



Electronic Tax Administration Advisory Committee

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ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

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PREFACE

The Electronic Tax Administration Advisory Committee (ETAAC) was formed and authorized under the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). ETAAC's primary charter is to provide input to the Internal Revenue Service (IRS) on the development and implementation of the IRS strategic plan for electronic tax administration. Accordingly, ETAAC's responsibilities involve researching, analyzing, and making recommendations on a wide range of electronic tax administration issues.

Pursuant to RRA 98, ETAAC reports annually to Congress concerning:

- IRS progress on reaching its goal to electronically receive 80% of tax and information returns;
- Legislative changes assisting the IRS in meeting the 80% goal;
- Status of the IRS strategic plan for electronic tax administration; and
- Effects of e-filing tax and information returns on small businesses and the self-employed.

The IRS ensures ETAAC membership reflects broad experience and stakeholder perspectives, including representation from state departments of revenue, large tax preparation companies, solo tax practitioners, software companies, and business filers from the nonprofit and for-profit sectors. ETAAC member biographies are in Appendix A.

In conducting its assessments and formulating its recommendations, ETAAC relies on a variety of information sources. Most importantly, ETAAC participates in numerous discussions with IRS representatives. ETAAC also reviews several reports, including those from the IRS Oversight Board (Oversight Board), the National Taxpayer Advocate, the Government Accountability Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA). The Committee is most grateful for their observations. Finally, on occasion, ETAAC seeks background insights from industry and state departments of revenue. Using all of this information, ETAAC formulates its annual report; however, the recommendations and opinions expressed in this report are solely those of ETAAC.

The Oversight Board, also established pursuant to RRA 98, is responsible for, among other duties, the delivery of an annual report to the Director of Electronic Tax Administration (or other IRS delegate), and a similar report to Congress with respect to advancing electronic tax administration. The Oversight Board and ETAAC have often concurred on many opinions and recommendations on the IRS's progress in electronic filing and electronic tax administration. Both the Oversight Board and ETAAC look forward to continuing to work together in the face of industry-wide changes and taxpayer expectations.¹

Finally, ETAAC recognizes IRS employees and leadership for their continued efforts to administer an increasingly complex tax system, meet taxpayer service expectations, and successfully process billions of transactions and hundreds of millions of tax returns. The United States tax system could not operate without their dedication, commitment, and talent. IRS employees and managers have made themselves available during filing season and on many other occasions to brief ETAAC on a variety of issues and initiatives, answer questions, and provide requested information, despite their demanding schedules. ETAAC appreciates their dedication, openness, and candor. Without the continuing and full support of IRS, ETAAC could not perform the job Congress has assigned to this Committee.

Public comments on this report may be sent to etaac@irs.gov.

¹ The IRS Oversight Board does not currently have enough members confirmed by the U.S. Senate to make up a quorum. As a result, it has suspended operations. ETAAC recommends that the Senate accelerate confirmation of new IRS board members to continue operations.

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EXECUTIVE SUMMARY

Recent years have presented many challenges to the IRS, as the nation's tax administrator. To gain efficiency in serving taxpayers and encouraging compliance, maintaining the status quo is not an option. The IRS must seize the opportunity to create efficiencies through electronic interactions to enable it to more effectively fulfill its mission.

Traditionally, ETAAC has primarily monitored and made recommendations to increase the e-file rate for all major tax return types. This year, our report is different. As the e-file rate continues to meet or exceed its 80% goal for almost all return types, ETAAC has modified and expanded this year's report to reflect the committee's focus on other more strategic emerging issues in electronic tax administration, which include opportunities in taxpayer service and compliance that naturally fall into pre-filing and post-filing interactions between the taxpayer and the IRS.

In this year's report, ETAAC is creating a framework to measure and provide recommendations on how the IRS can address reduced levels of taxpayer service and compliance efforts through digital tools. ETAAC has created an Electronic Tax Administration Index to measure IRS progress in tackling these challenges through more cost-effective electronic interactions. Throughout this report, ETAAC also offers specific recommendations on how to improve taxpayer service through digital tools.

ETAAC also recognizes that the IRS faces the serious problem of fraudulent tax returns involving identity theft. In March 2015, IRS Commissioner John Koskinen established a special Security Summit that includes representatives from state tax agencies and private industries, such as software vendors, to work on collaborative solutions to combat fraud schemes. ETAAC will work with this group to issue recommendations specific to tax fraud and identity theft.

The following are summaries of ETAAC's observations on key issues from 2014 and 2015:

1. IRS HAS INCREASED E-FILE RATES ON ALL MAJOR TAX RETURNS AND HAS REACHED THE 80% E-FILE GOAL ON ALMOST ALL MAJOR RETURN TYPES.

In 2015, the IRS closely approached a 90% e-file rate for individual returns – far exceeding its 80% e-file goal. Two other major business return types, partnership and fiduciary returns, now exceed an 80% e-file rate for the first time. The greatest room for e-file growth continues to be in employment tax returns (Form 94x series) and tax-exempt organization forms. Annually, the Form 94x series e-file rate has consistently seen the slowest growth out of all major return types.

2. IRS HAS CONTINUED PROGRESS TOWARD ETAAC'S 2014 RECOMMENDATION AREAS.

The IRS has made progress on specific areas of focus in the 2014 ETAAC report. Specifically:

- The IRS continues to look to improve e-signature and authentication to fight tax identity theft, and recently formed a Security Summit tasked with addressing these challenges.
- The IRS has started developing strategies and a tentative five-year roadmap to improve the taxpayer and tax professional experience through one comprehensive online account.
- The IRS has worked with the Department of Health and Human Services to allow taxpayers who received advance payments of the Premium Tax Credit under the Patient Protection and Affordable Care Act (ACA) to view the payment amounts before filing. Legislative proposals for the IRS to have correctable error authority could enhance the IRS's ability to proactively identify and correct ACA reporting errors on taxpayer returns.

- The IRS has made improvements to its Foreign Financial Institution (FFI) portal functionality and provided additional guidance on the registration process to improve compliance with the Foreign Account Tax Compliance Act.

3. FUTURE CHALLENGES REQUIRE DIGITAL TRANSFORMATION AT THE IRS.

The IRS faces mounting challenges as it tackles reduced resources and staffing, as well as increased demand for its services. The nature of this demand is also changing, as taxpayers increasingly prefer digital self-service to phone and paper methods. The IRS needs to transform its taxpayer service and compliance capabilities for efficiency through digital tools. While the IRS is making progress to plan for the development of digital tools, the IRS needs to accelerate its strategy to overcome service shortfalls. The IRS also needs to closely collaborate with Congress to assess its investment decisions and allocate its resources appropriately. This will ensure that Congress invests in key areas necessary for long-term improvements to taxpayer service and compliance.

4. RECOMMENDATIONS IN FOUR KEY AREAS

For 2015, ETAAC is making 15 recommendations to drive four Key Outcomes.

Key Outcome 1: Accelerated digital-first taxpayer service strategy that:

- Meets growing taxpayer demand for digital interaction,
- Is supported by key stakeholders, and
- Is prioritized to deliver measurable and cost-effective long-term improvements to taxpayer service and compliance

Key Outcome 2: Increased taxpayer preference for comprehensive and easy-to-use IRS digital service tools that will reduce burden, increase compliance and improve taxpayer service

Key Outcome 3: The IRS digital-first strategy advanced across the industry, through tax software providers and tax professionals, to decrease IRS and taxpayer burden and increase overall compliance

Key Outcome 4: Improved website experience that provides relevant and accurate information in a user-friendly format to support a digital-first taxpayer service strategy

PROGRESS TOWARD 80% E-FILE GOAL AND CONSIDERATIONS FOR THE FUTURE

One of ETAAC's primary responsibilities, as defined in its charter, is to research, analyze, consider, and make recommendations on the IRS's progress toward achieving its 80% e-file goal for major returns.² In keeping with historical analysis and reporting, ETAAC continues to calculate an Electronic Filing Index (EFI) for use in this report. The EFI assesses the e-file rates of a defined set of major tax returns, including a methodology to project full-year e-file rates, based on season-to-date information for the main driver of electronic filing rates – the individual tax return. Appendix B contains details about the EFI and ETAAC's methodology.

In the 2015 filing season, the IRS has continued to make progress toward the 80% goal, with year-over-year growth slightly increased versus the prior year. Overall, ETAAC estimates a 77.5% EFI rate for all major return types in 2015.

Table 1: 2012 – 2015 Electronic Filing Index

Electronic Filing Rate	2012	2013	2014	2015 Projection
EFI	71.9%	74.1%	75.4%	77.5%

Sources: June 2014 ETAAC Annual Report to Congress for 2012-2014 rates; See Appendix B for calculation of 2015 projection.

Individual returns, which represent 77% of the 2015 filing season volume, continued to experience e-file growth. In fact, the IRS is approaching a 90% EFI rate for individual returns. ETAAC commends the IRS for this significant accomplishment. ETAAC also recommends that the IRS conduct a survey of the manual filing population to determine the reasons why they continue to use this method.

More importantly, e-file rates have increased for all major return types. The EFI rates of partnership returns, corporate income tax returns, and exempt organization returns grew most in absolute terms, year over year. Notably, partnership and fiduciary return filings are both anticipated to exceed 80% in 2015.³ To achieve an aggregate 80% EFI across all forms, 2.1 million forms must be converted from paper to e-file. Excluding individual returns from the aggregate EFI calculation, 14.3 million submissions must still be converted from paper to e-file to achieve the 80% EFI threshold.

² Relevant to the 80% goal, the IRS considers the major tax returns filed by individuals, businesses, and tax-exempt entities, as defined in IRS Strategic Plan 2009-2013, Pub. 3744 (4-2009). As used in ETAAC's report, "major types of tax returns" refers to the most significant of those returns, as identified in Appendix B.

³ This rate of increase is consistent with prior years.

Table 2: 2015 Projected Electronic Filing Index (EFI)

Type of Return	2014 Estimated			2015 Projection			2015 vs. 2014
	Total	E-Filed	EFI	Total	E-Filed	EFI	Absolute Increase in Rate
Individual (Forms 1040, 1040-A, and 1040-EZ)	147,323,700	124,794,400	84.7%	149,382,700	128,917,270	86.3%	1.6%
Employment (Forms 94x)	29,686,200	9,515,300	32.1%	29,763,500	9,911,400	33.3%	1.2%
Corporation Income Tax (1120,1120-A,1120-S)	6,697,000	4,648,400	69.4%	6,701,700	4,948,800	73.8%	4.4%
Partnership (Forms 1065/1065-B)	3,699,000	2,834,100	76.6%	3,748,700	3,061,900	81.7%	5.1%
Fiduciary (Form 1041)	3,249,900	2,510,800	77.3%	3,269,300	2,663,400	81.5%	4.2%
Exempt Organizations(Forms 990, 990-EZ)	580,600	304,800	52.5%	591,900	337,000	56.9%	4.4%
Total	191,236,400	144,607,800	75.6%	193,457,800	149,839,770	77.5%	1.8%

Sources: 2014 Estimates based on IRS Publication 6186 (Rev. 10-2014) and 2015 projections per EFI methodology, as defined in Appendix B.

Similar to prior-year results, the year-over-year comparisons in Table 2 provide a clear indication that the IRS's greatest challenge to achieving an 80% goal across all major form types continues to be employment tax returns (Form 94x series), with 19.9 million forms still filed on paper.⁴ During the past six filing seasons, the Form 94x series e-file rate has seen the slowest growth of all major return types for reasons highlighted in past ETAAC reports.

In an attempt to address this challenge, on March 5, 2015, the IRS released a request for comments on ways to increase the electronic filing of employment tax returns.⁵ The IRS specifically requested comments regarding the viability of an IRS public-private partnership to offer free 94x reporting or building a free online 94x filing option. ETAAC believes that a free file option for 94x returns will not materially impact the e-file rate for these returns, because it would not address what ETAAC considers to be the main barrier to electronically filing these returns, which is the e-signature process. Consistent with the 2014 ETAAC report, ETAAC instead recommends that the IRS streamline the e-file process to improve the 94x e-file rate.

INFORMATION RETURN REPORTS

Although information returns are not included in EFI calculations for major tax returns, ETAAC also tracks e-file rates for information returns. The e-file rate for the majority of information returns now exceeds the 80% threshold. Form 1099-MISC continues to be the only information return form type that has not achieved an 80% e-file rate. This is likely because of the number of small businesses that file few returns and thus find it more convenient to file via paper. However, the EFI for Form 1099-MISC did increase during 2015 after a slight decrease in 2014. ETAAC continues to advise the IRS to consider a strategy to improve the e-file rate for Form 1099-MISC.

Continuing to monitor and increase the e-file rate for information returns will be critical as the IRS continues to add third-party information returns to validate items reported on taxpayer returns. For example, in 2016, the IRS will begin required processing of Forms 1095-B and 1095-C reporting health insurance coverage from employers and other insurers for the 2015 tax year, as part of the Patient Protection and Affordable Care Act. ETAAC will continue monitoring e-file rates and identifying gaps and barriers to 80% e-file goals.

⁴ See ETAAC's 2014 Annual Report to Congress. Key Outcome 1 and Key Outcome 3 reference the signature process as a barrier to increasing Form 94x series e-file rates.

⁵ The comment period was ongoing at the time of finalization of this report. ETAAC will address comments as needed in future reports.

Table 3: Information Returns to Note

Type of Return	2015 Projections			2014 Report EFI
	Total	Paper	EFI	
Form 1099-MISC	90,333,000	31,419,600	65.22%	61.93%

Sources: 2015 Projections from IRS Publication 6961 (Rev. 07-2014), Table 1; 2014 Report EFI from June 2014 ETAAC Annual Report to Congress.

THE 80% E-FILE GOAL AND THE FUTURE

In 2015, the IRS has exceeded its 80% e-file goal for individual tax returns, for the fourth straight year. However, excluding individual returns from the EFI calculation demonstrates that the EFI for all other major returns is approximately 45% – falling far short of the 80% threshold. This trend will likely continue for many years because of overall influence on EFI of employment tax returns (Form 94x series), which continue to experience low e-file rates and slow year-over-year growth.

Each year, with the significant exception of the Form 94x series returns, the IRS continues to achieve higher e-file rates. ETAAC will continue to monitor and make suggestions to improve this important strategic initiative. However, e-file is only one part of overall electronic tax administration. Beginning this year, ETAAC will also begin to report on other areas of electronic tax administration – namely, the IRS’s progress on assisting taxpayers using digital tools.

ELECTRONIC TAX ADMINISTRATION (ETA) PROGRESS

ETAAC's responsibilities, as defined in its charter, include performing research and analysis, and making recommendations on IRS progress toward overall Electronic Tax Administration (ETA).

ETA is defined as the use of digital tools to assist the IRS in delivering on its strategic goals of:⁶

1. Delivering high-quality and timely service to reduce taxpayer burden and encourage voluntary compliance.
2. Effectively enforcing the tax law to ensure taxpayer compliance with tax responsibilities and to combat fraud.

Historically, ETAAC's annual report has focused on IRS progress toward the 80% e-file goal for major tax return types to outline the impact of IRS ETA efforts on taxpayer service and compliance (see page 3). Since ETAAC's formation in 1998, the IRS has made significant progress toward meeting its goal of an 80% e-file rate.

The IRS and ETAAC recognize that ETA is about more than electronic filing. Since 2014, the IRS has developed an enterprise-wide strategic approach to developing comprehensive solutions, including digital solutions, to address taxpayer service and compliance challenges. The strategy includes two detailed strategies, namely the IRS's Service on Demand (SOD) strategy to provide more efficient and effective taxpayer service, and its Compliance Capabilities Vision (CCV) to transform and improve tax compliance.⁷

For this year's report, as well as ongoing, ETAAC believes it is imperative to expand public knowledge of how the IRS is using digital tools to deliver high-quality and timely service to taxpayers and to enforce compliance.⁸ However, measuring ETA progress in these areas is difficult at this early stage. The IRS has focused initially on its strategy to improve taxpayer service through digital tools and will focus more on its strategy to improve compliance in the future.⁹ As such, in this year's report, ETAAC will begin to measure progress the IRS has made toward improved taxpayer service. Future reports can expand to measure the impact of IRS digital compliance capabilities on IRS and taxpayer burden and compliance.¹⁰

In the future, as the IRS develops new metrics, ETAAC may change the measurements presented in this report to best provide a clear picture of IRS progress toward delivering high-quality, timely taxpayer service and compliance through ETA.

