

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

**WAGE & INVESTMENT
SUBGROUP REPORT**

**EUGENE R BRAAM
TIMOTHY B HEAVNER
DIANA L. LEYDEN
MICHAEL A. O'CONNOR
MICHELLE B. O'CONNOR
GREGORY H. STEINBIS, SUBGROUP CHAIR**

OCTOBER 18, 2002

**WAGE & INVESTMENT
SUBGROUP REPORT
TABLE OF CONTENTS**

I. INTRODUCTION

II. ISSUE/ RECOMMENDATION

ISSUE ONE:

**STATUS OF STAKEHOLDER PARTNERSHIP EDUCATION AND
COMMUNICATION PROGRAM**

ISSUE TWO:

**MEETING THE CONGRESSIONALLY MANDATED GOAL FOR
ELECTRONICALLY FILED RETURNS**

ISSUE THREE:

BARRIERS TO ELECTRONIC FILING

ISSUE FOUR:

UNDER UTILIZATION OF PREPARER PENALTIES

ISSUE FIVE:

**BALANCING UTILIZATION OF RESOURCES AMONG COMPLIANCE,
EDUCATION, AND OUTREACH**

- (1) ENHANCEMENT OF SERVICE-WIDE ELECTRONIC RESEARCH PROJECT/AUTOMATED CUSTOMER SERVICE REPRESENTATIVE RESEARCH TOOLS.*
- (2) TRANSLATION OF NOTICES, RETURNS, AND LETTERS INTO LANGUAGES, SPANISH, IN PARTICULAR.*
- (3) REDESIGN OF NOTICES AND LETTERS TO INCREASE READABILITY AND COMPREHENSION BY EARNED INCOME CREDIT TAXPAYERS.*

ISSUE SIX:

**MODIFY THE FOCUS OF COMPLIANCE, EDUCATION, AND
OUTREACH FOR EARNED INCOME CREDIT TAXPAYERS**

- (1) USE EARNED INCOME CREDIT APPROPRIATED FUNDS TO COMMISSION A BROAD AND COMPREHENSIVE*

**WAGE & INVESTMENT
SUBGROUP REPORT
TABLE OF CONTENTS**

- (2) *STUDY TO IDENTIFY REASONS FOR UNDER- AS WELL AS OVER-CLAIMS OF THE EARNED INCOME CREDIT.*
- (3) *STUDY THE EFFECTIVENESS OF IMPOSING THE TWO- AND TEN-YEAR PENALTIES FOR INCORRECT EARNED INCOME CREDIT CLAIMS.*
- (4) *DEVELOP A PROGRAM THAT MEASURES THE CORRELATION BETWEEN CATEGORIES OF PAID TAX RETURN PREPARERS AND INCORRECT CLAIMS OF THE EARNED INCOME CREDIT.*
- (5) *DEVELOP A PROGRAM THAT MEASURES CHANGES IN COMPLIANCE WITH THE EARNED INCOME CREDIT WITH SIMPLIFICATION OF THE EARNED INCOME CREDIT, SPECIFICALLY CHANGES TO THE TIE-BREAKER RULE.*

III. Conclusion

INTRODUCTION

The mission of the Wage & Investment (hereinafter “W&I”) Operating Division is to make compliance with the tax law easier for the approximately 122 million taxpayers served by the Division. We are pleased that the W&I leadership continues to recognize the IRS goal of providing top-quality service to taxpayers in its Strategic Plan and Assessment. A great deal of planning and energy continues to be focused on developing strategies and systems that meet the demands of an extremely diverse customer base for timely, accurate, efficient, and automated services.

Compliance is the current watchword. As long as more than twenty-five percent of the taxpaying community believe they can cheat the “tax man,” the viability of our voluntary tax system will be at risk. While IRS modernization and staffing efforts continue, it is clear that until information systems are modernized and full staffing is achieved, the integrity of our tax system will continue to erode.

Issue One: Status of the Stakeholder Partnership Education and Communication Program

The Stakeholder Partnership Education and Communication Program (hereinafter “SPEC”) that was established in October, 2000 reflects a significant restructuring of the previous IRS taxpayer education and electronic field functions. As described in the Concept of Operations (hereinafter “CONOPs”) that set forth the blueprint for SPEC, the program is designed to achieve a model for delivering the majority of its taxpayer assistance and outreach initiatives through community-based partnerships.

