



**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL
PUBLIC MEETING**

NOVEMBER 15, 2006

**HYATT REGENCY WASHINGTON
CAPITOL HILL
400 NEW JERSEY AVENUE, NW
WASHINGTON, DC**

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL
PUBLIC MEETING
BRIEFING BOOK
NOVEMBER 15, 2006**

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INTERNAL REVENUE SERVICE ADVISORY COUNCIL (IRSAC)
PUBLIC MEETING AGENDA
HYATT REGENCY WASHINGTON ON CAPITOL HILL
CONGRESSIONAL ROOM A
WEDNESDAY, NOVEMBER 15, 2006

Time	Topic	IRSAC/IRS Representatives
8:30 - 9:00	Coffee	
9:00 - 9:15	Opening Remarks	Candice Cromling Director, National Public Liaison Frank Keith Chief, Communications & Liaison Jon Contreras Chairman IRSAC
9:15 - 10:00	Report Overview	Mark W. Everson Commissioner of Internal Revenue Jon Contreras, Chair IRSAC Ken Nirenberg, SBSE Chair Tom Wharton, LMSB Chair Margaret Roark, W&I Chair
10:00 - 10:15	Presentation of Certificates	Commissioner
10:15 - 10:30	BREAK	
10:30 - 11:15	Wage & Investment Subgroup Report	Rick Byrd Deputy Commissioner, W&I Margaret Roark Chair, W&I Subgroup
11:15 - 12:00	Large & Midsize Business Subgroup Report	Deborah Nolan Commissioner, LMSB Thomas Wharton Chair, LMSB Subgroup
12:00 - 12:45	Small Business & Self Employed Subgroup Report	Kevin Brown Commissioner, SBSE Kenneth Nirenberg Chair, SBSE Subgroup
12:45 - 1:00	Closing Remarks	Jon Contreras Candice Cromling
1:00	Adjourn	

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

GENERAL REPORT

**JUDY A. AKIN
JON M. CONTRERAS
JOHN A. GLENNIE
MARY HARRIS
KARLA R. HYATT
ANGEL INGRAM
JONI JOHNSON-POWE
JOAN LEVALLEY
RICHARD M. LIPTON
KENNETH C. NIRENBERG
ROBERT E. PANOFF
CATHY B. PEINHARDT
PATTI M. RICHARDS
MARGARET A. ROARK
GARY ROHRS
MICHAEL H. SALAMA
MITCHELL S. TRAGER
DAVID A. UHLER
ROBERT A. WEINBERGER
THOMAS WHARTON**

NOVEMBER 15, 2006

**GENERAL REPORT
OF THE
INTERNAL REVENUE SERVICE ADVISORY COUNCIL**

INTRODUCTION

The purpose of the Internal Revenue Service Advisory Council (hereinafter “IRSAC” or the “Council”) is to provide an organized public forum for discussion of relevant tax administration issues between Internal Revenue Service (hereinafter “IRS” or the “Service”) officials and representatives of the public. Its membership consists of up to twenty-three individuals who bring a wide variety of experience, expertise, and background to the Council’s activities.

The IRSAC has organized itself into three subgroups, comprised of three of the four IRS Operating Divisions: the Large & Mid-Size Business Subgroup (hereinafter the “LMSB Subgroup”); the Small Business/Self-Employed Subgroup (hereinafter the “SB/SE Subgroup”); and the Wage & Investment Subgroup (hereinafter the “W&I Subgroup”). The reports of the subgroups that follow this general report are a result of four working sessions and numerous conference calls between IRSAC members and key IRS personnel.

The members of the IRSAC wish to extend their thanks and appreciation to those operating division representatives who participated in this year’s Council meetings. These devoted staff members, along with the support staff of the Office of National Public Liaison (NPL), were instrumental in making this year’s Council activities run smoothly. (“flawlessly” seemed a bit of a stretch in light of the June flood)

This past year, IRSAC discussed many issues in an effort to assist the IRS in meeting its mission of providing America’s taxpayers top quality service by helping them

understand and meet their tax responsibilities and by applying the tax law with integrity and fairness.

We began the year with a collaborative, brainstorming session to identify issues each member believed to be important to the IRS and to taxpayers. Our goal was to highlight issues that were significant and complementary to issues the IRS operating divisions had identified for IRSAC consideration. Throughout the year, many presentations were made to the full IRSAC on topics including Earned Income Tax Credit, the Cash Economy, and e-Filing, as well as controversial topics such as the outsourcing of some collection functions. The IRS solicited input from IRSAC on the outsourced collection of low dollar cases and of those with little collection potential. IRS provided the full range of issues and concerns regarding the program, while explaining the process and procedures established to minimize negative impact on taxpayers and employees. The IRSAC commends the IRS for formulating the program and fully supports its implementation as an effort to reduce its accounts receivable and the tax gap.

The balance of the year was filled with many opportunities for IRSAC to contribute to IRS goals and programs. In particular, the IRS requested input from IRSAC on the five tax gap legislative initiatives the IRS was contemplating and has subsequently proposed to Congress. Those initiatives include:

- Expanding third-party information reporting to include certain Government payments for property and services;
- Expanding third-party information reporting on debt and credit card reimbursements paid to certain merchants;

- Clarifying liability for employment taxes for employee leasing companies and their clients;
- Expanding beyond income taxes the requirement that paid return preparers sign returns, and imposing a penalty when they fail to do so; and
- Authorizing the IRS to issue levies to collect employment tax debts prior to collection due process proceedings.

Input from IRSAC to SB/SE Commissioner Kevin Brown included honest and open dialogue prior to any announcement to the media, taxpayer groups, or taxpayers on these potentially sensitive initiatives.

Like the IRS, IRSAC was impacted by the flooding of IRS Headquarters in June 2006, resulting in the cancellation of the Council's July meeting in Washington D.C. Given IRSAC's strong desire to provide input to the IRS, we met as a full IRSAC via conference call. The subgroups also met by conference call or at alternative sites in lieu of their regular July meetings. Members were committed to continuing the work of IRSAC despite the logistical barriers.

To ensure that the IRS maintains a pool of diverse and qualified candidates for future Councils, we committed to work with NPL on the recruitment of 2007's new members. Members of the IRSAC were present at three of the IRS Nationwide Tax Forums and held town hall meetings with interested attendees. The town hall meetings were intended to disseminate an understanding of IRSAC's purpose and to provide information to potential candidates on the operations of IRSAC, the time commitment required, and the expectation that issues be approached in a team-like atmosphere. We

believe this interaction contributed to the number and quality of the applications that the NPL received for IRSAC this past nomination season.

Although each subgroup worked on issues of importance to its affiliated operating division, the full IRSAC believed that we should also provide feedback as a group on common issues that affect all operating divisions. During the January brainstorming session noted above, IRSAC identified two important IRS issues, Hiring Initiatives and Taxpayer Burden, and has included reports on those issues in the pages that follow. As all the issues and recommendations contained in this report are reviewed, it is hoped that the reader will conclude that the matters were fully addressed, relevant and frank input was obtained from an assortment of stakeholders, and, most importantly, quality feedback has been provided to the IRS.

Commissioner Mark Everson told the Council at the beginning of this year: “You are the eyes and ears of the practitioners and taxpaying public,” and he expressed appreciation for our eagerness to serve and our honest feedback. We believe this partnership has proven beneficial for both the IRS and taxpayers by giving the IRS input from outside the beltway. Each of us has enjoyed this partnership, and, collectively, we hope that this report provides valuable input to the IRS.

ISSUE ONE: HIRING INITIATIVES

Executive Summary

The hiring of IRS employees is critical to the mission of the IRS. The IRSAC finds that those individuals charged with developing and carrying out the Service's hiring initiatives are doing an exemplary job in a very difficult budgetary environment.

However, a number of suggested actions may increase the effectiveness of future hiring initiatives. Many of the recommended actions are already in process. Some of the recommendations may require legislative and/or executive branch action outside the IRS.

Background

Hiring initiatives was made a subject for IRSAC consideration at the request of the IRSAC after its January meeting in Washington, D.C. IRSAC's initial concerns were (1) the possible effect of baby boomer retirements on IRS staffing needs and (2) whether current IRS hiring practices and procedures were up to the task of meeting this challenge. IRSAC received written materials and heard reports concerning the IRS's current hiring initiatives at its May 2006 meeting in Washington, D.C. and in a conference call on August 25, 2006. Additional data was provided by e-mail on August 30, 2006. The information provided gave the members of IRSAC a better understanding of the recruiting and hiring processes of the IRS. IRSAC was also informed of some upcoming changes and programs that look promising.

Recommendations

1. Develop an online exit survey for all employees retiring or otherwise voluntarily leaving the employment of the IRS. The data from this survey could be used to determine whether there are any systemic factors that cause early retirement or

- voluntary separation from IRS employment by qualified employees. Eliminating these factors might improve retention, which would directly impact the number of new hires needed to fulfill IRS staffing requirements. It might also lead to an increase in referrals of new recruits by retiring and/or former IRS employees.
2. Expand the use of an online survey for all new hires of all operating divisions. The LMSB operating division uses an online survey for new hires. The SBSE operating division is in the process of developing one. The type of data gathered in such a survey is useful in determining what works and what does not work in recruiting and hiring.
 3. Include questions in the online new hire survey regarding what TV shows, web sites, magazines, and newspapers the new hire most frequently viewed and/or read for all purposes in the twelve-month period before he or she applied for employment with the IRS. While recruits may have learned about the IRS positions for which they applied from a job-related web site and/or publication, data regarding their general web and media usage may allow more effective, targeted advertising for new recruits. The portion of the online survey that contains these questions should indicate the purpose of the questions, and the survey should be anonymous.
 4. Increase the use of referral fees and sign-on bonuses. Sign-on bonuses and referral fees have both proven to be very useful recruiting tools. While each technique is subject to budgetary constraints, the statistics presented to the IRSAC appear to indicate that funds expended in this fashion produce better hiring results.

5. Continue and expand recruiting efforts for individuals recently or soon to be separated from the military. After World War II, the Korean War and the Vietnam War, a significant number of veterans chose to be employed by the IRS. Former military personnel constitute a well-trained, well-disciplined talent pool from which to obtain new employees who are already accustomed to working in a large organization with a known chain of command.
6. Allow telephone workers to operate from home by expanding the pilot telecommuting program and the hours of its operation and, if possible, making it permanent. The IRS finds it particularly difficult to recruit workers for its telephone "customer support" and other similar telephone functions. Part of the difficulty is due to the hours of service and the physical location and surroundings of call centers. The private sector has long recognized these issues and has responded by instituting telecommuting policies for these functions. The expansion of telecommuting might also allow the IRS to expand its current telephone-based customer services to later evening hours and weekends.
7. Expand the use of the Federal Career Intern Program. The Federal Career Intern Program is not subject to the same procedural restrictions as the normal competitive process within the IRS. It is an "Excepted Service Program" and, as such, is less labor intensive for recruiters and involves less wait time for recruits.
8. Streamline the IRS's current competitive process. Although streamlining the IRS's current competitive process would probably involve the input and action of individuals and groups outside the IRS, such as the National Treasury Employees

Union, the Office of Management and Budget, and potential legislative action, it is suggested that the increase in hiring efficiency obtained would justify the effort.

9. Work with Treasury to determine whether there is any way to more precisely coordinate the foreseeable hiring needs of the IRS with the reality of the existing budget process. As of August 25, 2006, there were three different budget proposals for the fiscal year ending September 30, 2007 regarding the hiring of new Revenue Agents in the LMSB Division. The President's proposal allowed for 350 new Revenue Agents. The Senate proposal allowed for the hiring of 600 new Revenue Agents. The House proposal allowed for no new Revenue Agents. Because of the competing views on the appropriate budget regarding the future funding of IRS personnel, it is very difficult for those IRS employees responsible for planning future hiring initiatives to prepare with any degree of certainty. It also can make it difficult to extend offers to desirable recruits and may result in offers to desirable recruits being delayed. This results in a loss of talent and wasted recruiting effort. The entire process is made even more difficult by the fact that frequent changes to the Internal Revenue Code occur with little consideration to the staffing needs of the IRS.
10. Expand recruiting efforts at the IRS Nationwide Tax Forums. One of the questions most frequently asked by forum attendees was: "How can I become an IRS employee?" While there were organized recruiting efforts at two of the forums, the IRSAC believes that it would be productive to have such an effort at all of the forums.

11. Investigate the feasibility of developing a student loan deferral or forgiveness program as a recruiting tool. Such programs have been effective in drawing talented applicants to other areas of public service.
12. Determine whether there is a way to simplify the number of steps it takes to use the IRS online Career Connector function. One of IRSAC's members accessed the IRS online Career Connector function as a test. The test suggested that the system needs simplification.

ISSUE TWO: BURDEN REDUCTION

Executive Summary

The size and complexity of the Internal Revenue Code and regulations place burden on both the taxpaying public and IRS employees. Burden increases the tax gap by increasing the likelihood that normally compliant taxpayers will become non-compliant and reduces the effectiveness of the IRS by increasing the number of examinations required. To counteract this, the Office of Taxpayer Burden Reduction (OTBR) must be a focal point for burden reduction projects and decisions within the IRS. OTBR has had some successes, but to be an even more effective force, OTBR should improve its decision-making process by developing more precise, quantifiable methods and criteria for determining appropriate burden reduction projects. We commend IRS burden reduction efforts to date and recommend increased funding for this function.

Background

Taxpayer burden is defined as the cost and time incurred by taxpayers to comply with the Federal tax system. OTBR was formed in 2002 to address increasing taxpayer burden, resulting largely from frequent tax law changes and the ever-increasing size and complexity of the Internal Revenue Code and regulations. OTBR is currently staffed by fewer than ten employees, mostly analysts. It works with the IRS Taxpayer Burden Reduction Council, a group of top level executives representing all major operating units within IRS, to recommend and implement burden reduction projects. In fact, IRS estimates that burden, since the creation of OTBR, has been reduced by more than 200 million hours. We commend these efforts by the IRS. However, despite this

achievement, taxpayer burden has increased from 6.4 billion hours in FY2005 to 6.65 billion hours in FY2006.

