

**INTERNAL REVENUE SERVICE  
ADVISORY COUNCIL**

**WAGE & INVESTMENT  
SUBGROUP REPORT**

**MARGARET A. ROARK, SUBGROUP CHAIR  
JUDITH A. AKIN  
MARY HARRIS  
JOAN LEVALLEY  
ROBERT A. WEINBERGER**

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## **INTRODUCTION/EXECUTIVE SUMMARY**

The IRSAC W&I Subgroup (hereafter “Subgroup”) consists of a group of Enrolled Agents (EA), Certified Payroll Professionals (CPP), and representatives from tax preparation firms. This group brings a wealth of experience and perspective from both tax preparers’ and taxpayers’ views. We have been honored to serve on the IRS Advisory Council and appreciate the opportunity to submit this report. The issues addressed by our Subgroup this year are critical to IRS attainment of its goal to provide top quality service by helping taxpayers understand and meet their tax responsibilities by applying the tax law with integrity and fairness to all.

Our interaction with the professionals within the W&I Division has been extremely educational and supportive. We specifically wish to thank Commissioner Richard Morgante and Director David Williams for their support and efforts in providing the resources required to develop our report. Our working relationship with the staff of the National Public Liaison (NPL) office has also been vital in our efforts over the past year.

Since January of this year, the Subgroup has researched and reported on the following three key issues:

1. Earned Income Tax Credit – The Internal Revenue Service asked for suggestions on how to (1) reduce EITC overclaims leading to improper payments and (2) encourage those eligible taxpayers who are not claiming the credit to apply for the EITC. We believe a combination of better training, upgraded promotion, and compliance efforts can help ensure more eligible taxpayers receive the credits while fewer ineligible taxpayers improperly claim or receive funds.

2. Taxpayer Assistance Blueprint – The W&I Subgroup of IRSAC was asked by the Internal Revenue Service to assist with enhancing Taxpayer Service in accordance with the “Taxpayer Assistance Blueprint” (TAB). To provide this assistance, we have interviewed and surveyed approximately 145 tax professionals and taxpayers throughout the country with a 69% response rate. Most responses indicated dissatisfaction related to their experiences with the Taxpayer Assistance Centers (TAC). We have incorporated this feedback in our recommendations, most of which relate to increased training, professionalism, and communication.
3. Volunteer Income Tax Assistance – The W&I Subgroup of IRSAC was asked to address the issue of training for Volunteer Income Tax Assistance (VITA) personnel. Members of the W&I Subgroup visited the “Link and Learn” section of the IRS Web site to experience the training/testing process and later sent a list of questions to Stakeholder Partnerships, Education and Communication (SPEC). A conference call was held to discuss the program and answers to the questions provided. SPEC is currently working with an outside contractor to revamp the test to improve the functionality of the current process. As a result of our discussions, it is clear that SPEC, responsible for the oversight of the VITA program, is working to improve the test. We believe this improvement process should include some enhancements to better analyze the skills of the volunteers in order to more effectively assign returns to those volunteers with the appropriate qualifications. We also believe there may be room for improvement in the area of training for VITA instructors.

We have detailed specific recommendations and sincerely hope that our effort to provide new ideas and suggestions for improvement are helpful to the IRS.

## **ISSUES AND RECOMMENDATIONS**

### **ISSUE ONE: EARNED INCOME TAX CREDIT (EITC)**

#### **Executive Summary**

The Internal Revenue Service asked for suggestions on how to (1) reduce EITC overclaims leading to improper payments and (2) encourage those eligible taxpayers who are not claiming the credit to apply for the EITC.

We believe a combination of better training, upgraded promotion, and compliance efforts can help ensure more eligible taxpayers receive the credits while fewer ineligible taxpayers improperly claim or receive funds.

#### **Background**

EITC not only reduces tax for qualifying taxpayers, but it is also a refundable credit, meaning that when credits exceed actual tax, there is a cash outlay by the IRS into the hands of the working poor. The tax credit is based on the dollar amounts of earned income and adjusted gross income, the number of qualifying individuals, and the filing status of the taxpayer. Advanced EITC puts money in the taxpayer's hands each payday by the employer acting as the IRS banker.

In Tax Year 2005 (TY2005), over \$41 billion was paid to 22 million taxpayers through the EITC program, making it one of the largest anti-poverty programs in the country. Participation rates are estimated to include 80 percent of those eligible. The downside of the program is that it has a significant erroneous payment rate.

An IRS study of TY2001 preliminarily estimated erroneous EITC payments to range between \$9 billion and \$11 billion annually. At that rate, 22% to 27% of all EITC dollars expended are erroneous claims and payments. Contributing factors include

complex rules, high turnover (approximately one-third new EITC recipients each year), limited IRS resources to address education and non-compliance, and fraud. The IRS estimates that approximately two-thirds of the overpayments are the result of errors and one-third fraud.