⁶ See the IRS Strategic Plan for 2014-2017, page 16, at <http://www.irs.gov/pub/irs-pdf/p3744.pdf>

⁷ In February 2015, the IRS began its tentative five-year implementation phase of the SOD strategy (<http://www.gao.gov/assets/670/668769.pdf>). The CCV strategy is still in initial planning phases.

⁸ ETAAC's charter specifically states that the committee is the public forum for discussion on reaching the IRS's electronic filing goals. As such, ETAAC will continue to make recommendations to increase the e-file rate in its annual report to Congress. However, ETAAC's charter has a broader purpose and scope that includes providing continued input into the development and implementation of the IRS's organizational strategy for electronic tax administration. In Objective 5 of the IRS Strategic Plan for 2014-2017, the IRS provides five critical strategies to invest in electronic tax administration capabilities that are essential to protecting taxpayer data and supporting taxpayers, partners and IRS business needs. (See IRS Strategic Plan 2014-2017, Objective 5, on pages 20-21, at <http://www.irs.gov/pub/irs-pdf/p3744.pdf>) In this year's report, ETAAC will begin to create measurements and offer recommendations to provide insight into IRS progress toward these strategic initiatives.

⁹ To illustrate the infancy of IRS digital compliance capabilities, the IRS reported to ETAAC that it had almost 29 million compliance interactions in 2013, all of which are performed via manual service interactions.

¹⁰ In this year's report, ETAAC will not measure the effect of new technology capabilities on IRS enforcement compliance. As the IRS begins to make progress with its CCV strategy, ETAAC will provide measurements to illustrate compliance progress and to measure the impact of digital compliance strategies.

MEASURING ETA PROGRESS IN TAXPAYER SERVICE

ETAAC seeks to provide meaningful measurements for how the IRS's current digital strategies are impacting taxpayer service. As such, ETAAC has developed a new index to report on IRS progress in electronic taxpayer service, called the Electronic Tax Administration (ETA) Index. This index measures the digital-to-manual service ratio. For detailed information on the context for the creation of the ETA Index and its calculations, see Appendix C.

The table below demonstrates how the IRS currently tracks the volume of taxpayer service interactions¹¹ for different taxpayer segments through manual¹² and electronic service channels. The IRS also has data on taxpayer service transactions that are processed across segments, such as requests for forms and publications, and payment submissions. These measurements provide insight into the current taxpayer demand and the IRS's capability to deliver certain taxpayer service functions electronically.

Table 4: The ETA Index, as of Sept. 30, 2013¹³

Taxpayer service segment/category	Service Volume	Service Delivery Channel		ETA Index %
		Manual	Digital	
Individual assistance	212,964,715	109,719,819	103,244,896	48%
Business/specialty tax assistance	50,139,106	18,931,033	31,208,073	62%
Tax professional assistance	6,283,951	5,704,453	579,498	9%
Forms/publications/payments/language assistance	116,843,998	87,625,176	29,218,822	25%
Total without refund status inquiries	386,231,770	221,980,481	164,251,289	43%
Individual refund status inquiries	324,445,046	20,751,554	303,693,492	94%
Total with refund status inquiries	710,676,816	242,732,035	467,944,781	66%

Note: See Appendix C for detailed definitions and service interactions for each service category, and data methodology.

Of the more than 710 million taxpayer service interactions quantified by the IRS, 66% are performed through digital tools. However, if individual refund status inquiries submitted through the "Where's My Refund?" tool are excluded, given their disproportionate share of transaction volume¹⁴, the ETA Index drops to 43%.¹⁵

In this report, ETAAC cannot determine whether the IRS has optimized its manual-to-digital service ratio, because the IRS has not yet set initial goals for each taxpayer service category/segment.¹⁶ To accurately

¹¹ The table does not include all IRS taxpayer service interactions. For example, out of the 450 million visits to IRS.gov, the IRS includes in its service-volume estimate only the visits that accessed an interactive tool or a look-up tool.

¹² For the purposes of this report, manual customer service is defined as service methods that require human intervention, such as live call assistance or responding to correspondence.

¹³ The IRS provided this information from its Service on Demand project team. The IRS does not regularly produce taxpayer service interaction volume statistics. As of April 30, 2015, the IRS had not yet produced volume statistics for the fiscal year ending Sept. 30, 2014.

¹⁴ Ninety-four percent of these inquiries are completed through the digital "Where's My Refund?" application on IRS.gov and its mobile application, versus calling or visiting the IRS.

¹⁵ We have specifically excluded individual refund status inquiries to better illustrate scenarios in which taxpayers require assistance or must complete a transaction. The "Where's My Refund?" application is broadly and conveniently used for taxpayers to track their refund status. The accessibility and financial incentive related to this digital tool may have prompted heavy use of the application. Consider that almost 110 million individual taxpayers received a refund in 2013, but the IRS received more than 325 million inquiries requesting information on when taxpayers would receive their refund. The digital tool has made it easier for taxpayers to make multiple inquiries, and skews the ETA Index measurement.

¹⁶ The IRS has provided some goals for each of the segments and categories. However, the IRS has not yet determined the proper goal for each service segment/category. The IRS is studying taxpayer preferences and plans to propose goals in the future. For more on the goals that have been established, see the detailed taxpayer service segment/category chart in Appendix C. ETAAC recognizes that the IRS's ETA Index goals may change as new technologies and consumer preferences change.

reflect progress toward ETA taxpayer service goals, it is imperative that the IRS work with Congress to establish digital service delivery goals.¹⁷

THE FUTURE OF ELECTRONIC TAXPAYER SERVICE AND COMPLIANCE

The IRS faces many taxpayer service challenges because it has not accelerated digital service tools to counter manual phone-and-paper methods. Continued reductions in IRS personnel have led to a downward trend in manual taxpayer service levels across phone, mail and in-person channels since 2011.¹⁸

These manual service methods are also the most expensive. For the fiscal year ending Sept. 30, 2014, the IRS reported that live assistance costs per transaction range from \$42.33 per live-assistance call to \$53.64 per inbound correspondence. In comparison, each digital transaction costs the IRS \$0.22. Digital taxpayer service presents an opportunity for the IRS to greatly reduce costs of taxpayer service and provide more capacity to meet growing demand for taxpayer service.¹⁹

With increasing tax administration responsibilities and decreasing resources, the IRS is challenged with implementing a digital-first strategy to shift taxpayers to more electronic interactions with the IRS for service needs. This would represent a cost-effective and sustainable strategy to increase taxpayer service while decreasing taxpayer burden.

With its SOD strategy, the IRS has started making progress toward improving taxpayer service through digital tools. For example, in November 2013, the IRS soft-launched Direct Pay, which allows taxpayers to make immediate electronic payments using their checking account and bank routing number, without service charges or finance fees. As of May 23, 2015, IRS Direct Pay had successfully processed 4.5 million individual payments totaling more than \$15 billion.

In the future, as the IRS begins to intentionally measure the effectiveness and efficiency of its digital strategies, ETAAC will update this report to reflect metrics on IRS delivery of electronic taxpayer service and its effect on overall tax administration. ETAAC will also report any newly emerging metrics that help track IRS ETA progress, including IRS progress toward ensuring taxpayer compliance and combating fraud through digital tools, as the IRS develops its CCV strategy.

¹⁷ In Recommendations 2 and 8, ETAAC recommends that the IRS develop further metrics and goals to better measure its progress toward overall taxpayer service.

¹⁸ The IRS has experienced workforce reductions, with a 12% overall decrease in personnel between 2011 and 2014. IRS taxpayer service personnel levels have dropped steadily since 2011 (see page 7 of the GAO Report on IRS Operations, Planning and Resources dated February 2015 at <http://www.gao.gov/assets/670/668769.pdf>). Service-level decreases have been magnified by additional workload due to implementation of the Patient Protection and Affordable Care Act and efforts to combat tax identity theft. In 2014, the percentage of phone calls answered dropped to below 40%, from 70% in 2011 (<http://www.irs.gov/uac/Newsroom/Commissioner-Koskinen-Speech-before-the-National-Press-Club> and page 16 of the Government Accountability Office report on IRS Operations, Planning and Resources, dated February 2015, at <http://www.gao.gov/assets/670/668769.pdf>). Mail correspondence response timeliness has also declined. From 2010 to 2013, the IRS overage correspondence (defined as greater than 45 days to respond) increased from 28% to 53% (see IRS Oversight Board FY2015 IRS Budget Recommendations Report, page 13, at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20FY2015%20Budget%20Report-FINAL.pdf>). The IRS also reduced the number of Taxpayer Assistance Centers for in-person help by 3.7% from 2010 to 2014, and reduced the number of full-time equivalents to staff them by 15.5%. (See Treasury Inspector General for Tax Administration study at <http://www.treasury.gov/tigta/auditreports/2014reports/201440038fr.html>).

¹⁹ In the IRS Service on Demand Future State Briefing on Feb. 7, 2014, the IRS calculated costs per transaction of manual and digital service channels. The IRS also reported that growth in demand for taxpayer service continues to increase annually, from 291 million interactions in 2006 to 559 million interactions in 2013.

PROGRESS TOWARD 2014 RECOMMENDATIONS

During the past year, the IRS has addressed several elements related to ETAAC's recommendations in its 2014 Annual Report to Congress.

EDUCATION AND OUTREACH FOR EMPLOYMENT TAX RETURNS

In its 2014 report, ETAAC recommended that the IRS implement initiatives to remove barriers to e-filing for small businesses, to increase the electronic filing of employment tax returns (Form 94x series). Such initiatives included taxpayer outreach, industry engagement, and review and update of published materials on IRS.gov.

In February 2014, the IRS formed a team to develop an IRS-wide strategy for increasing the volume of electronic returns filed by business taxpayers, including employment tax returns. The team formed four key sub-groups – free/low-cost 94x e-file, improving the signature process for 94x e-file, communications and outreach, and 94x e-file policy items. In addition to developing a communications outreach plan to promote e-filing for business returns during the 2015 filing season, the IRS stated that it will evaluate e-file participation rates for business returns. Based on the results of its review, the IRS will identify achievable goals and develop an action plan to document the strategy for achieving those goals. In addition, in March 2015, the IRS asked for comments on how it could increase e-filing rates for Forms 94x, including requesting feedback on initiating a free file program for the Form 94x series.

ENHANCEMENTS TO THE FOREIGN FINANCIAL INSTITUTION PORTAL

In 2014, ETAAC made two recommendations to increase the efficiency and accuracy of the foreign financial institution (FFI) portal developed to register institutions as compliant for purposes of the Foreign Account Tax Compliance Act (FATCA). ETAAC recommended that the IRS improve FFI portal functionality to minimize data integrity issues, reduce the potential for registration errors, and provide greater ease of use for registrants. ETAAC also recommended that the IRS allow for the downloading of real-time FFI lists in anticipation of Global Intermediary Identification Number (GIIN)-matching requirements.

In the past year, the IRS has adopted some of the detailed FFI portal functionality recommendations. Specifically, the IRS expanded the field length for financial institution names from 40 to 150 characters, enhancing the integrity of the data provided by these organizations. The IRS also created internal reports to validate financial institution updates and established monitoring of financial institution registration traffic to ensure a stable system. While the IRS did not implement test account functionality to facilitate registration, the IRS did provide additional guidance on the registration process, as recommended, including videos, an extensive registration guide, and frequently asked questions.

Importantly, the IRS also has updates planned for 2015 that will allow sponsored entities to be registered and obtain GIINs, either via bulk upload or individual registrations, and allow a financial institution to transfer to another expanded affiliated group where an entity has been acquired or divested, among other changes. While the IRS has not yet implemented ETAAC's recommendation to add functionality for downloading of real-time FFI lists, ETAAC understands that the IRS is still evaluating this as a potential future enhancement.

E-SIGNATURES STANDARDIZED WITH A CONSOLIDATED AUTHENTICATION PROCESS

In 2014, ETAAC recommended that the IRS implement one IRS-issued personal identification number (PIN) as the authentication component of an e-signature. ETAAC also recommended that the IRS expand the acceptance of a “universal PIN” to all form types requiring an electronic signature.

Currently, the IRS is developing an e-signature strategy aligned with a robust e-authentication process to identify and authenticate the return signer. The IRS has formed an internal working group to develop strategies, plans, and recommendations for identity proofing and authentication. This group will coordinate activities related to e-authentication and e-signature within the IRS. To date, the IRS has not made any recommendations.

In addition, on March 19, 2015, IRS Commissioner Koskinen formed a Security Summit, including representatives from state tax agencies and private industry, such as software vendors, to address tax identity theft. This group has provided recommendations for the upcoming filing season, and will provide long-term recommendations on how to improve authentication and e-signature requirements.

IMPROVING THE TAXPAYER AND TAX PROFESSIONAL EXPERIENCE THROUGH ONLINE ACCOUNTS

In 2014, ETAAC recommended that the IRS develop secure, personalized and comprehensive online accounts for taxpayers and their tax professionals to effectively interact with the IRS electronically. ETAAC also outlined several detailed recommendations on features that should be included in the accounts, such as the ability for taxpayers to electronically authorize a third party to represent and receive information on their behalf.

ETAAC is pleased that the IRS has committed to the development of online accounts, and has started implementing its initial strategy to deliver these accounts. The IRS plans a comprehensive set of features to be included in online accounts for taxpayers and tax professionals. As discussed in this year’s key outcomes and recommendations, the IRS has a tentative five-year plan to deliver online accounts.

IMPROVING PATIENT PROTECTION AND AFFORDABLE CARE ACT ADMINISTRATION AND COMPLIANCE THROUGH ELECTRONIC TOOLS

In 2014, ETAAC made two recommendations intended to reduce return reporting errors of advance payments of the Premium Tax Credit (APTC) under the Affordable Care Act. First, ETAAC recommended that the IRS create an online look-up tool for APTC amounts. Although the IRS did not build the look-up tool on its website, the IRS coordinated with the Centers for Medicare and Medicaid Services (CMS) to provide instructions to taxpayers and tax professionals on how to look up APTC amounts from the taxpayer’s Healthcare.gov account or the CMS/state Marketplace toll-free numbers.

ETAAC also recommended that Congress provide the IRS with corrective authority to alert taxpayers to APTC discrepancies and provide taxpayers with the ability to adjust the return before it is accepted. Congress did not give the IRS corrective authority to adjust APTC errors on the return.

The APTC reporting error rate for the 2015 filing season was not yet known at the time of finalization of this report.

EMERGING ENVIRONMENT AND CHALLENGES

The environment in which the IRS performs its role as the nation's tax administrator is constantly evolving. In 1998, the IRS's primary electronic tax administration challenge was to encourage taxpayers to file their tax returns electronically. During the past 17 years, ETAAC has made many recommendations to improve e-filing and to increase the e-file rate to 80% for all major tax return types. The IRS has implemented many of these recommendations and other efficiencies to bring the e-file rate for individual taxpayers well past the 80% goal set by Congress in 1998. In the future, ETAAC will continue to address improvements to e-filing, especially for employment tax returns, which represent the greatest opportunity for improvement.

The past five years have exposed an even greater challenge to the IRS: how to transform the IRS to better serve taxpayers and enforce compliance. Consistently reduced funding has exerted pressure on the IRS to change the way it does business, and now the IRS must find solutions for fulfilling its mission with the resources available. Rather than rely on traditional interactions using people, paper and phones to serve taxpayers, the IRS must adopt more efficient, scalable service and compliance delivery models. This approach is not only necessary to increase service and compliance levels at the IRS, but it is also what consumers are increasingly demanding of all service providers.