The mission of OTBR is to reduce burden for taxpayers. To accomplish this goal, OTBR is allowed to consider the effect a taxpayer burden reduction project will have on IRS expenses, but must otherwise focus on taxpayer burden – not IRS burden. OTBR receives recommendations for burden reduction projects from:

- Form 13285, “Taxpayer Burden Reduction Referral Form,” submitted by IRS employees and the similar Form 13285-A, “Reducing Tax Burden on America’s Taxpayers,” used by the taxpaying public.
- Industry Issue Resolution (IIR) requests, often submitted by industry associations
- Advisory councils such as the Internal Revenue Service Advisory Council (IRSAC) and the Information Reporting Program Advisory Committee (IRPAC)
- Stakeholder forums
- Taxpayer Advocacy Panel

Although OTBR has had many successes, we believe there have been some missteps, most notably the 944 project, whose effectiveness has been broadly questioned by the payroll industry and the Taxpayer Advocate Service. To enhance the IRS’ ability to define and implement burden reduction projects and to avoid questionable projects, we have a number of recommendations.

Recommendations

1. OTBR currently considers many criteria in determining a burden reduction project's potential. However, there is little quantification that takes place. There should be more metrics used to clearly define which projects are worthy of advancement and which are not. At the very least, OTBR should develop a checklist that weighs the various aspects of a project by assigning each aspect a numerical value and a weight. For example, the effect on the tax gap could be given a numerical value of 1-10 and would be weighted more heavily in the overall calculation than the amount of postage the project could save. Similarly, increasing taxpayer confidence in the fairness of our tax system and, thus, encouraging voluntary compliance should be reflected in the project's score. This type of quantification could be a first step in a multi-step process of determining project viability. Some areas where impact should be quantified: tax gap, IRS resources, revenue, complexity of taxpayer decisions, compliance, post-filing notices, and visibility.
2. Although monetary incentives are currently given to IRS employees, they are usually very small. IRS should provide significant monetary incentives to IRS employees whose suggestions are selected for implementation. These incentives should be large enough to make the completion of Form 13285 a worthwhile effort and should be more widely publicized within the IRS workforce than is presently done.
3. IRS should make similar incentives available to tax preparers. Many preparers, if provided with compensatory incentives, might be motivated to share burden

reduction ideas. Form 13285-A should be more widely advertised through trade associations.

4. OTBR must always analyze the end-to-end process when deciding upon a burden reduction project. It is important to realize that requiring a taxpayer to step through a complex decision tree, in itself, creates burden. For instance, there is some question as to whether a single employment tax deposit schedule (semiweekly or monthly) for everyone might be a better alternative than the current system that depends on lookback periods and undeposited liability (for \$100,000 deposits). In fact, in 2005, the Taxpayer Advocate Service listed the complexity of the employment tax deposit system as one of the most serious problems encountered by taxpayers. In this case, aspects such as pre-deposit decision making, IRS system complexity, and post-deposit penalty notices should be weighed against revenue considerations. In addition, it should be noted that simplicity could lead to improved taxpayer behavior (particularly in the cash economy) and a reduced tax gap.
5. In addition to taxpayer burden reduction projects, OTBR should pursue burden reduction projects that are primarily for IRS benefit, such as electronic delivery of notices to tax preparers. Often, what reduces burden within the IRS also reduces burden for the taxpayer and/or tax preparer. However, a litmus test for IRS-centric burden reduction projects should be whether the project adversely affects taxpayers or preparers. If it does, then it probably is not an appropriate burden reduction project. In light of this recommendation, we suggest that the name of

the department be changed to the Office of Burden Reduction to more clearly describe its role.

6. Unless there are valid, overriding considerations, burden reduction implementations should be voluntary. Taxpayers should have the ability to pursue compliance as they previously had prior to the implementation of the project. For instance, OTBR is currently considering adding a simplified method for calculating the home office deduction. Instead of the current, complex “percent of total” calculation, taxpayers will be able to choose to deduct a specific amount per square foot. In this respect, a parallel to the automobile standard mileage deduction can be drawn – it is voluntary. While the square foot calculation would be simple, a taxpayer who has been using the “percent of total” calculation for years should and, if implemented as planned, will be allowed to continue using that methodology. In other words, burden reduction projects should be implemented as opt-in rather than opt-out. Failure to do this was the mistake made when the 944 project was launched. It was implemented as a mandatory, opt-out program, rather than a voluntary, opt-in program. In many cases, it has increased burden both for the taxpayer and the IRS. For example, some smaller payroll providers may decide to only partially support 944 filing, causing taxpayers, who were previously e-filed as part of an automated 941 process, to have their 944 filed on paper via a manual process.
7. OTBR and the IRS’ desire for burden reduction should be better publicized to taxpayers and practitioners. Advertising spots could be included on Tax Talk Today. Also, Form 13285-A could be provided in the participant packet, and

workshops on burden reduction included, at the Nationwide Tax Forums.

Colleges should be encouraged to include a burden reduction exercise as part of federal tax courses.

8. OTBR should become the expert focal point for burden reduction within the IRS. OTBR should be consulted on burden reduction projects that emanate from, or are driven by, other areas of the IRS. For instance, OTBR should be consulted on burden impact for projects such as the recently implemented change in W-4 submission requirements. Because of the change in the lock-in timing, the employer's administrative burden has actually increased as a result of this project, which was originally intended to be beneficial to the employer.
9. Monetary thresholds are low hanging fruit for burden reduction and should be reviewed on a regular basis. These thresholds, such as the change of the FUTA deposit requirement from \$100 to \$500 or the increased threshold for Form 1040EZ and 1040A filers, have been the subject of several effective burden reduction projects. The implementation of threshold changes, assuming no legislative authority is required, is much simpler than the typical burden reduction project because there is minimal effort required in systems reprogramming, employee training, or process change.
10. Burden reduction projects should simplify processes, including calculations, whenever possible, so that taxpayers can more easily understand their obligations. For instance, an online interest calculator similar to the EITC Assistant and the AMT Calculator, which were previously implemented, would benefit taxpayers

by allowing them to verify interest charged, thus increasing their confidence in the system.

11. The IRS should be wary of any burden reduction project or IRS pronouncement that requires taxpayers to submit information that may not be used. Scheduled reviews of reporting requirements should be done to determine if requested information is being used or is needed.
12. OTBR uses focus groups to analyze proposed projects. We applaud this practice and hope that it will be continued and expanded. In all stages of development, projects that have been vetted through diverse focus groups (IRS employees, taxpayers, tax practitioners) should benefit from the feedback and result in better decision-making and more successful projects.
13. In general, we commend the IRS initiatives that were described in OTBR Acting Director Beth Tucker's testimony before the House Committee on Government Reform on July 18, 2006. In light of the current limited staffing of OTBR and our belief that OTBR should be taking on additional responsibility for the oversight of burden implications, IRS should allocate additional resources to the burden reduction function.

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

**WAGE & INVESTMENT
SUBGROUP REPORT**

**MARGARET A. ROARK, SUBGROUP CHAIR
JUDITH A. AKIN
MARY HARRIS
JOAN LEVALLEY
ROBERT A. WEINBERGER**

NOVEMBER 15, 2006

**WAGE & INVESTMENT
SUBGROUP REPORT**

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ISSUE 3: Volunteer Income Tax Assistance (VITA) Training

INTRODUCTION/EXECUTIVE SUMMARY

The IRSAC W&I Subgroup (hereafter “Subgroup”) consists of a group of Enrolled Agents (EA), Certified Payroll Professionals (CPP), and representatives from tax preparation firms. This group brings a wealth of experience and perspective from both tax preparers’ and taxpayers’ views. We have been honored to serve on the IRS Advisory Council and appreciate the opportunity to submit this report. The issues addressed by our Subgroup this year are critical to IRS attainment of its goal to provide top quality service by helping taxpayers understand and meet their tax responsibilities by applying the tax law with integrity and fairness to all.

Our interaction with the professionals within the W&I Division has been extremely educational and supportive. We specifically wish to thank Commissioner Richard Morgante and Director David Williams for their support and efforts in providing the resources required to develop our report. Our working relationship with the staff of the National Public Liaison (NPL) office has also been vital in our efforts over the past year.

Since January of this year, the Subgroup has researched and reported on the following three key issues:

1. Earned Income Tax Credit – The Internal Revenue Service asked for suggestions on how to (1) reduce EITC overclaims leading to improper payments and (2) encourage those eligible taxpayers who are not claiming the credit to apply for the EITC. We believe a combination of better training, upgraded promotion, and compliance efforts can help ensure more eligible taxpayers receive the credits while fewer ineligible taxpayers improperly claim or receive funds.

2. Taxpayer Assistance Blueprint – The W&I Subgroup of IRSAC was asked by the Internal Revenue Service to assist with enhancing Taxpayer Service in accordance with the “Taxpayer Assistance Blueprint” (TAB). To provide this assistance, we have interviewed and surveyed approximately 145 tax professionals and taxpayers throughout the country with a 69% response rate. Most responses indicated dissatisfaction related to their experiences with the Taxpayer Assistance Centers (TAC). We have incorporated this feedback in our recommendations, most of which relate to increased training, professionalism, and communication.
3. Volunteer Income Tax Assistance – The W&I Subgroup of IRSAC was asked to address the issue of training for Volunteer Income Tax Assistance (VITA) personnel. Members of the W&I Subgroup visited the “Link and Learn” section of the IRS Web site to experience the training/testing process and later sent a list of questions to Stakeholder Partnerships, Education and Communication (SPEC). A conference call was held to discuss the program and answers to the questions provided. SPEC is currently working with an outside contractor to revamp the test to improve the functionality of the current process. As a result of our discussions, it is clear that SPEC, responsible for the oversight of the VITA program, is working to improve the test. We believe this improvement process should include some enhancements to better analyze the skills of the volunteers in order to more effectively assign returns to those volunteers with the appropriate qualifications. We also believe there may be room for improvement in the area of training for VITA instructors.

We have detailed specific recommendations and sincerely hope that our effort to provide new ideas and suggestions for improvement are helpful to the IRS.

ISSUES AND RECOMMENDATIONS

ISSUE ONE: EARNED INCOME TAX CREDIT (EITC)

Executive Summary

The Internal Revenue Service asked for suggestions on how to (1) reduce EITC overclaims leading to improper payments and (2) encourage those eligible taxpayers who are not claiming the credit to apply for the EITC.

We believe a combination of better training, upgraded promotion, and compliance efforts can help ensure more eligible taxpayers receive the credits while fewer ineligible taxpayers improperly claim or receive funds.

Background

EITC not only reduces tax for qualifying taxpayers, but it is also a refundable credit, meaning that when credits exceed actual tax, there is a cash outlay by the IRS into the hands of the working poor. The tax credit is based on the dollar amounts of earned income and adjusted gross income, the number of qualifying individuals, and the filing status of the taxpayer. Advanced EITC puts money in the taxpayer's hands each payday by the employer acting as the IRS banker.

In Tax Year 2005 (TY2005), over \$41 billion was paid to 22 million taxpayers through the EITC program, making it one of the largest anti-poverty programs in the country. Participation rates are estimated to include 80 percent of those eligible. The downside of the program is that it has a significant erroneous payment rate.

An IRS study of TY2001 preliminarily estimated erroneous EITC payments to range between \$9 billion and \$11 billion annually. At that rate, 22% to 27% of all EITC dollars expended are erroneous claims and payments. Contributing factors include

complex rules, high turnover (approximately one-third new EITC recipients each year), limited IRS resources to address education and non-compliance, and fraud. The IRS estimates that approximately two-thirds of the overpayments are the result of errors and one-third fraud.

The EITC program has a two-pronged approach to reducing erroneous payments: (1) increase program efficiencies by making the base program better, and (2) test potential process enhancements to reduce errors and, once tests prove successful, request funding to implement those improvements.

Through examinations, math error reduction, and document matching activities, the IRS protected \$6.26 billion over a four-year period (TY2002 through TY2005). The figures show the significant impact these directed activities can have on compliance.

Several members of the W&I Subgroup of IRSAC are directly connected with millions of EITC taxpayers through the income tax preparation firms they represent. They and others on the council have met with W&I Division representatives who have provided valuable information to assist the W & I Subgroup in making the following recommendations.

Recommendations

1. The IRS is completing an analysis of a test in which EITC applicants certify certain eligibility criteria in advance of filing their return. We suggest the IRS carefully study the results of the pre-certification test to ensure that any burden on the taxpayers (including deterring eligible claimants and administrative costs) do not outweigh the benefits of reducing the number of overclaims. Should the IRS decide to roll out pre-certification nationally, we recommend that a template be

developed that would both simplify the process for third-party verifiers and ensure the collection of required data elements for the taxpayers and the IRS.

This would serve as an aid to certifiers and taxpayers alike.

2. Approximately 70 percent of EITC applicants use paid tax professionals to prepare their claims. These intermediaries, as well as tax preparation software companies, should be a continuing front-line focus for error reduction. Improved training and compliance efforts must continue.
 - a. The IRS should encourage tax preparation software developers to build more due diligence questions and educational materials into their software that would serve, not only as a tool to “get it right the first time,” but also as a means of ensuring that tax preparers with limited skills and/or training have technology to help them prepare more accurate returns. IRS should have a minimum standard for software developers to insure EITC is properly presented and calculated.
 - b. The IRS should also consider sponsoring compliance roundtables and jointly developing educational and training materials with tax trade and tax professional groups. The materials could include a short video or interactive online training module that could help both volunteer and paid return preparers improve compliance.
3. Complexity remains a major factor in errors. Ironically, the Uniform Definition of a Child (UDC) introduced for the TY2005 tax return (meant to replace five separate definitions of a qualifying child for different tax code provisions), while helpful in some ways still leaves confusion, misunderstanding, and compliance

gaps. Prior to the start of the January 2007 tax filing season, the IRS should issue administrative guidance clarifying the interpretation of various aspects of the UDC. Longer-range, Congress should consider revisions. The American Bar Association, the Taxpayer Advocate, and others have suggested changes that deserve discussion.

4. Finally, outreach efforts need expansion. The IRS can renew its public service announcements promoting use of the EITC and can continue to work through employers and non-profit organizations to call attention to the availability and requirements for eligibility of the EITC. The IRS can increase the qualifying claimants by encouraging the use of Publication 3524, *The EITC Eligibility Checklist*, and by creating a dedicated call “hotline” for EITC questions.

