

**WAGE & INVESTMENT
SUBGROUP REPORT**

**JUDITH AKIN – SUBGROUP CHAIR
DEBORAH CUTLER-ORTIZ
MARY HARRIS
JOAN LEVALLEY
WILLIAM REILLY
MARGARET ROARK
ROBERT WEINBERGER**

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I. INTRODUCTION

The members of the Wage and Investment Subgroup (W&I Subgroup) of the Internal Revenue Service Advisory Council appreciate the opportunity to interact with the Internal Revenue Service to improve communication and compliance with the taxpaying public. In addition, the members applaud the Service for the time and cooperation of the W&I Division representatives and management with whom we have met to discuss and resolve issues. We look forward to our continued involvement with the W&I Division of the Service in order to create a winning situation for the Internal Revenue Service, practitioner community and the taxpayers.

Our report addresses issues identified by the Commissioner of Wage and Investment, as well as those identified by the W&I Subgroup.

II. ISSUES AND RECOMMENDATIONS

1. REDESIGNED NOTICES AND POSTAGE REDUCTION

The Internal Revenue Service (IRS) has embarked on an important initiative to make notices clearer and taxpayer-friendly. We support IRS's endeavor for it is long overdue. In reviewing several redesigned notices, we have three suggestions:

1. We recommend essential information specific to the taxpayer's refund or balance due that could result from the proposed changes of the notice be stated on the front page. Often pertinent information is buried in the back of the notice.
2. We recommend that notices include reference to the availability of taxpayer assistance.

For example,

In responding to this notice, you can seek assistance from:

- a. a qualified tax professional,
- b. an IRS Taxpayer Assistance Center, or,
- c. a low income tax clinic, if you qualify.

Obtain information about where to find IRS centers or tax clinics at www.irs.gov or 1-800-829-1040.

3. We recommend IRS replace the wording “Your return is done incorrectly, or, You have errors on your return” with a comment such as, “There are inconsistencies in your tax return” or “In your tax return are the following differences. We need your help to resolve these differences.”

With respect to the postage reduction initiative, we recommend that the IRS:

- a. Discontinue the Form 940 mail-out.
- b. Reduce the number of pages in notices by replacing the frequently asked questions and instead replace with a reference to the IRS website www.irs.gov, or to 1-800-829-4477, topic 652.

We applaud IRS for redesigning these notices and cutting postage waste by discontinuing many unused taxpayer and practitioner forms, booklets, etc. We encourage IRS to continue redesigning notices.

2. NEXT GENERATION E-SERVICES

E-Services were developed to enable the tax professionals and payers to communicate electronically with the IRS. These services were intended to make it easier for tax professionals to communicate with the IRS and obtain information to help their clients.

The history of e-Service product availability is as follows:

October 2003:

- E-Services Registration,
- Preparer Tax Identification Number (PTIN) applications,
- E-file applications (form download only)
- Interactive Taxpayer Identification Number (TIN) matching.

Year 2004:

- E-file applications include electronic submission for practitioners

The ability to match bulk submissions of TINs.

Incentive launched for those who e-filed 100 or more individual returns

Disclosure Authorization (DA) forms,

Electronic Account Resolution (EAR), and

The Transcript Delivery System (TDS).

Year 2005:

Reduced the incentive threshold to five or more accepted tax returns in a calendar year.

Updated E-Services Next Generation top ten priorities, elevating the priority of expanding e-Services to Reporting Agents and EITC e-Services. These proposed services, however, are not expected to be funded prior to FY 07. In the interim, the W&I Division is establishing a team to define the business requirements and build a business case for funding justification.

Recommendations

1. We recommend that funding be provided for inclusion of Reporting Agents e-services in the FY 06 budget.
2. E-Services should be available to all Circular 230 professionals without regard to the number of electronically filed returns. This would allow those practitioners who do representation only the ability to obtain information and resolve cases more expeditiously.

3. AUTOMATED UNDER REPORTING (AUR) SYSTEM

The Automated Under Reporting (AUR) System Scripts used in answering the AUR telephone call in system should be user friendly and give the taxpayer sufficient information to assist in resolving problems as quickly as possible.

The Internal Revenue Service Advisory Council W&I Subgroup thanks the IRS personnel that engaged in writing the telephone scripts for the Automated Under Reporting (AUR) System. We recognize that a lot of effort went into the original writing and even more effort into the evaluation and subsequent changes. During its review, the Subgroup found the flow of the scripts to be logical. However, we noted during the review that no mention is made of representation by a third party.

Recommendations:

1. The taxpayer should be immediately informed that they are entitled to representation by a qualified tax professional. Some of the taxpayers who are dealing with the AUR are uneducated as to tax laws and the right to have representation. This will assist the taxpayer and the Service by getting issues resolved sooner and lowering the inventory of unresolved cases.
2. In order to make the system more user-friendly, we recommend early in the script a statement of the estimated wait time for an assistor. We realize this recommendation may take some time to implement since an investment in additional equipment and software will be needed.
3. The caller should be allowed to drop out of the script and leave a message for a call back. The scripts should list all of the information that the taxpayer must provide, including best time to be contacted.