In past reports, ETAAC has anticipated and offered recommendations on how to address IRS taxpayer service challenges. For the past two years, ETAAC has made specific recommendations on how the IRS can fundamentally change the way it serves taxpayers and promotes compliance through digital tools. In last year's report, we recommended developing taxpayer and tax professional online accounts to increase IRS levels of service and meet taxpayer demand for digital interactions. ETAAC is pleased to report that the IRS has started planning and developing these accounts – a pivotal step to transforming the IRS.

For this year and in future years, ETAAC will provide recommendations to Congress and the IRS to transform taxpayer service and compliance through effective electronic tax administration. To accomplish this transformation, the IRS, Congress and other stakeholders must understand and evaluate how the following critical environmental factors will affect tax administration now and in the years ahead:

RELATIONSHIP BETWEEN THE IRS AND CONGRESS

In recent years, the relationship between Congress and the IRS has faced challenges. To effectively move forward to address the issues facing the IRS and taxpayers, it is clear that the IRS and Congress need to collaborate toward their common goals of improving taxpayer service and enforcing compliance, while minimizing taxpayer burden and service delivery costs.

ETAAC agrees with National Taxpayer Advocate Nina Olson, in her testimony to the House Committee on Oversight and Government Reform on April 15, 2015, that the best way for Congress to hold the IRS accountable for how it allocates resources and makes investment decisions is through active, consistent oversight.

It is important that Congress stay focused on how the IRS is addressing its tax administration challenges and have a more active role in overseeing IRS transformation. This collaborative, accountable

partnership will, according to Olson, promote “a shared sense of purpose between the IRS and Congress, and enhance the confidence of taxpayers.”

WORKLOAD, BUDGET, AND PRIORITIES

The IRS continues to be challenged by Congress to increase its efficiency and rethink how it administers the nation’s tax laws. This challenge includes facing an increased workload with fewer resources. As previous reports have highlighted, additional IRS responsibilities to administer requirements for the Patient Protection and Affordable Care Act and the Foreign Account Tax Compliance Act, as well as routine last-minute filing season changes, have adversely affected taxpayer service and compliance enforcement. The IRS continues to close or reduce hours at its Taxpayer Assistance Centers, answers fewer phone calls, and does not respond to correspondence in a timely manner. IRS compliance activity, such as audits and underreporter notices, has been reduced for the past four years, and the amount of taxes owed to the U.S. Treasury is at an all-time high, in excess of \$400 billion.²⁰ These circumstances create urgency to accelerate a cost-effective digital approach to serve taxpayers.

TAX IDENTITY THEFT PROLIFERATION

Tax identity theft, especially Stolen Identity Refund Fraud (SIRF) continues to erode the integrity of our tax system. Each year, the U.S. Treasury loses billions of dollars to SIRF. The IRS is working to combat this problem, but this issue continues to affect millions of taxpayers. Currently, thousands of IRS employees are working on SIRF cases who could otherwise be redirected to improve taxpayer service or compliance.

To provide urgent fixes to this problem, in March 2015, IRS Commissioner Koskinen formed a Security Summit consisting of representatives from state tax agencies and private industry, such as software vendors, to provide recommendations to combat SIRF for the next filing season and the future, in the areas of identity authentication, information sharing, and strategic threat assessments and response.

ETAAC continues to advocate that the IRS expand the Identity Protection Personal Identification Number (IP PIN) program to allow taxpayers to request an IP PIN, regardless of whether they have already become a victim of SIRF. This short-term measure would allow taxpayers to be proactive in avoiding SIRF on their returns.

SHIFTING CONSUMER PREFERENCES

Consumers increasingly prefer online service to more traditional paper and phone methods. This documented migration online also affects the IRS, which has lagged behind industry in meeting taxpayers’ and tax professionals’ preferences on how they want to be served. This critical environmental factor is foundational to ETAAC’s recommendations for the IRS to solve many of its customer service and compliance challenges. Accelerating IRS development of digital tools to assist taxpayers could quickly meet widespread demand for digital self-service and close gaps in service while reducing costs.

²⁰ This amount refers to the IRS’s overall accounts receivable balance. See <http://www.treasury.gov/tigta/auditreports/2014reports/201430062fr.pdf>

These are four major environmental challenges facing the IRS and its ability to administer the nation's tax laws. ETAAC recognizes that the IRS is facing many other tax- and non-tax-related environmental challenges, such as increasing globalization, new legislative requirements, and a changing cybersecurity landscape. As such, the IRS is continually confronting new and diverse challenges. In this report, ETAAC's recommendations respond to the four major challenges listed above, and in future years, ETAAC will continue to analyze current and emerging environmental factors to shape its recommendations.

ETAAC 2015 RECOMMENDATIONS

ETAAC believes that the IRS is facing more emerging challenges than in any time in history as it relates to successful administration of the tax laws of this country.

This year's report heavily focuses on overarching solutions to the growing problem of reduced taxpayer service at the IRS – which results in a host of adverse consequences.

First, ETAAC urges Congress and the IRS to tackle this problem collaboratively and strategically. They need to work together to plan and invest in development efforts that will transform the IRS into a more effective digital-first service organization. Performance goals, progress metrics, and transparency will be critical to success.

Second, to encourage taxpayer adoption of a digital-first approach, the IRS should gain a comprehensive understanding of the factors that drive adoption. The IRS should encourage adoption by focusing its efforts on one comprehensive account for individual and business taxpayers – and creating value and ease of use with a comprehensive, customized experience.

Third, the IRS must meet taxpayers where and how they want information, through tax software providers and tax professionals, who serve the majority of taxpayers. It is important for the IRS to partner with industry to provide secure access to relevant information. It is also important that the IRS enable tax professionals with easier-to-use authorization capabilities and parallel functionality with taxpayer accounts so they can help their clients stay in compliance.

Fourth, to make IRS.gov a more valuable and utilized self-service tool and information resource, the IRS should investigate technology solutions for content organization and enhance the content and usability of the site, including search and mobile improvements. This will allow the IRS to maximize IRS.gov as part of its efforts to drive a digital taxpayer service model.

The following is a complete listing of ETAAC's 2015 key outcomes and recommendations:

Key Outcome 1: Accelerated digital-first taxpayer service strategy that:

- **Meets growing taxpayer demand for digital interaction,**
- **Is supported by key stakeholders, and**
- **Is prioritized to deliver measurable and cost-effective long-term improvements to taxpayer service and compliance**

Recommendation 1: Congress should work with the IRS to accelerate a more strategic, long-term approach to investing in the enterprise-wide IRS strategy to improve taxpayer service and compliance.

Recommendation 2: The IRS should create, use, and publish meaningful metrics that illustrate the effect of its investment in digital-first strategies and projects on overall taxpayer service and compliance.

Recommendation 3: In its investment decisions, the IRS should focus development and delivery of digital tools and service through one secure online account.

Recommendation 4: The IRS should publish its digital blueprint to all stakeholders to gain feedback, support, and investment for accelerating digital taxpayer service projects.

Key Outcome 2: Increased taxpayer preference for comprehensive and easy-to-use IRS digital service tools that will reduce burden, increase compliance and improve taxpayer service

Recommendation 5: The IRS should continue developing a single, comprehensive online account that encourages long-term adoption of a digital-first approach for taxpayer service.

Recommendation 6: The IRS should customize the online account based on the taxpayer's profile.

Recommendation 7: The IRS should accelerate digital solutions for businesses.

Recommendation 8: The IRS should establish, track, and publish meaningful metrics that measure adoption rates and set adoption goals for digital taxpayer service tools.

Recommendation 9: The IRS should implement digital-first adoption techniques proven successful by industry and state agencies.

Key Outcome 3: The IRS digital-first strategy advanced across the industry, through tax software providers and tax professionals, to decrease IRS and taxpayer burden and increase overall compliance

Recommendation 10: The IRS should develop a comprehensive online account for tax professionals, in conjunction with the taxpayer online account.

Recommendation 11: The IRS should make it easier for taxpayers to authorize their tax professionals to help with compliance.

Recommendation 12: The IRS should provide tax software companies with secure and timely access to certain taxpayer information within tax software.

Recommendation 13: The IRS should work with tax software providers to encourage taxpayers to set up their secure online account during the return preparation process, and maintain access to that account through their tax preparation software.

Key Outcome 4: Improved website experience that provides relevant and accurate information in a user-friendly format to support a digital-first taxpayer service strategy

Recommendation 14: The IRS should improve search and navigation functionality to help taxpayers with self-service on [IRS.gov](https://www.irs.gov).

Recommendation 15: The IRS should improve [IRS.gov](https://www.irs.gov) content to maximize its value to users.

The remainder of this report provides ETAAC's summary, detailed recommendations, and supporting assessments.

KEY OUTCOME 1

THE IRS SHOULD ACCELERATE A DIGITAL-FIRST TAXPAYER SERVICE STRATEGY.

Key Outcome 1: Accelerated digital-first taxpayer service strategy that:

- Meets growing taxpayer demand for digital interaction,
- Is supported by key stakeholders, and
- Is prioritized to deliver measurable and cost-effective long-term improvements to taxpayer service and compliance

Recommendations for this outcome:

Recommendation 1: Congress should work with the IRS to accelerate a more strategic, long-term approach to investing in the enterprise-wide IRS strategy to improve taxpayer service and compliance.

Recommendation 2: The IRS should create, use, and publish meaningful metrics that illustrate the effect of its investment in digital-first strategies and projects on overall taxpayer service and compliance.

Recommendation 3: In its investment decisions, the IRS should focus development and delivery of digital tools and service through one secure online account.

Recommendation 4: The IRS should publish its digital blueprint to all stakeholders to gain feedback, support, and investment for accelerating digital taxpayer service projects.

Background on Key Outcome 1

Customer preferences for interacting with public and private sector service providers are drastically changing. The rise of electronic commerce, mobile devices, and other technology improvements has driven customer demand for real-time, around-the-clock access to information and the ability to perform account actions independently.²¹ In fact, many Americans have adopted and strongly prefer digital solutions over phone, paper and in-person customer service.²²

For the purposes of this report, ETAAC defines an organization's digital strategy as how its uses digital solutions, often deployed online and through mobile tools, software, and other electronic means, to meet the business needs of the organization.

²¹ For more detail on consumer demand for online services, see the 2014 ETAAC Annual Report to Congress at <http://www.irs.gov/pub/irs-pdf/p3415.pdf>.

²² "Understanding Communication Channel Needs to Craft your Customer Service Strategy," Kate Leggett, Forrester Research, March 11, 2013; see Figure 2 for data on growing adoption of electronic customer service channels.

Developing an effective digital strategy for customer service requires that an organization:

- Assess customer and internal needs, how these needs are being met, and the costs of delivery
- Identify digital channels through which those needs can be met
- Develop a long-term plan for meeting these needs digitally
- Prioritize digital projects

In planning and prioritizing digital projects, an organization needs to focus on important factors, such as:

- Which projects offer the organization the greatest potential return on investment
- Environmental factors that produce urgent and critical gaps in business performance²³
- The propensity of stakeholders to adopt various digital solutions

IRS digital strategies progressing

A fundamental element needed to achieve high voluntary compliance is the ability for taxpayers and tax professionals to interact effectively with the IRS. Changing customer preferences for digital self-service tools, along with IRS staffing reductions as a result of budget cuts, have forced the IRS to rethink its strategy on delivering taxpayer service and enforcing compliance.

The IRS recognizes that developing a digital strategy is part of an overall strategy for better meeting the needs of taxpayers and key internal and external stakeholders. Certain taxpayer segments are well-served by traditional paper and phone solutions. However, it is clear that the majority of individuals and businesses increasingly prefer digital solutions²⁴, because digital solutions meet growing expectations for real-time information and electronic interaction. Digital solutions also have the benefit of reducing the longer-term costs of service.

Prior to 2014, the IRS had not developed a centralized digital strategy for the entire organization. Priority and IT investment decisions within Business Operating Divisions were aligned to the IRS strategic plan, but not to an enterprise-wide digital strategy.

In 2014, the IRS started developing an enterprise strategy to take a more comprehensive and strategic approach to taxpayer service and compliance.²⁵ This overall IRS strategy development takes a data-driven, analytical approach to prioritizing the development of solutions, including digital solutions, to address taxpayer service and compliance challenges.²⁶ The initial enterprise strategy initially focuses on ways to improve individual taxpayer service.²⁷

²³ One environmental factor evident in tax administration is the proliferation of tax identity theft. Because addressing identity theft is critical to the integrity of the tax system, the IRS would highly prioritize projects to address this issue.

²⁴ The IRS Oversight Board 2014 Taxpayer Attitude Survey and the 2012 IRS Taxpayer Experience Survey indicate increasing taxpayer preference to interact with the IRS digitally (see Figure 16 at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20Taxpayer%20Attitude%20Survey%202014.pdf>). When it comes to financial services, consumer demand for digital interaction has also increased. See Mercator Advisory Group Customer Monitoring Survey Series, Banking and Channels 2013. Eighty-four percent of U.S. consumers now use a home computer or mobile device to communicate with their financial institutions.

²⁵ As background, since mid-2014, IRS digital strategy and funding decisions have been centralized under the Deputy Commissioner of Services and Enforcement (DCSE). The DCSE has commissioned the Executive Steering Committee (ESC) to include, as part of its responsibilities, helping the IRS develop an enterprise-wide operational strategy for taxpayer service and compliance enforcement. The ESC consists of all operating and functional unit executives.

²⁶ The comprehensive enterprise strategy includes identifying and prioritizing specific fundamental and prerequisite digital projects (referred to as “pillar” projects) needed to implement future electronic taxpayer service and compliance capabilities. The initial projects to be developed were based on volume of transactions and cost per transaction to service.

²⁷ The IRS is currently defining and prioritizing tax professional, business and specialty taxpayer segments into the enterprise service strategy.

The enterprise strategy includes two important detailed strategies:

1. Service on Demand (SOD), a detailed, five-year strategy to provide more efficient and effective taxpayer service, with an emphasis on digital customer service

This strategy focuses on meeting taxpayers where, when, and how they want to be served, through live, written or electronic interaction. As part of this strategy, the IRS will develop electronic capabilities for individual taxpayers within a single, secure online account, with the ability to²⁸:

- View and update personal information.
- View tax account information, balances due, refund status and history.
- Make payments, view payment history, and set up agreements to pay.
- View/update disclosure authorizations, including power of attorney.
- Enable online self-service to correct minor return errors.
- Allow for digital communication with the IRS, including uploading of documents.

In February 2015, the IRS initiated its five-year implementation phase of the SOD strategy.²⁹

2. Compliance Capabilities Vision (CCV), a five-year preliminary strategy to transform and improve tax compliance

This early strategy focuses on improving compliance before and at the time of filing, as well as developing digital capabilities to efficiently facilitate compliance enforcement activity. Many of the digital platform projects for SOD, such as taxpayer digital communication and electronic self-correction tools, will provide a foundation for CCV. In the IRS CCV strategy, the IRS will pre-emptively contact taxpayers to give them the opportunity to comply, and the IRS will increase virtual service tools to streamline compliance enforcement activity. The IRS could expect to gain efficiencies from these capabilities, because digitally enabled pre-emptive compliance measures would reduce the need for compliance personnel and their associated costs.³⁰ CCV is still in early planning phases.

The IRS is developing several critical foundational capabilities that will provide a platform for many SOD and CCV digital projects.³¹ ETAAC commends the IRS for the significant progress it has made during the past year in developing an initial vision for an enterprise digital strategy. Moving forward, the IRS has great opportunity to transform its taxpayer service and compliance enforcement through the development of digital tools.

The need to transform

Factors such as tax law mandates, budget reductions, and employee attrition have forced resource decisions at the IRS that have affected taxpayer service levels. As a result, in 2014, approximately 60% of

²⁸ In December 2014, the IRS provided information on its Service on Demand strategy that included 71 digital projects that would be created to improve taxpayer service.

²⁹ The IRS has not internally or externally committed to a five-year timeframe to deliver this plan.

