

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

**SMALL BUSINESS/SELF-EMPLOYED
SUBGROUP REPORT**

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INTRODUCTION/EXECUTIVE SUMMARY

The IRSAC Small Business/Self-Employed Subgroup (hereafter “Subgroup”) is made up of six tax professionals. The members of the Subgroup offer the IRS Advisory Council a variety of experiences, ranging from the representation of individuals and small businesses to large corporations. The Subgroup is honored to use this depth and breadth of knowledge to assist the SB/SE Division of the IRS (hereafter “SB/SE”) in any way possible.

The Subgroup enjoys a close working relationship with the professionals within SB/SE. This relationship has granted the Subgroup the opportunity to consult with SB/SE on many issues outside of the regularly scheduled meetings. Some of the subjects discussed during these consultations required immediate feedback and are therefore outside the scope of this report. The Subgroup and SB/SE consulted both formally and informally on the issues contained in this report. The Subgroup respectfully recommends the following:

1. SB/SE E-Strategy. SB/SE has recognized that in an overall effort to decrease the tax gap there must be an increase in compliance, taxpayer satisfaction, and overall efficiency in the operation of the division. An integral part of achieving this goal is to develop and implement an e-strategy whereby the technological processes and efficiencies employed in private industry are integrated into the day-to-day operations of SB/SE and IRS as a whole. SB/SE’s e-strategy should include a plan to expand and increase use of e-services, better integration of internal systems and data, and provision of additional electronic payment options.

2. Allowable Living Expense Standards. Allowable living expense standards used in collection determinations were recently redesigned by an IRS task force after extensive study. The redesign resulted in many appropriate changes, but more are needed.
3. Fast-Track Collections Program. The IRS has identified many components to the tax gap and is working toward implementing processes to improve compliance without creating unnecessary burden. We propose a Fast-Track Collection Program that would not only bring in additional revenues, but would enable the IRS to communicate with taxpayers whose absence from the tax administration process may not have been detected.
4. Information on Independent Contractor or Employee Determinations. SB/SE's single largest focus of employment tax compliance in its Fiscal Year 2008 work plan will be the worker classification issue. This focus will include leads from Form SS-8, "*Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*," determinations from internal databases, and from state referrals. To promote compliance and cooperation as interest in the issue increases, consistent, understandable and thorough information on the issue that is accessible to taxpayers, tax practitioners and tax administrators, is essential. The IRS should review existing materials and their accessibility and ensure training of appropriate personnel is conducted.
5. SB/SE Tax Practitioner Satisfaction Survey. In an effort to improve its service, the IRS issued a survey to gauge tax practitioner satisfaction with the IRS. The survey identified areas where the IRS could increase practitioner satisfaction and

also increase efficient use of its resources. Some of the major areas that needed improvement included IRS review of additional information submitted with original returns, providing more reliable and efficient technical resources to the tax practitioner and improving outreach to the tax practitioner community. The survey itself also needed some improvement. The sample pool did not sufficiently represent the tax practitioner community. Tax practitioners of varying experience levels, ages and client bases should have been included in the survey.

ISSUES AND RECOMMENDATIONS

ISSUE ONE: SB/SE E-STRATEGY

Executive Summary

SB/SE has recognized that in an overall effort to decrease the tax gap there must be an increase in compliance, taxpayer satisfaction, and overall efficiency in the operation of the division. An integral part of achieving this goal is to develop and implement an e-strategy whereby the technological processes and efficiencies employed in private industry are integrated into the day-to-day operations of SB/SE and IRS as a whole. SB/SE's e-strategy should include a plan to expand and increase use of e-services, better integration of internal systems and data, and provision of additional electronic payment options.

Background

In recent years, the IRS has made significant progress in enhancing the taxpayer experience by increasing the information available in electronic format. The IRS has recently improved the content, access and overall format of its website, which has resulted in a 9 percent increase in website usage from last year. The IRS expanded tax professional access to e-services by reducing the threshold for tax practitioners to those who electronically file five or more individual or business returns. Services offered using e-services include: disclosure authorization (DA), electronic account resolution (EAR), and transcript delivery (TD). In addition, as of May 2007, the IRS has expanded the program to allow reporting agents who have on file an accepted Form 8633, "*Application to Participate in the IRS e-file Program*" to use EAR.