As the IRSAC noted in its last Public Report, SPEC has encountered funding and staffing shortfalls that interfere with its ability to achieve the strategic initiatives set forth in its CONOPs. It is our understanding that, as of August 2002, SPEC was neither fully funded nor staffed, despite expectations that steady progress would yield full staffing by fiscal year 2004. In a July conference call, W&I Subgroup members learned that unforeseen budgetary expenditures, i.e., the rate reduction credit, accounted for a portion of SPEC’s funding shortfall. These - and other off-budget costs - forced the IRS to shift needed resources away from and to certain under-funded SPEC initiatives.

Despite these difficulties, however, SPEC has made significant progress in establishing community-based partnerships. Since its inception, SPEC has initiated or supported community-based Earned Income Tax Credit (hereinafter “EITC”) outreach and income tax assistance programs in more than twenty-one cities, numerous national affinity organizations, corporations, Indian tribal nations, and volunteer organizations. Current examples include the Welfare-to-Work Partnership, a coalition of 20,000 corporations committed to hiring persons moving off welfare, and partnerships with the National League of Cities, National Education Associations, Cherokee Nation, Kroger, Annie E. Casey Foundation, FDIC, and Community Action Agencies, to provide individuals with EITC education and assistance. We applaud SPEC for its efforts in these areas, as well as for its initiatives to partner with AARP, Military VITA, UPS and others during the past filing season for purposes of conducting Train-the-Trainer programs. These programs facilitate multiple levels of training for volunteer income tax return preparers.

Because SPEC needs additional resources to continue its progress in establishing and monitoring the work of community-based partners, as well as meeting other strategic objectives, we remain concerned about SPEC’s lack of funding and staffing. Indeed, given its current operational status, we strongly question whether it is feasible for SPEC to achieve its many strategic objectives within established time frames.

Further, we are concerned that, to date, there has been insufficient focus on measuring program success. For example, it is unclear what effect increases in community-based partnerships have had on the quality and quantity of services provided by SPEC. The effect such increases have had on customer satisfaction is likewise unclear. It is also uncertain whether SPEC has evaluated the effectiveness of its partners and, if so, the results of such evaluations. Although SPEC is developing “balanced measures,” i.e., customer satisfaction and partner effectiveness, measures it plans to utilize in making funding and resource-allocation decisions, as of the writing of this report, the subgroup did not have access to such measures. Further, we were unable to obtain sufficient information to otherwise evaluate SPEC’s progress in achieving the objectives set forth in its CONOPs, and it is unclear whether SPEC itself has made such an evaluation to

date. The need for measuring program success is apparent. Not only will SPEC allocate resources based on the results of such evaluations, but Congressional-funding decisions likely will be based on the perceived success or failure of SPEC's various program objectives.

Finally, as we explained in the July conference call discussed above, we are concerned that funding allocation decisions ultimately could undermine certain other strategic IRS objectives. For example, if SPEC continues to reduce VITA sites and no longer provides computers to VITA volunteers, paper returns may increase and some individuals may not file returns at all, i.e., due to the loss of convenient VITA sites.

Issue One: Recommendations

We applaud SPEC for the significant progress it has made in establishing community-based partners, and we encourage continued focus on strengthening current and establishing new partnerships for providing taxpayer assistance and education. We are concerned, however, that SPEC's diminished funding and staffing inevitably will curtail its progress on program initiatives. We therefore urge W&I to make a concerted effort to obtain full funding and staffing for SPEC in fiscal year 2003.

Further, we strongly encourage SPEC to articulate the manner in which it measures program success. Once the success of SPEC's program initiatives has been evaluated, we urge the results be shared with the IRSAC so that the Council may better assist SPEC in achieving these initiatives. Further, given the status of SPEC's current funding and staffing, in confluence with the likelihood that such shortfalls will continue, we view the initiatives set out in SPEC's CONOPs as unrealistic. Therefore, we encourage SPEC to revise program initiatives to more accurately reflect its current and likely future operational status.

Finally, we urge SPEC and IRS Senior Management to work together for purposes of ensuring that implementation of SPEC's program initiatives does not harm other important agency-wide goals, i.e., consequential increase in the number of non-filers and paper returns. We believe that focusing on measuring program success may obviate this concern to some extent, and should enable W&I to better coordinate its

strategic objectives and thus avoid such conflict. We therefore strongly recommend that SPEC reconsider its program initiatives in light of IRS strategic initiatives, and take steps in advance to ensure that the measures it adopts do not undermine system-wide objectives.

