of the refund related to the EIC is being held pending receipt of substantiating documentation.

<sup>36</sup> Letter 566: Letter indicates a portion of the refund related to the itemized deduction is being held pending receipt of substantiating documentation.

research initiative to develop a corporate approach to assessing the effectiveness of the IRS notices, with the strategic outcome of improving the level of issue resolution. Through the collection of notice background information on issuance rules, communication goals, taxpayer comprehension and responses, and resolution outcomes, researchers will be able to identify and collect specific measures of taxpayer behavior (i.e., made a payment, filed a form, provided requested information). Evaluating these measures from prior and current processing years, the TACT project team will determine the present-state effectiveness of a particular notice and the change in effectiveness following the IRS's redesign of a notice. The identification and collection of notice effectiveness measures will mirror the TACT redesign implementation schedule with the interim goal of having effectiveness measures and preliminary assessments for eighty-seven notices by 2011.

### Access

This research addresses how effectively the IRS has aligned service task, taxpayer/partner preference, and service options to increase service coverage and availability.

18. Assessing the Impact of Increased Paper Receipts and Phone Demand (April-July 2008 - The 'Contact Spiral' Report) – The term “Contact Spiral” is used to describe the condition that occurs when existing workload (paper receipts) generates additional work because taxpayers have had no contact from the IRS regarding the processing status or resolution of their issue(s). Due to the increased workload volume of between April 1 and July 31, 2008, W&I asked Research to determine whether the ‘Contact Spiral’ attributed contacts were the primary cause for Accounts Management work overload resulting in increased paper inventory or phone demand.

Through research the IRS determined that the overall volume of taxpayers for April 1 through July 31, 2008, was higher than the same periods in 2006 and 2007. Compared to the same period in 2007, the IRS spent approximately 202,300 fewer direct hours working on paper and 463,400 more direct hours answering telephone calls. If these 202,300 direct hours had been spent working on paper inventory, this effort would have led to a 25 percent reduction in ending inventory at the end of July. Based on these results, Research recommended that W&I consider the following changes in workload management: (1) Reduce the paper cycle time; (2) Increase phone automation or IVR service rate through effective navigation and marketing; (3) Establish reliable tracking measures for the Accounts Management (AM) paper receipts and closures; (4) Be sensitive to the inter-relationships within the AM service ecosystem; and (5) Reduce the number of contacts that require CSR service. Proposed subsequent analysis will determine the reasons why taxpayers called the IRS multiple times and to develop a predictive model that can help decision makers determine the trigger point of service performance strains and thus be enabled to take timely corrective actions by making informed resource allocation adjustments. Work addressing these recommendations is underway in 2009.

19. Deaf Taxpayer Services – In support of the IRS's outreach to disabled taxpayers, the IRS initiated a project to provide practical options for improving services to deaf and hard-of-hearing taxpayers. The objective of the project is to obtain greater insight

into the problems and barriers deaf/hard of hearing taxpayers encounter when accessing and using the IRS services. The IRS completed research planning and will administer focus groups during the fall 2009.

20. Talking Tax Forms – The purpose of this project is to determine the current use of Talking Tax Forms to develop a marketing campaign to attract potential new users of the product. Directed at assisting taxpayers that are legally blind or have sight difficulties, the project initiated the planning process in March 2009 and results will be available for the upcoming filing season.

### Capabilities

This research addresses how the IRS has improved service choice and options through new or improved service applications.