The IRS is addressing many of these suggestions now and has strong program management in place. We appreciate the cooperation of the IRS staff in providing information used in preparing our report.

ISSUE TWO: TAXPAYER ASSISTANCE BLUEPRINT

Executive Summary

The W&I Subgroup of IRSAC was asked by the Internal Revenue Service to assist with enhancing Taxpayer Service in accordance with the “Taxpayer Assistance Blueprint” (TAB). To provide this assistance, we have interviewed and surveyed approximately 145 tax professionals and taxpayers throughout the country with a 69% response rate. Most responses indicated dissatisfaction related to their experiences with the Taxpayer Assistance Centers (TAC). We have incorporated this feedback in our

recommendations, most of which relate to increased training, professionalism, and communication.

Background

In July 2005, the Senate Committee on Appropriations issued a report requesting that the IRS conduct a comprehensive review of its current portfolio of services and develop a five-year plan for taxpayer services. The IRS reported on Phase I of the TAB on April 24, 2006. The report addresses the taxpayer assistance services from the perspective of the IRS. As part of Phase II of the TAB project, the IRS conducted a survey seeking information from tax practitioners and preparers nationwide. The W&I Subgroup provided assistance to the IRS in the development of this survey, but has not had the opportunity to review the responses. The W&I Subgroup decided to conduct its own independent survey with tax practitioners and taxpayer groups to understand their views on IRS customer service and found:

1. Some taxpayers visit the TAC offices to pick up tax forms or publications, but the practitioners use third party software and the IRS Web site to obtain forms.
2. The most frequent sources for obtaining tax law information were seminars, third party software, and the IRS Web site.
3. Contact with the IRS by phone is frequent, but unsatisfactory more than 50% of the time.
4. Practitioners rarely use the TAC offices due to the long waiting time for assistance, lack of ability to access needed taxpayer information, and limited training of the personnel. Employees are scripted and urged not to vary from the

script. Some taxpayers use the TAC offices only when they feel they have no other source for help.

The Treasury Inspector General for Tax Administration (TIGTA) reported on August 30, 2006 that the customer service at TAC showed improvement during the 2006 filing season. We believe there is still much work to be done to improve the quality of services provided by TAC.

Recommendations

1. TAC employees should have a good knowledge of tax preparation and resources needed to solve or redirect taxpayers' issues.
2. Newly hired TAC employees who do not have the authority to access all of taxpayer's account data should be provided with a listing of contacts to use in referring taxpayers to individuals who can satisfy their needs.
3. The IRS should provide education to the public on what services are available at the TAC offices and equip staff with additional resources or information on where to direct the taxpayer to get other needed help.
4. IRS call center employees should respond more promptly to phone calls and messages. We found that at least 90% of our survey respondents indicated that phone messages are returned slowly, if at all.
5. IRS employees must be personable and treat all customers with respect. We recommend that the IRS strengthen customer service training because we are still finding many complaints of rude and unprofessional behavior.

The majority of respondents reacted positively regarding accessibility to forms and publications and the use of the IRS Web site.

We appreciate the time and cooperation of the W&I Division representatives and management with whom we have met to discuss these issues.

ISSUE THREE: VITA TRAINING

Executive Summary

The W&I Subgroup of IRSAC was asked to address the issue of training for Volunteer Income Tax Assistance (VITA) personnel. Members of the W&I Subgroup visited the “Link and Learn” section of the IRS Web site to experience the training/testing process and later sent a list of questions to Stakeholder Partnerships, Education and Communication (SPEC). A conference call was held to discuss the program and answers to the questions provided. SPEC is currently working with an outside contractor to revamp the test to improve the functionality of the current process. As a result of our discussions, it is clear that SPEC, responsible for the oversight of the VITA program, is working to improve the test. We believe this improvement process should include some enhancements to better analyze the skills of the volunteers in order to more effectively assign returns to those volunteers with the appropriate qualifications. We also believe there may be room for improvement in the area of training for VITA instructors.

Background

VITA is a tax return preparation service for low-income taxpayers. The IRS has joined with numerous partners (e.g., AARP, U.S. Military, and State governments) to provide these services to taxpayers.

Volunteers for VITA are tested and certified prior to being able to participate in the program through one of the approved partners. The “Link and Learn” System is an

Internet-based test that is divided into five sections: Basic, Intermediate, Advanced, Military, and International. Volunteers must pass the Basic test before being able to advance to the Intermediate test. After a volunteer has completed the Basic and intermediate sections, he or she can choose from the Advanced, Military, or International sections, or take all three. A volunteer is qualified to prepare returns at a VITA site after completing only the Basic test. The Basic level of the test must be taken each year as a recertification requirement. The types of returns that a volunteer can process are determined by the staff of the partner group, which has access to the level of testing passed by the volunteer. Trainers are also assigned by the partner and qualifications are determined at the local level.

If an individual fails any section of the test, they are able to re-take the exam after two days. The program shows the areas (questions) that were answered incorrectly for immediate review by the user. The system also allows a user to bookmark his/her place in the testing process, and return later.

Recommendations

1. The IRS should use the exam to track the skills of all volunteers who have successfully completed the certification process. Analysis of the correct/incorrect answers by category should be utilized to better match volunteers to specific types of tax returns they can prepare.
2. Since users are currently able to re-take the exam two days after failing, the system allows an individual to review the incorrect answers, research the correct response, and complete the process again. We are not convinced that this process results in the comprehension of tax knowledge needed to qualify, but it does make

the test-taking process easier for the user. We suggest that the exam be administered to insure that the volunteers are qualified for the services they provide as VITA volunteers. We believe volunteers who fail the exam should be required to wait three days before retaking the test, or they should take a different exam. If an individual fails the exam three times, they should have to wait an extended amount of time before retaking the test. The purpose of the exam is to test the comprehension of tax law, not the ability to take a test and pass.

3. We are concerned that some VITA volunteers (except tax professionals licensed under Circular 230) may have only six to eight hours of training. Recognizing that IRS partners may have limited resources, we recommend that online training videos or interactive training modules be used as a supplement to classroom training to strengthen relevant tax knowledge.

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

**LARGE & MID-SIZE BUSINESS
SUBGROUP REPORT**

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NOVEMBER 15, 2006

**LARGE & MID-SIZE BUSINESS
SUBGROUP REPORT**

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INTRODUCTION/EXECUTIVE SUMMARY

The Large & Mid-Size Business Subgroup (hereafter “LMSB Subgroup”) consists of volunteers. These volunteers are professionals who represent large and mid-sized businesses, accounting and legal professionals, and large multinational firms. The members of the LMSB Subgroup come to IRSAC and commit to leaving their personal agendas behind. The LMSB Subgroup role is to provide advice and insight to the IRS and particularly the Large and Mid-Size Business Operating Division (LMSB). The guiding principles of the LMSB Subgroup are to assist IRS and LMSB to ensure efficient tax administration, develop equitable tax policy, increase taxpayer confidence and improve voluntary compliance.

The LMSB Subgroup has been busy since January 2006 with five meetings conducted in Washington D.C. and several specific issue conference calls. Each meeting was a collaborative session with LMSB that resulted in genuine and frank discussions of relevant issues.

The LMSB Subgroup is most grateful for the time devoted by the executives and personnel of LMSB and the staff of the National Public Liaison. Without their time and assistance, the Subgroup would have been unable to accomplish its mission of being, as Commissioner Mark Everson said in January 2004, the IRS’s “boots on the ground.”

We have structured this Report around the four issues of primary importance to the LMSB Subgroup and LMSB that were identified throughout the year. Although not exhaustive, the list of issues helped us focus on areas where we could be the most effective in providing assistance to LMSB. The Report identifies the issues and recommendations that were developed by the LMSB Subgroup during this year.

The LMSB Subgroup recognizes that closing the tax gap is a major concern of Commissioner Everson, the Congress, IRS personnel and all good faith taxpayers. Compliant taxpayers, according to the IRS Oversight Board's 2005 Taxpayer Attitude Survey, constitute an overwhelming percentage of our population. This survey stated that 88% of the population believed that it was "not at all acceptable" to cheat on their income taxes. This represents a 7% increase from 81% just two years earlier. Similarly, the survey found that another 7% of taxpayers felt that it is acceptable to cheat "a little here and there." This was a decrease of almost 50% from two years earlier. We believe that this is true of the LMSB business community as well. Taxpayers who are voluntary compliers represent natural allies to the Service in closing the tax gap. This is particularly true in the LMSB community where the taxpayers are less numerous and are business competitors with each other. It is obvious that a business which underpays its taxes has a significant advantage over a compliant business in that it has more cash for equipment upgrade, product development, advertising, distribution and other business activities.

We commend LMSB for its impressive list of initiatives and successes in recent years. These initiatives have encouraged voluntary compliance through a combination of service to compliant taxpayers and greater enforcement toward non-compliant taxpayers. LMSB's many successful currency initiatives, such as, but not limited to, Schedule M-3, E-filing, Limited Focus Examination, Compliance Assurance Program, Pre-Filing Agreements and FAST Track Appeals, increases currency (reduces taxpayer burden) and increases early identification of issues (a key enforcement tool). Other LMSB taxpayer service initiatives, such as US Residency Certification Requests, the new FIN 48

expedited examination program, and taxpayer education efforts such as the highly successful annual Financial Services Industry Conference (with over two-hundred taxpayers and advisors from around the world), enhance voluntary compliance and create win-win situations for the IRS, the taxpayers and our tax system as a whole.

We also wish to thank and commend the LMSB leadership for the effective use of the taxpayer volunteers on the IRSAC Committee. LMSB's pre-decision involvement of the Committee on a number of issues helped LMSB achieve its goals of reduced taxpayer burden and increased effectiveness of enforcement assets.

Notwithstanding all of these impressive successes, there is always room for improvement and the environment is always changing.

We have structured this report to recognize these elements and to begin to address large and mid-size business compliance issues as addressed by Commissioner Everson in his testimony on June 13, 2006, to the Senate Finance Committee.

ISSUES AND RECOMMENDATIONS

ISSUE ONE: MODERNIZED E-FILE AND FOLLOW-UP USES

Executive Summary

In January 2005, the IRS and the Department of Treasury issued regulations that require corporations with assets of \$50 million or more and that file at least 250 or more returns per year (including income tax, excise and employment tax, as well as information returns such as Forms W-2's and 1099's) to file electronically their Forms 1120 and 1120S beginning with tax periods ending on or after December 31, 2005. Mandatory e-file is considered a success by the IRS and should assist IRS in achieving goals of currency and burden reduction. This is in the best interest of both the IRS and compliant taxpayers. However, attention must be given by the IRS to the data received. This data must be utilized by the IRS in a manner to support the currency and burden reduction initiatives and not just stored on a shelf or added to an exam team inventory without being thoroughly screened. Mandatory e-file should be expanded to touch more taxpayers, and the IRS should continue to allocate resources to this effort.

Background

E-file is not a new concept as e-file for individuals has been around since 1986. Over the years, the IRS has been able to utilize data obtained from e-filed returns to review taxpayer data, process returns quicker, determine if errors are made, and generally process refunds quicker. E-file for individuals has greatly increased from 64,554,000 returns for filing season 2004 to 75,997,000 returns for filing season 2006.

E-file for corporations is a relatively new development available since 2004 on a voluntary basis. E-file for corporations took a giant step forward in 2006 because of the

requirement that certain entities be under a mandate to e-file returns for return periods ending on or after December 31, 2005. Initially, only corporations with assets in excess of \$50 million and who file more than 250 returns were required to e-file. In addition, tax-exempt organizations with \$100 million in assets that file at least 250 returns a year are subject to mandatory e-file. For tax years ending on or after December 31, 2006, the use of mandatory e-file will be expanded to include those corporations and tax-exempt entities with assets in excess of \$10 million and who file 250 returns for the year. In addition, private foundations and charitable trusts will be required to e-file Form 990-PF, regardless of their asset size, if they file 250 or more returns a year.

The main emphasis behind e-file is three-fold:

- to allow the IRS to obtain information from a taxpayer quicker and in a format that lends itself to faster processing (Currency)
- to reduce processing, storage costs and other costs (Burden Reduction)
- to assist the IRS in identifying those returns that have the greatest potential for change upon examination (Compliance).

Each goal is very important for the future success of the IRS.

While the goals of e-file are noble and worthy, the IRS should be conscious of using the data received and not just storing the data. We point specifically to the recent filings made on tax shelters and Form 8886 “Reportable Transaction Disclosure Statement.” Taxpayers were required to file these forms with the IRS Office of Tax Shelter Analysis (“OTSA”) by the due date of their 2004 tax return (with substantial penalties for failure to file the forms or provide required information). Based upon meetings with LMSB officials, IRSAC members did not initially get to a comfort level

that anything had been done with these forms by OTSA on a timely basis. At first we were told that these filings were stacked in an office in Ogden waiting to be processed. Several months ago, we learned that the forms had finally been processed. We have now been informed that some of those forms have now reached the examination group. Many taxpayers had to rush to complete these forms on a timely basis. However, the IRS was unable to do much with them on a timely basis. We are hopeful that the e-filed tax return information will be utilized more quickly.

Recommendations

1. It is imperative that e-filed information is utilized by the IRS on a timely basis to assist in their currency initiatives. Taxpayers have incurred substantial expenditures of dollars and time and must see some benefit from their actions (in reduced cycle time and identification of significant issues). Once the IRS has received the e-filed returns, they should act rapidly to utilize the data in a manner that assists them in processing returns quicker, expediting refunds, preparing issues for examination, assisting in meeting the goals of currency and burden reduction, and reducing the tax gap. IRSAC would like to be periodically updated on what is happening with the data received and how e-file is assisting.
2. The IRS has slowly expanded mandatory e-file for certain entities over the last several years. The IRS has done this systematically by adding more and more returns, types of forms, and taxpayers. IRS should expand mandatory e-file to all corporations, partnerships, trusts and tax exempt entities. The IRS should provide significant amounts of time for taxpayers and tax preparers to be ready for mandatory e-file. The IRS should also continue to work with outside software

vendors to ensure that products are available to transition to mandatory e-file as smoothly as possible.