Issue Two: Meeting the Congressionally Mandated Goal for Electronically Filed Returns

By Congressional mandate, eighty percent of all returns are to be filed electronically by tax year 2007. When electronic filing began, a special modem and certain software were required. As a result, only volume filers were able to comply with the requirements. Today, the IRS recognizes that while ninety percent of all tax data exists in some electronic format, not all such data can be transmitted electronically. Even as the Service expands *e-file* capability, and adds to the inventory of forms and schedules available for electronic filing, the corresponding number of electronically filed returns has not grown by leaps and bounds. The Service continues to expand electronic filing capability. For example, partnership returns (Form 1065) now can be filed electronically. The Form 1120 family is expected to be on line for tax year ending 2004. However, unless the Service can develop a better understanding with respect to why more practitioners and individual taxpayers do not *e-file*, the Congressional mandate will not be met.

Issue Two: Recommendations

We encourage the Service to continue meeting with practitioner organizations. However, as with private business, the Service must reach out to the customer. In this application, practitioners and individual taxpayers are the customers at issue. However, as discussed in the General Report, particular attention should be focused on practitioner groups to accelerate electronic filing at rates that will reach the Congressionally mandated goal, as the IRSAC believes that efforts focused on practitioners and practitioner groups will yield greater benefits than efforts directed at motivating/incentivizing individual taxpayers. Accordingly, marketing materials aimed at individual taxpayers are not generating sufficient interest in electronic filing. We recommend that the Service assemble focus groups and meet with volume practitioners

who do not file electronically to discuss why such practitioners do not *e-file*, and, in partnership with practitioner groups, develop measures to mitigate such impediments and/or resistance.

Issue Three: Barriers to Electronically-Filed Returns

A known barrier to *e-filing* is the amount of data entry required to create an electronic return as opposed to preparing a paper return in which a preparer need only enter wage and withholding information. Upon completing preparation of a paper return, a preparer merely attaches a copy of Form W-2 or Form 1099R to the return. In the alternative, to file electronically, a preparer must enter data in all boxes of Form W-2 or Form 1099R, including the name, address, city, state, zip code, and employer identification number of the issuer. Further, after entering this data, an electronically filed return can be rejected merely on the basis of a bad zip code.

Issue Three: Recommendations

We recommend that the IRS reduce the amount of input required for electronically filed returns. Tele-filed returns require only an employer identification number, and we recommend this same standard be applied to electronically filed returns.

Issue Four: Under Utilization of Preparer Penalties

The W&I Operating Division may exercise discretion with respect to directing compliance resources; as between individual taxpayers, paid preparers, or both. Compliance efforts directed to individual taxpayers include the manual and/or electronic screening of returns. Screening may result in the issuance of math error notices or notices of correspondence or in-person exams. Criminal sanctions may also be imposed. Of the approximately nineteen million Earned Income Credit (hereinafter “EIC”) returns filed annually, approximately one million math error notices or notices of examination are issued. Of 125 million individual returns filed each year, approximately 600,000 are subject to examination. During the past three years, 130 criminal investigations have been initiated, resulting in 116 convictions of EIC-related fraud schemes.

Sanctions, both civil and criminal, may also be imposed on paid preparers. Civil penalties range from fifty dollars for infractions such as failure to sign a return, failure to provide the taxpayer with a copy of his or her return, and failure to retain a copy of the return on file. *See* Internal Revenue Code section 6695(a)-(f). A \$250 penalty may be assessed for negligence in completing a return, and \$1,000 may be imposed on preparers who deliberately or willfully prepare erroneous returns. Further, in 1997, Congress enacted legislation that permits assessment of a \$100 penalty for failure to document due diligence in preparing an EIC return. *See* Internal Revenue Code section 6695(g).

An EIC compliance study conducted in 1999 reported that sixty-eight percent of all EIC returns were prepared by paid preparers. Results from an earlier study indicated that non-enrolled preparers generated nearly twice the error rate of enrolled preparers on EIC returns; indeed, the error rate for paid preparers exceeded the error rate for self-prepared returns. Each year, more than one million individuals prepare tax returns for a fee. Moreover, at least two-thirds of this group is comprised of non-enrolled preparers; that is, these preparers have demonstrated no proficiency with respect to licensing, training or minimum skill requirements. In fact, there is no requirement that a paid income tax preparer be fluent in English.