21. Facilitated Self-Assistance Research Project (FSRP) – The TAB Phase 2 Report recommended that IRS.gov access be offered to taxpayers visiting Tax Assistance Centers (TAC) in addition to face-to-face assistance. The report made this recommendation based on research indicating that many taxpayers prefer to go online to satisfy transactional and non-complex tasks, such as obtaining a form or publication. The perceived taxpayer value is completing the service task with reduced burden, such as wait and service time. The IRS conducted the research project as a true pilot, adopting an iterative process of refining operational, systems, and research design to reflect lessons learned. Phase 1 of the project, conducted from March 10 through April 15, 2008 and involving 15 TACs, highlighted problems with operational administration and data collection. As a consequence, while 31 percent of eligible taxpayers were willing to try facilitated self-assistance to meet their needs, the sample size and response rates were too low to draw meaningful conclusions. FSRP Phase 2 began in January 2009 and included a number of significant changes, including: expanding the number of participating TACs to 50, redesigning the data collection surveys, implementing enhanced quality reviews of operational delivery and data collection, expanding project training of Field Assistance (FA) staff, and enhancing systems support. Phase 2 findings will be complete in the summer of 2009.

22. Taxpayers' Website Tasks and Preferences: A Study of IRS.gov – IRS.gov is an increasingly popular delivery channel for IRS tax products and services. There have been several studies focusing on assessing the demand for IRS.gov conducted within the last few years that have shown an uncontested need to maintain a robust Website to improve the service experience, provide forms and tax law advice, and deliver specific information to taxpayers and tax preparers. Using the historical research as a foundation, the IRS conducted an analysis of Website data focusing on an evaluation of taxpayer satisfaction with three generic tasks – search, navigation, and answering of FAQs – and gaps in service delivery associated with each.

Overall, it was found that although IRS.gov successfully accomplishes its core delivery objectives, there is room for improvement in specific areas. More than three-quarters of survey respondents were able to satisfy their primary reason for visiting IRS.gov. Over 30 percent of survey respondents, however, had difficulty

with search functionality. The majority of these respondents used the Website to obtain general tax information and to download a tax form, publication, or instructions. Based on analysis, Research recommended that the speed of the search engine be increased for potential IRS.gov improvement. The release of COLDS R2 in 2010 by the IRS is expected to provide several enhancements to the search engine that may reduce the time taxpayers spend on the Website. Regardless of the expected COLDS R2 enhancements to the search engine, their implementation will not be able to mitigate the gap in service delivery caused by the slow search engine. Studies further suggest that ETARC continue to work to enhance awareness of the IRS online services, and simplify the IRS and ETARC messages.

23. E-Services Applications Assessment – Previous research on tax preparers' use of e-Services indicated a high awareness, but relatively low use of electronic applications. As part of a two phase project, IRS researchers conducted a series of qualitative interviews during January and February 2009 with tax preparers, practitioner representatives, the IRS National Stakeholder Liaison members, the IRS e-Help, and Practitioner Priority Service customer service representatives. The objective was to gain insight as to why preparers contact the IRS for service, how they decide which channel to use, and their experience in using e-Services. The results identified several specific "quick hit" and longer term improvement opportunities which were provided to the IRS management. For the second phase of the project, the IRS designed a structured process to evaluate potential e-Service investments. The design includes hands-on tests with tax preparers to obtain insight into their work processes, how their work processes influence their choice of service options, and how differences in their business model affect what they value about a service option.

### Performance

This research addresses how effectively and efficiently the IRS meets taxpayer expectations and completes the service task.

24. Taxpayer Assistance Center (TAC) Customer Expectations Survey – In February 2009, IRS researchers initiated planning for a project to provide greater insight into why taxpayers choose to visit a TAC for assistance, their service performance expectations, such as wait and service times, issue resolution, and their service experience. This survey-based project is scheduled to be administered during three periods beginning in September 2009 through April 2010.
25. First Contact Resolution Studies – TAB Phase 2 research highlighted the importance of issue resolution in shaping taxpayer service expectations, service delivery option choice, and customer satisfaction. During 2008, the IRS conducted a number of research projects were conducted addressing issue resolution from both taxpayer and the IRS employee perspectives. The IRS held formal focus groups have been held with front-line employees, producing specific recommendations to improve service delivery processes, employees' performance and satisfaction, and the taxpayer experience. For example, the inability of the IRS Customer Service Representatives to view the complete notes and history of a taxpayer's calling

record causes multiple service handoffs and increased burden. Work in 2009 is focused on implementing several service delivery process changes targeted to expediting issue resolution, and the introduction of new measures to assess progress in minimizing burden resulting from multiple service contacts.