For tax filing season 2007, close to 79 million individual income returns were filed electronically, which represents about a 9 percent increase over 2006. Tax practitioners filed 56 million, roughly 70 percent, of these returns. Not only did refund return filing increase, but balance due e-filed returns increased 14 percent to 9.8 million returns.

Although not required for small businesses, the IRS implemented the Modernized e-File program under which certain corporations are required to file returns electronically. For SB/SE, the IRS now accepts Forms 1120/1120S, 1065, 990/990EZ, and 1041 electronically. In addition, the IRS allows submission of information returns such as Forms 1099, 1098, 5498 and W-2G under its Filing Information Returns Electronically (FIRE) program. Taxpayers may also file installment agreements electronically, as well as set up associated automatic debits via the IRS website. As of August 23, 2007, 625,000 income tax returns were filed electronically for small corporations with less than \$10 million in assets. Forms W-2 and W-3 are also available to file electronically through the Social Security Administration's website. Certain payments can be made by taxpayers using EFTPS, electronic funds withdrawal or credit card payments.

However, with over 26 million small businesses in the U.S. (businesses with less than 500 employees) according to the latest Small Business Administration (SBA) and Office of Advocacy estimates, the number of electronically-filed returns for small businesses indicates that SB/SE's e-strategy to reach this segment of taxpayers is in need of significant improvement. In addition, the overall effectiveness of the IRS' tax processing responsibilities is hampered by security issues associated with interconnection

of computer systems as identified by a United States Government Accountability Office 2005 audit report, and this may further discourage SB/SE taxpayers. The IRS Oversight Board in its Electronic Filing 2006 Annual Report to Congress predicted that the IRS will not meet its 80 percent electronic filing goal for 2007. We commend SB/SE for taking the initiative to develop its first formal e-strategy in three years. Our recommendations on how SB/SE can improve, better define and achieve its e-strategy goals are as follows:

Recommendations

1. To further improve overall customer satisfaction, compliance and efficiency in serving the business taxpayer, SB/SE must take an integrated approach to update and improve its internal computer systems and create a central data warehouse or database. For instance, a taxpayer's control file should contain a list of recent contacts and memo notes with the IRS which is accessible by SB/SE customer service representatives and compliance personnel on campus, in offices and in the field to reference interactions with taxpayers. In addition, SB/SE needs to create and maintain a central repository for the documents that are received from a taxpayer. This repository should provide for an indexing system to allow customer service, collection personnel, field auditors and other IRS departments to access a central location for information received from taxpayers. Too often taxpayers or their representatives are required to re-submit information to various departments of SB/SE and other IRS departments which causes inefficiencies and delays. Improving these processes will help taxpayers feel more confident about their interactions with SB/SE and the IRS as a whole and increase compliance.

2. The IRS needs to better communicate to SB/SE taxpayers and their practitioners about information on the IRS website and the types of tools available to them. This communication can be accomplished by customer service representatives, revenue agents or revenue officers directing taxpayers to the website and providing guidance to specific links available to assist the taxpayer or practitioner. A survey by the IRS Oversight Board in 2006 indicated that taxpayer visits to the IRS website were self-initiated rather than by suggestion or information provided by the IRS or practitioners. With tax practitioners filing the majority of SB/SE returns, SB/SE must make more of the tax practitioner community aware of the benefits and solutions available online and via Nationwide Tax Forums, webcasts, phone forums and other media. Taxpayers and practitioners must be able to recognize a benefit (such as faster refunds for electronic filing) to encourage utilization of the electronic services offered by SB/SE. Such benefits might include more reliable information, faster response time, or more timely and efficient resolution of issues.
3. SB/SE should encourage existing IRS e-initiatives that provide taxpayers with alternative methods for SB/SE taxpayers and practitioners to provide information to the IRS. Taxpayers must feel confident about security, timeliness of receipt, and follow-up for the information sent. Per the IRS Oversight Board 2006 survey, 63 percent of taxpayers would like the IRS to provide tools to allow them to answer their questions or receive information themselves other than through in-person contact. On the other hand, 73 percent of taxpayers surveyed indicated some concern with sending financial information over the internet. Accordingly,