Issue Four: Recommendations

Based on these facts, members of the W&I Subgroup are very concerned about the relative paucity of preparer penalties imposed by the IRS each year. For example, in fiscal year 2001, a mere 248 paid preparers were assessed the \$100 penalty for violating due diligence requirements that attach to EIC returns. This number looks startling small relative to the one million EIC returns subjected to math error notices and/or examination procedures each year, as well as the historically high non-enrolled preparer error rates. Assessment of other preparer penalties also appears quite low, given that more than sixty-five million returns are prepared by paid preparers nationwide each year. Only 3,000 preparers were assessed a fifty dollar penalty under Internal Revenue Code section 6695(a)-(f). Slightly more than 4,000 preparers were assessed

the \$250 penalty for negligent return preparation, and the \$1,000 penalty for deliberate or willful return errors was imposed on slightly more than 3,000 preparers.

Criminal sanctions imposed on paid preparers also appear quite low compared to reported error rates on EIC returns. Over the past three years, ninety-six criminal investigations were initiated to look into preparer schemes. Investigators identified 6,854 questionable returns and fifty-three preparers were convicted of income tax fraud.

We understand that W&I has made careful assessments regarding the return on investment (e.g., recovery of tax dollars) with respect to allocating resources to individual taxpayer compliance as compared to investing these resources in preparer compliance. However, the return on current allocations, given the extremely low rate of sanctions for preparer malfeasance, creates the perception in the non-enrolled community that negligent or willful errors on returns carry very limited risk of sanctions. We urge that W&I review its current allocation of resources and its strategies for imposing sanctions against non-enrolled, paid preparers. We further recommend that W&I involve the IRSAC in this planning process during the coming year.

ISSUE FIVE: BALANCING UTILIZATION OF RESOURCES AMONG COMPLIANCE, EDUCATION, AND OUTREACH

Following the restructuring of the IRS, compliance with the tax law has been identified by both the IRS and the practitioner community as a key focal point. Ensuring that compliance is fair and consistent is an important strategy for enhancing voluntary compliance. However, the subgroup also believes that taxpayer education and outreach, especially to W&I taxpayers, is a key strategy to enhance voluntary compliance. Accordingly, the subgroup recommends that resource allocation, including employees as well as technology, should be balanced among compliance, education, and outreach.

Issue Five: Recommendations

We appreciate the time and effort that IRS personnel have committed to brief this subgroup on specific initiatives and programs, which impact W&I compliance, education, and outreach. While we support these programs and initiatives, we recommend certain changes that we believe will better achieve the IRS mission of providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. More specifically, we recommend that W&I maintain the high priority status identified to the three projects below, subject to certain changes, as follows:

- (1) *Enhancement of Service-wide Electronic Research Project/Automated Customer Service Representative Research Tools;*
 - (2) *Translation of Notices, Returns and Letters into Languages, Spanish in Particular; and*
 - (3) *Redesign of Notices and Letters to Increase Readability and Comprehension by Earned Income Credit taxpayers.*
- (1) **Enhancement of Service-wide Electronic Research Project/Automated Customer Service Representative Research Tools.**

Currently, the W&I Operating Division has dedicated resources to enhancing service-wide electronic research projects and automated Customer Service Representative (hereinafter "CSR") research tools. For example, W&I and the Taxpayer Advocate's Office (hereinafter "TAS") identified the impact on customer service and taxpayer compliance that results from the lack of training and/or effective screening tools for customer representatives who screen EIC cases and inquiries. To address this, the IRS retained a consultant to create an electronic online program, Online Tax Examiner Decision Support Tool, to assist customer service representatives both in campuses and area walk-in offices for the purpose of facilitating more accurate decisions and providing more accurate advice for EIC-related questions. This is a comprehensive, automated, online research program that will be available to telephone and walk-in-service

CSRs for the purpose of answering tax law and procedure questions regarding the EIC, head of household filing status, and dependency exemptions. The subgroup believes that such a resource will result in more accurate and timely advice to taxpayers who claim any of these tax benefits. Accordingly, this subgroup recommends the continued identification of W&I tax issues for which similar tools can be developed. However, the subgroup believes that such tools should not be limited to CSRs. Rather, the IRS should make such resources available to practitioners and taxpayers, preferably through the IRS Web site. Doing so, we believe, will have additional positive impact on compliance with the W&I tax law.

(2) Translation of Notices, Returns and Letters into Languages, Spanish, in Particular.