³⁰ In its Jan. 8, 2015, IRS Services & Enforcement ESC Meeting Update, the IRS suggested that a possible benefit of using more pre-emptive digital compliance activities in its CCV strategy would be cost-savings. The cost-savings were not quantified.

³¹ IRS pillar projects are fundamental core capabilities to enable SOD and CCV digital capabilities. The IRS has three pillar projects: account (the development of the online account platform), taxpayer digital communications (the ability to interact with the IRS electronically through various methods), and authentication/authorization (the ability to verify identity and the capability to permit a third party to view/act on another account).

taxpayer phone calls to the IRS toll-free number went unanswered, select Taxpayer Assistance Centers were closed or offering reduced services, and IRS responses to taxpayer correspondence took an average of 70 days.³²

As reported by the National Taxpayer Advocate, these widely publicized declines in levels of service and enforcement measures, such as audits, potentially send a message to taxpayers that the IRS may have insufficient resources to enforce tax laws.³³ It is too early to measure the long-term effects of reduced levels of service on voluntary compliance – but it is not difficult to understand their direct relationship.³⁴ When the IRS cannot provide the means for taxpayers and tax professionals to interact efficiently and effectively with the IRS, either through digital solutions or live IRS personnel, taxpayers and the U.S. Treasury suffer.

The IRS is now in a position where it needs to make long-term investment decisions to migrate from a paper-and-phone approach to a digital-first model.³⁵ ETAAC agrees with IRS Commissioner Koskinen's April 2015 statements that the IRS must embrace technology to transform taxpayer service in a cost-effective way.³⁶

Although the IRS is developing its digital strategy, current funding creates significant challenges to implementing this strategy in a reasonable timeline to meet the high expectations of taxpayers and tax professionals. Each IRS unit requests its own investment based on business priorities, causing competition for overall development resources among IRS business units. Ultimately, this approach causes isolated development decisions that adversely affect the advancement of an overall digital strategy and transformation at the IRS.

The success of digital projects developed by the IRS will depend heavily on the IRS being able to effectively allocate its resources and investments. Generally, IRS resources are allocated to support mandatory projects, such as system updates to support the current filing season and other emerging requirements, such as the Patient Protection and Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA).³⁷ This results in fewer resources to pursue other needs, including digital projects. As a result, digital stakeholders, such as the IRS Office of Online Services (OLS), Business Operating Divisions, and IT groups, have limited control over the speed with which online taxpayer service features are delivered.

³² See GAO Report on the 2014 Tax Filing Season Performance, Figure 4, at <http://gao.gov/assets/670/667563.pdf>, <http://www.irs.gov/uac/Newsroom/Commissioner-Koskinen-Remarks-to-the-Tax-Policy-Center>, and <http://www.irs.gov/uac/Written-Testimony-of-IRS-Commissioner-Koskinen-before-the-House-Ways-and-Means-Committee>. Preliminary 2015 filing season data shows similar results. A TIGTA 2015 Filing Season Interim Report stated that the IRS was answering only 38.5% of its calls as of March 7, 2015. See <http://www.treasury.gov/tigta/auditreports/2015reports/201540032fr.pdf>.

³³ Two primary drivers of taxpayer voluntary compliance are fear of an IRS audit and accountability through third-party reporting to the IRS (e.g., information statements such as Forms W-2, 1099, etc., provided to the IRS). See page 22 of the survey at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20Taxpayer%20Attitude%20Survey%202014.pdf>

³⁴ See the National Taxpayer Advocate's testimony to House Appropriations Committee on Feb. 25, 2015, at http://www.irs.gov/pub/tas/Nina_Olson_Testimony-2-25-2015.pdf, citing a 2013 Taxpayer Advocate study (page 1 of the report), showing that reductions in taxpayer service to the small business population result in lower voluntary compliance.

³⁵ While the IRS will continue to offer in-person and phone taxpayer service options, a digital-first service delivery model means that most taxpayers would go online first for service or information. For example, taxpayers can set up a payment arrangement online instead of calling the IRS.

³⁶ <http://www.irs.gov/uac/Newsroom/Commissioner-Koskinen-Remarks-to-the-Tax-Policy-Center>

³⁷ In 2014, the IRS diverted \$330 million from its budget to make required changes to its systems and process.

<http://www.irs.gov/uac/Newsroom/Prepared-Remarks-of-Commissioner-of-Internal-Revenue-Service-John-Koskinen-before-the-National-Press-Club>

In this Key Outcome, ETAAC offers recommendations for measuring, prioritizing, and developing digital-first solutions, efficiently and effectively. However, to accelerate this strategy, investment is required – whether it is additional investment to build innovative digital solutions or reallocation of IRS resources from other areas to build for the future.

Detailed recommendations

Recommendation 1: Congress should work with the IRS to accelerate a more strategic, long-term approach to investing in the enterprise-wide IRS strategy to improve taxpayer service and compliance.

Detail on this recommendation:

In its enterprise strategic plan to make transformative improvements to tax administration in the next five years, the IRS outlines an approach that will provide more efficient service to taxpayers. A critical part of this strategic plan is developing digital tools. However, unpredictable funding and resources for digital projects do not allow the IRS to project a realistic delivery timeframe for its enterprise service strategy. ETAAC recommends that Congress work with the IRS, in open dialogue, to agree on a three- to five-year plan to implement and invest in an IRS digital-first strategy and related projects.

ETAAC recommends that Congress and the IRS consider appropriations changes to support the development of digital solutions. These approaches do not necessarily involve increased funding, but would provide for dedicated resources and flexibility to support IRS digital plans.

To accelerate the IRS digital-first strategy, Congress and the IRS should specifically consider projects critical to the IRS's long-term investment in digital service and compliance. Instead of working with uncertain budgets to complete projects, IRS digital initiatives should receive more support in the form of larger earmarked investments for the accelerated development of SOD and CCV capabilities.

ETAAC also recommends that Congress identify ways to create greater flexibility in IRS budgeting processes. Rather than following an inflexible approval process, the IRS should have the ability to easily reallocate resources within a budget period, allowing for tradeoffs to enable long-term technology solutions.³⁸

ETAAC concurs with the IRS Oversight Board's long-standing recommendation, dating back to 2001³⁹, that Congress should work with the IRS on multi-year investment to accelerate development of IT projects. Multi-year investment will provide reliable funding to help ensure successful implementation of the IRS overall enterprise strategy and allow the IRS to build scalable, cost-effective digital tools to maintain sufficient levels of taxpayer service that will be more impervious to reductions in staffing.

In an environment in which the IRS has to reduce operating costs to provide service and ensure compliance, the IRS needs to efficiently invest its capital expenditures to sustain long-term high levels of

³⁸ Currently, IRS spending is specifically appropriated. Major reallocation of appropriated funds requires approval from the Treasury Department, the Office of Management and Budget, and Congress. As an alternative, the IRS could be granted the ability to make limited spending reallocations based on current business needs, requiring only notification of the change. Congress would have to provide this additional authority to the IRS through legislation.

³⁹ See the press release for the first report issued by the IRS Oversight Board on April 12, 2001, at <http://www.treasury.gov/IRSOB/news/Documents/pr041201.pdf>.

taxpayer service. Without adequate support for accelerating development of a digital-first strategy, the IRS's customer service levels and compliance activities are likely to continue to suffer and degrade.

IRS accountability

In return for additional support from Congress for IRS digital strategies, ETAAC recommends that Congress hold the IRS accountable for achieving digital milestones and require the IRS to report to Congress on its progress.

As part of taking on accountability for further development and execution of the overall enterprise strategy, the IRS should:

- Empower and commission a dedicated team, such as an online customer service development and implementation team, to accelerate the IRS digital roadmap. This team would be governed by the IRS Executive Steering Committee. The IRS can accomplish this by aligning the dedicated team with enterprise-wide business goals and holding its leadership accountable using performance management metrics.⁴⁰
- Encourage the dedicated team to seek innovative solutions and use best practices. This could include adopting development processes that focus on iterative improvements and calculated trial and error. One example is agile project development methodology, which encourages flexibility with short project cycles that are deadline-driven and responsive to evolving business needs.⁴¹

IRS executives, from the IRS Commissioner to those leading functional and Business Operating Divisions, have agreed on the need for digital transformation at the IRS. ETAAC recommends that while IRS executives support an enterprise-wide vision of service and compliance, a dedicated team should be commissioned to dynamically plan and execute the digital strategy. The dedicated team should be empowered to innovate, and to lead the IRS to digital transformation.⁴²

Recommendation 2: The IRS should create, use, and publish meaningful metrics that illustrate the effect of its investment in digital-first strategies and projects on overall taxpayer service and compliance.

Detail on this recommendation:

Currently, the IRS does not have a clear, measurable goal of the projected impact of its digital strategies on overall service and compliance. Interested internal and external parties⁴³ need to understand the return on investment for each potential project to make an informed cost-benefit decision. For each initiative, the IRS should develop clear, objective, and measurable goals and progress metrics that show the impact on compliance, taxpayer burden, and IRS operational costs.

⁴⁰ Current IRS organizational structure means that no one person or unit is responsible for implementing the IRS digital-first strategy. The overall strategy is shared, and competing business needs and unclear lines of responsibility make it difficult for the IRS to effectively streamline development decisions and accelerate digital solutions. A dedicated team would help centralize planning and execution.

⁴¹ The IRS uses waterfall project management methodology for many of its digital projects. The waterfall project methodology uses long, planned development cycles that are prone to missed deadlines and are not responsive to changing business needs, customer needs, and new technologies.

⁴² <http://www.irs.gov/uac/Newsroom/Commissioner-Koskinen-Remarks-to-the-Tax-Policy-Center>

⁴³ Internal stakeholders include IRS leadership and IT decision-makers. External stakeholders include parties such as Congress and its committees, and IRS advisory committees.

Goals and metrics would allow the IRS, Congress, and other stakeholders to evaluate the impact of each initiative and make informed investment decisions based on those measurements.

Goals and metrics should also project the adoption potential and set interim adoption targets for each digital initiative in defined timelines to track improvements.⁴⁴ This would help the IRS calculate overall cost benefit. See Recommendation 8 for more on measuring adoption.

An example of how the IRS could use metrics is demonstrated by the development of a Disclosure Authorization tool.⁴⁵ Before planning to develop this tool, the IRS should define measurable goals and benefits, such as:

- Cost savings from switching from manual to digital processing
- Revenue generation from increased compliance, resulting from more effective interaction with the IRS
- Number of taxpayers and tax professionals who would likely adopt the tool
- Impact on taxpayer burden in submitting and withdrawing disclosure authorizations

IRS, Congress, and other stakeholders could use these metrics to evaluate the need for the tool and the priority to build it. Metrics and goals will also allow Congress and taxpayers to understand the financial impact of funding a particular project. As the IRS progresses in developing the tool, the IRS should monitor and evaluate progress toward goals and make interim adjustments.

Recommendation 3: In its investment decisions, the IRS should focus development and delivery of digital tools and service through one secure online account.

Detail on this recommendation:

After the IRS completes foundational projects necessary to provide platforms for its future SOD and CCV strategies, the IRS plans to prioritize its next projects based on a variety of factors that include transaction volume, cost of development, resource availability, available budget, legislative mandates, return on investment, time to market, and other priorities. The IRS can replace manual transactions with electronic tools in three ways:

- Develop and deliver standalone digital tools on IRS.gov or through third parties, including tax software Application Programming Interfaces (APIs).⁴⁶
- Develop taxpayer accounts with comprehensive digital capabilities.
- Use a combination of these two approaches.

ETAAC recommends using a combination of the first two approaches, with a special emphasis on the development of a single, comprehensive online account available on IRS.gov for taxpayers and tax

⁴⁴ The IRS could set annual targets for adoption, such as a percentage target for each year. As an example, 10% adoption in the first year, 25% adoption in the second year, and 50% adoption in the third year of availability.

⁴⁵ A Disclosure Authorization tool would allow taxpayers to electronically submit and withdraw forms authorizing their tax professional to help with an IRS issue. Disclosure authorization forms include Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*. The IRS received 3.6 million authorization forms in 2014, all of which were processed manually by the IRS Centralized Authorization File units in Memphis, Ogden, and Philadelphia.

⁴⁶ An API allows two different software/systems to share information. Through an API, users of one software (such as tax preparation software) can access and download authorized information from another system (such as IRS systems). For example, in the 2015 filing season, the IRS conducted a limited pilot with seven tax preparation providers that allowed these providers access to customer refund status via an API in their tax software. After the IRS evaluates the effectiveness of the pilot, the IRS may expand its use of APIs to tax software and service providers.

professionals.⁴⁷ From a development strategy standpoint, ETAAC is not recommending that the IRS abandon its use of standalone tools, such as the “Where’s My Refund?” tool, which are suitable for specific high-volume transactions. However, ETAAC cautions that development of standalone tools can adversely impact efforts to drive taxpayers to use one online account.⁴⁸ ETAAC believes that it is critical to the IRS’s long-term digital-first strategy that taxpayers and tax professionals have one point of entry, one instance of identity authentication, and comprehensive capabilities for all of their IRS information and service needs. Developing one online account will also be crucial for optimizing development and support resources.

Recommendation 4: The IRS should publish its digital blueprint to all stakeholders to gain feedback, support, and funding for accelerating digital-first taxpayer service projects.

Detail on this recommendation:

The IRS is in the early stages of developing and promoting its digital service and compliance strategies. ETAAC believes that the IRS will improve buy-in and adoption through transparency of planned projects, the roadmap for delivery, and the measurable targeted impact of each project. As a result, key stakeholders will understand and advocate for the investment needed to achieve the desired benefits.

The IRS can establish such transparency by creating a section on IRS.gov that provides frequently updated information regarding plans, deliverable dates, and measured results for its digital strategies to keep all stakeholders updated on important developments. The IRS should also actively promote its strategy to obtain stakeholder support.

Congress would also benefit from better access to information on the IRS digital-first strategy, including the required investment and projected benefits for each of its digital tools. With greater visibility into long-term plans, Congress would be able to make more informed decisions, based on investment and projected results, on where to accelerate investment to achieve taxpayer service and compliance goals faster. Transparency promotes trust and accountability among the IRS, Congress, taxpayers, tax professionals, and other important stakeholders.

Conclusion

As IRS responsibilities increase in the face of growing compliance and funding challenges, the IRS needs to accelerate its digital-first strategies to provide excellent taxpayer service in a more cost-effective manner.

Congress and the IRS should work collaboratively to take a more strategic approach to the planning and investment in development efforts that will transform the IRS into a more effective digital service organization. Internally, the IRS needs to streamline its development processes and effectively commission a dedicated team to innovate and execute its digital-first strategy.

⁴⁷ The taxpayer and tax professional online account will have comprehensive features, including the ability to view tax account information and records, make payments and set up payment alternatives, interact digitally with the IRS, authorize third parties to view and act on the taxpayer’s behalf, and get tax law assistance specific to the taxpayer’s profile. The tax professional will have the capability to be authorized to view information and conduct actions on their client’s account for which they are duly authorized. See Key Outcome 3 in the 2014 ETAAC Annual Report to Congress at <http://www.irs.gov/pub/irs-pdf/p3415.pdf>

⁴⁸ The IRS currently has 18 standalone tools on IRS.gov and several interactive tax assistant tools. The IRS has not yet developed a single, comprehensive online account. If the IRS continues its transactional approach to providing digital solutions to taxpayers outside of one online account, it must have a plan to migrate taxpayers and tax professionals from disparate tools to one account.

Imperative to effective execution will be performance goals and progress metrics to measure cost-effectiveness and track the impact of IRS digital-first strategies on overall taxpayer service and compliance. In making strategic investment decisions, the IRS should prioritize creating one comprehensive online account for taxpayers and tax professionals to maximize its IT resources and work toward an optimal taxpayer service model.

Finally, the IRS should publish the details, costs, and benefits of its digital-first strategies to promote transparency and accountability, informed investment decisions, and stakeholder buy-in.

KEY OUTCOME 2

THE IRS SHOULD INCORPORATE ONLINE ADOPTION BEST PRACTICES INTO ITS DIGITAL-FIRST TAXPAYER SERVICE MODEL.