3. Mandatory e-file is an important tool of the IRS and LMSB. However, mandatory e-file and the expansion of the program is only possible if adequate funding and resources are made available. IRS should seek the appropriate funding and allocate resources for this project in a timely manner. Funding should include software development or purchase of software that will aid in the identification of substantive issues that can lead to reduced cycle time.
4. The IRS has published guidance on waivers for those corporations unable to meet the e-file requirements –see Notice 2005-88. The IRS should continue to issue clear and concise guidance on waivers for taxpayers that are subject to mandatory e-file increases. Guidance issued on this issue should be done on a timely basis so that impacted taxpayers can plan accordingly.
5. IRSAC strongly commends the LMSB for its outreach and cooperation with taxpayers and service providers in accomplishing a task that many believed was almost impossible. We strongly recommend that the level of cooperation and resources should be continued and expanded to ensure that the next group of corporations (those with assets between \$10 million and \$50 million) can also accomplish the goal of e-filing in the next tax year.
6. The requirements on international tax forms should be reviewed by the IRS to facilitate the e-filing of these forms for the current tax year.

ISSUE TWO: TAX SHELTER FOLLOW-UP ISSUES

Executive Summary

The LMSB Subgroup has continually and consistently supported the IRS in its attack on abusive tax shelters and tax shelter promoters. Abusive tax shelters are destructive to the underlying fabric of the tax system and increase perceptions that the tax system is “unfair.” Strong and timely administrative action is appropriate in response to abusive tax shelter activity. This is particularly true with regard to tax shelter promoters. Simultaneously, it is important for the IRS to continue to educate its personnel on the distinction between legitimate tax planning and abusive tax shelters.

Background

During the past two years, the IRS also has made a number of “global settlement offers” in an attempt to resolve a significant portion of the outstanding tax shelter disputes. These settlement offers have been both fair and tough, and penalties have been required in many situations. There has been a high acceptance rate for these offers. Again, we commend the IRS on this approach, which we believe appropriately balanced administrative necessity (by avoiding time-consuming audits and trials) and the systemic requirement that tax shelter investors not be rewarded for their actions. These global settlements have been an important aspect of the IRS’ attack on shelters, and we believe that this approach has been well designed and implemented.

We note that consistent application of penalties is an important aspect of tax administration. Taxpayers who engage in abusive tax shelter activities need to know that they will have to pay significant penalties if and when they are caught. The threat of

penalties is a significant deterrent. Commendably, the global settlements have adopted this approach.

Another important aspect of the response to abusive tax shelters has been “sunshine.” In legislation adopted in 2004, Congress required reporting by participants in reportable transactions under Section 6011 of the Code, and material advisors with respect to certain transactions were also required to file returns with respect to those transactions under Section 6111.

The IRS has made several important steps in this regard. First, the IRS eliminated transactions with book/tax differences from the definition of reportable transactions. The LMSB group applauds this action which was appropriate because of the significant number of non-abusive transactions which generate book/tax differences. The utilization of the new Form M-3 is an appropriate means to identify abusive transactions, and the removal of transactions with a book/tax difference from the definition of reportable transactions is a welcome step.

The IRS also should be commended for continuing to review the scope of listed transactions. The penalties that are imposed for failure to disclose any listed transaction are extremely onerous, so that a “listed transaction” designation should be limited to those transactions which the IRS believes have a significant potential for abusive tax avoidance. The IRS should continue to review whether each transaction that is “listed” should remain so, while also attempting to ferret out other potentially abusive transactions that deserve to be “listed.” On the other hand, it is inefficient to define any listed transaction so broadly that the IRS receives numerous unwanted disclosures. “Over-disclosure” is a continuing problem that the IRS must address, but the IRS must

also recognize that taxpayers have a strong incentive under current law to err on the side of over-disclosure. This problem arose during the past year with respect to listed transactions involving property subject to offsetting position, resulting in tens of thousands of unnecessary disclosures. The IRS must remain vigilant in reviewing, and narrowing or broadening when necessary, the scope of each listed transaction.

The IRS has not been as successful in implementing these reporting requirements as we believe appropriate. The IRS did not propose a new form for making the disclosures required under Section 6111 but, rather, attempted to adapt an existing form for this purpose. The existing form is not well suited for the disclosures which are required, in that it does not provide sufficient information to the IRS and also is very difficult to complete. We urge the IRS to work with IRSAC to design and to issue new forms for the reporting required under Section 6111 as quickly as practicable. At the present time, the forms being used by the IRS are limiting the amount of “sunshine” which otherwise would be cast on potentially abusive transactions.

A related concern involves the IRS’ response to the disclosures that have been filed. Anecdotal evidence indicates that taxpayers who have made disclosures have either had no follow-up contacts with the IRS or, alternatively, have simply received a “tax shelter identification number” to include on their returns. We believe that the IRS needs to implement procedures under which:

1. All filings made under Section 6011 and 6111 are reviewed promptly upon receipt.
2. Each listed transaction that is disclosed by a taxpayer and/or a material advisor should be reviewed to determine whether the transaction is abusive. If it is, the

- taxpayer and/or the material advisor should be contacted promptly and an examination of the transaction should be commenced.
3. Each reportable transaction (other than a listed transaction) disclosed by a taxpayer should, at a minimum, be reviewed in order to determine whether there may be additional transactions that should be listed. In appropriate circumstances, taxpayers and/or material advisors who make disclosures of reportable transactions (other than listed transactions) should be contacted in order to review these transactions.
 4. The returns filed by taxpayers under Section 6011 and the returns filed by material advisors under Section 6111 should be “matched” to verify that all required returns have been filed.

Another area in which there has not been as much activity as anticipated involves enforcement actions against the promoters who participated in tax shelter activity. With the exception of the well-publicized criminal indictments of individuals associated with KPMG, there has been virtually no visible action taken by the IRS in response to the numerous tax shelters that were sold in the first half of this decade. We are completely mindful of, and support, the need for confidentiality in disciplinary proceedings under Circular 230. We also do not believe that such proceedings should be publicly disclosed unless and until a determination has been made that a practitioner has violated the rules of practice. On the other hand, we strongly support public disclosure of Circular 230 violations if and when a determination that such a violation has occurred is made by an independent reviewer.

We also believe that monetary penalties should be asserted, to the extent provided in the Code, against individuals or firms engaged in the promotion of abusive tax shelters. We encourage the IRS and the Justice Department to widen their use of Code section 6700 (the penalty for promoting abusive tax shelters), Code section 6701 (the penalty for aiding and abetting understatements of liability) and Code section 7408 (actions to enjoin specified conduct related to tax shelters and reportable transactions). Also, in appropriate circumstances, the IRS also should pursue criminal sanctions against the individuals involved in the promotion of abusive tax shelters. The imposition of these penalties, together with appropriate publicity indicating that penalties have been imposed, will provide an important disincentive with respect to future abusive tax shelters.

While we are fully supportive of the IRS' attack on abusive tax shelters, we also believe that it is important for the IRS to distinguish between "abusive" transactions and transactions that reduce a taxpayer's liability through appropriate tax planning. We are aware of situations in which revenue agents have used terms like "lack of economic substance" or "abusive tax shelter" to attack transactions that are appropriately structured to reduce tax liability and which are neither listed nor non-listed reportable. It will be counter-productive in the long term if the IRS does not recognize the distinction between legitimate tax planning and abusive tax shelters. We urge the IRS to continue to educate its personnel concerning the differences between such transactions.

In this regard, we note that the IRS has had several significant recent victories in attacking transactions that lacked economic substance, particularly the recent Coltec and Black & Decker cases. The courts concluded that the IRS had appropriately challenged the economic substance of those transactions. However, the courts also rejected all of the

“technical” or “legal” arguments raised by the IRS in those cases as lacking merit and without any basis in the Code. While we strongly support the IRS’ challenge to transactions which lack economic substance, the IRS needs to be mindful that it is not appropriate to raise “strained” or “aggressive” legal arguments. The IRS rightfully attacks taxpayers and their advisors who adopt “aggressive” legal positions, but it appears that in some instances the positions being taken by the IRS are equally “aggressive.” We are concerned that, if the IRS does not apply the law rigorously, taxpayers or their advisors may also believe that they are not required to apply the law as Congress has enacted it. The long-term interests of the tax system are best served if both the IRS and taxpayers are encouraged to apply the tax laws as enacted, with neither the IRS nor taxpayers taking positions which are contrary to the Code and Congressional intent.

Recommendations

1. The IRS should continue to pursue abusive tax shelters as a top priority, with particular emphasis on promoters.
2. Significant penalties should be imposed on taxpayers and particularly on promoters who engage in abusive tax shelters.
3. The IRS needs to revise the forms used for disclosure of listed and non-listed reportable transactions by taxpayers and material advisors.
4. The IRS should continue to utilize global settlements to resolve disputes involving abusive tax shelters if and when they are identified.
5. The IRS needs to promptly review all disclosures that it receives with respect to listed transactions and to contact the affected taxpayers and material advisors with respect to any transactions that the IRS believes are potentially abusive.

6. Return matching should be utilized to verify that all taxpayers and material advisors are making the disclosures that Congress has mandated.
7. Promoters of abusive tax shelters should, after a determination has been made that fully protects their rights to privacy until final determination, be subjected to disciplinary sanctions under Circular 230 and, in appropriate circumstances, civil or criminal penalties.
8. The IRS needs to avoid adopting “aggressive” or “strained” interpretations of the law in attacking potentially abusive transactions.
9. The IRS should implement measures to reduce over-disclosure of transactions that are not reportable transactions.

ISSUE THREE: TAX GAP - INTERNATIONAL COMPLIANCE ISSUES

Executive Summary

International tax issues are among the most complex areas of US tax law for both compliant taxpayers and the IRS examination teams. It is also an area that has been marked with abusive transactions by non-compliant taxpayers.

Background

In his Written Testimony of June 13, 2006, Commissioner Everson discussed several significant international issues. These included Transfer of Intangibles Offshore/Cost Sharing, Abusive Foreign Tax Credit Transactions, Abusive Hybrid Institution Transactions and Transfer Pricing, particularly with regard to Section 936 taxpayers.

The 2006 IRSAC did not address Section 936 termination issues since we did not

have expertise in that area. We also did not address Abusive Hybrid Instrument Transactions because information on these is still being developed.

We did discuss with LMSB several tax administration topics in the international arena. These topics include: (1) the Service's emphasis on transactions involving company exploitation of intellectual property via cross-licensing agreements and cost sharing arrangements; (2) potential simplification in the compliance process; and (3) foreign tax credit planning techniques utilized to either artificially generate creditable foreign tax credits ("FTC"), or more materially, reallocate/redistribute credit and income items to facilitate greater foreign tax credit utilization.

We generally agree that it would be beneficial from a tax compliance and examination perspective to simplify the current information reporting system, including a possible overhaul of Form 5471 and other related information returns. This would facilitate e-filing, enhance more current issue selection and reduce taxpayer burden. Ideally, we believe that such modifications most appropriately go hand-in-hand with overall international tax reform - a topic beyond the scope of this report and probably several years into the future. In the current period, it would be an effective use of resources for the Service to internally delineate for the benefit of the Examination function the areas in international tax that constitute low-risk for which period compliance checks would be a more suitable alternative than comprehensive examinations. To the extent there is a desire to simplify current reporting processes, that type of issue control list may be utilized to facilitate the proposal of alternative formats for information reporting.

We agree that focusing on foreign tax credit generation or splitting transactions that lack a bona fide business purpose and economic substance and which are not compliant with the law is an appropriate area of focus. Tax credit products that may be technically correct, but are inconsistent with the intent of the law, should be identified, and, if necessary, legislative changes should be recommended. We caution that IRS reliance on “the intent of the law” agreements can be a two-edged sword. It is, of course, critical at the same time that the government accord sufficient care to the manner in which the net is cast to close abusive transactions so that legitimate business transactions are not inadvertently swept up by any such initiative.

The business community is keenly aware of the Service’s increased interest and focus regarding the manner in which intellectual property is exploited and sometimes abused by companies. Cross-licensing agreements (“CLAs”) and similar intellectual property (“IP”) sharing arrangements have been a mainstay of numerous industry sectors and have been operationally employed for several decades. These agreements generally function as the cornerstone for the generation of fluid information sharing which is a material driver to technological advancement and the creation of commercial product. These agreements are often created to manage risk from a legal liability perspective, share information, of course, and manage costs. There has been material commentary in this area and we encourage the study of this topic so that clear administrative guidance can be promulgated to reduce existing or potential controversy. As part of such guidance, the Service should confirm that merely entering into a CLA does not constitute a realization and recognition event such that income is generated. This notion is consistent with the existing guidance and case law.

With respect to the topic of cost sharing rules and “buy-ins” (the method by which external contributions of property are valued), we understand there is a desire by the Service to increase its attention and focus in this area. We agree that some taxpayers have abused this area. In general, these issues are largely valuation ones. Valuation inherently lacks scientific precision; and, in this context, we are aware that the determination of taxable income regarding the transfer of intellectual property can present challenges for both the IRS and taxpayers. The 2006 IRSAC did not have time to discuss with LMSB the rules set forth in Treas. Reg. section 1.482-4 and the apparent conflict with the administrative rules set forth in the -7 regulations. It is hoped that the 2007 IRSAC will be able to address with LMSB the -7 regulations and its possible intrusion into the manner in which companies conduct their business and apparent lack of conformity with the OECD cost contribution guidelines. The legislative history of the 1986 Tax Reform Act regarding Section 482 is clear in that there was no intention to prevent the use of bona fide cost-sharing arrangements as long as they are in accordance with the purpose of the provision and “reasonably reflect the actual economic activity undertaken by each.” Accordingly, we believe sound tax administration would be best served by risk assessing and focusing on the transactions at the extremes of the spectrum, so that no harm is done to domestic growth. Objective evaluation of whether transactions reasonably reflect the economics of the relationships (as opposed to hair splitting that will only propagate unnecessary controversy) should be encouraged so that enforcement assets can be focused on abusive transactions. In this regard, IRSAC is concerned that a problem area may exist for mid-market firms with international transactions.

We agree that there are many complex transactions in the international area of tax compliance and that some of these are abusive. In that regard, we commend the IRS for the creation of the position of LMSB Deputy Commissioner, International and the appointment of Frank Ng as that Deputy Commissioner. We believe that this position is in the best interests of compliant taxpayers. It will help bring more certainty and consistency to those issues, reduce burden on compliant taxpayers and help identify and correct abusive transactions of non compliant taxpayers.