26. CQRS Outcome Measures: Tracking the Impact of Changes to the Centralized Quality Review System (CQRS) – The objective of this research was to determine the result of a pilot test to assess the effect of changing traditional Automated Collection System (ACS) timeliness performance measures from process focused to case resolution focused. The research found that the change in measure focus to issue resolution resulted in successfully decreasing the time necessary to close ACS cases, minimizing taxpayer burden and the IRS costs. Multiple IRS Divisions initiated a nationwide implementation of the revised timeliness performance measures to all ACS operations based on the results of the pilot.

### Cognitive and Behavioral Research

This research addresses the topics of how taxpayers define their needs, approach tax-related problems, make decisions regarding assistance and behave in predictable and non-predictable behaviors.

27. Multi-City Study of the Effect of Assistance on Compliance – This project, initiated in September 2008, is a lab experiment designed to assess the preference and use of service options and the effect of those decisions on compliant return preparation. Some 1000 taxpayers in four cities will be given the opportunity to use a variety of the IRS service options (phone, Web, face-to-face, publications, etc.) to complete tax returns using hypothetical scenarios. Findings will be available in September 2009.
28. Evaluation of Taxpayer Decision Points – This longitudinal study,<sup>37</sup> which breaks new ground for the IRS, will conduct in-depth interviews of 80 taxpayers to uncover their perceived needs, decision making processes, and actions taken to complete and file their tax returns. These interviews will address the decisions and actions taken to prepare and file the individual's tax return. Discussions will cover difficulties taxpayers may have encountered and taxpayers' confidence in the accuracy of their return. Research will conduct follow up interviews with some of the participants to assess changes in taxpayer processing from year to year. Pending funding approval, additional taxpayers will be interviewed every year, thereby adding to the knowledge base and increasing the number of taxpayers for possible follow-up in subsequent years. This project will provide unique insights into how taxpayers translate changes in their lives and attendant tax implications into decisions and actions. Results of the first phase of this project will be available in September 2009.
29. Do Free File Taxpayers Continue to e-File? – This project assessed taxpayer demographic and filing characteristics to identify potential taxpayer segments for

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<sup>37</sup> Longitudinal study: An analysis over time.

enhanced Free File marketing campaigns, and analyzed the filing actions of taxpayers who previously used Free File, but are no longer eligible for the program. The IRS identified two substantial taxpayer segments – 1) students, and 2) self-preparers who use software to prepare their return, but file it on paper – as attractive targets for enhanced outreach and education. In addressing the second objective, research indicated that the Free File Program acts as a strong influence on future electronic filing. Although no longer eligible, 81 percent of taxpayers who used the Free File Program in Tax Year 2005, continued to file electronically.

30. Agent Based Modeling Studies – The TAS continues to sponsor research conducted by the IRS Office of Program Evaluation and Risk Analysis (OPERA) employing agent-based modeling techniques. Agent based modeling assists with determining the factors that “tip” taxpayers into certain behaviors related to the tax system. OPERA has contracted with researchers from Carnegie Mellon University (CMU) to construct the models. Past modeling allowed the IRS to simulate how taxpayers respond to alternative treatments for abusive tax shelters and to simulate taxpayer behavior in response to media messages relating to a change in the IRS procedures.

Researchers at CMU are now applying the agent-based modeling technology to simulate the effectiveness of the IRS outreach and services. The goal is to model how taxpayers react so that the IRS can predict the effectiveness of outreach efforts, as well as identify the most effective service channels (phone, internet, walk-in sites, etc.) for different demographic groups. This project is part of an ongoing, multi-year research effort.