4. IDENTITY THEFT

According to a recent report to Treasury Inspector General for Tax Administration (TIGTA), the IRS currently has no corporate strategy to combat identity theft. The cost for the victims of identity theft is estimated at approximately \$5 billion and almost 300 million hours a year trying to restore their good names.

Other government agencies have implemented ways to help victims of identity theft. The Federal Trade Commission (FTC) has developed a Complaint Input Form and acts as a clearinghouse for complaints of victims. The Social Security Administration (SSA) provides an ID Thief Affidavit on their website to be completed and sent to each creditor. The SSA can issue a new number in extreme circumstances with some restrictions.

In addition, federal and state criminal statutes may apply to data collection, use, disclosure, and notification to consumers.

Recommendations:

1. Develop policies and procedures that assure IRS compliance with existing regulatory and legal frameworks
2. Disseminate this information to the practitioner community through annual tax forums, Tax Talk Today, and tax season advertising
3. Assign a new reject code to show that an attempt at filing has already been made. This would alert the preparer to take extra steps in due diligence.
4. Because of the accelerated growth of identity theft and the scope of the issue, IRS should accelerate its modernization plan to put into place additional safeguards to protect taxpayers.

5. STRENGTHENING EITC COMPLIANCE AND OUTREACH

For the last 30 years, the Earned Income Tax Credit has been a valuable tool in reducing poverty in America, earning bi-partisan support. Today, it delivers \$38 billion to 22 million workers and their families who have low earnings every year.

Improving compliance and participation would make the EITC even more effective. Compliance is a challenge because the EITC is among the most complex parts of the tax code, and taxpayers as well as tax practitioners have difficulty interpreting and meeting its requirements. Participation is relatively strong, yet studies show that approximately 15-25% of eligible individuals do not claim the credit and some taxpayers, whose claims are denied, are, in fact, eligible.

Recommendations:

1. **Balanced Enforcement:** Compared to other areas of tax noncompliance, EITC has been singled out for disproportionate emphasis as compared to other areas of tax noncompliance (48% of the million returns audited in FY04 involved an EITC, suggesting a disproportionate emphasis). We urge the IRS to maintain balanced enforcement. Taxpayers pre-filing and filing assistance programs can play a larger and more cost-effective role in improving compliance, as can cooperation with qualified tax practitioners.

2. **Improved IRS Procedures:** The IRS can contribute to EITC simplification with clearer forms schedules, instructions, and notices. EITC examination and recertification procedures should be improved, including greater efforts to make contact with taxpayers to ensure that qualified claimants are not denied the credit.
3. **Certification Burden Reduction:** The pilot Certification Program imposes a substantial hardship on taxpayers. Extra effort is needed to minimize the burden by clarifying notices and letters so that both taxpayers and tax practitioners can better understand and comply.
4. **Improved Preparer Training:** The IRS should partner with tax professional groups to develop an interactive training module aimed at improving EITC compliance that could be used by professional and volunteer preparers. It should strengthen its program of oversight visits to EITC preparers and strengthen training for volunteer preparers.
5. **Revitalized IRS Outreach:** The IRS should strengthen its outreach program by working with community groups, employers, and tax practitioners to ensure that all qualified taxpayers receive the EITC. In addition, IRS should:
 - a. Expand the use of the excellent EITC outreach television advertising.
 - b. Target outreach efforts to hard-to-reach groups, including non-English-speaking taxpayers for whom foreign language media may be most effective. Additional research to better target those eligible but not receiving the EITC is needed.
 - c. Provide educational materials to describe program changes.

6. IMPROVING VITA QUALITY

Volunteer income tax assistance programs contribute significantly to the IRS mission and to serving the needs of low-income taxpayers. As with any seasonal program staffed by volunteers using temporary locations and with limited resources, issues of organization, training, participation, and quality can arise.

Several initiatives, some underway, could strengthen the VITA program:

1. **Role of IRS and Partners:** Volunteer program leaders and participants have expressed concern with IRS program administration and its emphases. The IRS and volunteer leaders agree that an improved program requires:
 - a. Better training and software,
 - b. Funds for more computers, printers and copiers, and
 - c. Tools for volunteer management and leadership training and development.

We urge the IRS to provide sufficient resources including performance-based grants to ensure the program can meet needs and produce high quality results.

2. **Training Improvements:** Many VITA volunteers have only limited training and work at sites that may be open only a few hours weekly, often with inadequate tools. We recommend that training be strengthened through:
 - i. Development of a uniform curriculum that can be delivered in an interactive online version. The curriculum should include complex case examples and state tax law.
 - ii. More cooperation with foundations, community groups, schools, and tax professionals in developing training resources.
 - iii. A tax training campus for an intensive train-the-trainer program.
 - iv. Scholarships to enable volunteer leaders to attend tax-training courses.
 - v. Work with community colleges to integrate tax training into their programs. The goal is to expand the pool of qualified volunteers.
 - vi. Software improvements including interview-based screening tools.