Recommendations

1. Simplify the current information reporting system for international data and determine if certain data on the forms is not needed and if certain forms can be consolidated.
2. Provide auditors with screening mechanisms to recognize possible abusive FTC transactions (e.g., require high-level disclosure for a three to four year window on information returns reflecting FTC generated per basket and FTC utilized per basket).
3. Delineate for the Examination function the areas of international tax that constitute low-risk areas for which periodic compliance checks would be suitable.
4. Issue clear administrative guidance confirming that merely entering into a CLA does not constitute a realization and recognition event such that income is generated.
5. Stratify the population of cost-sharing and buy-in issues and critically evaluate those that present a higher risk for the government regarding valuation issues, so that resources are appropriately and efficiently deployed.

6. Expand the number of IRS “touches” for mid-market firms with international transactions.

ISSUE FOUR: TAX GAP - DOMESTIC COMPLIANCE ISSUES

Executive Summary

The Research and Experimentation credit and the Deduction for Certain Manufacturing Activities are among the most important sections of the Internal Revenue Code enacted by Congress. Their importance is directly related to Congress’s intent to create US jobs in a worldwide economy that is marked by the increasing outsourcing of US jobs to foreign locations.

Background

In the Written Testimony of June 13, 2006, Commissioner Everson discussed several significant domestic issues. These included Research and Experimentation (R&E) Credit Claims, Universal Service Fund, Mixed Service Costs, Deduction for Certain Manufacturing Activities (IRC Section 199), Foreign Earnings Repatriation (IRC Section 965), Executive Compensation (IRC Section 409A), Tax Shelters and Other Abusive Tax Avoidance Transactions, as well as an increase in book-tax differences.

We did not look at the Universal Service Fund and Mixed Service Cost issues because they are industry specific, and we did not have expertise in these areas. Our Committee did discuss the Section 965 and Section 409A issues. These issues are under compliance review by their respective Issue Management Teams to determine if they are tax issues. Hence, they are not ready for recommendation by IRSAC this year, but the subcommittee looks forward to being of assistance in future years if tax issues are determined to exist. We commented on our opposition to abusive tax shelters earlier in

this Annual Report and in past Annual Reports. There is no need to report them other than to re-emphasize the importance of early detection and the opportunity for the IRS to develop alliances with compliant taxpayers to bring abusive taxpayers into compliance. Regarding book-tax differences, we agree with the need to examine these in greater depth to fully understand their impact on compliance. We recognize that some industries, such as publishing, are adversely affected by book-tax differences while other industries benefit from them. We believe that early data from Schedule M-3 analysis indicates that the largest book-tax difference is depreciation. We also recognize that more complete reporting of data on Schedule M-3 and the analysis of it will help identify areas of abuse by non-compliant taxpayers.

The remaining two issues, the R&E Credit and the Manufacturing Deduction, are issues that we wish to comment on. These two issues are similar in Congressional intent and appear to be mirror images in compliance difficulties.

The Congress recognizes that the United States has one of the highest statutory and effective tax rates among our major trading partners. They also recognize that capital flows easily across borders and with that flow goes jobs. Congress enacted both of these sections to help create or protect US jobs.

The R&E Credit has been the subject of much controversy. Some taxpayers have filed abusive claims. Other taxpayers feel that the IRS undetermined the intent of Congress by being unnecessarily restrictive and burdensome on requested credits. An atmosphere of distrust developed to the extent that some non-abusive taxpayers believed that the opportunity cost and burden required to sustain the credit was less than the value

of the credit. These taxpayers essentially stopped claiming the credit on their tax returns or in their return on investment calculations, thereby defeating Congress's intent.

The IRS examiners were, and still are, trying to determine the correct credit. In doing so, a large amount of IRS examination resources are being expended.

Similarly, the Section 199 manufacturing deduction is intended to create US jobs, but it is very complex and can become very burdensome. However, the IRS is working to get in front of this issue.

LMSB recognizes that Section 199 is a very challenging area for the taxpayers and the IRS. LMSB is proactively trying to identify and address problems to avoid bigger problems in the future. They are hoping to avoid marketing claims in this area such as happened in the R&E area. They have substantial taxpayer involvement, have at least seven guidance projects in progress, have developed a five-point Field Readiness Action Plan and have developed internal and external web sites to strengthen communications. We commend LMSB for its initiatives and efforts to help protect US jobs and accomplish the intent of Congress.

As background, Section 199 was enacted as part of the American Jobs Creation Act of 2004. Congress, in conjunction with the repeal of the extraterritorial income ("ETI") regime, enacted a complex deduction for taxpayers for domestic production activities. Many taxpayers are perplexed by the complexity and ambiguity inherent in applying its requirements. However, it must be remembered that Congress enacted this deduction as a benefit for taxpayers and as an incentive to increase global competitiveness. Taxpayers and the Service must now work together to implement the intent of Congress and protect US jobs.

The statute enacting Section 199 is one of the most complex provisions in the Internal Revenue Code. Congress left many areas open for interpretation by Treasury and the IRS. Complexity makes it more difficult and costly for taxpayers, who want to comply, to do so and for the IRS to explain and enforce the tax laws. Thus, in order to decrease the costs of both tax administration and tax compliance, the tax law needs to be simplified. The issue is fundamentally simple: the IRS must enforce the law and taxpayers must comply with the law. Therefore, it is important that both know what the law is.

We commend the IRS for creating guidance on Section 199 in a timely manner. However, guidance issued thus far on Section 199 is cumbersome, can be overwhelming and runs over 270 pages. The computations are complex and require that even knowledgeable and seasoned practitioners review and re-learn rules and concepts once thought to be familiar. These lengthy and complex rules are even more convoluted for intercompany transactions, consolidated groups and a new grouping called the expanded affiliated group. Other areas of complexity include cost allocations (including the use of the Section 861 allocation rules), issues related to embedded services, and classification of assets as realty or tangible personal property.

The regulations contain complex terminology and confusing acronyms. Although the guidance is designed to (1) ensure compliance with the intent and purpose of Section 199 and (2) provide clear administrable rules that minimize the administrative burden on taxpayers and the IRS, this purpose has not been accomplished to the extent that this is needed in practice. Congress recently enacted changes to Section 199, which will require even further guidance.

We would suggest careful review of Section 199 computations, noting that many of the required steps are burdensome and may not be necessary. We would hope that, in determining audit selection and compliance risk criteria, the IRS keeps in mind (1) Congressional intent to provide a domestic production incentive and (2) the complexity of complying with this provision.

Section 199 and the final regulations require the evaluation of information that may not typically have been created or retained. For example, this is likely in the case of the segregation of embedded services, application of the “shrink back” rule, and identification of the US content of previously produced films.

We have been informed that the IRS is looking at sampling as a tool to reduce burden. We agree that the practical and efficient administration of Section 199 would be materially aided by the use of statistical sampling, appropriate construction of judgment sampling techniques, and other reasonable methods of quantitative analysis. We believe that it would be beneficial if Section 199 statistical sampling guidance specifies that (as with meals and entertainment under Rev. Proc. 2004-29, 2004-20 I.R.B. 918), taxpayers employing statistical sampling techniques be allowed to deviate from the lower limit and use the point-estimate in appropriate circumstances where a specified degree of comfort is achieved, i.e., 10%.

In Litigation Guideline Memorandum (“LGM”), TL-97 (September 9, 1992), the Office of Chief Counsel expressed support of taxpayer use of sampling methods. That guidance states:

The validity of statistical sampling as a tool is a two-sided issue:
both the Service and the taxpayer rely on sampling. We must be

careful in attacking taxpayer use of sampling procedures in general; that is, as a policy, we should be supportive of sampling as a valid measurement of the impact of all similar tax records.

Further to the extent that sampling promotes currency in examination, it may represent a desirable alternative to taxpayers, so long as it is soundly conducted.

Application of statistical sampling in the Section 199 context, including allowing taxpayers to use the point-estimate where certain confidence levels are achieved, is consistent with these policy objectives. Such sampling guidance should clearly state that statistical sampling is not the required method of evaluating and assessing a large population of data and that other reasonable means of evaluation are allowed. We believe that such an explicit statement will eliminate unnecessary future issues that could arise for IRS field examiners who might inappropriately conclude, from the release of statistical sampling guidance, that only statistical sampling methods specified in published guidance are allowable for evaluating large populations of information and data. The suggested simple statement should have the effect of avoiding unnecessary controversy and allowing the Service to efficiently utilize its resources.

Recommendations

1. LMSB should continue to rigorously examine abusive refund claims.
2. Refund claims should have a penalty component to discourage frivolous claims.
3. To reduce the resources utilized by the IRS and burdens on the taxpayer in examining R&E refund claims, both the taxpayer and the examiners should be reminded of basic efficient examination skills. Taxpayers should be reminded to

- submit refund claims early in the examination process. Both taxpayers and examiners should be reminded of the value of jointly discussing an Information Document Request before it is actually prepared.
4. In examining R&E credits, examiners should be reminded that, while there are abusive claims, not all claims are abusive. Examiners should be aware of the dangers of thinking that all taxpayers are non-compliant. Such an attitude hinders the ability of the IRS to enlist compliant taxpayers as allies in its efforts to close the Tax Gap.
 5. In examining R&E credits, examiners should be reminded that they have a dual responsibility to protect the Treasury and to implement the intent of Congress. Although it is difficult after having dealt with an abusive claim, the examiner should be reminded that the 1960's Revenue Procedure of the Rule of Reason (Rev. Proc. 64-22) is still in force.
 6. R&E claims should be required to disclose whether the claim is related to a contingent fee arrangement.
 7. R&E claims should be required to disclose if the claim is based on a method other than the Taxpayers Internal Project Accounting Method.
 8. LMSB should continue its laudable efforts in developing and issuing guidance for Section 199 compliance.
 9. LMSB should develop a set of audit selections and risk criteria that take into account the complexity of Section 199 and its related guidance.

10. The IRS should look for ways to simplify the computation of the Section 199 deduction to make it easier for taxpayers to comply and to take advantage of the incentive that Congress intended.
11. The IRS should develop sampling guidance which does not require statistical sampling as the only method for evaluating and assessing the large population of data used in computing the Section 199 deduction and which allows for other reasonable methods.

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

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

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NOVEMBER 15, 2006

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

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INTRODUCTION/EXECUTIVE SUMMARY

The IRSAC SB/SE Subgroup (hereafter “Subgroup”) consists of a diverse group of tax professionals who have significant professional experience and organizational affiliations. The Subgroup has representation from CPAs, Enrolled Agents, Tax Attorneys and Software Developers. Each member, along with specific areas of expertise, has wide experience with both the taxpaying public and the IRS. We are pleased that the IRS has requested our views on issues of importance to both the general public and the IRS.

The Subgroup thanks the IRS personnel for their availability and candor in presentations and discussions. In particular, we appreciate the time that Commissioner Kevin Brown and Director Beth Tucker have spent with us in our Subgroup working sessions. They have made a determined effort to enlighten us with updates on SB/SE efforts concerning the tax gap and other issues. We also want to thank the staff of the National Public Liaison (NPL) for their hard work and dedication. Due to the flood damage at 1111 Constitution Ave, it has been a challenging several months for IRS personnel in the DC area. Our liaisons have done an exemplary job of organizing phone conversations to compensate for our canceled July working session.

During the course of the year, the Subgroup has researched and reported on the following four key issues:

1. Customer Satisfaction – The IRS would like to improve customer satisfaction with the collection process. However, the IRS desires to balance increases in taxpayer satisfaction with the overall effectiveness of collections. The IRS has traditionally used a survey to gauge taxpayer satisfaction with the collection

process. In 2005, 60-65% of taxpayers surveyed indicated that the experience was satisfactory, while 22-25% were dissatisfied. The IRS would like to improve these results.

2. Examination Recruit Hire Curriculum Redesign – The Examination Recruit Hire Curriculum Redesign (“Redesign Initiative”) is in the process of redesigning the methodology used to train new Revenue Agents. The Redesign Initiative focuses primarily on creating computer based training and a more practical hands-on curriculum with the goals of (1) producing new Revenue Agents that are better prepared for the challenges of taxpayer service and (2) reducing the time necessary to fully prepare new Revenue Agents for the field.
3. Improving the Performance of Tax Preparers – Competent tax preparers facilitate efficient tax administration. IRS efforts to improve preparer performance have focused on education and discipline. We support continued emphasis on education and increased emphasis on discipline.
4. Tax Gap and the Cash Economy – The IRS’ most recent estimate of the Tax Gap, the difference between what taxpayers should have paid and what they actually paid on a timely basis, is in the neighborhood of \$345 billion for tax year 2001. The IRS has been successful in recovering approximately \$55 billion of this shortage. The remaining shortfall of \$290 billion is still unacceptable. Greater efforts to address this problem simply must be undertaken.

Each issue contains specific recommendations. We hope that each recommendation will be considered and create meaningful dialog within the IRS.

ISSUES AND RECOMMENDATIONS

ISSUE ONE: CUSTOMER SATISFACTION

Executive Summary

The IRS would like to improve customer satisfaction with the collection process. However, the IRS desires to balance increases in taxpayer satisfaction with the overall effectiveness of collections. The IRS has traditionally used a survey to gauge taxpayer satisfaction with the collection process. In 2005, 60-65% of taxpayers surveyed indicated that the experience was satisfactory, while 22-25% were dissatisfied. The IRS would like to improve these results.

Background

The IRS has utilized the assistance of Pacific Consulting Group (PCG) to administer customer surveys regarding its field collection efforts. Surveys are generally mailed to taxpayers after a case has closed, and the response rate to the surveys has been approximately 19%. In the years following the 1998 restructuring of the IRS, there were significant improvements in customer satisfaction as measured by the PCG survey. However, there has been little significant movement--positive or negative--in overall survey results since FY 2001.

Based upon the data obtained from the surveys in recent years, the IRS would like to improve taxpayer satisfaction with the overall collection process in four main areas:

1. Taxpayer updates from the IRS on the overall status of the collection process;
2. Notification of taxpayers concerning case closure;
3. Decrease in cycle time resolution; and
4. Prompt acknowledgment by IRS of receipt of information.

