

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

GENERAL REPORT

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

The primary purpose of the Internal Revenue Service Advisory Council (hereafter “IRSAC or “the Council”) is to provide an organized public forum for discussion of relevant tax administration issues between Internal Revenue Service (hereafter “IRS” or “the Service”) officials and representatives of the public. Authorized under the Federal Advisory Committee Act (FACA) Public Law No. 92-463, the Council is a successor to the Commissioner’s Advisory Group established in 1953.

The Council’s charter specifies that it is designed to focus on broad policy matters.

The IRSAC reviews existing tax policy and/or recommends policies with respect to emerging tax administration issues, suggests operational improvements, [and] offers constructive observations regarding current or proposed IRS policies, programs, [and] procedures. . . .

Issues selected for inclusion in the annual report represent those to which IRSAC members have devoted particular attention during three to four working sessions and numerous conference calls throughout the preceding twelve months. Many are the result of specific requests for assistance by IRS personnel. Others are the result of Council member concerns. Nearly all involve extensive research efforts.

This has been a year of change for the federal government, the IRS, and IRSAC. Changes in the leadership of House and Senate committees as the result of the November 2006 elections created new areas of focus for many of the committees that deal with tax administration issues, although the tax gap continued to be a topic of significant interest. IRSAC members were briefed on legislative proposals to combat the tax gap in the President’s FY 2008 budget request, some of which paralleled recommendations made by

IRSAC in prior reports. Several IRSAC members provided testimony, either as individuals or as representatives of IRSAC, in various hearings and forums regarding the tax gap as well.

Former Commissioner Everson's decision to leave the IRS after four years of his five year term and the subsequent departure of Acting Commissioner Kevin Brown created challenges for the Service in addition to those that existed by virtue of normal retirement of personnel at all levels. Fortunately, most of the high level turnover occurred after the 2006 filing season, which was complicated by legislators' last minute extension of several expiring tax provisions and by the administration of the Telephone Excise Tax Refund (TETR) program. IRSAC members participated in conference calls regarding TETR during filing season and were pleased that both hurdles were generally handled well by the Service.

IRSAC was also briefed on the results of Phase II of the Taxpayer Assistance Blueprint (TAB), a major study that will have long-lasting impact on the ways in which IRS delivers customer service. The collaborative effort behind Phase II of TAB is commendable and may serve as a model for future service-wide efforts.

In recent years, IRSAC has been organized into three subgroups corresponding to three of the four IRS operating divisions: the Large & Mid-Size Business Subgroup (hereafter "LMSB Subgroup"), the Small Business/Self-Employed Subgroup (hereafter "SB/SE Subgroup"), and the Wage & Investment Subgroup (hereafter "W&I Subgroup"). The Tax Exempt and Government Entities division works with a separate advisory committee.

In response to a 2006 recommendation by the Treasury Inspector General for Tax Administration , the Director of IRS Research, Analysis, and Statistics (hereafter “Research”) requested that an advisory body be created to consult with IRS Research regarding measurement of the tax gap. To permit this body to be established quickly, the Tax Gap Analysis Subgroup (hereafter “Tax Gap Subgroup”) was created as a fourth subgroup under IRSAC. Composed primarily of academicians, the Tax Gap Subgroup’s first public report is contained in this document.

One of the distinguishing characteristics of IRSAC is the fact that it brings together dedicated individuals from a wide variety of backgrounds in one consultative body. Members come from the fields of accounting, law, other taxpayer services, and now academia. They represent large and small firms, urban and rural settings, and all regions of the United States. This diversity ensures that issues are considered from many angles simultaneously. It is IRSAC’s hope that the dynamic discussions that frequently take place provide efficient feedback to the Service. We believe it is more valuable to be consulted before major policy decisions are made than after, but appreciate the opportunity to be of service in either case.

The members of IRSAC wish to express their appreciation to the IRS personnel with whom they have interacted this past year. This includes individuals from all levels and areas of the organization. We have enjoyed our candid discussions of current and emerging policies and procedures and hope that these conversations will continue to provide value to the IRS leadership in the future.