alternative methods should include faxes or secure SB/SE website upload of information sent directly to SB/SE by either tax practitioners or taxpayers. The website upload process should include online printable confirmation of receipt and a follow-up notice when documentation has been accepted or approved. However, to encourage taxpayers and practitioners to use such services, SB/SE must develop a campaign that not only highlights efficiency but also the high level of system integrity and security.

4. SB/SE should consider expanding electronic payment options currently available for electronic installment agreements (e-IA) to other types of forms, returns and payments. This could be accomplished by modifying EFTPS or developing alternative payment options accessible by SB/SE taxpayers and their practitioners directly through an SB/SE website. Such alternatives would facilitate recurring and one-time payments such as debit/credit card payments and electronic debits for tax deposits, return payments, accrued balances and/or withholding. Providing alternative electronic payment options to SB/SE taxpayers will further facilitate taxpayer compliance and enhance data processing.
5. Finally, SB/SE services through the website and e-services should be expanded to include real-time communications with customer service representatives, the ability to submit Offers in Compromise and forms such as IRS Form 720, “*Federal Excise Tax*,” directly to the IRS, and the ability to view and print completed forms submitted online such as Online Payment Agreements (OPAs) and Form 2848, “*Power of Attorney and Declaration of Representative*,” similar to the manner in which completed Forms SS-4 are currently available to print. In

addition, SB/SE should encourage the IRS to provide a link on its website with a detailed list and access to forms that can be submitted to SB/SE and other IRS divisions electronically.

ISSUE TWO: ALLOWABLE LIVING EXPENSE STANDARDS

Executive Summary

Allowable living expense standards used in collection determinations were recently redesigned by an IRS task force after extensive study. The redesign resulted in many appropriate changes, but more are needed.

Background

In an attempt to fairly estimate the cost of living for individuals and families, the IRS has developed tables called “Allowable Living Expense Standards.” These tables are used in collection determinations, including Installment Agreements and Offers in Compromise, to determine the amount of living expenses that an individual will be allowed based on family size and locale. These tables are created using the Bureau of Labor Statistics (BLS) census data and adjusted using the current Consumer Price Index (CPI).

The tables are created from BLS data that is compiled every decade. The IRS adjusts the data by applying the CPI rate for the current year to the prior year’s tables. The process continues until the tenth year, when a new census is taken and new tables based on fresh BLS data are created. It is the IRS’ belief that the CPI adjustments adequately reflect the cost of inflation for any given period. A problem arises when the actual inflation rate in a particular category is higher than the overall CPI. For example,

if housing increases by six percent, but the CPI shows a general increase of 3 percent, the IRS would use three percent. Another problem arises when the inflation rate continues to rise after the CPI has been set for the year. A prime example of this is the cost of fuel. The cost of fuel may increase throughout the year having a direct impact on transportation costs as well as utilities and other household expenses. These increases impact the taxpayer's financial situation but are not reflected in the tables used to set allowable living expenses.

Another issue arises in that the IRS currently uses county-based housing data. Many counties, whether due to geography or demographics, contain wide variations in housing costs. Consideration should be given to the differences between urban and rural areas in the county and to differences in housing costs between apartments or multi-family homes and single family homes. Zip code data would provide a better indicator of true housing costs

It is also the IRS' belief that allowing a higher housing expense to individuals whose income exceeds the "norm" would mean that they would not be paying their fair share of taxes. Using zip code data might be a better indicator of whether a taxpayer should be allowed a higher allowance for housing. This is not to say that an individual who is clearly living excessively should be rewarded, but that a more balanced process should be utilized.