Key Outcome: Increased taxpayer preference for comprehensive and easy-to-use IRS digital service tools that will reduce burden, increase compliance and improve taxpayer service

Recommendations for this outcome:

Recommendation 5: The IRS should continue developing a single, comprehensive online account that encourages long-term adoption of a digital-first approach for taxpayer service.

Recommendation 6: The IRS should customize the online account based on the taxpayer's profile.

Recommendation 7: The IRS should accelerate digital solutions for businesses.

Recommendation 8: The IRS should establish, track, and publish meaningful metrics that measure adoption rates and set adoption goals for digital taxpayer service tools.

Recommendation 9: The IRS should implement digital-first adoption techniques proven successful by industry and state agencies.

Background on Key Outcome 2

Digital customer service tools are powerful in their ability to service large numbers of customers and reduce costs. In recent years, industries across all markets have increasingly invested in digital solutions for customers, driven by advancements in technology, customer demand for more self-service tools, and expanded consumer access to various technology platforms.

Demand for taxpayer service has steadily increased. In its 2014 Annual Report to Congress, the IRS Oversight Board stated that taxpayers increasingly prefer technology-based self-service tax tools to interact with the IRS.⁴⁹

Three critical factors drive adoption

The success of IRS digital solutions will be determined not only by the expansion of digital service channels and solutions, but also by the adoption of electronic interaction. In the development of its digital strategies for taxpayer service, the IRS should focus on the three critical components of achieving high adoption rates:

- Ease of use: Taxpayers will adopt digital tools that are simple to access and intuitive to use.

⁴⁹ <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20Taxpayer%20Attitude%20Survey%202014.pdf>. See Figure 17. In just one year, from 2013 to 2014, demand for IRS-sponsored mobile applications on mobile devices increased by 9%, while the demand for contact via social media increased by 5%. Simultaneously, demand for traditional platforms such as walk-in offices and toll-free telephone lines decreased by 4%.

- Value: Taxpayers will evaluate a digital tool based on its comprehensiveness, how it simplifies their experience with the IRS, and how it helps them maintain or increase compliance with the IRS.
- Awareness: Taxpayers must be made aware of the availability and value of digital tools through outreach and partnerships with industry and tax professionals.

The development of digital tools represents a long-term, sustainable commitment to the future of taxpayer service. By driving taxpayers to adopt a digital-first approach, the IRS will ensure that taxpayers benefit from the greater access and convenience that digital-service options provide. Likewise, the IRS will benefit from short-term capacity improvements and long-term cost reductions of providing services.⁵⁰

Detailed recommendations

Recommendation 5: The IRS should continue developing a single, comprehensive online account that encourages long-term adoption of a digital-first approach for taxpayer service.

Detail on this recommendation:

ETAAC recognizes that the IRS has started making progress toward developing a taxpayer online account as part of its SOD strategy to improve taxpayer service through digital tools. In 2014, the IRS released Get Transcript, a simple online account requiring a user name and password that allows taxpayers to download their IRS tax records. In 2014, more than 18 million transcripts were downloaded using this tool.

Consistent with the 2014 ETAAC report, we recommend that the IRS continue developing a single, comprehensive online account for taxpayers and tax professionals. This account would encourage long-term adoption of digital taxpayer service by providing users with broad capabilities to obtain tax and account information, manage tax accounts, and interact with the IRS on account-related and compliance issues. Developing one account with multiple functions, one point of entry, and one instance of identity authentication will encourage taxpayers to consistently adopt a digital-first approach.

As the IRS develops one online account with multiple capabilities, the IRS should promote and create awareness for this account when taxpayers use standalone transactional tools on IRS.gov. For example, when a taxpayer uses the Online Payment Agreement tool on IRS.gov to set up an installment agreement, the IRS can encourage the taxpayer to sign up for an online account.⁵¹ The account would allow the taxpayer to easily set up the installment agreement using his or her personalized account information and to perform subsequent transactions, such as making ad hoc payments and monitoring the balance due.

Once taxpayers become acclimated to interacting with the IRS through an online account, this comfort in dealing with the IRS electronically will likely encourage them to start online when they need service.

⁵⁰ In its Service on Demand documents, the IRS provided cost estimates for each of its service channels. 2014 estimates for cost per channel were \$55.65 per walk-in, \$42.33 per call answered, and \$0.22 per digital interaction.

⁵¹ On March 2, 2015, the IRS moved its Online Payment Agreement tool behind authentication similar to the Get Transcript tool. However, this tool is not yet part of an online account.

This digital-service expectation is similar to the shift in customer preferences for other online financial interactions.⁵²

To foster digital adoption of customer service, financial institutions typically offer one online user profile where clients can view multiple financial accounts (such as checking, savings, credit accounts, and mortgage) and conduct a wide range of transactions (such as viewing account history, making payments/transfers, applying for credit, and submitting account inquiries). With real-time access to their information and the ability to conduct business at any hour, bank customers no longer have the same high-touch customer service needs, driving substantial bottom-line cost savings.

In developing online account features, the IRS should balance ease of use with comprehensive functionality to widen the appeal and increase adoption. Additionally, taxpayers will not adopt online accounts if user interfaces or authentication requirements are overly cumbersome or complicated, regardless of the benefit of the functionality within the account.⁵³

ETAAC understands the need for increased multi-level authentication to ensure privacy and protection of taxpayer data. ETAAC and the IRS agree that the IRS needs to prioritize online security best practices and initiatives above all development to remain vigilant in protecting taxpayer data and preventing the distribution of fraudulent refunds. In today's digital world, those willing to commit fraud have easy access to an abundance of data relevant to any one individual, such as bank loan information, previous addresses, date of birth, etc., through sources such as credit bureaus and background check sites. During the 2015 filing season, identity thieves demonstrated how easily they could use individuals' non-tax data to access taxpayer data through the IRS Get Transcript application. ETAAC recognizes that the IRS has already committed to increased authentication on its development roadmap.

Recommendation 6: The IRS should customize the online account based on the taxpayer's profile.

Detail on this recommendation:

Personalized experiences build loyalty and trust. Taxpayers are more likely to use online tools if the tools provide relevant and customized information. For example, among taxpayers who used IRS.gov to obtain transcript information⁵⁴ through the IRS Get Transcript tool, 83% expressed an interest in reviewing their other prior-year federal return information online.⁵⁵

To provide a customized experience for taxpayers within an online account, ETAAC recommends that the IRS:

- Present specialized content based on previous search items or transactions.

⁵² Mercator Advisory Group Customer Monitoring Survey Series, Banking and Channels 2013. Eighty-four percent of U.S. consumers now use a home computer or mobile device to communicate with their financial institutions.

⁵³ See the Jan. 23, 2012, "Understanding Customer Service Satisfaction to Inform your 2012 eBusiness Strategy" report by Forrester Research. In a survey of 7,638 US adults with Internet access who have used any customer service method in the past 12 months, 45% stated that they are very likely to abandon their online purchase if they can't find a quick answer to their question; 66% stated that valuing their time is the most important thing a company can do to provide them with good online customer service.

⁵⁴ There are five types of IRS transcripts: account transcript, wage and income transcript, return transcript, record of account transcript, and verification of nonfiling transcript. Transcripts provide current and prior-year personal tax information (for example, payments made and other transactions, filed returns, and income and information statements reported to the IRS).

⁵⁵ 2012 IRS Taxpayer Experience Survey.

- Include a Web address on notices sent to taxpayers providing instructions for them to log in or set up an online account to view more information specific to their notice. This would also be an important tactic in shifting IRS taxpayer service away from manual paper-and-phone methods.
- Provide tax law tools and a tax calendar specific to the taxpayer's profile. For example, individual low-income taxpayers would have an interactive tool for the Earned Income Tax Credit in their account, as well as an estimate of their Premium Tax Credit received under ACA, based on their prior return. Small business taxpayers could have an estimated tax calendar and email reminders alerting them that an estimated tax payment is due for the quarter.

Customizing the taxpayer's online account to his or her profile offers value that, in combination with a single point of entry for ease of use, will result in higher levels of taxpayer adoption and reduced service delivery costs for the IRS.

Recommendation 7: The IRS should accelerate digital solutions for businesses.

Detail on this recommendation:

Business taxpayers, from local businesses to global multi-national corporations, make up approximately 10% of taxpayers⁵⁶, but they are responsible for a disproportionately large volume of transactions with the IRS.⁵⁷ Those transactions include the possibility of filing multiple returns, paying estimated taxes, and making federal tax deposits. Businesses and their tax professionals are also more likely to interact with the IRS outside of filing their tax returns.⁵⁸

Given these increased interactions, businesses are more likely to be early adopters of online accounts than individuals. New York State has individual and business online account capabilities. As of March 18, 2015, 12% of New York State individual taxpayers had adopted the online account, while 68% of businesses had adopted the online account.⁵⁹

Business owners who adopt an online account are more likely to adopt an individual account, driving taxpayers with higher-volume service needs to a digital-first approach. S Corporations, the most predominant business entity, are a good example of the likelihood of business taxpayers spurring individual adoption. Sixty percent of all S Corporations have only one shareholder⁶⁰, and they often have extensive filing requirements that go beyond the corporate Form 1120-S, including filing other business returns, such as payroll tax returns and information statements, as well as the individual shareholder's Form 1040.

⁵⁶ See Publication 6186, 2014 Update.

⁵⁷ Business taxpayers file more returns (business primary return, information returns, payroll returns) and have a much higher frequency of payments to the IRS (federal tax deposits, estimated tax payments). They also have more administrative tax responsibilities that require more interaction with the IRS (such as obtaining Employer Identification Numbers and accounting for payroll taxes). In comparison, individuals may interact with the IRS only once a year, at the time of filing.

⁵⁸ Businesses typically have significantly broader interactions with tax authorities given their wide-ranging needs and responsibilities – e.g., corporate income tax, sales and use tax, employment tax, franchise tax, information reporting and withholding requirements, statistics of information reporting, etc. Additionally, businesses have higher audit rates, as per IRS Internal Revenue Service 2014 Data Book, Table 9a Examination Coverage: Recommended and Average Recommended Additional Tax After Examination, by Type and Size of Return, Fiscal Year 2014.

⁵⁹ March 9, 2015, interview with Assistant Director, Enterprise Services Bureau Tax Processing Division, New York State Department of Taxation and Finance. Of approximately 10.9 million New York State individual taxpayers, 1.3 million had registered by March 2014, while 1 million of approximately 1.5 million business taxpayers had registered for online accounts.

⁶⁰ See S Corporations Number of Returns, by Number of Shareholders and Industrial Sector, Tax Year 2007 (<http://www.irs.gov/uac/SOI-Tax-Stats-S-Corporation-Statistics>). Of the 3,989,893 S Corporations surveyed, 2,411,642 had one shareholder.

Because of these high-volume business needs, ETAAC recommends that the IRS strategically accelerate the development of an end-to-end digital service solution for businesses.

Recommendation 8: The IRS should establish, track, and publish meaningful metrics that measure adoption rates and set adoption goals for digital taxpayer service tools.

Detail on this recommendation:

The IRS needs to ensure that the data being used to define digital strategies is objective and meaningful. For each proposed digital initiative, the IRS should develop metrics that estimate the adoption potential and set interim adoption goals in defined timelines. ETAAC emphasizes the importance of establishing adoption measurements that will allow the IRS to make informed development priority decisions and track improvements.

Measuring adoption data will also help the IRS identify delivery and functionality preferences among service channels that can assist IRS decision-making. For instance, IRS data shows that traffic from mobile devices increased from less than 10% in August 2012 to more than 41% in February 2014, with variations among months.⁶¹ Therefore, consistent with private industry, mobile access to IRS digital tools is important for various service channels. In the future, tracking these metrics will help the IRS identify shifts in taxpayer profiles and preferences, and adapt to provide more up-to-date and efficient taxpayer service.

A recent example illustrating the importance of measuring and understanding adoption behavior and creating awareness of digital tools can be seen in the IRS's retirement of the Disclosure Authorization (DA) and Electronic Account Resolution (EAR) tools within the IRS e-Services online account for tax professionals. These tools allowed tax professionals to file authorizations and resolve tax-account related issues for their clients. As the National Taxpayer Advocate 2013 Annual Report to Congress explained, in 2013, the IRS eliminated these useful services because of low adoption rates, without a concerted effort to effectively educate tax professionals on the availability and benefits of the tools.⁶² Thus, rather than measuring and understanding adoption behaviors or making a concerted outreach effort, the IRS removed these e-Services tools.⁶³

Recommendation 9: The IRS should implement digital-first adoption techniques proven successful by industry and state agencies.

Detail on this recommendation:

A few states, such as California, Illinois, and New York, are paving the way to a digital-first approach to taxpayer service. States are facing the same taxpayer service challenges as the IRS, including encouraging taxpayers to adopt an online account. In its third year of offering online accounts to

⁶¹ IRS provided data on mobile traffic per month in April 2015.

⁶² <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/downloads/Volume-1.pdf> Page 193; "By not consulting practitioners in advance, the IRS deprived itself of advice on how to improve the two programs or even market them to increase usage. Many practitioner groups have voiced concern that the applications had low usage because the practitioners were not adequately informed of their availability, and have even offered to assist the IRS in raising awareness. While the IRS may cite low past usage of the products, the public outcry alone demonstrates there is great potential demand for the services. Had the IRS consulted with those stakeholder groups prior to making its decision, it might have recognized the growth potential warranted the investment in redesign and continuation of these two services."

⁶³ The IRS noted that low adoption was not the only reason for abandoning the DA and EAR tools. IRS technology considerations also played a role in the IRS decision to remove these two important features.

taxpayers, the New York State Department of Taxation and Finance is among the furthest along in developing digital tools for taxpayers. As of Jan. 30, 2015, 1 million businesses had adopted New York State's comprehensive online accounts, and as of March 18, 2015, 1.3 million individuals had adopted the accounts. In fact, New York State has experienced a 40% increase in online account adoption in the past three years, and continues to make progress shifting taxpayers to a digital-first approach.⁶⁴

New York State has utilized the following techniques to increase adoption:

- Developing the online account to a comprehensive New York State One Self-Service Center⁶⁵
- Performing targeted outreach to educate and encourage taxpayers to sign up for an account⁶⁶
- Proactively engaging tax professionals
- Driving traffic to online accounts through notices and call center scripts
- Increasing intuitiveness of the application by leveraging results from taxpayer usability studies

In New York State's experience, increases in adoption were directly correlated to the tools included in the taxpayer account. The more digital opportunities offered to the taxpayer, the higher the taxpayer's digital interaction with the state revenue authority. Furthermore, New York State has also consistently focused on the long-term impacts of its digital strategy, versus short-term gains.

Along these lines, New York State is continuing to enhance its online account system. A Form W-2 transcript application was launched in February 2014, and the state is currently adding withholding account summary filings and payment displays. In fall 2015, New York State will release an enhanced experience for tax professional accounts. All of these are steps in New York State's roadmap to make the online account a relational site, with the goal of pushing targeted information to the taxpayer. New York State evaluates its progress against these measures by consistently applying usability study learnings to new applications.

Financial institutions have employed some of the same techniques as state agencies to get their customers to adopt a digital-first approach. Banks, for example, offer a wide range of informational and transactional services inside of one online account. They have shifted their customers to a digital-first approach by adding more services and providing incentives for their customers to opt out of live and paper transactions. Many banks have also marketed the ease, convenience and security of online interactions versus paper.

⁶⁴ March 9, 2015, interview with Assistant Director, Enterprise Services Bureau Tax Processing Division, New York State Department of Taxation and Finance.

⁶⁵ March 9, 2015, interview with Assistant Director, Enterprise Services Bureau Tax Processing Division, New York State Department of Taxation and Finance. New York State offers more than 70 online services through its website, 50 of which require an Online Services account that is available to individuals, businesses, tax professionals, and fiduciaries. Online Services account holders get access to a detailed summary of their history with New York State, including their filings, payments, open bills, and contact information. Account holders also receive email alerts for important messages from the department, which can be read in their message center after logging in. In addition to these useful features, account holders can also file certain tax returns (sales, personal income, withholding, etc.), make payments (return payments, estimated income tax payments, bill payments, etc.), request an installment agreement, respond to a department notice, update contact information, and receive filing reminders.