The EITC program has a two-pronged approach to reducing erroneous payments: (1) increase program efficiencies by making the base program better, and (2) test potential process enhancements to reduce errors and, once tests prove successful, request funding to implement those improvements.

Through examinations, math error reduction, and document matching activities, the IRS protected \$6.26 billion over a four-year period (TY2002 through TY2005). The figures show the significant impact these directed activities can have on compliance.

Several members of the W&I Subgroup of IRSAC are directly connected with millions of EITC taxpayers through the income tax preparation firms they represent. They and others on the council have met with W&I Division representatives who have provided valuable information to assist the W & I Subgroup in making the following recommendations.

### **Recommendations**

1. The IRS is completing an analysis of a test in which EITC applicants certify certain eligibility criteria in advance of filing their return. We suggest the IRS carefully study the results of the pre-certification test to ensure that any burden on the taxpayers (including deterring eligible claimants and administrative costs) do not outweigh the benefits of reducing the number of overclaims. Should the IRS decide to roll out pre-certification nationally, we recommend that a template be

developed that would both simplify the process for third-party verifiers and ensure the collection of required data elements for the taxpayers and the IRS.

This would serve as an aid to certifiers and taxpayers alike.

2. Approximately 70 percent of EITC applicants use paid tax professionals to prepare their claims. These intermediaries, as well as tax preparation software companies, should be a continuing front-line focus for error reduction. Improved training and compliance efforts must continue.
  - a. The IRS should encourage tax preparation software developers to build more due diligence questions and educational materials into their software that would serve, not only as a tool to “get it right the first time,” but also as a means of ensuring that tax preparers with limited skills and/or training have technology to help them prepare more accurate returns. IRS should have a minimum standard for software developers to insure EITC is properly presented and calculated.
  - b. The IRS should also consider sponsoring compliance roundtables and jointly developing educational and training materials with tax trade and tax professional groups. The materials could include a short video or interactive online training module that could help both volunteer and paid return preparers improve compliance.
3. Complexity remains a major factor in errors. Ironically, the Uniform Definition of a Child (UDC) introduced for the TY2005 tax return (meant to replace five separate definitions of a qualifying child for different tax code provisions), while helpful in some ways still leaves confusion, misunderstanding, and compliance

gaps. Prior to the start of the January 2007 tax filing season, the IRS should issue administrative guidance clarifying the interpretation of various aspects of the UDC. Longer-range, Congress should consider revisions. The American Bar Association, the Taxpayer Advocate, and others have suggested changes that deserve discussion.

4. Finally, outreach efforts need expansion. The IRS can renew its public service announcements promoting use of the EITC and can continue to work through employers and non-profit organizations to call attention to the availability and requirements for eligibility of the EITC. The IRS can increase the qualifying claimants by encouraging the use of Publication 3524, *The EITC Eligibility Checklist*, and by creating a dedicated call “hotline” for EITC questions.

The IRS is addressing many of these suggestions now and has strong program management in place. We appreciate the cooperation of the IRS staff in providing information used in preparing our report.

## **ISSUE TWO: TAXPAYER ASSISTANCE BLUEPRINT**

### **Executive Summary**

The W&I Subgroup of IRSAC was asked by the Internal Revenue Service to assist with enhancing Taxpayer Service in accordance with the “Taxpayer Assistance Blueprint” (TAB). To provide this assistance, we have interviewed and surveyed approximately 145 tax professionals and taxpayers throughout the country with a 69% response rate. Most responses indicated dissatisfaction related to their experiences with the Taxpayer Assistance Centers (TAC). We have incorporated this feedback in our

recommendations, most of which relate to increased training, professionalism, and communication.

### **Background**

In July 2005, the Senate Committee on Appropriations issued a report requesting that the IRS conduct a comprehensive review of its current portfolio of services and develop a five-year plan for taxpayer services. The IRS reported on Phase I of the TAB on April 24, 2006. The report addresses the taxpayer assistance services from the perspective of the IRS. As part of Phase II of the TAB project, the IRS conducted a survey seeking information from tax practitioners and preparers nationwide. The W&I Subgroup provided assistance to the IRS in the development of this survey, but has not had the opportunity to review the responses. The W&I Subgroup decided to conduct its own independent survey with tax practitioners and taxpayer groups to understand their views on IRS customer service and found:

1. Some taxpayers visit the TAC offices to pick up tax forms or publications, but the practitioners use third party software and the IRS Web site to obtain forms.
2. The most frequent sources for obtaining tax law information were seminars, third party software, and the IRS Web site.
3. Contact with the IRS by phone is frequent, but unsatisfactory more than 50% of the time.
4. Practitioners rarely use the TAC offices due to the long waiting time for assistance, lack of ability to access needed taxpayer information, and limited training of the personnel. Employees are scripted and urged not to vary from the

script. Some taxpayers use the TAC offices only when they feel they have no other source for help.

