

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

1111 Constitution Avenue, NW, Room 7563, Washington, D.C. 20224

January 31, 2006

Internal Revenue Service Oversight Board
Mr. Raymond T. Wagner, Jr.

Dear Mr. Wagner,

On behalf of my fellow members of the Internal Revenue Service Advisory Council (IRSAC), I would like to thank you for the opportunity to participate in today's IRS Oversight Board public meeting. I am Jon Contreras and I am the current Chairman of the IRSAC and a Director in the Tax Controversies Service group with Deloitte Tax.

As you know, the first advisory group to the Commissioner of Internal Revenue was established in 1953 by former Commissioner T. Coleman Andrews as a national policy and/issue advisory committee. It was known as the Commissioner's Advisory Group. Consistent with the Restructuring and Reform Act of 1998, former Commissioner Charles O. Rossotti refocused the Internal Revenue Service (IRS) to provide top quality taxpayer service. This was accomplished by forming operating divisions dedicated to the specific needs of similarly situated taxpayer segments. At that time, this advisory group was then renamed to the IRSAC to more accurately reflect the agency-wide scope of its focus as an advisory body to the entire agency. Therefore, the IRSAC is strategically broken into subgroups that mirror three of the operating divisions: Large & Midsize Business, Small Business/Self-Employed, Tax Exempt & Government Entities, and Wage & Investment.

The IRSAC addresses broad tax administration topics and organizational issues rather than narrow technical issues. Discussions focus on solutions as well as constructive critiques with respect to the federal tax system. Meetings provide an opportunity for the IRSAC to collaborate with senior IRS officials and offer advice on strategic IRS issues. The IRSAC is comprised of individuals from diverse backgrounds, all of whom bring a wide breadth of experience to the Council's activities.

Today's meeting addresses two key areas of importance. 1) Customer Service Needs of Taxpayers and 2) The Importance and Impact of Measures. You asked that I participate in the Importance and Impact of Measures, but before proceeding into that discussion, I thought I would provide some brief comments on Customer Service needs.

CUSTOMER SERVICE NEEDS OF TAXPAYERS

The difficulty in defining customer service for any government organization is that the "customer" in question, doesn't have a choice regarding service providers. People generally, as a whole, have various perceptions of the term customer service. In order to retain customers, retailers typically must operate under the axiom of, "the customer is always right" and must, to a certain extent, always bend to the complaint or issue of their customer. Unfortunately, the IRS must operate under a different methodology in order to resolve the issue their customer has, but like the retailer, they too must insure that it keeps the customer coming back.

The IRS must identify who its customer is, why do they keep coming back for service, and that the level of service is acceptable. If a retailer has to keep answering questions on its product or repairing the same product, they will soon be out of business. The IRS will always be in business, but the customer may not return.

When the IRS looks at its customer base, it likely first looks at the individual income tax base and makes assumptions as to the level of service, types of services, and the complexity of the tax law with regards to those customers. Each operating division should identify its respective customers and determine what key services and issues are unique and common. This can be accomplished by:

- Identify common processing issues and errors unique to operating divisions. Know what your customer's needs and pressing issues are, and work toward ways to resolve them prior to the issue entering the stream of calls or personal contacts.
- Challenge IRS employees to identify issues that are barriers to achieving good tax administration. Remove the words "can't" when working with taxpayers or practitioners, to "Let me see what I can do," or "Here is what you need to do to resolve this situation."
- Once the types of services and issues are determined, distribute services to customers in a fair and consistent manner and without regards to political influence or geographic location. Use of alternative methods of assisting taxpayers should be considered. Such as;
 - Public libraries with computers having dedicated access to the IRS website.
 - Kiosk's in major malls with direct telephone access and internet access to the IRS website.
 - Early intervention in the public schools, particularly high school, on understating the rights and responsibilities as a future taxpayer.

The IRS needs to define its common customer base, know its customers needs, and build a system to meet those customers and their needs.