As mentioned above, the IRS does not want to negatively impact the effectiveness of the collection process in order to increase overall taxpayer satisfaction with the process. The SB/SE Division has created a team to cultivate customer satisfaction in the area of collections. Representatives of the team met with IRSAC to discuss their efforts to date, and we encourage their continued work in this area.

Recommendations

1. IRSAC noted that the lowest satisfaction scores were associated with questions asked last in the PCG surveys. Periodically changing the order of the questions might eliminate a possible source of response bias.
2. The IRS needs to improve its communication with taxpayers by providing more timely response and follow-up during the collection process. The IRS should improve its traditional means of communicating with taxpayers by continuing to explore the use of electronic mail or online availability of collection information on a secured network. Online access to information can improve responsiveness to the taxpayer, while decreasing mailing costs and burden for the revenue officer and customer service representatives.
3. Improvement in the IRS' integrated databases is necessary to allow for real-time access of information by revenue officers and customer service representatives. Databases should be kept up to date as cases are closed or information is received. Furthermore, documentation received from taxpayers should be kept in electronic format to allow online viewing by collection agents and customer service representatives.

4. The use and visibility of local revenue officers within the vicinity of the taxpayer would facilitate better response time, acknowledgement of receipt of information from taxpayers and, thus, overall customer satisfaction with the process.
5. The IRS should provide better training and education for its revenue officers and customer service representatives regarding service to taxpayers.
 - a. The IRS needs to increase training on “soft skills” such as communication between revenue officers and taxpayers. This goal may be accomplished through use of outside firms that develop problem solving and team building skills and utilize nontraditional training techniques, such as role playing, as part of the training curriculum.
 - b. Efforts should be made to monitor revenue officers for signs of burnout.
6. Tools such as the Balanced Measurement System for evaluating the overall progress of its performance regarding customer satisfaction and overall business results should continue to be used by IRS.
 - a. Evaluation of variables such as field collection quality, percentage of cases overage, percentage of Offers in Compromise processed in less than six months, number of cases closed, and employee satisfaction in conjunction with the Customer Satisfaction Survey score should continue to be utilized in the Balanced Measures for the collection process.
 - b. Additional variables such as customer outreach and taxpayer education should be defined.
7. Although taxpayers brought into the collection system are currently provided with a large number of letters and brochures regarding the collection process, much of

the information provided is not read or understood. Efforts should be made to streamline and simplify the material provided. Moving toward more graphic presentations of timelines and other information would help to set reasonable taxpayer expectations regarding the collection process.

8. The IRS should continue to use focus groups and other initiatives, such as tax forums, to better understand the customer experience.

ISSUE TWO: EXAMINATION RECRUIT HIRE CURRICULUM REDESIGN

Executive Summary

The Examination Recruit Hire Curriculum Redesign (“Redesign Initiative”) is in the process of redesigning the methodology used to train new Revenue Agents. The Redesign Initiative focuses primarily on creating computer based training and a more practical hands-on curriculum with the goals of (1) producing new Revenue Agents that are better prepared for the challenges of taxpayer service and (2) reducing the time necessary to fully prepare new Revenue Agents for the field.

Background

The purpose of the Redesign Initiative is to provide new hires more comprehensive training in the most practical and efficient manner possible. The development team for the Redesign Initiative (Core Team) is headed by Monica Baker and Shelley Foster, who have accomplished significant improvements in a short period of time. The April 2006 hires were the first class to experience some of the curriculum changes. The Core Team evaluated the experience of the April 2006 class, made modifications and implemented more comprehensive curriculum changes for the June 2006 hires, including suggestions

made through informal conversations with the Subgroup. Although the curriculum changes have been successful overall, there are still many improvements and implementations on the horizon. IRSAC applauds the efforts of the Core Team thus far and encourages a continuing commitment to the Redesign Initiative.

Recommendations

1. A methodology should be developed to evaluate the skill level of each new hire to better tailor the training experience. For example, a new Revenue Agent who is hired from private practice will come to the IRS with a different skill set than a recent college graduate. Training should be tailored to allow the more experienced hires to “test out” of certain training modules. We understand that any such methodology would need to comply with National Treasury Employees Union guidelines.
2. The Core Team should develop and implement knowledge testing for the self-study modules. This would allow trainees and coaches to better evaluate each trainee’s progress and the effectiveness of the self-study module. We understand the Core Team is currently working on developing a form of knowledge testing, but must ensure that any such testing complies with National Treasury Employees Union guidelines.
3. The Core Team should continue to explore and expand the utilization of retired IRS personnel to teach the classroom portion of training in order to minimize the time active Revenue Agents are out of the field.

4. A process should be developed to train the on-the-job training coaches to ensure each trainee receives uniform training. For example, a “train the trainer” program should be developed.
5. The Core Team has recognized that each trainee should be assigned a mentor. A mentor could be an individual with less experience than a coach, but could assist the trainee with non-technical issues. The use of a mentor would alleviate some of the time constraints on each coach.
6. The Core Team should continue to solicit feedback from trainees and coaches in order to improve the training program with each new class of hires.
7. The Core Team should continue to explore and expand its use of “off-the-shelf” computer training programs in an effort to maximize efficiency and minimize cost. Similarly, the Core Team should continue to explore and develop web-based training, because it is the simplest way to create tailored training.
8. The Redesign Initiative should continue to receive adequate funding regardless of whether the new hires reflect an overall increase in Revenue Agents or simply attrition hires.
9. The current Core Team should remain intact to ensure the vision that has already been developed will reach its full potential.

ISSUE THREE: IMPROVING THE PERFORMANCE OF TAX PREPARERS

Executive Summary

Competent tax preparers facilitate efficient tax administration. IRS efforts to improve preparer performance have focused on education and discipline. We support continued emphasis on education and increased emphasis on discipline.

Background

The IRS has long recognized that tax professionals are vital to fair and efficient administration of the U.S. tax system. Although paid preparers are required to sign the returns they prepare, their identities are not currently tracked in any single database, and it is not possible to determine the number of persons who prepare returns for others with any certainty; however, the number is estimated to exceed 1 million. Over half of all individual returns submitted are prepared by paid preparers, and the percentage of partnership and corporate returns is even higher.

As Free File and other initiatives for taxpayers with simple returns increase, many preparers are finding that their workloads are shifting toward more complex returns. Moreover, as the IRS steps up its enforcement efforts, preparers are seeing more “remedial” situations that require skills beyond mere return preparation. The tax code itself is becoming more and more complex. All of these factors “raise the bar” for tax preparers.

To the extent that paid preparers perform honestly and competently, efficient tax administration is enhanced. When a preparer is dishonest or incompetent, both the IRS and the taxpaying public are ill-served. IRS efforts to improve preparer performance

have traditionally included both education and enforcement. We believe that continued efforts in both directions are essential.

Tax professionals are commonly divided into two categories: (1) attorneys, CPA's and Enrolled Agents who are governed by IRS Circular No. 230 and (2) unenrolled preparers who have more limited rights to represent taxpayers before the IRS and are governed by Revenue Procedure 81-38, printed as Publication 470 "Limited Practice Without Enrollment." The education, training and experience levels within these groups vary widely. Although many preparers belong to professional organizations that certify the credentials of their members and/or require continuing professional education, the quality of the education obtained is not uniform. Some preparers have no specific training or education in tax preparation. Efforts to improve preparer performance need not be limited to a specific group since improving the performance of both enrolled and unenrolled preparers will benefit the IRS.

There has been widespread publicity of an early 2006 General Accounting Office (GAO) study of preparers from large national tax preparation chains. The study, which found significant errors in the returns prepared by nineteen individual preparers, was far too limited to permit conclusions about preparers in general. It does, however, publicize what diligent preparers across the country have known for years: some poorly-informed, incompetent, or unscrupulous preparers exist. One approach to this problem is to attempt to "drive out" all such preparers. Another is to raise their level of competence.

From time to time, the IRS has been asked to consider additional licensing and/or regulation of tax preparers. "The Taxpayer Protection and Assistance Act of 2005

(S. 832)” is one such measure. Some members of Congress have expressed concern that there are legal requirements for barbers, but no requirements for tax preparers. While it is correct that there are no barriers to entry, all paid preparers are, in fact, governed by provisions of the Internal Revenue Code that describe proper conduct of a preparer and specify penalties for violation of those provisions. Enforcement of those provisions, which is shared by a number of offices within the IRS and the Treasury Inspector General for Tax Administration (TIGTA), is vital.

A December 2001 IRSAC Position Paper on Tax Preparer Regulation expressed several concerns regarding IRS registration of tax preparers, including:

- Licensing may be an inefficient approach to specific preparer errors and abuses in areas such as earned income tax credits and refund anticipation loans.
- Increased regulation might reduce the supply and/or increase the costs of competent preparers, thus harming segments of the taxpaying public.
- Unscrupulous preparers might easily evade registration.
- The IRS lacks resources to effectively administer and enforce additional registration and licensing efforts.

The position paper concluded that additional research was needed before it would be possible to determine whether licensing of unenrolled preparers was appropriate. This conclusion remains valid today. Licensing of preparers alone is no more a guarantee of a competent job of tax preparation than licensing of barbers is a guarantee of a good haircut. Education and enforcement are critical.

Recommendations

1. Currently, at least four databases track subsets of preparers. E-file providers are identified by an Electronic Filer Identification Number (EFIN), persons authorized to represent specific taxpayers are listed on a Central Authorization File (CAF), payroll tax return preparers may be listed on the Reporting Agent File (RAF), and preparers who request an identifying number to use in lieu of their social security numbers are identified by a Preparer Tax Identification Number (PTIN). We recommend that all preparers be required to obtain and use a PTIN on returns they prepare. This would be an efficient approach to identifying the legal preparer population, would provide a reliable means of disseminating information to that population, and would facilitate additional data collection. Consideration should also be given to consolidating the information in these and other databases into a single file.
2. The IRS has committed significant resources to improving communications with tax professionals. The IRS website has been improved. Preparers are able to subscribe to a variety of news lists. Tax Talk Today, Tax Practitioners Institutes, and the Nationwide Tax Forums provide low-cost opportunities for preparers to refresh their knowledge of tax matters. SB/SE's Stakeholder Liaison Division has provided phone forums on a variety of topics, and its field offices have made efforts to contact preparers in their areas. These outreach efforts are important and should be continued. Continued efforts to publicize these avenues of communication are warranted.

3. The IRS currently partners with a variety of professional associations and other stakeholders to provide and obtain information regarding tax administration. Many of these groups provide educational opportunities to their members. Specific initiatives to identify areas of low compliance or particular complexity so that training and information can be targeted to those areas should be encouraged.
4. The IRS Practitioner Priority Service Hotline is an effective tool for practitioners with account-related issues. The IRS website provides numerous links to generic reference information. Consideration should be given to providing a hotline or e-mail site through which practitioners could ask questions regarding specific situations without having to link the issue to a particular taxpayer.
5. IRS enforcement efforts with regard to tax preparers have focused on the most egregious instances of preparer fraud and abuse. While this is an appropriate emphasis, the number of cases pursued remains small, and penalties levied are often not collected. To be effective, there must be more “touches” and more effective follow-through.
6. A March 2006 report by the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS did not have an effective program for identifying practitioners whose licenses had been suspended or revoked by state authorities. It further found that the IRS did not have an adequate system for referring practitioners who were not current with their own tax obligations to the Office of Professional Responsibility (OPR) for review. OPR is instituting measures in both areas. Improved coordination of the preparer databases described earlier would assist with these efforts.

7. The IRS frequently publicizes common tax scams and abusive tax schemes to be avoided. The taxpaying public would benefit from additional information regarding positive qualities to look for in a tax preparer. Care must be taken to keep such recommendations general enough that they do not convey an unintentional “seal of approval” to a particular subset of preparers.

ISSUE FOUR: TAX GAP AND THE CASH ECONOMY

Executive Summary

The IRS’ most recent estimate of the Tax Gap, the difference between what taxpayers should have paid and what they actually paid on a timely basis, is in the neighborhood of \$345 billion for tax year 2001. The IRS has been successful in recovering approximately \$55 billion of this shortage. The remaining shortfall of \$290 billion is still unacceptable. Greater efforts to address this problem simply must be undertaken.

Background

The greatest disparity between real and reported income, according to the National Research Project study, comes from those taxpayers falling under the jurisdiction of the SB/SE Operating Division. When this segment is examined, the errors consist chiefly of underreporting of income and overstatement of cost of goods sold. Underreporting comes mainly from the difficult-to-trace cash transactions of our economy. IRSAC’s 2005 Annual Report contained numerous suggestions regarding underreported income. These issues are still of concern. Overreporting costs, by including items that are not legitimate business expenses, might be considered a more

egregious problem as it often involves intentional misrepresentation of expenses to disguise their real nature.

The IRS SB/SE Operating Division has proposed, and the President has included in his FY 2007 budget proposal, five legislative changes to begin addressing the tax gap.

These are:

- Expanding third-party information reporting to include certain Government payments for property and services;
- Expanding third-party information reporting on debit and credit card reimbursements paid to certain merchants;
- Clarifying liability for employment taxes for employee leasing companies and their clients;
- Expanding beyond income taxes the requirement that paid return preparers sign returns, and impose a penalty when they fail to do so; and
- Authorizing the IRS to issue levies to collect employment tax debts prior to collection due process proceedings.

Recommendations

1. We support the first four legislative proposals, each of which will have an impact on reducing the tax gap. Our objection to the last proposal concerns the circumvention of due process. If the IRS desires an ability to move more swiftly on delinquent employment taxes, legislative efforts should be made to speed up due process rather than circumvent it.
2. There must be additional efforts to reach the middle-income taxpayer. Application of IRS resources often overlooks this area, since, individually, the

anticipated yield from them is believed to be small relative to the cost of collection. If these taxpayers do not experience scrutiny themselves nor see their contemporaries facing scrutiny, then they are encouraged to continue or, even worse, to begin doing what “everyone else is doing.” The continued effect of non-compliance on the compliant taxpayer can lead to whip lash--honest taxpayers become dishonest. There must be a balance in the enforcement area. Large case emphasis is not the single answer, because large case emphasis means that fewer taxpayers will be examined. With a 16.3% non-compliance rate, the large case emphasis will not appreciably impact this segment. IRSAC has repeatedly said that there is a need for more touches between the IRS and the taxpayer community.