Currently, the IRS has a multilingual project, the aim of which is to identify languages, other than English, that

are the first language of sizable numbers of taxpayers. Further, the project aims at identifying key notices, forms,

and letters with which W&I taxpayers, for whom English is a second language, are likely to have contact. We

believe this project wisely recognizes the increasing populations of taxpayers who speak Spanish and for whom

English is a second language. While there may be differing views on English as a Second Language (hereinafter

“ESL”) programs, to the extent the absence of tax notices, forms, and letters in languages other than English

impacts compliance and the payment of taxes, we recommend continuing efforts to identify the need for notices,

forms, letters, and returns to be made available in other languages.

As a first priority, this project has identified the need to translate notices, forms, and letters into Spanish, recognizing the increased number of taxpayers in the United States for whom Spanish is a first language. To the extent that there exists a sizable population of EIC-eligible taxpayers for whom Spanish is a first language, we believe this will assist compliance. We recommend that this project continue on its

timetable. We also support the approach currently in place that includes low-income taxpayer clinics serving non-English speaking clients in the process of identifying and prioritizing translations. However, we also recommend that the project place all translated forms on the IRS Web site, determine which notices and letters can be produced in double-sided format, with one side in English and the other in Spanish, and that notices, forms, and letters which cannot be so produced contain a line referencing a toll-free telephone number manned by Spanish speaking employees familiar with the notice, form, or letter.

We believe, however, that the project should adopt a faster timeline for translations of notices, forms, and letters into languages, other than English, which are first languages of sizable numbers of United States taxpayers. Recent census data indicates that other European languages, specifically French, German, Italian, and several Asian languages, specifically Chinese, Korean and Japanese, are the first languages of a sizable number of United States taxpayers. As with Spanish, we believe that translating notices, forms, and returns into these languages will prove cost-effective and have a positive impact on compliance by W&I taxpayers for whom English is a second language.

(3) Redesign of Notices and Letters to Increase Readability and Comprehension by Earned Income Credit Taxpayers.

The IRS has also undertaken a review of notices and letters affecting the W&I taxpayer population. We applaud IRS efforts to partner with and include segments of the professional and academic communities who work with W&I taxpayers, for assistance and advice regarding how to make notices and letters more understandable. We recommend that this review process continue.

We also make two specific recommendations that the subgroup believes will further compliance. First, the subgroup recommends that redesign of notices, forms, and letters utilize charts and flow charts to convey complicated ideas. Such techniques, we believe, will assist taxpayers with low-literacy skills or for whom English is a second language and should increase understanding of the tax law. Second,

the subgroup recommends that the IRS develop criteria with which to track changes in compliance that might be connected with redesign for purposes of determining which redesigns are more effective.

Issue Six: Modify the Focus of Compliance, Education, and Outreach for Earned Income Credit Taxpayers

The EIC is a wage-supplement program that has been administered through the IRS since the mid-1970s. Studies have documented how millions of wage earners and their families have been lifted out of poverty by the EIC program. However, Congress was concerned with perceived abuses of the EIC and directed the IRS to address both compliance and education. Last fiscal year, Congress specifically appropriated \$146 million for the IRS to perform this task.

Issue Six: Recommendations

The W&I Subgroup believes that during an economic downturn, the IRS must be more proactive in educating and engaging in outreach activities to EIC-eligible taxpayers who do not claim the EIC. Likewise, the IRS should set as a high priority the monitoring of paid preparers who negligently or willfully misadvise taxpayers to claim the EIC when in fact they are ineligible. The subgroup is concerned about the current imbalance between efforts directed at compliance and those targeted to education and outreach, as well as the absence of meaningful tracking of paid preparers who negligently or willfully misadvise taxpayers regarding claims of EIC. The subgroup strongly believes that TAS' current involvement in the examination of EIC taxpayers is a positive step in striking a balance between compliance and education and outreach and should be continued. However, in general, the subgroup believes that the current IRS approach to compliance and education and outreach in the EIC area should be modified so as to better achieve the IRS mission of applying the tax law with integrity and fairness to all.