⁶⁶ March 9, 2015, interview with Assistant Director, Enterprise Services Bureau Tax Processing Division, New York State Department of Taxation and Finance. To keep up with the latest tax news and updates, users can subscribe to the department's e-mail service or follow the department on Twitter, Facebook, and YouTube. Recently, the department has begun heavily investing in social media. Instead of just using social media as a platform to post real-time updates and news, the department also uses it as an extension of customer service and outreach programs. The department responds to questions from users and welcomes feedback, positive or negative. For users with limited proficiency in English, the department Website posts translations of vital documents into the six most commonly spoken non-English languages. Similarly, users can access demos and online tutorials on how to effectively use the website at <http://www.tax.ny.gov/e-services/otc/demos/demo.htm>.

Much like financial institutions that offer reduced processing fees and convenience incentives to interact online, the IRS already offers financial incentives to taxpayers who set up installment agreements by direct debit versus check processing. Those taxpayers save more than 50% on the initial installment agreement set-up fee.⁶⁷ The IRS could market similar value points as part of its online account, including faster or guaranteed resolution times for certain issues, documented audit trails, and more streamlined processes without the possibility of lost mail and missed calls. The IRS could also offer financial incentives to taxpayers, such as proactively offering first-time penalty abatement in an online account.⁶⁸

Conclusion

In order to encourage taxpayer adoption of a digital-first approach, the IRS should gain a comprehensive understanding of the factors that drive adoption, set adoption goals and measure its progress. ETAAC recommends several ways the IRS can encourage adoption – first, by focusing its efforts on one comprehensive account. As New York State learned, taxpayer adoption and use was directly related to broad functionality of the single account.

Also critical are the value and ease of use that a customized experience provides. When taxpayers can easily find what they need within their account, with reminders and access to information that will help them stay compliant, they will be quicker to adopt.

ETAAC also recommends that the IRS make the strategic decision to accelerate development of online accounts for business taxpayers, who perform tax transactions in disproportionate numbers and can help drive wider adoption of accounts. As the IRS develops tactics to drive taxpayers to electronic interaction, it should also leverage proven techniques that led to increasing adoption rates for state agencies and industry providers.

If the IRS focuses on creating value and ease of use for stakeholders, it will encourage adoption of online accounts and shift taxpayers toward a digital-first approach.

⁶⁷ See <http://www.irs.gov/Individuals/Online-Payment-Agreement-Application>. The fee to set up a direct debit installment agreement is \$52. The fee is \$120 for installment agreements not debited directly from the taxpayer's bank account. The differential accounts for the reduced processing time and errors for the IRS, as well as fewer defaulted payments.

⁶⁸ See TIGTA Rep't No. 2012-40-113. In 2001, the IRS established FTA to help administer the abatement of penalties consistently and fairly, reward past compliance, and promote future compliance. This administrative penalty waiver allows a first-time noncompliant taxpayer to request abatement of certain penalties for a single tax period—one tax year for individual and business income taxes and one quarter for payroll taxes. According to TIGTA, for tax year 2010, the average individual failure-to-file abatement qualifying under FTA was \$240, and the average failure-to-pay abatement was \$84. However, more than 90% of individuals who qualified for FTA did not receive the waiver for 2010. This is likely because taxpayers did not know they could request it. The IRS does not publicize FTA as a relief option on its penalty-related notices or on its website. In completing a search on IRS.gov for penalty abatement, top search results all fail to provide this information.

KEY OUTCOME 3

THE IRS SHOULD LEVERAGE TAX SOFTWARE PROVIDERS AND TAX PROFESSIONAL RELATIONSHIPS TO ADVANCE ITS DIGITAL-FIRST STRATEGY.

Key Outcome 3: The IRS digital-first strategy advanced across the industry, through tax software providers and tax professionals, to decrease IRS and taxpayer burden and increase overall compliance

Recommendations for this outcome:

Recommendation 10: The IRS should develop a comprehensive online account for tax professionals, in conjunction with the taxpayer online account.

Recommendation 11: The IRS should make it easier for taxpayers to authorize their tax professionals to help with compliance.

Recommendation 12: The IRS should provide tax software companies with secure and timely access to certain taxpayer information within tax software.

Recommendation 13: The IRS should work with tax software providers to encourage taxpayers to set up their secure online account during the return preparation process, and maintain access to that account through their tax preparation software.

Background on Key Outcome 3

Tax professionals and tax preparation software providers are important partners in tax administration for the IRS. Ninety-one percent of the 150 million individual returns are filed using tax preparation software.⁶⁹ Tax professionals file 56% of all individual tax returns⁷⁰ and even higher percentages of business returns.⁷¹ As such, tax professionals are the main channel through which taxpayers get help with compliance.

Therefore, for millions of taxpayers, the filing experience with tax preparation software and tax professionals is a familiar and trusted way to interact with the IRS. Taxpayers trust these third parties with one of their most important yearly financial transactions, and rely on third parties to help them understand their tax obligations before, during, and after filing. This high level of trust is demonstrated

⁶⁹ IRS Commissioner John Koskinen's statement on April 15, 2015, at <http://www.irs.gov/uac/Written-Testimony-of-IRS-Commissioner-Koskinen-before-the-Senate-Homeland-Security-and-Governmental-Affairs-Committee-on-Implementation-of-the-Affordable-Care-Act>

⁷⁰ See the testimony of Commissioner Koskinen before the Senate Finance Committee on April 8, 2014, at <http://www.irs.gov/PUP/irs/KoskinenTestimonyonRegulationofReturnPreparers.pdf>

⁷¹ 2013 National Small Business Association Small Business Taxation Survey: <http://www.nsba.biz/wp-content/uploads/2013/04/Taxation-Survey-2013.pdf>

by high retention rates. For example, in an industry survey for CPAs, 81% of individual taxpayers report that they are likely to stay with their CPA next year.⁷²

Tax professionals and software providers not only contribute to taxpayer service and compliance, but they also reduce IRS and taxpayer service burden by filtering client questions and troubleshooting tax issues before any contacts are made with the IRS. Because of this essential partnership in tax administration, ETAAC recommends that the IRS leverage its partnership with industry software providers and tax professionals to dramatically accelerate IRS plans to deliver better taxpayer service, and to encourage quick taxpayer adoption of a digital-first approach.

Recommendation 10: The IRS should develop a comprehensive online account for tax professionals, in conjunction with the taxpayer online account.

Detail on this recommendation:

In recent years, taxpayers' live access to the IRS to get help and information has decreased, as the result of IRS budget reductions and reduced staffing levels. Because of this, the tax professional's role in assisting the IRS with voluntary compliance is even more critical. Taxpayers leverage tax professionals to answer many tax-related questions and provide responses to the IRS. Providing electronic tools that allow tax professionals to work efficiently to address client compliance issues is a win-win-win for the IRS, taxpayers, and tax professionals.

ETAAC recommends that the IRS build online capabilities and an online account for tax professionals, in conjunction with taxpayer accounts, for several reasons:

- Enabling the tax professional to interact electronically with the IRS meets the needs of the majority of taxpayers and allows tax professionals to meet their clients' expectations.
- With consistently falling IRS levels of service to taxpayers and tax professionals⁷³, prioritizing tools for tax professionals at the same time as their clients avoids disenfranchising tax professionals, who are important partners with the IRS in assisting taxpayer voluntary compliance.
- With authorized access to client information, tax professionals are critical to the IRS in streamlining and reducing taxpayers' expensive phone and paper interactions with the IRS. Tax professionals can make the process more efficient by providing complete answers the first time and reducing taxpayer interaction with the IRS outside of filing a return.
- Tax professionals are a critical component to driving the IRS's digital-first strategy because of their trusted relationship with taxpayers. The IRS can partner with tax professionals, who can endorse adoption and use of taxpayer online accounts by educating their taxpayer clients about the benefits and uses of the online account.

Consistent with the recommendations in ETAAC's 2014 report, ETAAC strongly recommends that the IRS commit to concurrently enabling tax professionals with digital capabilities similar to individual taxpayer online accounts, as well as electronic authorization functionality. Further, ETAAC recommends that the IRS update its development roadmap to reflect this commitment and establish a delivery timeframe, recognizing that any gaps in delivery between taxpayer and tax professional tools could alienate tax

⁷² See CCH Client Survey on Client Retention at <http://cpatrendlines.com/wp-content/uploads/2010/11/cch-ucwhitepaper-10-Enhanced11.pdf>

⁷³ According to data provided by the IRS, the IRS answered 71% of calls to the Practitioner Priority Service (PPS) line in FY 2014. The National Taxpayer Advocate also reported in April 2015 that call wait times were almost 47 minutes. If practitioners' access to the IRS continues to erode in the absence of digital tools, taxpayers will be adversely affected.

professionals, reduce tax professionals' effectiveness in serving clients, and impede taxpayer adoption of an online account.

For more details on specific functions that should be available in a tax professional account and the types of access that should be available to Circular 230 and non-Circular 230⁷⁴ tax professionals, see the 2014 ETAAC Annual Report to Congress.⁷⁵

Recommendation 11: The IRS should make it easier for taxpayers to authorize their tax professionals to help with compliance.

Detail on this recommendation:

ETAAC recommended in last year's report that, as part of development efforts for online accounts, the IRS should include the ability for taxpayers and tax professionals⁷⁶ to complete and file authorizations electronically. The IRS is currently developing the fundamental and prerequisite capability for taxpayers to electronically authorize tax professionals to receive information and represent them in tax matters. The IRS tentatively plans to deliver this electronic authorization capability in 2016. ETAAC recognizes the IRS's commitment to delivering the authorization functionality, and recommends that the IRS accelerate implementation of this capability to provide a foundation for tax professionals to access client information and streamline the authorization process.

ETAAC also recommends that the IRS further improve ease of use for taxpayers to authorize their tax professionals to help, with the following enhancements:

- Allow the e-filing of authorization Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*, at the time of tax preparation.
- Expand usability of the current Forms 2848 and 8821 to allow taxpayers to authorize their tax professionals on all open tax matters, in addition to specific forms and years.⁷⁷
- Allow taxpayers and tax professionals to add specific expiration dates to authorizations.⁷⁸

ETAAC has encouraged the development of electronic authorization management⁷⁹ between taxpayer and tax professional online accounts because it will reduce IRS service burden, maintain taxpayer compliance, and be critical to adoption of the IRS digital-first taxpayer service model. All types of taxpayers, including many self-filers and those who use a tax professional to prepare their returns, will want to authorize a tax professional to resolve any issues on their return using the online account. Authorized tax professionals with parallel access to clients' account information will help their clients directly by using the information and acting on their clients' behalf.

⁷⁴ As stated in Recommendation 8 of the 2014 ETAAC report, ETAAC recommends that the IRS extend certain features of the online account to unenrolled tax preparers who have successfully passed an IRS approval process.

⁷⁵ See Recommendation 8 in the 2014 ETAAC Report to Congress at <http://www.irs.gov/pub/irs-pdf/p3415.pdf>

⁷⁶ Tax professionals include the broad spectrum of Circular 230 providers (CPAs, enrolled agents, and attorneys) as well as tax preparers and other voluntary providers who can be authorized to act on behalf of a taxpayer.

⁷⁷ This is similar to the scope of New York State Department of Taxation and Finance taxpayer authorizations, within an online account. See Recommendation 9 for more information about New York state's online accounts for taxpayers and tax professionals.

⁷⁸ The New York State Department of Taxation and Finance currently has the capability to add an expiration date to an authorization. Adding this feature will allow taxpayers to control access to their account and protect their privacy.

⁷⁹ Authorization management within an online account would allow taxpayers and tax professionals to view details about their authorizations, such as the authorized parties, authorized forms and years, and the status of the authorization. It would also provide capabilities to submit and withdraw authorizations electronically.

Tax professionals could also prompt their clients to sign up for an online account to be able to digitally authorize the tax professional to help. In this case, it's reasonable to think that the trust relationship would create a compelling reason for the taxpayer to adopt the online account.

Recommendation 12: The IRS should provide tax software companies with secure and timely access to certain taxpayer information within tax software.

Detail on this recommendation:

Given ever-increasing demands on limited IRS resources, the IRS should leverage the technological capabilities of tax software providers to accelerate its digital-first strategy. Many of these companies are trusted partners that can provide taxpayers with individualized customer service and another channel for secure access to information, with proactive consent.

With the majority of individuals and tax professionals using software to file tax returns, this channel would present a seamless experience for many taxpayers to obtain most information related to their federal tax return, whether they completed their return using a tax professional or independently.

ETAAC recommends that the IRS work with tax software companies to provide access to tax information through tax preparation software. The IRS started moving in this direction for the 2015 filing season, with a limited pilot to deliver taxpayers' refund status through an Application Programming Interface (API) in tax preparation software. The IRS is considering expansion of these types of capabilities using third parties. ETAAC recommends this approach, and recommends that the IRS accelerate activities in this direction to provide taxpayers with better access to their information and to improve and streamline IRS taxpayer service. For example, taxpayers could use tax software to:

- Review their prior-year tax return
- Pay by IRS Direct Pay
- Set up an installment agreement
- View current Forms W-2/1099 on file with IRS
- See whether they owe a balance
- See whether they have other tax issues on their account
- Enable a third party to help after filing by e-filing disclosure authorizations (Forms 2848 and/or 8821)
- Look up additional information (for example, in prior years, the IRS created specific look-up tools for information related to the first-time homebuyer credit and advance child tax credit payments)

ETAAC realizes that the IRS and tax software providers will need to work together to improve authentication methods and add additional consent functionality to facilitate the transfer of taxpayer information from the IRS to tax software. The IRS and tax software industry should collaborate to accomplish these objectives in a way that will assure the public and federal oversight groups that the information is being shared with appropriate levels of taxpayer authentication and the proper consents.⁸⁰

⁸⁰ For third-party access, the IRS must identify solutions to certain challenges and dependencies, such as authorization and authentication. In addition, taxpayer privacy and consent under Internal Revenue Code Sec. 6103 dictate the degree to which taxpayer data can be shared.

Recommendation 13: The IRS should work with tax software providers to encourage taxpayers to set up their secure online account during the return preparation process, and maintain access to that account through their tax preparation software.

Detail on this recommendation:

Consistent with last year's recommendation, ETAAC recommends that the IRS work with software providers to encourage taxpayers to set up a secure IRS taxpayer online account when preparing their returns electronically. To encourage continued use, links to their IRS account should be accessible to taxpayers through their chosen tax software. Therefore, when taxpayers use tax software each year, they will be encouraged to interact with their IRS online account.

Partnering with software providers in this way would make adoption of an IRS taxpayer online account easy for taxpayers, and would provide greater ability for software providers to customize their clients' experience.

Conclusion

In its Electronic Filing Report issued in February 2014, the IRS Oversight Board urged the IRS to partner with industry to provide a world-class digital service experience.⁸¹ ETAAC also urges the IRS to meet taxpayers where and how they want information, through tax software providers and tax professionals, who serve the majority of taxpayers.

In partnership with tax software providers, the IRS can provide relevant information and access to encourage adoption of a digital-first approach. In addition, enabling the tax professional with easier-to-use authorization capabilities and parallel functionality with taxpayer accounts will allow tax professionals to meet service needs and help their clients stay in compliance. This will benefit taxpayers and the IRS, in the form of increased compliance, reduced IRS and taxpayer burden, and improved taxpayer service.

⁸¹ See this report at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB-E-File%202013.pdf> on page 4.

KEY OUTCOME 4

THE IRS SHOULD IMPROVE [IRS.GOV](http://www.irs.gov) AS AN INFORMATION RESOURCE.