3. There must be an acceptance by the IRS and Congress that balance is needed between burden and compliance. Most initiatives to increase compliance create additional burden for the taxpaying public. If the compliance gains are great enough, the additional burden is justified. One of the best ways to improve compliance while *reducing* burden is to simplify the assessment, reporting and collection of tax. To whatever degree this is achieved, compliance will increase and all taxpayers will benefit.
4. We applaud the efforts by SB/SE Commissioner Brown to solicit suggestions for tax gap reduction from employees within SB/SE, from other IRS operating divisions and from external stakeholders. The initial tally of over 1,000 responses indicates that there is widespread interest in finding solutions for the tax gap. It is wise to pay attention to the Service’s best resources--its employees and

stakeholders. The frequency with which certain ideas have been suggested gives credence to those suggestions. We urge the IRS to continue to gather input from these resources.

5. We continue to advocate the expanded use of third party reporting and the review of the 1099 de minimis amount rules. We give strong support to the implementation of withholding by those third party reporters where it is not now authorized. The value of this is attested to in comments by SB/SE Operating Division Commissioner Kevin Brown, who said “Where we have third party reporting, we have 90 percent compliance. Where you couple third party reporting with withholding, [we] are at 98 to 99 percent compliance.” Among SB/SE taxpayers, due to the relatively low amount of third party reporting or withholding, the compliance rate is in the 55 percent range.
6. We recommend that the entire tip industry be scrutinized--not just the food and beverage segment. The Attributed Tip Income Program, a pilot program at present, is but another effort directed solely at the food and beverage industry. Hairdressers, cabbies, bellhops, valets, concierges and a host of other service providers are recipients of tips. Tip reporting programs, whatever they may be, should have mandated participation, even if achieving this requires legislation.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

1111 Constitution Avenue, NW, Room 7563, Washington, D.C. 20224

January 31, 2006

Internal Revenue Service Oversight Board
Mr. Raymond T. Wagner, Jr.

Dear Mr. Wagner,

On behalf of my fellow members of the Internal Revenue Service Advisory Council (IRSAC), I would like to thank you for the opportunity to participate in today's IRS Oversight Board public meeting. I am Jon Contreras and I am the current Chairman of the IRSAC and a Director in the Tax Controversies Service group with Deloitte Tax.

As you know, the first advisory group to the Commissioner of Internal Revenue was established in 1953 by former Commissioner T. Coleman Andrews as a national policy and/issue advisory committee. It was known as the Commissioner's Advisory Group. Consistent with the Restructuring and Reform Act of 1998, former Commissioner Charles O. Rossotti refocused the Internal Revenue Service (IRS) to provide top quality taxpayer service. This was accomplished by forming operating divisions dedicated to the specific needs of similarly situated taxpayer segments. At that time, this advisory group was then renamed to the IRSAC to more accurately reflect the agency-wide scope of its focus as an advisory body to the entire agency. Therefore, the IRSAC is strategically broken into subgroups that mirror three of the operating divisions: Large & Midsize Business, Small Business/Self-Employed, Tax Exempt & Government Entities, and Wage & Investment.

The IRSAC addresses broad tax administration topics and organizational issues rather than narrow technical issues. Discussions focus on solutions as well as constructive critiques with respect to the federal tax system. Meetings provide an opportunity for the IRSAC to collaborate with senior IRS officials and offer advice on strategic IRS issues. The IRSAC is comprised of individuals from diverse backgrounds, all of whom bring a wide breadth of experience to the Council's activities.

Today's meeting addresses two key areas of importance. 1) Customer Service Needs of Taxpayers and 2) The Importance and Impact of Measures. You asked that I participate in the Importance and Impact of Measures, but before proceeding into that discussion, I thought I would provide some brief comments on Customer Service needs.

CUSTOMER SERVICE NEEDS OF TAXPAYERS

The difficulty in defining customer service for any government organization is that the "customer" in question, doesn't have a choice regarding service providers. People generally, as a whole, have various perceptions of the term customer service. In order to retain customers, retailers typically must operate under the axiom of, "the customer is always right" and must, to a certain extent, always bend to the complaint or issue of their customer. Unfortunately, the IRS must operate under a different methodology in order to resolve the issue their customer has, but like the retailer, they too must insure that it keeps the customer coming back.

The IRS must identify who its customer is, why do they keep coming back for service, and that the level of service is acceptable. If a retailer has to keep answering questions on its product or repairing the same product, they will soon be out of business. The IRS will always be in business, but the customer may not return.

When the IRS looks at its customer base, it likely first looks at the individual income tax base and makes assumptions as to the level of service, types of services, and the complexity of the tax law with regards to those customers. Each operating division should identify its respective customers and determine what key services and issues are unique and common. This can be accomplished by:

- Identify common processing issues and errors unique to operating divisions. Know what your customer's needs and pressing issues are, and work toward ways to resolve them prior to the issue entering the stream of calls or personal contacts.
- Challenge IRS employees to identify issues that are barriers to achieving good tax administration. Remove the words "can't" when working with taxpayers or practitioners, to "Let me see what I can do," or "Here is what you need to do to resolve this situation."
- Once the types of services and issues are determined, distribute services to customers in a fair and consistent manner and without regards to political influence or geographic location. Use of alternative methods of assisting taxpayers should be considered. Such as;
 - Public libraries with computers having dedicated access to the IRS website.
 - Kiosk's in major malls with direct telephone access and internet access to the IRS website.
 - Early intervention in the public schools, particularly high school, on understating the rights and responsibilities as a future taxpayer.

The IRS needs to define its common customer base, know its customers needs, and build a system to meet those customers and their needs.

THE IMPORTANCE AND IMPACT OF MEASURES

The importance and impact of measures is a common practice both in the business community and one's personal life. Measures establish the minimum and the maximum expectations that anyone who is evaluated knows what the expected results should be and the expected outcome if the results fail. The Board has requested input on various tax administration measures that stakeholders believe are important. In considering these measures, the Board further comments that "while doing so, such measure must be carefully chosen to reflect a balance of desired outcomes so that attention is focused on what is truly important." Given those facts, the Board must gauge taxpayers' desire of what is important to them and provide those answers. Such objectives must not be broad, but focused, measured, and accommodated with appropriate funding to achieve the desired outcome.

The Board presented eight questions and asked for comments on each. Having reviewed them, IRSAC recommends the following:

1. The Congressionally mandated goal of 80% E-filed tax returns has had a significant impact on the behavior of the IRS and a taxpayer's general progress towards this goal has been measured each year since 1999. What impact has this goal and its measurement had on the tax administration system?

We believe the mandated goal has made a positive impact on the perception of e-filed tax returns while increasing voluntary compliance. Refunds and return processing are faster and taxpayer perception of the system and its ability to process returns in a timely manner has increased. However, this emphasis has been on quantity, not quality. Quality of outcome should have the highest consideration in setting goals. Unfortunately, the e-file mandate has led to an increase of unlicensed and unenrolled preparers that mass prepare less than quality returns and prey upon the less sophisticated taxpayer attempting to comply. While making it difficult for the IRS to timely manage potentially fraudulent returns, such as the recent Earned Income Tax Credit Refund Hold Program.

2. Do you think that setting other ten-year goals and measuring progress would have as significant an impact?

Setting ten-year goals and measuring progress will have a significant impact on tax administration under the assumption that the goal is attainable and funded. Generally, any goal will allow for a more efficient system of tax administration if those measured are held accountable. A ten-year goal must have intervening measurements to insure that the goal is on track and the responsible IRS officials are provided positive feedback for achieving intervening measures and constructive criticism where appropriate.

Setting the ten-year goal for electronic filing may have proven to be beneficial, but there is no guarantee that setting such a goal in other areas would have a similar effect. It is important to keep in mind the limited budget available for both service and compliance when setting goals. The down side of placing a time limit on implementing a change is that resources may be diverted from other areas that could prove to be of greater importance.

3. What other ten-year goals would you recommend?

One goal that is both measurable, attainable and would provide immediate impact to the taxpaying public is addressing the non-filer population. Measurements such as the e-file mandate are positive and recognizable in the current technology world we live in, but you cannot win over compliant taxpayers when a large population remains non-compliant from the sheer aspect of not filing a tax return. Non-filing affects the trust, and hence, willingness of the population of voluntary filers to continue to file.

Second, increasing the audit rate among all taxpayers, while reducing the length of audits is a prime example of achieving voluntary compliance. For example, this past year, the LMSB operating division made it a priority to reduce its case cycle time (length of the audit) on its taxpayer population, while increasing the number of taxpayers examined. The premise of this goal was to focus on the primary issues that the return presents rather than utilizing outdated package audit

requirements. This goal not only achieved an increase in the number of corporate taxpayers examined, but also reduced the volume of years under examination for the largest taxpayers. This allowed LMSB to focus on currency of tax years and relevant audit issues.

Third, setting a goal for the implementation of a taxpayer pin number system for direct account access to taxpayer accounts (view only) is an attainable goal. Taxpayers would know immediately what changes have been made to their accounts while resolving many problems such as payment errors, tax assessed, interest, and extensions posted to the accounts.

Lastly, we wholeheartedly recommend that a goal of increased education of the current and future taxpaying public be measured. As noted in comments under Taxpayer Service, we recommend that the IRS develop, implement and teach high school students the tax system and their responsibility as taxpayers to file a return. Early intervention with a candid discussion of the importance of their future responsibilities is critical to the increased compliance rate and reduction of the tax gap.

4. What data/measures would be needed to let the public know the IRS is making progress in achieving the long-term goals of its strategic plan?

First, set benchmarks within the ten-year goal. Publish both the successes and failures of meeting the benchmarks, while letting the taxpayers know that those benchmarks not achieved the actions that are being taken to achieve the goals.

Measurement must be monitored by an independent third party. Public companies do not publicize certain successes without an independent party attesting to the achievement by survey or analysis of results. IRS, if it does not already do so, should issue an Annual Report, while at the same time provide the media an Executive Summary. This report should include its short and long-term goals with a brief statement under each goal and its progress to date. IRS representatives should present the annual report in a variety of mass media to promote and have frank discussions on its achievements.

5. What do you think are key measures of IRS performance that you would like to see publicly available on a regular basis? [What are the important actions/interactions that could be used to gauge the delivery of services and enforcement activities each year?]

Taxpayers need to see their tax system at work like they see their local law enforcement officials on a regular basis, doing their job. Therefore, services and performance of IRS personnel should be accurate and consistent across the country. People need facts such as, number of tax returns processed, number examined, total dollar amount of refunds issued, total tax paid by individuals and corporations, and number of non-filers.

Lastly, the most important measure is compliance statistics. Provide details of examined returns, average additional tax due, number of non-filers brought into compliance, and steps the IRS is taking to make them compliant. Furthermore, provide information with regards to industries that are non-compliant. Remember, the goal is to achieve voluntary compliance. Providing key measures

to the compliant taxpaying public will increase their respect for the tax system, while putting the non-compliant on notice that IRS enforcement action is working.

6. Why would this information be important to stakeholders/taxpayers?

Providing key statistics in the executive summary noted above is important as it lets the compliant and non-compliant taxpayer see that our tax dollars are being used in an efficient manner. It provides them a snapshot without detailed IRS terminology and assurance that the tax system is working, fair, and the amount of tax they pay is fair.

7. What measures would you like to see the IRS report publicly that would give you a barometer of how the IRS is doing?

We believe providing the taxpayer annual measures such as, call volume, taxpayers serviced at walk in sites, the average length of an examination, number of audits by tax form, types of adjustments, and additional refunds refunded due to taxpayer error are some key statistics that would interest taxpayers.

In addition to compliance measures, the IRS should also provide data on its written correspondence received by Service Centers, while at the same time promoting the use of customer service call sites and walk-in sites for more prompt resolution of the issue. With that, the IRS should seek taxpayer input on the level of service currently being provided and publish annually these results including an approval rating by the citizens regarding their confidence, or lack thereof, in the IRS' ability and willingness to accomplish its publicly stated mission. IRS must be willing to accept the good with the bad in order to improve and build upon its successes and failures.

8. Can you identify the outcomes that you believe are most indicative of effective tax administration? Which are the most important?

The most important outcome indicative of administering an effective tax system is positive movements in the Tax Gap, reduction of calls to customer service sites, increase in the examination No-Change rates, a reduction in uncollectible accounts, reducing the number of non-filers, and positive movement in the public's perception of the IRS. The most important are the positive increases in the public's perception of the IRS with a corresponding reduction in taxpayers who do not file.

9. Which measures should the IRS report at year end to allow taxpayers to judge how effective the IRS' performance has been?

The IRS should provide all captured data with an emphasis on those measures that if provided will increase voluntary compliance. Such measures can be reduction in non-filing, decreases in taxpayer burden where accomplished, key audit information by industry, form, and taxpayer, and collection activity. The compliant taxpayer needs assurance that their compliance is appreciated while others who are not compliant are being acted upon.

January 31, 2006

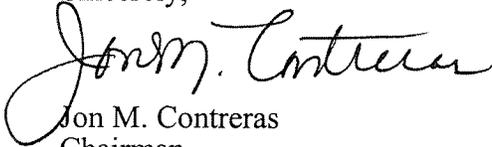
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It is clear that in any evaluative/measured process one must have control over the environment and be provided the resources to be successful. In doing so, those setting, calculating, and evaluating the results must be independent so that taxpayers can rely on the results. Further, the IRS must be given positive and negative feedback.

Lastly, it is clear that in order for the IRS to be successful, it must be given the tools, staff, and budget to attain the given expectations whatever they may be. Unfortunately, this makes for a daunting task, given the fact that the IRS has very little control over the budget and the legislative decisions.

The IRSAC commends the IRS Oversight Board for holding this public meeting and IRSAC looks forward to working with the Board and the IRS, to improve upon the many accomplishments already achieved.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon M. Contreras". The signature is written in a cursive style with a large initial "J".