More specifically, the subgroup recommends the IRS:

- (1) ***Use Earned Income Credit Appropriated Funds to Commission a Broad and Comprehensive Study to Identify Reasons for Under- as well as Over-claims of the Earned Income Credit;***

- (2) *Study the Effectiveness of Imposing the Two- and Ten-Year Penalties for Incorrect Earned Income Credit Claims;*
- (3) *Develop a Program That Measures the Correlation Between Categories of Paid Tax Return Preparers and Incorrect Claims of the Earned Income Credit; and*
- (4) *Develop a Program That Measures Changes in Compliance with the Earned Income Credit with Simplification of the Earned Income Credit, Specifically Changes to the Tie-Breaker Rule.*
- (1) **Use Earned Income Credit Appropriated Funds to Commission a Broad and Comprehensive Study to Identify Reasons for Under- as well as Over-claims of the Earned Income Credit.**

The Government Account Office (hereinafter “GAO”), as well as other organizations and scholars, have identified a potentially high rate of EIC-eligible taxpayers who do not claim the credit. However, there has been no well-constructed study performed that would assist the IRS in targeting this population with an effective education and outreach campaign. Similarly, there has been no well-constructed study conducted to accurately identify the reasons for perceived EIC fraud or noncompliance. The IRS has recognized that generally, to increase compliance and more fairly enforce the tax law, there is a need for accurate and relevant data. The National Research Program (hereinafter “NRP”) initiative reflects this. However, as currently designed, it does not appear the NRP will be able to capture information to assist the IRS in targeting rates for underclaims of EIC. Thus, this subgroup recommends that the IRS use a portion of the funds specifically appropriated to the EIC program to commission a national study to identify: (i) underclaiming EIC taxpayers; (ii) how to reach such taxpayers; (iii) more precisely the reasons taxpayers incorrectly or fraudulently claim the EIC; and (iv) how to reduce the error and fraud rate. While we recognize that increased examination of EIC returns has resulted in the interception or freezing of substantial refund dollars, there has been no similar effort made to identify taxpayers who are otherwise eligible for the EIC but who do not claim it. This, we believe, hinders the fair application of the EIC rules.

- (2) **Study the Effectiveness of Imposing the Two- and Ten-Year Penalties for Incorrect Earned Income Credit Claims.**

Congress has imposed two penalties for mis-claims of the EIC. If the IRS denies a taxpayer's EIC claim for recklessness or intentional disregard of the law and rules, the taxpayer cannot claim the credit for the next two tax years. If the IRS denies an EIC claim because of fraud, the taxpayer cannot claim the credit for the next ten years. It is not clear to this subgroup how these penalties are tracked and whether tracking of the imposition of penalties provides sufficient information to allow the IRS to construct meaningful education or incentive programs for W&I taxpayers to reduce reckless, intentional, or fraudulent behavior with respect to the EIC. Thus the subgroup recommends that the IRS develop a study that tracks the imposition of these penalties and the criteria upon which penalties are assessed, to measure the impact of imposing these penalties on taxpayer behavior vis-à-vis the EIC.

(3) Develop a Program That Measures the Correlation Between Categories of Paid Tax Return Preparers and Incorrect Claims of the Earned Income Credit.

Popular press as well as research suggests that over-claim rates of the EIC may be correlated to advice by paid return preparers. Further, anecdotal information from low-income taxpayer clinics suggests a further correlation to unregulated paid tax return preparers. Based on briefings to this subgroup, it is the subgroup's understanding that no program currently exists for measuring whether a correlation exists between categories of paid tax return preparers and over-claim rates. The subgroup believes that if a correlation can be identified between over-claim rates and categories of paid tax return preparers, it will assist the IRS in targeting audiences that need EIC education and have a powerful and positive impact on reducing over-claim rates. Thus, the subgroup recommends that W&I

develop a program to measure the correlation between categories of paid tax return preparers and over-claim rates for EIC.

(4) ***Develop a Program That Measures Changes in Compliance with the Earned Income Credit with Simplification of the Earned Income Credit, Specifically Changes to the Tie-breaker Rule.***

We recognize that the complexity of the EIC rules directly correlates to levels of noncompliance. We also recognize that simplification is not something the IRS can achieve on its own. However, Congress' interest continues in simplification of the tax law, generally, and the EIC specifically. Most recently, Congress simplified the so-called tie-breaker rule. Whether simplification in the EIC area specifically, or in the tax law generally, impacts compliance and the allocation of resources cannot be determined without developing a program that measures the correlation between tax law changes targeted at simplification and compliance with those laws. We recommend that the IRS immediately fashion a method for measuring the impact of the simplification of the EIC tie-breaker rules on EIC compliance and that any future changes aimed at simplification be tracked in terms of impact on compliance.

Conclusion

Members of the W&I Subgroup appreciate the time, commitment, and cooperation of W&I representatives and management with whom we have met. We continue to be amazed at the leadership shown by the W&I management team given their limited financial resources and staffing to meet the goals set by the Commissioner. We look forward to assisting the management team next year and await future initiatives toward achieving the W&I mission.