THE IMPORTANCE AND IMPACT OF MEASURES

The importance and impact of measures is a common practice both in the business community and one's personal life. Measures establish the minimum and the maximum expectations that anyone who is evaluated knows what the expected results should be and the expected outcome if the results fail. The Board has requested input on various tax administration measures that stakeholders believe are important. In considering these measures, the Board further comments that "while doing so, such measure must be carefully chosen to reflect a balance of desired outcomes so that attention is focused on what is truly important." Given those facts, the Board must gauge taxpayers' desire of what is important to them and provide those answers. Such objectives must not be broad, but focused, measured, and accommodated with appropriate funding to achieve the desired outcome.

The Board presented eight questions and asked for comments on each. Having reviewed them, IRSAC recommends the following:

1. The Congressionally mandated goal of 80% E-filed tax returns has had a significant impact on the behavior of the IRS and a taxpayer's general progress towards this goal has been measured each year since 1999. What impact has this goal and its measurement had on the tax administration system?

We believe the mandated goal has made a positive impact on the perception of e-filed tax returns while increasing voluntary compliance. Refunds and return processing are faster and taxpayer perception of the system and its ability to process returns in a timely manner has increased. However, this emphasis has been on quantity, not quality. Quality of outcome should have the highest consideration in setting goals. Unfortunately, the e-file mandate has led to an increase of unlicensed and unenrolled preparers that mass prepare less than quality returns and prey upon the less sophisticated taxpayer attempting to comply. While making it difficult for the IRS to timely manage potentially fraudulent returns, such as the recent Earned Income Tax Credit Refund Hold Program.

2. Do you think that setting other ten-year goals and measuring progress would have as significant an impact?

Setting ten-year goals and measuring progress will have a significant impact on tax administration under the assumption that the goal is attainable and funded. Generally, any goal will allow for a more efficient system of tax administration if those measured are held accountable. A ten-year goal must have intervening measurements to insure that the goal is on track and the responsible IRS officials are provided positive feedback for achieving intervening measures and constructive criticism where appropriate.

Setting the ten-year goal for electronic filing may have proven to be beneficial, but there is no guarantee that setting such a goal in other areas would have a similar effect. It is important to keep in mind the limited budget available for both service and compliance when setting goals. The down side of placing a time limit on implementing a change is that resources may be diverted from other areas that could prove to be of greater importance.

3. What other ten-year goals would you recommend?

One goal that is both measurable, attainable and would provide immediate impact to the taxpaying public is addressing the non-filer population. Measurements such as the e-file mandate are positive and recognizable in the current technology world we live in, but you cannot win over compliant taxpayers when a large population remains non-compliant from the sheer aspect of not filing a tax return. Non-filing affects the trust, and hence, willingness of the population of voluntary filers to continue to file.

Second, increasing the audit rate among all taxpayers, while reducing the length of audits is a prime example of achieving voluntary compliance. For example, this past year, the LMSB operating division made it a priority to reduce its case cycle time (length of the audit) on its taxpayer population, while increasing the number of taxpayers examined. The premise of this goal was to focus on the primary issues that the return presents rather than utilizing outdated package audit

requirements. This goal not only achieved an increase in the number of corporate taxpayers examined, but also reduced the volume of years under examination for the largest taxpayers. This allowed LMSB to focus on currency of tax years and relevant audit issues.

Third, setting a goal for the implementation of a taxpayer pin number system for direct account access to taxpayer accounts (view only) is an attainable goal. Taxpayers would know immediately what changes have been made to their accounts while resolving many problems such as payment errors, tax assessed, interest, and extensions posted to the accounts.

Lastly, we wholeheartedly recommend that a goal of increased education of the current and future taxpaying public be measured. As noted in comments under Taxpayer Service, we recommend that the IRS develop, implement and teach high school students the tax system and their responsibility as taxpayers to file a return. Early intervention with a candid discussion of the importance of their future responsibilities is critical to the increased compliance rate and reduction of the tax gap.

4. What data/measures would be needed to let the public know the IRS is making progress in achieving the long-term goals of its strategic plan?

First, set benchmarks within the ten-year goal. Publish both the successes and failures of meeting the benchmarks, while letting the taxpayers know that those benchmarks not achieved the actions that are being taken to achieve the goals.

Measurement must be monitored by an independent third party. Public companies do not publicize certain successes without an independent party attesting to the achievement by survey or analysis of results. IRS, if it does not already do so, should issue an Annual Report, while at the same time provide the media an Executive Summary. This report should include its short and long-term goals with a brief statement under each goal and its progress to date. IRS representatives should present the annual report in a variety of mass media to promote and have frank discussions on its achievements.

