

# IRS News Release

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## **National Taxpayer Advocate Releases 2004 Report to Congress; Cites Tax Law Complexity as Most Serious Problem Facing Taxpayers**

IR-2005-7., Jan. 11, 2005

WASHINGTON — National Taxpayer Advocate Nina E. Olson today released a report to Congress that identifies the complexity of the Internal Revenue Code as the most serious problem facing taxpayers and the IRS alike.

“Without a doubt, the largest source of compliance burdens for taxpayers and the IRS alike is the overwhelming complexity of the tax code, and without a doubt, the only meaningful way to reduce these compliance burdens is to simplify the tax code enormously,” Olson writes. The report cites the alternative minimum tax (AMT), the earned income tax credit (EITC), and the large number of provisions designed to encourage taxpayers to save for education and for retirement as key illustrations of the problems of complexity wrought by the 1.4 million-plus word tax code.

The report praises the IRS for making major strides in several areas. With respect to the EITC, the report compliments the IRS for developing a positive strategic vision for administering the program, for discontinuing its use of confusing “combination letters” in EITC correspondence audits, and for improving the quality and clarity of its letters and notices. It states that the IRS has continued to improve its toll-free phone service. It also finds that the IRS has initiated important innovations in correspondence imaging that should significantly reduce the number of lost or misplaced taxpayer submissions and lead to quicker processing and responses.

At the same time, the report notes that the IRS is trying to compensate for budget constraints by expanding its use of centralized and automated examination and collection processes and limiting processes that require human intervention or contact. “In the Examination and Collection functions, the movement away from direct human interaction can create problems for the tax system as well as for taxpayers,” Olson writes. To help protect taxpayers, Olson urges the IRS to bolster support for “safety valves” like the offer in compromise program, collection due process proceedings, the Taxpayer Advocate Service (TAS), and an independent Office of Appeals.

The report contains an IRS research study, published in a separate volume, which suggests the need for improvement in EITC examination procedures and highlights the importance of direct conversations with taxpayers. In a sampling of cases in which EITC claims had been denied and the taxpayer requested reconsideration of the initial determination, 43 percent of taxpayers ultimately received the EITC, and the amount

received was, on average, 94 percent of the amount claimed on the original return. Moreover, when TAS employees initiated contact with taxpayers by phone instead of relying solely on correspondence, the likelihood of a taxpayer receiving additional EITC increased with the number of phone calls made by the TAS employee. Olson observes that the results of this study have “far-reaching implications for the tax system.”

The report cites a separate research study which found that only a tiny percentage of taxpayers who qualify for assistance from TAS (i.e., because they are suffering a significant hardship) have ever heard of TAS or end up requesting assistance from TAS. Olson urges the IRS to provide expanded training to employees about when it is appropriate to refer cases to TAS and to support an outreach campaign to make those taxpayers most likely to need TAS’s services more aware generally of TAS’s existence.

The report notes that four proposals the National Taxpayer Advocate recommended in recent reports to Congress were enacted into law last year – a uniform definition of a child, an “above-the-line” deduction for contingent attorney fees and attorney fee awards in certain nonphysical personal injury cases, authorization for the IRS to enter into partial-pay installment agreements, and the availability of income averaging for commercial fishermen.

“There is, however, one nagging problem that has not been adequately addressed – the Alternative Minimum Tax (AMT) for individuals,” Olson writes. “The need for AMT relief looms like the proverbial elephant in the room, and for that reason we once again, for the third year, recommend its repeal.”

The report also recommends that Congress simplify certain tax burdens on small businesses, streamline and simplify tax incentives for education savings and spending, streamline and simplify tax incentives for retirement savings, provide guidance to the IRS to accept a broader array of offers in compromise submitted under a new “equitable consideration” standard, retain but make certain changes to improve collection due process (CDP) hearings, direct the IRS to develop a basic e-filing template and a direct filing portal so that all taxpayers can electronically file their returns without paying fees, and take steps to reduce the enormous burden that the tax gap imposes on compliant taxpayers.

The Taxpayer Advocate Service is an independent organization within the IRS that ensures tax problems that have not been resolved through normal channels are promptly and fairly handled. There is at least one Local Taxpayer Advocate in each state. The Taxpayer Advocate Service can help if taxpayers are facing:

- An economic hardship or significant cost,
- A more than 30-day delay to resolve the issue, or
- An action, response or resolution deadline that was promised by the IRS but has not been met.

Qualified taxpayers will receive personalized service from an individual Advocate. He or she will listen to the individual's situation, help them understand what needs to be done

to resolve it, and stay with them every step of the way until the problem is resolved to the fullest extent permitted by law.

Because Taxpayer Advocate Service is part of the IRS, Advocates know the tax system and how to navigate it. Because they are independent within the IRS, Advocates are impartial. They will work on the taxpayer's case until it is finalized. What's more, if the problem affects other taxpayers, the Taxpayer Advocate Service can work to change the system.

Taxpayers can gain quick access to the Taxpayer Advocate Service by calling their toll-free number 1-877-777-4778, TTY/TTD 1-800-829-4059. Taxpayers can call or write to the local Taxpayer Advocate, whose address and phone number are listed in local telephone directories and in Publication 1546, How to Get Help With Unresolved Tax Problems.

**Links:**

- National Taxpayer Advocate's 2004 Annual Report to Congress — <http://www.irs.gov/advocate/article/0,,id=133967,00.html>
- [Taxpayer Advocate Service](http://www.irs.gov/advocate/index.html) — <http://www.irs.gov/advocate/index.html>