

**INTERNAL REVENUE SERVICE  
ADVISORY COUNCIL**

**GENERAL REPORT**

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**NOVEMBER 17, 2005**

**GENERAL REPORT  
OF THE  
INTERNAL REVENUE SERVICE ADVISORY COUNCIL**

The primary purpose of the Internal Revenue Service Council (IRSAC) is to provide an organized public forum for IRS officials and the representatives of the public to discuss relevant tax administration issues. The council advises the Service on issues that have substantive impact on the administration of federal tax law. Suggestions are made regarding improvements to operations as well as critiquing current and proposed programs, procedures and policies. The Council is a place where the IRS executives may bring their concerns to a select group of tax professionals from the private sector seeking input to the solution of critical issues of tax administration.

The current Council continues to reflect a group of well-suited individuals for this task. With twenty-two members spread across the spectrum of tax practitioners, tax attorneys, corporate tax counsels, providers of special services to taxpayers as well as tax professionals, small business owners and service providers, it is difficult, if not impossible, to find an area not covered by these members. When you review their individual accomplishments professionally you are assured of a conscientious and professional effort for the task at hand.

From this core group of individuals three subgroups are created which correspond to three of the IRS Operating Divisions. They are: the Small Business and Self-Employed Subgroup (SBSE); the Wage and Investment Subgroup (W&I); and, the Large and Mid-Size Business Subgroup (LMSB). The Council and these subgroups met in Washington, DC at the headquarters of the IRS. These meetings were held in January, May, July and September. During this time their respective issues were developed, researched and reported upon in the following pages. Each of these meetings consisted of two days. One day was devoted to the subgroup working session and one day

was devoted to a general session where all attended and heard reports from various executives on topics of interest to all. During the subgroup sessions various individuals from the respective operating division presented reports on the issues chosen. Often conference calls were required in researching the issue between subgroup meetings.

The members of the IRSAC wish to extend their thanks and appreciation to those representatives of the operating divisions who participated in this year's efforts. The subgroups were ably assisted in their efforts by support staff of the Office of National Public Liaison. These devoted staff members, whose knowledge of the operating divisions was most helpful, made the subgroup's effort much easier. They provided all of the resources required to complete the task.

On February 1, 2005 the IRSAC was invited to testify before the IRS Oversight Board. Three areas of concern were highlighted in that testimony. First, concern was expressed over the lack of effective oversight, control and regulation of the entire tax preparation community. Circular 230 effectively deals with Enrolled Agents, Attorneys, CPAs and Enrolled Actuaries. However, there is a large body of people providing preparation services who have none of the above credentials. These people fall outside the jurisdiction of Circular 230. The Department of Justice is left to be the enforcer of the law for these preparers. They are bound by no ethical standards or rules of professional conduct and, in some cases, have no education in the field of endeavor prior to entry.

The general public has the perception that the preparation of tax returns is a regulated and licensed profession. With this comes the expectation of educational accomplishment, ethical standards, and rules of professional conduct, oversight and control. Since well over 50% of returns are prepared by paid preparers it is past the time for this myth to become reality. The IRSAC

endorses the registration of those not covered by Circular 230 and at the same time accept that debate exists as to the exact method of implementation. Incorrect or underreporting of income, as revealed by the tax gap, would be improved by this change.

Second, the Offer in Compromise program is another area of concern. There have been improvements to the alleviation of the backlog in processing. It is not certain whether this is real or artificial. The centralization of effort has certainly helped in this process. The assessment of an application fee to help stem the filing of frivolous Offers has achieved results. But it does not necessarily prove that the downturn is in what would have been frivolous applications. The program is for those who are unable to pay, not for those who simply do not want to pay. Those administering the program come from a collection background and perhaps would be well served if more training were provided in the art of compromise as the title of the program indicates.

Third, IRSAC is concerned that with modernization and centralization, the Service needs to be careful to not go so far that the taxpayers who interact with the Service become befuddled by it. The need for access to a real, live person is still a very important issue.

Fourth, IRSAC continues to be concerned about the loss of seasoned Service professionals due to retirement, reassignment and transfers out of the Service, coupled with budget restraints imposed. This combination of events poses a real concern for the operational efficiency of the enforcement area of the Service as well as the ability to compensate other existing personnel. In order to carry out the enforcement initiative an additional 4,100 enforcement personnel have been projected. Commissioner Everson has discussed this in detail in a letter to Senator Baucus. In order to appropriately carry out the above and other strategic initiatives full funding is required.

The IRSAC was asked to review the modeling criteria developed by the Service to be applied in recommending closure of Taxpayer Assistance Centers. This was accomplished on short notice. Budgetary concerns prompted this study and ultimate recommendation in order to realize cost savings by eliminating underutilized centers.

Each Subgroup is requested to concentrate on specific issues relevant to the operating divisions represented and requested by them. The subgroups have direct interaction with top-level executives in receiving reports, exploring issues and developing insight to the issues of concern so that advice and commentary may be offered. It is in this way that the IRSAC is most helpful to the Service in providing the public perception.

The IRSAC, as a council of the whole, met on the second day of the meetings, as reflected above. During this time reports were presented that transcended the interest of specific subgroups. We were fortunate to hear from a wide range of individuals. Some of these were:

- Nina Olson, Taxpayer Advocate
- Michael Chesman, Director, Office of Taxpayer Burden Reduction
- Lisa McLane, Project Manager, Office of Taxpayer Burden Reduction
- Rebecca Mack Johnson, Project Director, Filing & Payment Compliance
- Russell Geiman, Acting Director NRP
- Mark Mazur, Director, Research Analysis & Statistics
- Brinton Warren, Special Counsel Procedures & Administration
- Robert Brown, Program Manager, National research Program
- Beth Tucker, Director, Communications and Liaison Disclosure

Our thanks to these and others who took the time to prepare and present their special concerns. The candor that they exhibited and their willingness to disclose, in detail, these important issues was well received.

## **Conclusion**

The IRSAC has completed the task it set before itself at the beginning of the year. Each of us appreciates the opportunity afforded us in serving the Service and the general public. Commissioner Everson, the Operating Division Commissioners and the other IRS personnel who facilitated the efforts of the IRSAC are greatly appreciated. We look forward to seeing the impact of this council's efforts and will continue to track the implementation of its recommendations and those of predecessor councils. The real work of this council lies with the subgroups.