

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

National Taxpayer Advocate Releases 2005 Report to Congress; Stresses Need for Fundamental Tax Simplification

IR-2006-9, Jan. 10, 2006

WASHINGTON — National Taxpayer Advocate Nina E. Olson today released a report to Congress that urges Congress to enact fundamental tax simplification.

“Our tax code has grown so complex that it creates opportunities for taxpayers to make inadvertent mistakes as well as to game the system,” Olson writes. “As taxpayers become confused and make mistakes, or deliberately ‘push the envelope,’ the IRS understandably responds with increased enforcement actions. The exploitation of ‘loopholes’ leads to calls for new legislation to crack down on abuses, which in turn makes the tax law more complex. Thus begins an endless cycle – complexity drives inadvertent error and fraud, which drive increased enforcement or new legislation, which drives additional complexity. In short, complexity begets more complexity. This cycle can only be broken by true tax simplification, followed by ongoing legislative and administrative discipline to avoid ‘complexity creep.’”

Olson states that the tax code should be revised to incorporate six core principles:

- (1) It should not “entrap” taxpayers.
- (2) It should be simple enough so that taxpayers can prepare their own returns without professional help, simple enough so that taxpayers can compute their tax liabilities on a single form, and simple enough so that IRS telephone assistants can fully and accurately answer taxpayers’ questions.
- (3) It should be written in a way that anticipates the largest areas of noncompliance and minimizes the opportunities for such noncompliance.
- (4) It should provide some choices, but not too many choices.
- (5) It should not necessarily avoid refundable credits but, if it includes them, it should design them in a way that is administrable.
- (6) It should require a periodic review of its provisions – in short, a sanity check.

The report also makes legislative recommendations to reduce noncompliance in the “cash economy”; to simplify the Code’s family-status provisions; to revamp the rules governing joint-and-several liability on joint returns as well as community property in the

collection of tax; to require brokers to track and report cost basis for stocks and mutual funds to both investors and the IRS; to lessen the burdens of tracking the cost basis of stocks and mutual funds if the current-law step-up in basis on death is eliminated as scheduled in 2010; and to restructure and reform the Code's collection due process (CDP) provisions.

By statute, the National Taxpayer Advocate is required to identify at least 20 of the most serious problems encountered by taxpayers. In this year's report, Olson identifies trends in taxpayer service as the #1 most serious problem. While expressing support for a strong IRS enforcement presence, Olson expresses concern that the IRS is expanding enforcement at the expense of taxpayer service. The report states that the IRS has eliminated TeleFile, significantly reduced the number of returns IRS personnel prepare for taxpayers who seek IRS assistance, reduced the percentage of taxpayer calls IRS telephone assisters answer as compared with FY 2004, and substantially reduced its taxpayer education function for small businesses.

"Significantly, these actions are taking place without any empirical evidence that the reductions will *not* harm taxpayers and *not* result in decreased compliance," Olson writes. "Although the IRS maintains that it is difficult to measure the impact of high quality taxpayer service on compliance, the National Taxpayer Advocate finds that position unpersuasive. Too much is at stake not to conduct the appropriate research and develop cutting-edge strategies that will provide world-class taxpayer service." The report makes recommendations about how to approach and conduct such research.

The report cites Criminal Investigation (CI) refund freezes as the #2 most serious problem facing taxpayers. The report states that CI places "freezes" on hundreds of thousands of refunds each year due to a suspicion of fraud and then makes a "determination" whether the returns are, in fact, fraudulent without notifying taxpayers that their refund claims are under review or giving them an opportunity to present evidence supporting their positions.

In FY 2004, more than 28,000 taxpayers whose refunds had been frozen sought assistance from the Taxpayer Advocate Service (TAS). The TAS research function studied a statistically representative sample of these cases and found that, with TAS assistance, taxpayers ultimately received the full amount of the refund they had claimed in 66 percent of the frozen-refund cases and a portion of the refund they had claimed in an additional 14 percent of the cases. Olson urges the IRS to implement procedures to notify taxpayers promptly that their refunds have been frozen, provide taxpayers with an opportunity to submit supporting documentation, and bring cases to a quicker resolution. The TAS research study is published as Volume II of the report.

Among other problems the report identifies are the need for IRS to develop a comprehensive strategy to address noncompliance in the "cash economy," the adequacy of training for private debt collection employees as the IRS rolls out its Private Debt Collection (PDC) initiative in 2006, and delays and related problems in examining returns that claim the earned income tax credit (EITC).

About the Taxpayer Advocate Service

The Taxpayer Advocate Service is an independent organization within the IRS, led by the National Taxpayer Advocate. Each state has at least one Local Taxpayer Advocate, who is independent of the local IRS office and reports directly to the National Taxpayer Advocate.

The Taxpayer Advocate Service helps individual and business taxpayers resolve problems with the IRS by:

- ◆ Ensuring that taxpayer problems not resolved through normal IRS channels are promptly and impartially handled;
- ◆ Assisting taxpayers who are facing hardships;
- ◆ Identifying issues that impact taxpayer rights, increase taxpayer burden or otherwise create problems for taxpayers and bringing these issues to the attention of IRS management; and
- ◆ Recommending administrative and legislative changes through the National Taxpayer Advocate's Annual Report to Congress.

Taxpayers who have tried to resolve tax problems with the IRS and are still experiencing delays or facing economic harm may request the assistance of the Taxpayer Advocate Service.

In the TAS program, taxpayers will receive free, independent, confidential, and personalized service from a knowledgeable Taxpayer Advocate. The Advocate will listen to their situations, help them understand what needs to be done to resolve their issues, and work with them every step of the way until their problems are resolved to the fullest extent permitted by law.

Taxpayers can gain quick access to the Taxpayer Advocate Service by calling its toll-free number at 1-877-777-4778 (TTY/TTD 1-800-829-4059). Alternatively, taxpayers can call or write to their 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 2005 Annual Report to Congress and Executive Summary — <http://www.irs.gov/advocate/article/0,,id=97404,00.html>
- [Taxpayer Advocate Service](http://www.irs.gov/advocate/index.html) — <http://www.irs.gov/advocate/index.html>