5. What do you think are key measures of IRS performance that you would like to see publicly available on a regular basis? [What are the important actions/interactions that could be used to gauge the delivery of services and enforcement activities each year?]

Taxpayers need to see their tax system at work like they see their local law enforcement officials on a regular basis, doing their job. Therefore, services and performance of IRS personnel should be accurate and consistent across the country. People need facts such as, number of tax returns processed, number examined, total dollar amount of refunds issued, total tax paid by individuals and corporations, and number of non-filers.

Lastly, the most important measure is compliance statistics. Provide details of examined returns, average additional tax due, number of non-filers brought into compliance, and steps the IRS is taking to make them compliant. Furthermore, provide information with regards to industries that are non-compliant. Remember, the goal is to achieve voluntary compliance. Providing key measures

to the compliant taxpaying public will increase their respect for the tax system, while putting the non-compliant on notice that IRS enforcement action is working.

6. Why would this information be important to stakeholders/taxpayers?

Providing key statistics in the executive summary noted above is important as it lets the compliant and non-compliant taxpayer see that our tax dollars are being used in an efficient manner. It provides them a snapshot without detailed IRS terminology and assurance that the tax system is working, fair, and the amount of tax they pay is fair.

7. What measures would you like to see the IRS report publicly that would give you a barometer of how the IRS is doing?

We believe providing the taxpayer annual measures such as, call volume, taxpayers serviced at walk in sites, the average length of an examination, number of audits by tax form, types of adjustments, and additional refunds refunded due to taxpayer error are some key statistics that would interest taxpayers.

In addition to compliance measures, the IRS should also provide data on its written correspondence received by Service Centers, while at the same time promoting the use of customer service call sites and walk-in sites for more prompt resolution of the issue. With that, the IRS should seek taxpayer input on the level of service currently being provided and publish annually these results including an approval rating by the citizens regarding their confidence, or lack thereof, in the IRS' ability and willingness to accomplish its publicly stated mission. IRS must be willing to accept the good with the bad in order to improve and build upon its successes and failures.

8. Can you identify the outcomes that you believe are most indicative of effective tax administration? Which are the most important?

The most important outcome indicative of administering an effective tax system is positive movements in the Tax Gap, reduction of calls to customer service sites, increase in the examination No-Change rates, a reduction in uncollectible accounts, reducing the number of non-filers, and positive movement in the public's perception of the IRS. The most important are the positive increases in the public's perception of the IRS with a corresponding reduction in taxpayers who do not file.

9. Which measures should the IRS report at year end to allow taxpayers to judge how effective the IRS' performance has been?

The IRS should provide all captured data with an emphasis on those measures that if provided will increase voluntary compliance. Such measures can be reduction in non-filing, decreases in taxpayer burden where accomplished, key audit information by industry, form, and taxpayer, and collection activity. The compliant taxpayer needs assurance that their compliance is appreciated while others who are not compliant are being acted upon.

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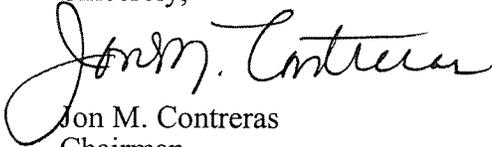
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It is clear that in any evaluative/measured process one must have control over the environment and be provided the resources to be successful. In doing so, those setting, calculating, and evaluating the results must be independent so that taxpayers can rely on the results. Further, the IRS must be given positive and negative feedback.

Lastly, it is clear that in order for the IRS to be successful, it must be given the tools, staff, and budget to attain the given expectations whatever they may be. Unfortunately, this makes for a daunting task, given the fact that the IRS has very little control over the budget and the legislative decisions.

The IRSAC commends the IRS Oversight Board for holding this public meeting and IRSAC looks forward to working with the Board and the IRS, to improve upon the many accomplishments already achieved.

Sincerely,

A handwritten signature in cursive script that reads "Jon M. Contreras". The signature is written in black ink and is positioned above the printed name and title.

Jon M. Contreras
Chairman