Key Outcome 4: Improved website experience that provides relevant and accurate information in a user-friendly format to support a digital-first taxpayer service strategy

Recommendations for this outcome:

Recommendation 14: The IRS should improve search and navigation functionality to help taxpayers with self-service on [IRS.gov](http://www.irs.gov).

Recommendation 15: The IRS should improve [IRS.gov](http://www.irs.gov) content to maximize its value to users.

Background on Key Outcome 4

In 2014, IRS.gov received 443 million visits.⁸² In fact, IRS.gov is the most frequently used channel for taxpayers to obtain tax information and interact with the IRS, and is among the most popular websites in the world.⁸³ Taxpayers use IRS.gov for a variety of purposes, such as obtaining tax law information and help, downloading forms and publications, and understanding how to apply tax rules to their situation using interactive and informational digital tools.

To measure the effectiveness of its website, the IRS engages a third party to complete monthly website satisfaction performance surveys. In the January 2015 website survey, the most commonly identified website challenges were search capability and site navigation.⁸⁴

In this Key Outcome, ETAAC offers recommendations for how the IRS can make improvements to IRS.gov to help address search and navigation and to ensure that IRS.gov provides relevant, usable content for taxpayers to get tax information.

⁸² See <http://www.irs.gov/uac/2015-and-Prior-Year-Filing-Season-Statistics>.

⁸³ IRS Oversight Board 2014 Taxpayer Attitude Survey. Figure 14 at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20Taxpayer%20Attitude%20Survey%202014.pdf>. According to Alexa.com, a website that analyzes and measures website popularity, IRS.gov ranks as No. 382 out of the hundreds of millions of total websites. The exact number of total websites is unknown. However, according to an April 2014 Netcraft.com Web Server Survey, there are more than 958 million websites.

⁸⁴ ForeSee Results, Inc., monthly survey summary from Jan. 1 to Jan. 31, 2015. The IRS measured seven elements of website satisfaction: content, functionality, look and feel, navigation, online transparency, search, and site performance. Site performance had the highest qualitative score of 84, while navigation and search had the lowest score of 70.

Detailed recommendations

Recommendation 14: The IRS should improve search and navigation functionality to help taxpayers with self-service on [IRS.gov](https://www.irs.gov).

Detail on this recommendation:

As of December 2014, there were more than 100,000 pages on IRS.gov.⁸⁵ For IRS.gov users, finding the most relevant content to answer their questions is the biggest challenge. Two primary capabilities needed for users to access relevant content quickly and efficiently are effective search functions and organized, intuitive website navigation.

Currently, the IRS is limited in how it can organize its content on IRS.gov. The current platform does not provide the flexibility needed to sufficiently improve organization and implement an improved taxonomy without significant customization and resources.⁸⁶ Improved content organization and publishing flexibility would enhance the customer experience and improve content management on IRS.gov. ETAAC recommends that the IRS obtain publishing solutions that provide more flexibility and enable IRS Online Engagement Operations and Media (OEOM) staff, the content owners, authors and publishers to optimize the website for search, navigation, and content discovery.

ETAAC also recommends that the IRS improve IRS.gov organization and search capabilities by:

- Improving search functionality and reducing redundant or outdated content to help users quickly find the most relevant content. Consumers expect the most applicable content to their queries to appear in the top search results.
- Facilitating search of publications and instructions. The content in publications and instructions contains valuable information, but the information is not optimized for search, and, therefore, is often undiscoverable to the taxpayer. The PDF versions of the forms, instructions, and publications are available on the site, but are not organized as well as they could be. Current tax materials are mixed with reports and marketing materials in a list of approximately 2,000 files. The list can be sorted and filtered, but not searched. Therefore, ETAAC recommends that IRS expose the content in publications and instructions to search engines, and improve access to tax materials required for filing.
- Making IRS.gov mobile-friendly with solutions such as responsive design. More consumers are consuming information and searching from mobile devices.⁸⁷

This recommendation, in hand with the next, will improve the effectiveness of search and navigation functionality across IRS.gov and assist the IRS in moving toward a digital-first taxpayer service strategy.

⁸⁵ IRS presentation on “Upgrading IRS.gov content,” on Dec. 9, 2014.

⁸⁶ Various discussions with OLS (December 2014-March 2015).

⁸⁷ Effective April 21, 2015, Google began including mobile-friendliness as part of the criteria in determining search results. See Google Webmaster Central Blog, Feb. 26, 2015. See Google Developers Mobile-Friendly Test at https://www.google.com/webmasters/tools/mobile-friendly/?utm_source=wmc-blog&utm_medium=referral&utm_campaign=mobile-friendly&url=http%3A%2F%2Fwww.irs.gov.

Recommendation 15: The IRS should improve [IRS.gov](https://www.irs.gov) content to maximize its value to users.

Detail on this recommendation:

A key to taxpayer self-service on IRS.gov is content quality. ETAAC supports current IRS initiatives to establish an online content publishing model (also known as an Enterprise Content Model or ECM), editorial standards, and style guidelines for website content.⁸⁸

To further improve content on IRS.gov, ETAAC recommends that the IRS:

- Consolidate governance and oversight of IRS.gov content. OEOM should be empowered to maximize the effectiveness of IRS.gov to meet organizational objectives, streamline content production and provide better content to taxpayers.
- Establish a team of subject matter experts (SMEs) across the IRS responsible for creating, editing, producing and publishing content. There are between 250 and 300 staff across the IRS who can publish IRS.gov content.⁸⁹ Technical writers and editors work in silos, producing content that can be redundant, inconsistent, and outdated. Establishing a team of SMEs across the IRS with content production responsibilities will support IRS efforts in the training and enforcement of established practices and guidelines, such as using plain language.⁹⁰
- Create standardized content formats, structures and guidelines. According to the IRS, different standards and processes are used to create, edit, and approve online content. ETAAC recommends that the IRS create and provide formats, structures, and guidelines for SMEs to use for developing content. This would help the IRS maintain a uniform website structure, optimize search, and support SMEs in content production.
- Establish uniform online content standards that are enforced across the IRS via an online content publishing model. Consistent with industry best practices, the IRS should develop and publish an updated protocol for maintaining existing content on IRS.gov. Processes, standards and guidelines should be defined for the review, retirement and possible archiving of outdated, unused, or inaccurate content.
- Write and present content to users in a way that is applicable for different audiences. For example, detailed, legal, and technical language may be appropriate for tax professionals, but a different online content user experience is required for an average taxpayer.
- Review and revise as necessary guidance on the use of the frequently asked questions (FAQ) content type. This could include criteria for creation, authorship, and publishing.
- Make content more practical and easier to understand. The IRS should continue to strictly enforce the Plain Writing Act, by providing examples in plain language.
- Educate authors on writing for optimized search performance, for mobile devices, and for web-based experiences.

These recommended changes will improve the content of IRS.gov and will make the website more relevant and helpful to taxpayers. Given the need to complete an exhaustive upgrade to its online content, introduce an improved Content Management System, implement an online content publishing

⁸⁸ According to the IRS OEOM function, as of Dec. 9, 2014, the IRS was working on dozens of content upgrade projects and had started to establish standards, structure, and governance for IRS.gov to improve its content.

⁸⁹ IRS presentation on “Upgrading IRS.gov content,” on Dec. 9, 2014.

⁹⁰ The Plain Writing Act of 2010 requires federal agencies to write “clear Government communication that the public can understand and use.” Specifically, the law requires the IRS to use plain writing for information about any federal government benefit or service, instructions to get any federal government benefit or service or to file taxes, and instructions to comply with any requirement administered or enforced by the federal government. See <http://www.irs.gov/uac/Plain-Language-at-IRS>.

model, and develop taxonomy, it may prove easier and more cost effective to combine these efforts into a “new” IRS.gov. As a result, IRS.gov users will be more likely to leverage IRS.gov as an initial and comprehensive resource for required tax information.

Conclusion

To make IRS.gov a more valuable and utilized self-service tool and information resource, the IRS should investigate technology solutions for content organization and employ various tactics to enhance the usability of the site, including search and mobile improvements. The IRS can also promote ongoing improvement of content quality by aligning content production with updated standards and governance requirements.

By improving search and navigation functionality, as well as content, the IRS will maximize IRS.gov as part of its efforts to drive a digital-first taxpayer service model. Further, there is an opportunity on IRS.gov to make taxes clearer, to make online self-service an even more viable alternative to traditional service channels, and to satisfy more taxpayers.

APPENDIX A: ETAAC MEMBERS

Shaun Barry – Mr. Barry is a Principal in the Fraud & Security Intelligence practice at SAS Institute. He lives and works in Rockville Centre, NY, and is responsible for developing and implementing technology solutions that give government leaders the power to identify and manage tax compliance, fraud, and improper payments issues. Mr. Barry has 20 years of experience in working with government clients throughout the U.S., Canada, South America, Europe, and Asia to foster innovative and efficient operations through technology. He specializes in tax/revenue, healthcare, motor vehicle, and fraud/improper payments domains. Previously, Mr. Barry worked for the Ohio Department of Taxation, where he served as the Assistant to Tax Commissioner Roger W. Tracy. Mr. Barry earned a B.A. in American Studies from the University of Notre Dame, and a Master of Public Policy degree from Duke University.

Jim Buttonow – Mr. Buttonow, CPA, CITP, of Greensboro, NC, serves as the 2014-2015 ETAAC chairperson. Mr. Buttonow directs tax practice and procedure services and software for H&R Block. He regularly writes and instructs on IRS practice and procedure, compliance trends and post-filing practice efficiency strategies. For 19 years, Mr. Buttonow worked at the IRS, serving as a large case team audit coordinator for 15 years. Since 2006, Mr. Buttonow has also been in private practice. He earned a B.S. in Accounting from the University of South Florida.

Mark Castro – Mr. Castro, CPA, is the Government/Industry Liaison for Petz Enterprises, Inc., from Woodinville, WA. He is responsible for working with state tax agencies and the IRS to help improve electronic filing and gather the most up-to-date state and federal tax information for the company. While working in the tax software industry, Mr. Castro has been involved in all areas of electronic filing, including development, testing and customer support. He also serves on the board of the Council of Electronic Revenue Communication Advancement, as the Electronic Filing Committee Chairperson of the National Association of Computerized Tax Processors, and on the recently commissioned coalition to address tax identity theft. Mr. Castro earned a B.S. in Business Administration (Accounting) from California State University, Northridge.

Everard Lee Davenport – Mr. Davenport is Principal at Davenport Consulting and is based in Washington, DC. He works with nonprofit organizations, corporations, government agencies and Volunteer Income Tax Assistance (VITA) sites to create and deliver free income tax, financial empowerment and digital learning programs to underserved communities. Mr. Davenport has expertise in multi-partner program development, implementation and communications strategies, and is the architect of MyFreeTaxes.com. Recently, he served as Vice President, Programs at One Economy Corporation. Prior to that, he managed the nation's largest free low-income tax preparation network at the Food Bank of New York City. Mr. Davenport has a B.A. in Psychology from University of Texas at Austin and a M.S. in Urban Policy/Nonprofit Management from the New School in New York City.

Steve Lewis – Mr. Lewis is an Enrolled Agent with more than 18 years of experience in the tax industry. Mr. Lewis has extensive experience in the delivery of online tax solutions. In addition, he has overseen the development of public websites and mobile applications. He has established processes and procedures for operational implementation of interactive and social media. Mr. Lewis earned his B.S. in Accounting and his MBA in Finance, both from Northeastern University. He is a member of the National Association of Enrolled Agents (NAEA) and the National Association of Tax Professionals (NATP).

Kevin A. Richards – Mr. Richards, of Springfield, IL, is the manager of the Electronic Commerce Division at the Illinois Department of Revenue. Richards, who is in his 25th year at the department, has managed the Electronic Commerce Division for the last 16 years. The Electronic Commerce Division is responsible for the development, marketing, implementation and management of electronic filing and payment programs at the department, including individual income tax and business tax applications. The Electronic Commerce Division also encompasses the Electronic Funds Transfer Office and all cash-management operations at the Illinois Department of Revenue. In fiscal year 2014, the Electronic Commerce Division oversaw the processing of more than 16 million electronic returns and payments totaling over \$36 billion in deposits. Mr. Richards earned a B.S. in Finance from Eastern Illinois University and an MBA from the University of Illinois-Springfield. Mr. Richards is also the president of the local chapter of the Association of Government Accountants.

Stephanie Salavejus – Ms. Salavejus, of Newport News, VA, is vice president with Peninsula Software (PenSoft). Ms. Salavejus is responsible for software solutions and product requirements for clients. She has 28 years of experience in electronic filing of tax reports and software development. Ms. Salavejus regularly speaks on tax administration topics related to payroll. She is also a member of the American Payroll Association and the National Association of Computerized Tax Processors.

Troy Thibodeau – Mr. Thibodeau, of Minneapolis, MN, serves as the 2014-2015 ETAAC vice chairperson. He is Chief Marketing Officer of Sovos Compliance, a software firm that helps businesses with Sales, Use and Information Returns processing. He is a former CPA with Price Waterhouse Coopers and has over 20 years of experience within the technology and finance industries. Mr. Thibodeau monitors federal and state regulatory rules, establishes technical direction of software development, and delivers operational and technical support to financial service and business firms around their tax reporting responsibilities. Certification includes Six Sigma, Green Belt. Mr. Thibodeau earned a B.S. in Accounting and International Business from University of Indiana and an MBA in Strategy and Marketing from the University of Minnesota.

Kelli Wooten – Ms. Wooten, of Boston, MA, is a director with Markit | CTI Tax Solutions and Of Counsel with Burt, Staples & Maner LLP. She advises both multinational corporations and financial institutions on their compliance with information reporting and withholding rules such as the Foreign Account Tax Account Compliance Act (FATCA). Ms. Wooten supports clients in developing processes and procedures for completing and e-filing Forms 8966, 1042-S and 1099, as well as designing, testing, and implementing tax software solutions for tax due diligence, withholding, and information return reporting. Ms. Wooten serves as a member of the Education Committee of the Institute of Financial Operations and is a frequent speaker and author on information reporting and withholding compliance. Ms. Wooten earned a B.S. in Accounting from The University of Tennessee, and a Juris Doctorate from the University of Cincinnati College of Law.

APPENDIX B: EFI ANALYTICAL METHODOLOGY

This Appendix explains ETAAC's methodology for analyzing and projecting the Electronic Filing Index (EFI).

THE ELECTRONIC FILING INDEX

ETAAC has used several measures over the years to report and measure the electronic filing (e-file) rate. To create a consistent measure of this goal, standardize cross-year comparisons, and facilitate analysis, ETAAC developed the Electronic Filing Index (referred to as EFI, or Index) for use in its annual report to Congress. The Index aggregates and assesses the electronic filing rates of a defined set of major tax returns and includes a methodology for projecting e-file rates based on season-to-date information about the main driver of electronic filing rates – the individual tax return.

The Index computes a specific electronic filing rate for each specified return family, as well as an overall composite rate representing the overall electronic filing rate for all major return families in the Index. Importantly, because certain information in IRS Publication 6186 (which is revised and published each fall) is estimated, ETAAC's Index may shift slightly from year to year as IRS updates its estimates with actual filing season results.

RETURN FAMILIES

The Index is computed using IRS Publication 6186's reported information for designated forms in six major return families:

Individual Income Tax

Forms 1040, 1040-A, and 1040-EZ

Employment Returns

Forms 940 and 940-PR, Forms 941 and 941-PR/SS

Corporation Income Tax

Forms 1120 and 1120-A Total
Form 1120-S

Partnership

Forms 1065/1065-B

Exempt Organizations

Form 990
Form 990-EZ

Fiduciary

Form 1041

Substantiation for the continued use and accuracy of the EFI methodology can be seen in results from the 2014 filing season. ETAAC's June 2014 report projected an e-file rate of 84.1% for the 2014 filing season for individual returns (Forms 1040, 1040-A, and 1040-EZ), and an EFI of 75.4% for all major returns. Based on IRS data for the 2014 filing season, published in October 2014, the actual e-file rate for individual returns was 84.7%, and the e-file rate for all major returns was 75.6%. Given the accuracy of the EFI methodology in projecting EFI rates, this 2015 ETAAC report uses the same projection methodology.