The tables do not allow any expense for higher education. This is based on the belief that an individual who does not have the ability to send children to college should not be punished and be forced to pay more toward his/her tax obligation than an individual having the ability to pay for a child to attend college. This way of thinking

does not help us as a country stay ahead of the rest of the world technologically or economically nor does it help us grow as a country in general. Additionally, in many instances, those individuals who are in the higher tax bracket are unable, due to financial reasons, to take advantage of scholarship, grant money, and student loans and thus are forced to pay the tuition out of pocket. Many average citizens qualify for and receive federally-funded grants, scholarships, and student loans. Admittedly, creation of an allowable amount for higher education would be difficult given differing tuition rates.

Finally, the tables were most recently revised to add an allowable living expense related to out-of-pocket health care costs of \$54 per month for each individual under age 65 and \$144 per month for those over age 65. Although this addition is commendable, the standards may be inadequate for individuals who do not have health insurance. According to the National Coalition on Health Care's 2007 report on Cost of Health Care, about 44 million people in this country have no health insurance and another 38 million have inadequate health insurance. It is estimated that \$5,600 per capita is spent for health care each year and not covered by insurance.

Recommendations

1. Adjust the Housing and Utility allowance on a zip code basis rather than by county. This can be done by creating a standard that takes into account the average of the people actually living within the zip code area.
2. Encourage IRS revenue officers to use more discretion in the adjustments to take into consideration variations in specific costs and to properly deviate from standard tables, as is currently allowed in Internal Revenue Manual 5.15.1.7.

3. Calculate a maximum allowable per credit hour rate for higher education utilizing the cost per credit hour of the state-funded schools in each state. This rate would then be multiplied by the actual number of hours being taken by the student.
4. The out-of-pocket health care standard should be revised annually based on trends in health care costs rather than by applying a general cost of living increase. We further recommend that the IRM be updated to explicitly indicate that actual out-of-pocket health care expenses can be utilized if higher than the new standards.

ISSUE THREE: FAST-TRACK COLLECTION PROGRAM

Executive Summary

The IRS has identified many components to the tax gap and is working toward implementing processes to improve compliance without creating unnecessary burden. We propose a Fast-Track Collection Program that would not only bring in additional revenues, but would enable the IRS to connect with taxpayers whose absence from the tax administration process may not have been detected.

Background

For the past few years, there has been a growing awareness of the tax gap and emphasis has been placed on trying to reduce it. In this effort, the IRS has taken a more aggressive approach in the collections arena. Not all non-compliant taxpayers show up on the IRS' radar, though. There are a large number of taxpayers that may not be included in the tax gap calculation.

The IRS and the public must have realistic expectations about reducing the tax gap, and the collection process itself must be broadened and simplified. The IRS

collection processes need to become more streamlined, and taxpayer behavior needs to become more compliant.

Individuals who have not filed income tax returns for several years may decide that they want to become compliant for a variety of reasons. Generally, these individuals are Schedule C filers. The current process is very cumbersome and time-consuming and does not afford the individual an opportunity to resolve the tax deficiency in an efficient manner. For example, assume a self-employed individual has not filed taxes for the years 2003 through 2006. The taxpayer seeks the assistance of a preparer to help prepare the returns. Once the returns are completed, the amounts owed are \$5,000 for 2003; \$10,000 for 2004, \$12,000 for 2005, and \$8,000 for 2006, for a total of \$35,000 before penalty and interest assessments. It is unlikely that this individual would be subject to criminal investigation by the Criminal Investigation division of the IRS. This individual does not have the money on hand to pay the total amount due or possess the ability to borrow the funds. At this point, the taxpayer must: (1) request an installment agreement; (2) contact the abatement department and request that the penalties be abated; (3) file an application for an offer in compromise or (4) do all of the above. A problem arises because the individual is not currently in the system and various payment/collection options may not be available on a “pre-assessed” basis. The current process requires the individual to file the returns, wait until all the returns have been processed, and then make the request(s) above. This delay can have a huge impact on the IRS’ ability to collect the taxes owed in a timely fashion and can cause resources to be wasted (i.e. through the mailing of notices, taking up call center time and resources, and assigning a revenue officer to the collection process).