The Treasury Inspector General for Tax Administration (TIGTA) reported on August 30, 2006 that the customer service at TAC showed improvement during the 2006 filing season. We believe there is still much work to be done to improve the quality of services provided by TAC.

### **Recommendations**

1. TAC employees should have a good knowledge of tax preparation and resources needed to solve or redirect taxpayers' issues.
2. Newly hired TAC employees who do not have the authority to access all of taxpayer's account data should be provided with a listing of contacts to use in referring taxpayers to individuals who can satisfy their needs.
3. The IRS should provide education to the public on what services are available at the TAC offices and equip staff with additional resources or information on where to direct the taxpayer to get other needed help.
4. IRS call center employees should respond more promptly to phone calls and messages. We found that at least 90% of our survey respondents indicated that phone messages are returned slowly, if at all.
5. IRS employees must be personable and treat all customers with respect. We recommend that the IRS strengthen customer service training because we are still finding many complaints of rude and unprofessional behavior.

The majority of respondents reacted positively regarding accessibility to forms and publications and the use of the IRS Web site.

We appreciate the time and cooperation of the W&I Division representatives and management with whom we have met to discuss these issues.

### **ISSUE THREE: VITA TRAINING**

#### **Executive Summary**

The W&I Subgroup of IRSAC was asked to address the issue of training for Volunteer Income Tax Assistance (VITA) personnel. Members of the W&I Subgroup visited the “Link and Learn” section of the IRS Web site to experience the training/testing process and later sent a list of questions to Stakeholder Partnerships, Education and Communication (SPEC). A conference call was held to discuss the program and answers to the questions provided. SPEC is currently working with an outside contractor to revamp the test to improve the functionality of the current process. As a result of our discussions, it is clear that SPEC, responsible for the oversight of the VITA program, is working to improve the test. We believe this improvement process should include some enhancements to better analyze the skills of the volunteers in order to more effectively assign returns to those volunteers with the appropriate qualifications. We also believe there may be room for improvement in the area of training for VITA instructors.

#### **Background**

VITA is a tax return preparation service for low-income taxpayers. The IRS has joined with numerous partners (e.g., AARP, U.S. Military, and State governments) to provide these services to taxpayers.

Volunteers for VITA are tested and certified prior to being able to participate in the program through one of the approved partners. The “Link and Learn” System is an

Internet-based test that is divided into five sections: Basic, Intermediate, Advanced, Military, and International. Volunteers must pass the Basic test before being able to advance to the Intermediate test. After a volunteer has completed the Basic and intermediate sections, he or she can choose from the Advanced, Military, or International sections, or take all three. A volunteer is qualified to prepare returns at a VITA site after completing only the Basic test. The Basic level of the test must be taken each year as a recertification requirement. The types of returns that a volunteer can process are determined by the staff of the partner group, which has access to the level of testing passed by the volunteer. Trainers are also assigned by the partner and qualifications are determined at the local level.

If an individual fails any section of the test, they are able to re-take the exam after two days. The program shows the areas (questions) that were answered incorrectly for immediate review by the user. The system also allows a user to bookmark his/her place in the testing process, and return later.

### **Recommendations**

1. The IRS should use the exam to track the skills of all volunteers who have successfully completed the certification process. Analysis of the correct/incorrect answers by category should be utilized to better match volunteers to specific types of tax returns they can prepare.
2. Since users are currently able to re-take the exam two days after failing, the system allows an individual to review the incorrect answers, research the correct response, and complete the process again. We are not convinced that this process results in the comprehension of tax knowledge needed to qualify, but it does make

the test-taking process easier for the user. We suggest that the exam be administered to insure that the volunteers are qualified for the services they provide as VITA volunteers. We believe volunteers who fail the exam should be required to wait three days before retaking the test, or they should take a different exam. If an individual fails the exam three times, they should have to wait an extended amount of time before retaking the test. The purpose of the exam is to test the comprehension of tax law, not the ability to take a test and pass.

3. We are concerned that some VITA volunteers (except tax professionals licensed under Circular 230) may have only six to eight hours of training. Recognizing that IRS partners may have limited resources, we recommend that online training videos or interactive training modules be used as a supplement to classroom training to strengthen relevant tax knowledge.