Table 5: 2014 EFI Projection vs. IRS Data

Type of Return	2014 IRS Data vs EFI Projection		
	EFI	IRS Data	Variance
Individual (Forms 1040, 1040-A, and 1040-EZ)	84.1%	84.7%	0.6%
Business (94x, 1120, 1065, 1041, 990 families)	45.8%	45.1%	-0.7%
All Major Returns	75.4%	75.6%	0.2%

Sources: IRS Publication 6186 (Rev. 10-2014) Table 2 and June 2014 ETAAC Annual Report to Congress

ESTIMATING THE ELECTRONIC FILING RATE

As noted above, the current-year filing season data contained in IRS Publication 6186 is estimated. However, based on prior-year filing results and data for the season at this point, we can extrapolate and make reliable estimates for all of 2015. Therefore, ETAAC has modeled a projection methodology to forecast the current-year Index based on two components.

Component 1: Individual returns (Form 1040 series)

ETAAC projects total filing season e-file rates for individual returns by extrapolating current filing season year-to-date information into full-year estimates, based on how the individual return e-file rate has historically trended in the May-October period.

Based on this methodology, ETAAC estimates that the e-file rate for individual returns will be approximately 86.3% for the entire 2015 filing season, translating to an overall Index of 77.5% for all major return types for the 2015 filing season.

ETAAC follows a four-step process to project the full-year electronic filing rate for individual returns.

Step 1: Estimate the actual current year-to-date e-file rate.

Determine the current year-to-date e-file rate for individual returns, based on actual return filing information through April 24, 2015.

Table 6: Individual Income Tax Returns – Actual Through April 24, 2015

Individual Income Tax Returns	2015 filing season through 4/24/2015
	Number of Returns
Total Filed	134,209,000
Efile	119,402,000
E-File %	89.0%

Source: Current- and prior-season filing statistics, as found at www.irs.gov/uac/2015-and-Prior-Year-Filing-Season-Statistics

Step 2: Estimate the historical e-file rate degradation through the remainder of the year.

Compare the e-file rate for the first four months of the year through end of April (primary filing season) with the actual e-file rate for the full-calendar-year filing season for 2013 and 2014. In both instances, the final e-file rate decreased approximately 3% after the initial April filing deadlines. The degradation rate during this period remains relatively steady from year to year. ETAAC will continue to monitor the degradation rate to note whether it has any significant year-to-year changes.

Table 7: Historical Partial-Season Data vs. Full-Season Data

Individual Income Tax Returns	2013			2014			2014 vs. 2013
	4/26/2013	12/27/2013	Change	4/25/2014	12/26/2014	Change	Change
Total Receipts	132,760,000	148,197,000	11.63%	134,334,000	149,684,000	11.43%	-0.20%
E-File Receipts	113,226,000	122,515,000	8.20%	116,556,000	125,821,000	7.95%	-0.25%
E-File Rate	85.29%	82.67%	-2.62%	86.77%	84.06%	-2.71%	-0.09%

Source: Current- and prior-season filing statistics, as found at <http://www.irs.gov/uac/2015-and-Prior-Year-Filing-Season-Statistics>

ETAAC uses the average degradation rate experienced over the past two years to forecast degradation for the current year. The 2014 e-file rate degradation is forecast to be 2.7%.

Step 3: Project the full-year e-file rate for individual returns.

Subtract the e-file rate degradation from the actual current year-to-date e-file rate. Using an April 24, 2015, cutoff, the projected full-year e-file rate for the individual tax return family is 86.3%.

Table 8: 2015 Individual Electronic Filing Rate Projection

Individual (Forms 1040, 1040-A, and 1040-EZ)	2015 filing season through 4/24/15		
	Current	Projection Rate	2015 Projection
Total Receipts	134,209,000		
E-File Receipts	119,402,000		
E-File Rate	89.0%	-2.7%	86.3%

Source: Current- and prior-season filing statistics, as found at <http://www.irs.gov/uac/2015-and-Prior-Year-Filing-Season-Statistics>

Step 4: Project the full-year e-file volume for individual returns.

Multiply the projected e-file rate by the IRS's projected 2015 total individual return volume presented in IRS Publication 6186 – that is, 86.3% times 149,382,700 returns. Then, use this projected e-file return volume to calculate the overall Index rate for all major return types.

Component 2: Business returns (Form 94x, 990, 1041, 1065, 1120)

ETAAC relies on IRS data estimates from IRS Publication 6186, which is published in the fall of each year, to calculate the EFI for all business return families of forms.

APPENDIX C: ETA INDEX ANALYTICAL METHODOLOGY

This Appendix explains ETAAC's methodology for establishing and calculating the new Electronic Tax Administration (ETA) Index.

CONTEXT FOR ESTABLISHING THE ELECTRONIC TAX ADMINISTRATION INDEX

Tax administration is comprised of three main functional components. They are:

1. Filings and submissions
2. Taxpayer service
3. Compliance

Since its inception, ETAAC has measured the progress of the first component – filings and submissions – through the Electronic Filing Index (EFI). However, ETAAC has not measured the progress toward electronic tax administration for the taxpayer service and compliance components. The reason for this inattention has been a lack of reliable data.

To develop the Service on Demand (SOD) strategy, the IRS Office of Online Services (OLS), IRS Wage & Investment division, and IRS IT teams have initiated a comprehensive and structured effort to collect data on taxpayer service interactions. OLS began this effort by identifying 15 service categories, or groupings of similar services that the IRS provides to taxpayers. The categories are listed and defined in Table 9.

Table 9: Categories of taxpayer services provided by the IRS

Taxpayer Service Category	Description
1. Billings & Payments	Services related to billing, balance inquiries, and payments; Examples include cash and non-cash payments, installment agreements, and issuance of 17 types of correspondence
2. Business Assistance	Provision of all services for business taxpayers, excluding filings and submissions
3. Employer Identification Number	Services related to issuance and maintenance of Employer Identification Number, including issuance of numbers, change of address, and issuance of five types of correspondence
4. Forms & Publications	Services related to the provision of forms and IRS publications to taxpayers and tax preparers
5. Individual Assistance	Wide range of services related to assistance for individual taxpayers, including Taxpayer Assistance Center (TAC) appointments, general inquiries from walk-ins and calls, injured spouse cases, and 14 types of outbound correspondence
6. ITIN	Services related to the issuance and maintenance of the Individual Taxpayer Identification Number
7. Languages	Provision of services in languages other than English
8. PINs/Identity Theft	Services related to issuance of e-Filing PINs and resolution of identity theft issues, including inbound and five types of outbound correspondence
9. Records/Transcripts	Provision of transcripts, records of account, and student records access
10. Refund/Status	Services related to status of refund request, including status inquiries ("Where's My Refund?"), traces, and address redirects
11. Return Changes	Services related to return changes and adjustments, including amended returns, math errors, refund offsets, CP2000 notices, duplicate filings, and 68 types of outbound correspondence
12. Return Preparation	Services related to preparation of tax returns, including VITA program, assistance with Earned Income Tax Credit, and calculation of Alternative Minimum Tax
13. Tax Exempt Assistance	Provision of all services for tax-exempt organizations, excluding filings and submissions
14. Tax Law	Services related to all inquiries related to tax law interpretations provided directly to a taxpayer or preparer

15. Tax Pros/e-Help	Services related to status of a tax professional, including return preparer registration and cases of preparer misconduct ⁹¹
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Subsequently, OLS has collected data on the number of service interactions in each service category. This data is broken down into the six service delivery channels. IVR/Automated Calls and Digital channels are considered to be electronic. The service delivery channels are listed and defined in Table 10.

Table 10: Service delivery channels offered by the IRS for taxpayer service

Service Delivery Channel	Channel type	Description
1. Walk In	Manual	Taxpayer services provided face-to-face at Taxpayer Assistance Centers (TACs) and other IRS offices
2. Live Assistance	Manual	Taxpayer services provided by an IRS employee through an IRS call center and through telephone calls to IRS offices
3. Inbound Correspondence	Manual	Taxpayer services provided through letters, forms, and written requests received by the IRS through the mail stream, courier services, and faxes
4. Correspondence	Manual	Taxpayer services provided by the IRS through the issuance of a notice, letter, or other form of printed documentation
5. IVR/Automated Calls	Electronic	Taxpayer services provided by the IRS interactive voice response system as a result of calls received to an IRS call center
6. Digital	Electronic	Taxpayer services provided through the IRS.gov website

These OLS data-collection efforts have given ETAAC the ability to start measuring IRS progress toward electronic tax administration for the taxpayer service component of tax administration.

CALCULATING THE INDEX

The Index is computed using OLS data on total service interactions, by service delivery channel. Service interactions provided through the IVR/Automated Calls and Digital channels are considered to be electronic. Service interactions provided through other channels are considered manual interactions.

The Index is calculated by computing the ratio of service interactions provided through electronic channels to the number of overall service interactions. For 2013, the most recent data available from the IRS, ETAAC calculates the ETA Index to be 42.5%. Table 11, Electronic Tax Administration Index, summarizes the service interaction volumes, by channel, for each of the 15 service categories.

⁹¹ This service category does not represent the majority of service transactions for tax professionals. For example, this measurement specifically excludes many post-filing transactions, including filing and withdrawing authorizations, requesting transcripts on behalf of taxpayers, and calls made to the IRS on behalf of taxpayers.

Table 11: Electronic Tax Administration Index

Service Category	Service Volume Total Interactions	Service Delivery Channel						Electronic Tax Administration (ETA) Index	
		Manual				Digital		Actual	Goal*
		Live Assistance	Walk-ins	Inbound Correspondence	Correspondence	IVR/Automated Calls	Digital		
Individual	537,409,761	18,820,000	2,965,389	11,059,349	97,626,635	69,759,068	337,179,320	75.7%	<i>None established</i>
Individual Assistance	40,780,318	5,795,434	596,080	5,035,134	12,308,943	3,428,062	13,616,665	41.8%	75%
Records (Transcripts)	56,069,739	1,830,461	1,619,466	-	17,637,724	5,386,407	29,595,681	62.4%	88%
Tax Law	5,891,242	2,320,008	166,119	-	-	769,701	2,635,414	57.8%	<i>None established</i>
Return Preparation	1,446,516	6,394	301,152	-	-	-	1,138,970	78.7%	<i>None established</i>
Refund/Status	324,445,046	4,120,220	-	663,383	15,967,951	44,492,994	259,200,498	93.6%	95%
Return Changes	60,784,388	313,456	118,538	3,506,607	49,459,223	3,308,302	4,078,262	12.2%	35%
PINs/ID Theft	46,392,497	4,142,770	131,498	583,897	2,246,900	12,373,602	26,913,830	84.7%	89%
ITIN	1,600,015	291,257	32,536	1,270,328	5,894	-	-	0.0%	<i>None established</i>
Entities	56,423,057	6,112,315	31,698	9,723,795	8,767,678	60,703	31,726,868	56.3%	<i>None established</i>
Business Assistance	42,297,831	2,601,673	22,106	5,057,912	8,651,601	22,106	25,942,433	61.4%	<i>None established</i>
EIN	6,646,581	1,276,935	9,592	420,085	24,292	-	4,915,677	74.0%	<i>None established</i>
Tax Exempt Assistance	1,194,694	625,190	-	149,862	91,785	-	327,857	27.4%	<i>None established</i>
Tax Pros/e-Help	6,283,951	1,608,517	-	4,095,936	-	38,597	540,901	9.2%	<i>None established</i>
Cross Customer Segments	116,843,998	13,278,902	2,939,926	71,204,843	201,505	7,963,468	21,255,354	25.0%	<i>None established</i>
Forms & Publications	21,945,799	1,082,903	468,206	-	-	-	20,394,690	92.9%	<i>None established</i>
Billing & Payments	91,231,402	9,480,707	2,471,720	71,204,843	-	7,963,468	110,664	8.9%	44%
Languages	3,666,797	2,715,292	-	-	201,505	-	750,000	20.5%	<i>None established</i>
TOTAL	710,676,816	38,211,217	5,937,013	91,987,987	106,595,818	77,783,239	390,161,542	65.8%	<i>None established</i>
ADJUSTED TOTAL**	386,231,770	34,090,997	5,937,013	91,324,604	90,627,867	33,290,245	130,961,044	42.5%	<i>None established</i>

* The IRS has set tentative goals for electronic service for each of the service categories. However, these goals are notional and are not used to measure performance.

** The adjusted total excludes individual refund status checks to better illustrate scenarios in which taxpayers require assistance or must complete a transaction. The digital "Where's My Refund?" application is broadly and conveniently used multiple times by taxpayers as a means to track their refund.

After calculating and analyzing the initial index, ETAAC recognizes that the volume of transactions in the Refund/Status service category substantially skews the results of the Index. Refund/Status interactions represent 45% of all service interactions. Removing this category from the index lowers the ETA Index to 42.5%, and it provides a more accurate representation of IRS progress toward providing taxpayer service through electronic channels. ETAAC reports both measures to provide full context for the ETA Index calculation.

INDEX CONSIDERATIONS

In creating the new ETA Index, ETAAC observed multiple challenges that may impact the precision of the Index. ETAAC believes that such challenges are to be expected, and that they do not affect its overall validity.

1: Delay in reporting: The service interaction data for the 2015 ETA Index is from calendar year 2013. This reflects the most recent data available.

2: Service volume data collection: Most service interaction volumes are actual totals that are reported to OLS by various IRS Business Operating Divisions. In some cases, actual totals were unavailable. In these cases, OLS has estimated volumes for certain service categories. For example, the reported volume for the Digital channel for the Languages service category is estimated at 750,000. In addition, the IRS cannot quantify some service transactions, such as tax professional contacts with the IRS, including calls and correspondence on behalf of a taxpayer.

3: Incomplete service category list: OLS's initial efforts to define service categories were thorough. It is expected that OLS efforts in future years to refine data-collection techniques will identify new and previously unreported services.

4: Fluctuations in demand: ETAAC anticipates that the reported service interaction volumes may not be reflective of the actual demand for such services. This gap exists because of the relative burden associated with receiving an IRS service via each delivery channel. The Refund/Status category provides a useful example. Prior to deployment of the “Where’s My Refund?” application on IRS.gov, taxpayers were required to call or visit the IRS to receive this service. Providing the ability to get refund status via IRS.gov made it much easier to receive this service, and interaction volumes increased substantially. This concept is known as “latent demand.”⁹² ETAAC recognizes the potential for wide fluctuations in the total service volumes because of latent demand, as the IRS expands service delivery channels into digital methods.

PROGRESSING THE INDEX IN FUTURE YEARS

Implementation of the SOD strategy will have a direct impact on the Index. OLS has indicated that it intends to refine data-collection techniques for the data used to calculate the ETA Index. These changes will have a material impact on how the Index is calculated and reported in future years.

The most notable change we expect is that the SOD strategy will modify and expand the definitions of the service delivery channels through which the IRS offers taxpayer services. The existing ETA Index will likely have to consider the expansion of the following electronic channels:

- Digital, fully automated methods, such as IRS.gov and mobile applications
- Digital assisted methods that require interaction with an IRS employee, such as live chat and email
- Third parties, such as tax software companies and tax professionals

Having a variety of electronic channels will require additional analysis and assessment by ETAAC, as these electronic channels have different costs, benefits, and impacts on tax administration.

In the future, ETAAC also anticipates that the ETA Index will be expanded to include the third component of electronic tax administration, Compliance. Because the IRS is in the initial stages of developing its Compliance Capabilities Vision (CCV), ETAAC can measure IRS progress in electronic tax administration for only two of the three components of tax administration: filings and submissions, and taxpayer service. As the IRS completes and implements the CCV portion of its enterprise strategy, ETAAC anticipates that it will be able to amend the ETA Index to include compliance.

⁹² Defined by Cambridge Dictionary as “demand for a product or service that a consumer cannot satisfy because they do not have enough money, because the product or service is not available, or because they do not know that it is available.”

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