Recommendations

1. Establish a unit within Collections to handle a Fast-Track Collection Program.
2. Because utilizing resources unnecessarily is a key concern, limit the program to those taxpayers using the services of a tax preparer that is subject to Circular 230, who can represent the taxpayer before the IRS.
3. In addition, limit the program to Form 1040 filers who have never been in the program and whose aggregate assessment is under a threshold to be determined in coordination with Criminal Investigation.
4. Create a form by which a taxpayer could request inclusion in the Fast-Track Collection Program. The form would be submitted to the unit, and--once received--a revenue officer would be assigned to the file. That assignment would take place within seven days. Upon being assigned, the revenue officer would then make contact with the preparer. This would establish a direct line of communication, with both sides having the ability to contact one another.
5. Grant the revenue officers the authority to negotiate within the guidelines of the offer in compromise, penalty abatement, and installment agreement policies and to negotiate reduced penalties under guidelines to be determined. The negotiations would utilize the pre-assessed taxes but would not be finalized until the total assessment had been made. This would enable the processing of the returns to be occurring simultaneously with the gathering of financial data and determination of the ability to pay. Any change in the final assessment could be easily incorporated into the process without much delay or additional effort.

ISSUE FOUR: INFORMATION ON INDEPENDENT CONTRACTOR OR EMPLOYEE DETERMINATIONS

Executive Summary

SB/SE's single largest focus of employment tax compliance resources in its Fiscal Year 2008 work plan will be the worker classification issue. This focus will include leads from Form SS-8, "*Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*," determinations from internal databases, and from state referrals. To promote compliance and cooperation as interest in the issue increases, consistent, understandable and thorough information on the issue that is accessible to taxpayers, tax practitioners and tax administrators, is essential. The IRS should review existing materials and their accessibility and ensure that training of appropriate personnel is conducted.

Background

The Internal Revenue Code and Treasury Regulations provide only basic guidance on the question of "who is an employee?"

The IRS, faced with the responsibility to make determinations of the status of individuals, uses a "facts and circumstances" approach appropriate with its statutory authority. Thus it has largely fallen to the courts to determine whether various facts and factors are relevant to the determination of "who is an employee." Over time that body of cases and rulings under our system of jurisprudence becomes what is referred to as the "common law." In 1987, in Rev. Rul. 87-41, 1987 C.B. 296, the IRS distilled the "common law" related to who is an employee into 20 factors.

Section 530 of the Revenue Act of 1978 made some of the most significant changes in the common law based process of determining the classification of an

individual as employee or independent contractor. Originally enacted as a temporary provision to provide Congress more time to sort through the contentious debate over the appropriate rules regarding classification, the section was made permanent in 1982.

Section 530 is an off-code provision; it was modified in 1986, 1996, and 2006. Under Section 530, certain types of workers such as direct sellers and real estate agents were specifically designated as not employees. For other industries, Section 530 provided a “safe harbor,” which is generally stated in the negative:

Section 530 allows a taxpayer to treat a worker as not being an employee for employment tax purposes (but not income tax purposes), regardless of the worker’s actual status under the common law test, unless the taxpayer has no reasonable basis for such treatment or fails to meet certain requirements.

One provision of Section 530 that has had an influence on the determination process over the last 30 years states:

No regulation or Revenue Ruling shall be published on or after the date of the enactment of this Act and before the effective date of any law hereafter enacted clarifying the employment status of individuals for purposes of the employment taxes by the Department of the Treasury (including the IRS) with respect to the employment status of any individual for purposes of the employment taxes.

The regulation prohibition provision of Section 530 limits the nature and number of outreach, education, compliance and enforcement "tools" the IRS can make available to taxpayers, tax practitioners, and tax administrators to understand their responsibilities and rights in the determination process.

Most determinations are made on the basis of the completion of Form SS-8 by the individual performing the services and the service recipient. For many years the Form SS-8 tracked what had come to be known as the traditional 20 point common law test. Form SS-8 was recently revised to conform to the three “basket” concept of the IRS examiner training manual.

In 1996, mindful of the regulation prohibition, the IRS published a training manual for examiners, entitled “*Independent Contractor or Employee? Training Materials.*” The manual grouped the common factors in three categories: (1) behavioral control; (2) financial control, and (3) relationship of the parties. The manual also “updated” commentary on the relevance of some of the traditional common law factors in the economy as it was in the 1990’s.

In addition to Form SS-8 and the training manual, there are only a few other IRS tools available to taxpayers, tax practitioners and tax administrators, to assist in understanding the issue and the process. They include:

- Publication 15-A, “*Employer’s Supplemental Tax Guide,*” which includes a comprehensive discussion of the determination of an individual’s status as an employee or independent contractor.
- Publication 1779 “*Independent Contractor or Employee*”
- Tax Topic 762 “*Independent Contractor vs. Employee*”
- Publication 1976, “*Do you qualify for Relief under Section 530?*”
- Webpage: “*Distinguishing Between Self-Employed Individuals and Independent Contractors*”
- Webpage: *Independent Contractor versus Employee*
- Various Industry Audit Technique Guides

The IRS’ current work program and initiatives, changes in the economy and technology, and concerns about the tax gap, indicate a renewed interest in classification determinations. SB/SE’s single largest focus of employment tax compliance resources in its Fiscal Year 2008 work plan will be the worker classification issue. This focus will

include leads from Form SS-8 determinations, from internal databases, and from state referrals.

Recommendations

The goal of our recommendations is to provide taxpayers, tax practitioners and tax administrators with the best education, outreach, compliance and enforcement "tools" to ensure maximum compliance with minimum amounts of confusion and confrontation.

1. Review all current IRS tools to determine whether they are up-to-date, consistent, and complete and that they convey information in understandable language.
2. Review the delivery mechanisms for these tools to determine whether they are readily accessible to taxpayers, tax practitioners and tax administrators. The review should consider both physical accessibility as well as "intellectual" accessibility. For example, with respect to physical accessibility, a taxpayer must navigate through several poorly identified web pages to find information. The training manual can only be reached by a general search of the site or a multiple step browsing of the website. With respect to intellectual accessibility, many of the tools are structured around "employee" information rather than "independent contractor" information. A taxpayer would not know to check, by its title, Publication 15-A, "*Supplemental Employer's Tax Guide*" for information on using independent contractors.
3. The IRS should provide within the available tools additional clarification of the elements of "behavioral control," as that has been identified as an important criterion used in determinations, but it has also been identified as one of the least understood.

4. Encourage the Department of the Treasury to recommend that Congress establish fair and objective standards for determining the status of an individual as an independent contractor or employee.

ISSUE FIVE: SB/SE TAX PRACTITIONER SATISFACTION SURVEY

Executive Summary

In an effort to improve its service, the IRS issued a survey to gauge tax practitioner satisfaction with the IRS. The survey identified areas where the IRS could increase practitioner satisfaction and also increase efficient use of its resources. Some of the major areas that needed improvement included IRS review of additional information submitted with original returns, providing more reliable and efficient technical resources to the tax practitioner and improving outreach to the tax practitioner community. The survey itself also needed some improvement. The sample pool did not sufficiently represent the tax practitioner community. Tax practitioners of varying experience levels, ages and client bases should have been included in the survey.

Background

SB/SE utilized the assistance of Pacific Consulting Group to administer a tax practitioner survey from November 2006 through January 2007. The survey was a computer-assisted telephone survey of SB/SE tax practitioners. Each practitioner received two letters requesting his or her participation in the survey and detailing how the survey would be conducted. Forty-nine percent of the practitioners that received these two letters participated in the survey.

The practitioners were selected from a list provided by Dunn & Bradstreet based on the following criteria:

1. The practitioner must have filed as least 50 tax returns for the 2005 tax year;
2. At least 10 percent of the tax returns filed for the 2005 tax year had to be Business Master File (“BMF”) tax returns, which include but are not limited to Forms 941, 1120 and 1065;
3. At least 50 percent of the tax returns filed for the 2005 tax year had to be SB/SE returns, which include but are not limited to a BMF tax return and a Schedule C filing on a Form 1040; and
4. The practitioner could not work for a nationwide tax return preparation company.

The above criteria resulted in a sample pool in which 70 percent of the tax practitioners were CPAs and 68 percent had been in the profession between 20 and 39 years. It is likely the criteria used to select the sample pool biased the survey results.

Practitioners want to address taxpayer issues with the IRS in an efficient and expeditious manner. If more issues can be addressed prior to filing a tax return, then notices and audits can be minimized, which increases practitioner satisfaction and increases IRS efficiency.

Recommendations

1. The criteria for the practitioners selected for the survey needs to be revised to include a more representative mix of enrolled agents and other non-CPA preparers. This could be accomplished by eliminating the minimum number of tax returns a practitioner must have prepared and including those individuals that do not prepare tax returns, but only represent taxpayers before the IRS. By

- reaching out to a wider group of preparers, the IRS may see a significant impact in survey results when the next survey is circulated.
2. The pool of practitioners needs to be demographically expanded to include a larger percentage of those practitioners that have been practicing for less than 20 years. The survey revealed that the practitioner pool is not utilizing e-services as predominantly as the IRS would like, but this could be more a result of the technological inexperience of the practitioners surveyed rather than a lack of IRS initiative.
 3. The IRS should develop a system to review additional information submitted with an original tax return, instead of automatically generating a notice. The survey showed that 67 percent of the notices received by the respondents resulted in either no change or with the IRS owing money to the taxpayer. This is an inefficient use of IRS resources. IRS resources could be reallocated to review additional information submitted with the original tax return, which should decrease the number of notices sent to taxpayers, thereby focusing resources on only those tax returns containing a legitimate error. The development of a system that could allow statements and other materials to be e-filed with the tax return would address some of these issues. Such a review system would result in fewer notices being sent to tax practitioners, which would decrease the use of practitioner and client resources. This should result in an overall increase in tax practitioner satisfaction.
 4. The IRS should partner with vendors of tax software to encourage the use of the IRS website for additional guidance and information. Most tax practitioners rely

- on software to prepare tax returns; therefore, software developers could be an efficient medium for the IRS to advertise the resources it offers.
5. The IRS should improve the staffing and administration of the Practitioner Priority Service (PPS) line to make it a source where practitioners can receive detailed technical advice or assistance with general client account questions in a quick and efficient manner. Although the use of telephone communication is expensive, the survey showed that practitioner use of the PPS line is decreasing while use of the general IRS 1040 line is increasing. This data indicates that practitioners are not moving to electronic methods of communication, but are moving away from the PPS line because it is not meeting the practitioner's needs. Use of the general IRS 1040 line, however, forces practitioners to endure long waits in the queue and does not offer the technical level of expertise that practitioners are seeking. Practitioner satisfaction will increase if their questions can be addressed quickly and accurately through a dedicated channel, instead of having to waste time going through the general IRS 1040 line.
 6. The IRS should provide a system whereby a tax practitioner could continue communication with a single person on the PPS line, instead of having to speak to a different person each time the tax practitioner initiates a call.
 7. The IRS should create a secured "live chat" whereby practitioners can have live internet-based discussions with an IRS employee regarding non-account specific technical questions. The "live chat" could be protected through passwords that would allow only the practitioner and the IRS employee access. All information

would remain on the IRS controlled website, which should assist with security, while providing practitioners real time assistance.

8. The IRS should continue to increase out-reach to local practitioner groups by providing free continuing professional education on the use of e-services. To many practitioners, e-services are overwhelming, but a face-to-face seminar through a local practitioner group may “de-mystify” e-services and result in higher utilization.