Jon M. Contreras
Chairman

**Internal Revenue Service Advisory Council
2006 Member Biographies**

Judith A. Akin, EA

Ms. Akin is the owner and manager of Judith A. Akin, EA, Tax and Financial Services in Oklahoma City, OK. Some specialties of her practice include but are not limited to bookkeeping and tax preparation for individuals, small business, partnerships, corporations, estates, trusts, as well as tax planning, business and financial planning. She also specializes in taxpayer representation before the Internal Revenue Service and other taxing authorities. Judy is a graduate of the National Tax Practice Institute. Judy is the past President for the National Association of Enrolled Agents. **(W&I Subgroup)**

Jon M. Contreras

Mr. Contreras is currently a Director with Deloitte Tax, LLP, in Fresno, CA, in their Internal Revenue Service Tax Controversy Practice and has been with the firm for seven years. Prior to joining Deloitte, Mr. Contreras was with the Internal Revenue Service for 15 years in the Examination Division, concluding his career with the Fresno Service Center. Throughout his professional career, Mr. Contreras has been extensively involved in compliance activities. He has a thorough knowledge of Examination processes, as practiced in the Internal Revenue Service field and service center operations. Mr. Contreras is both a Certified Public Accountant and Enrolled Agent, he holds a Bachelor of Science Degree in Accounting from California State University, Fresno. **(IRSAC Chairman)**

John A. Glennie

Mr. Glennie completed his chartered accountant's designation in Toronto and shortly thereafter joined the Department of National Revenue. In 1978 he joined Shell Canada Limited in the Tax and Insurance Department in Calgary Alberta, Canada. Mr. Glennie is the General Manager, Tax and Insurance. Prior to becoming the General Manager he was the Director, Tax and Insurance. Mr. Glennie was the International President of the Tax Executives Institute for 2002/03 and he currently sits on the Board of Directors. Mr. Glennie is also a member of the Advisory Committee to the Minister of National Revenue in Canada. He holds a Bachelor of Arts Degree from the University of Toronto. **(LMSB Subgroup)**

Mary Harris, EA

Ms. Harris is an enrolled agent who, with her husband, co-owns Sirrah, Inc; an Arkansas Corporation dba Jackson Hewitt Tax Service in Little Rock, AR. Ms. Harris has been in the tax preparation industry since 1969 and is very involved in the day to day operations of her business. Of the twenty-five years she worked for H & R Block, the last 18 years she served as district manager with 18 city offices and 27 satellites operations across Arkansas for which she provided assistance. Her Jackson Hewitt operation includes 80 tax offices throughout Arkansas and Texas with approximately 400 employees. Preparing over 32,000 tax returns in the 2006 tax season, they e-filed over 99 percent. Her

firm was awarded Franchise of the Year for 2006. Ms. Harris served on the first ETAAC and served on the IRS Arkansas/Oklahoma Liaison Committee, and is a member of NAEA, and NSTP. In addition, Ms. Harris is the Director on the Arkansas State Board of Private Career Education. **(W&I Subgroup)**

Karla R. Hyatt

Ms. Hyatt is the Assistant Tax Counsel for Willis North America Inc. Prior to joining Willis North America Inc., Ms. Hyatt was a Senior Tax Counsel with the Tennessee Department of Revenue. In addition, Ms. Hyatt was a partner with Waller Lansden Dortch and Davis, LLP, focusing federal and state tax matters including business formations, the use of Limited Liability Companies (LLCs) and healthcare. She also served as a Judicial Law Clerk for the Honorable William J. Haynes, Jr., United States Magistrate Judge in Nashville, TN. Ms. Hyatt holds a BS Degree in Business Administration from the University of Tennessee and a LLM in taxation from the University of Florida School of Law and a JD from Tulane University School of Law, New Orleans, Louisiana. **(SBSE Subgroup)**

Angel Ingram

Ms. Ingram is an International Tax Manager for Tyco International, Inc. Prior of joining Tyco Ms. Ingram worked as a Senior International Tax Analyst at Eli Lilly and Company for seven years. She has also held similar positions at Whirlpool Corporation, Water Management Inc. and IVAX Corporation. Ms. Ingram is a CPA and has over 20 years of experience in accounting and taxation primarily working in large multinational companies. She is a current national board member of the National Association of Black Accountants, Inc. where she holds the position of Central Region President. Ms. Ingram holds a BA Degree in Accounting from the Michigan State University and a M.S. Degree in Taxation from DePaul University, Chicago, IL. **(LMSB Subgroup)**

Joan C. LeValley

Ms. LeValley is the owner and President of JCL and Company a full accounting practice in Park Ridge, IL. Ms. LeValley has over twenty-nine years experience in taxation. Her firm specializes in accounting and tax preparation for businesses. She was President of the Independent Accountants Association and continues to actively serve on its committees. In addition, she is serving her second year as Chair of the Federal Taxation Committee of the National Society of Accountants (NSA). Ms. LeValley holds a BA Degree in Business Administration and Accounting from Manchester College, N. Manchester, IN and is an Accredited Tax Advisor and an Accredited Tax Preparer. **(W&I Subgroup)**

Richard M. Lipton

Mr. Lipton has been in practice for over twenty four years and is currently a partner with Baker and McKenzie in Chicago, IL. He has served as tax counsel in many of the largest transactions in the country, and in the City of Chicago has been closely involved in transactions concerning the Sears Tower, John Hancock Building Aon, Prudential, etc. He has expertise in representing large corporations in complex partnership transactions and

has served as an expert witness on matters concerning partnerships and partnership taxation. He has written numerous publications and articles. Mr. Lipton is the former chair of the Tax Section of the American Bar Association as well as the former chair of the Chicago Bar Association; Tax Committee and the Chicago Federal Tax Forum. He is a fellow and a regent of the American College of Tax Counsel. Mr. Lipton is a graduate of the University of Chicago Law School and received his B.A. from Amherst College. **(LMSB Subgroup)**

Kenneth C. Nirenberg

Mr. Nirenberg has worked in the payroll industry for over thirty years and is currently a Senior Software Developer for Intuit Inc., in Austin, TX, where he specializes in tax filing systems. Prior to this, and until its sale, he was President of Charter Information Corp, a payroll services firm with offices in Texas and Massachusetts. Mr. Nirenberg is a representative to the National Payroll Reporting Consortium and has been involved with the IRS RAF Modernization Committee and Reporting Agent Forum. He spent three years as a Peace Corps Volunteer in Malaysia, during which time the Malaysian government requested his services to assist in the computerization of its federal government payroll. Mr. Nirenberg received his B.A. in Economics from Brandeis University and serves on the Brandeis University Alumni Admissions Council. **(SBSE Subgroup Chairman)**

Robert E. Panoff

Mr. Panoff is an attorney with the firm of Robert E. Panoff, PA in Miami, FL. Mr. Panoff has over twenty-seven years experience in taxation. He limits his practice to civil and criminal tax controversies and related matters. He has been an adjunct Professor at the University of Miami School of Law for twenty-three years. He is a frequent speaker at CLE and CPE programs on tax litigation topics and has written a number of articles on this subject. Mr. Panoff is past chair of the Tax Section of the Florida Bar, the Continuing Legal Education Committee of the Florida Bar, and the Greater Miami Tax Institute. He is currently a member of the Tax Section's Board of Directors. He is a member of the American Bar Association and was the principal draftsman of the American Bar Association's "Comments on the OECD Draft Convention on Mutual Administration Assistance in Tax Matters." Mr. Panoff was also chair of the IRS South Florida District Compliance Plan Study Group. Mr. Panoff holds an AB Degree from Brandeis University, a JD and LLM in Taxation from the University of Miami. **(SBSE Subgroup)**

Cathy Brown Peinhardt

Ms. Peinhardt is a CPA and Licensed Tax Consultant who owns Coast Business Services in Gearhart, OR. She has over twenty years experience in accounting and taxation, primarily working with individuals and small businesses. Ms. Peinhardt served as Controller/Treasurer for Information Science Incorporated in Montvale, NJ. She began her career with Arthur Andersen & Company, New York, NY. Ms. Peinhardt holds a BA Degree in Art History from Princeton University and a Masters Degree in Accounting from NY University. **(Vice Chair & SBSE Subgroup)**

Joni Johnson-Powe

Ms. Johnson-Powe is currently a managing Director at J.P. Powe & Associates, LLC in Greenwood Village, CO; she has been with the company for five years. Prior to joining J.P. Powe & Associates Ms. Johnson-Powe worked for KMPG, L.L.P. in Denver CO as the Managing Director-National Communications – State and Local Tax. She also worked for Ernst & Young, LLP in Denver, CO & San Jose, CA as a tax Consultant. Ms. Johnson-Powe expertise is in individual, small business & government audits, corporate tax, consulting compliance and legal services. Ms. Johnson-Powe is a CPA and holds a BS Degree in Accounting from the University of Nebraska-Lincoln and a JD from the University of Colorado School of Law. **(SBSE Subgroup)**

Patti M. Richards

Ms. Richards is currently a Member Manager at the Richards Law Firm, LLC and The Tax Controversy Group, LLC in Atlanta, GA. Ms. Richards, who is also a CPA, has over fifteen years experience in taxation. Her expertise is in domestic and international tax controversy. Prior to starting her own firm, she was with Powell Goldstein, LLP in Atlanta, GA. She worked for Dewey Ballentine LLP and Burt Maner, Miller and Staples in Washington, DC. In addition, she worked as an Attorney-Advisory (Tax) for the Internal Revenue Service, Office of Chief Counsel, Income Tax & Accounting. Ms. Richards holds a BS Degree from Centenary College of Louisiana, an MA Degree from Louisiana State University, an a JD from Georgetown University Law Center. **(LMSB Subgroup)**

Margaret A. Roark

Ms. Roark is the owner and President of M&D Consulting, Inc. in Fairfax Station, VA. Margaret has over 30 years experience in employer payroll taxation audits, compliance and administration. Prior to starting her own business in 1996, she was Director of Payroll/Sales Audit for Woodward & Lothrop, Inc. She has received numerous awards from the American Payroll Association (APA) and was President of the Washington Metropolitan Area Chapter of the APA. Margaret speaks nationwide on many payroll issues, has written and published numerous articles, and been a contributing editor to major payroll publications. In 1999, she was chosen to serve a three-year term on the American Payroll Association's Certification Board, the board responsible for writing the Certified Payroll Professional exam. Margaret serves on the Research Institute of America's Board of Advisors and is a contributing writer for RIA's *Guide to Taxation of Benefits* and *Payroll Guide*. **(W&I Subgroup Chairperson)**

Gary C. Rohrs

Mr. Rohrs owns and operates A. Clyde Rohrs & Associates, Inc. Accountants, in Independence, Missouri. This is a full service accounting, tax consulting, tax preparation and financial services firm of fifty years. In 1974 he became enrolled to Practice before the Internal Revenue when Donald C. Alexander was the Commissioner. He is an Accredited Business Accountant (ABA) and an Accredited Tax Consultant (ATA). Additionally, he is a Registered Representative for Genworth Financial Securities Corporation. He was President of the National Society of Accountants 1993-1994, and continues to actively serve. He was President

of the Missouri Society of Accountants 1980-1981 and served as its Legislative Chair for many years. He was actively involved in the rewriting of the Missouri Accountancy law adopted in 2001. Mr. Rohrs holds a BA Degree in Political Science & English from Central Missouri State University. **(SBSE Subgroup)**

Michael H. Salama

Mr. Salama is the Vice President of Tax Audits & Controversies with the Walt Disney Company in Burbank, CA, his expertise is in federal, state and local tax controversy matters. Prior to joining the Walt Disney Company, Mr. Salama was a Senior Manager at PricewaterhouseCoopers in the Washington National Tax practice group. In addition, Mr. Salama worked for the Internal Revenue Service, Office of Chief Counsel, as a Senior Trial Attorney in the Southern California District Counsel Office. Mr. Salama holds a BS Degree in Mathematics, Vassar College, Poughkeepsie, NY and a JD for the National Law Center at George Washington University. **(LMSB Subgroup)**

Mitchell S. Trager

Mr. Trager is currently the Senior Tax Counsel for Georgia-Pacific Corporation in Atlanta, GA and has been with Georgia-Pacific Corporation for 17 years. Mr. Trager has over twenty-three years experience in taxation. He has significant experience in research and planning, including work on compensation and benefits issues, IRS audit procedures, and issues involving capitalization. Prior to joining Georgia-Pacific, Mr. Trager was a tax attorney with The Joseph E. Seagrams Corporation in New York. In addition, he is the former chair of Tax Executives Institute's Federal Tax Committee and a two-time member of TEI's Executive Committee. Mr. Trager holds a BA Degree in Accounting from Queens College, NY, NY, a JD and a Masters in Taxation, LLM from the University of Bridgeport, School of Law. **(LMSB Subgroup)**

David A. Uhler

Mr. Uhler is a certified public accountant and a Partner in the tax department of Bartlett, Pringle & Wolf, LLP in Santa Barbara, California. He heads up the firm's Business Tax Group which assists businesses and their owners with active, strategic tax planning focused on entity structuring, compensation planning, and tax incentive optimization. Prior to joining Bartlett, Pringle & Wolf, Mr. Uhler was a manager in the tax department of Arthur Andersen, LLP. Mr. Uhler currently serves as an officer on the Board of Directors of the Central Coast MIT Enterprise Forum and Central Coast Venture Forum, two organizations focused primarily on fundraising for new business ventures throughout the Central Coast of California. Mr. Uhler has a Bachelor of Science in Commerce degree with an emphasis in accounting from Santa Clara University. **(LMSB Subgroup)**

Robert A. Weinberger

Mr. Weinberger is currently the Vice President for Government Relations for H&R Block, Inc. and head of its Washington Office. His responsibilities include liaison with the White House, the Treasury Department, IRS, Congress and business, consumer and public policy

groups. Mr. Weinberger graduated from Oberlin College and the University of Illinois College of Law. In addition, he studied at the University of Illinois Institute of Government and Public Affairs and at Harvard's Kennedy School of Government. **(W&I Subgroup)**

Thomas Wharton

Mr. Wharton is currently the Vice-President of Tax at Pearson Inc. and US subsidiaries, located in New York City. He is responsible for Pearson's US income tax affairs, including nine billion dollars in assets and five billion in revenues. He has over twenty-eight years in corporate tax experience. Mr. Wharton is past-president of the New York Chapter of TEI and is currently the Chair of the Chapter's IRS Administrative Affairs Committee. He holds a BS Degree in Psychology and a minor in Chemistry from Rensselaer Polytechnic Institute, Troy, NY a BS in Accounting from New York Institute of Technology and a Masters of Science Degree in Taxation from C.W. Post University, Greenvale, NY. **(LMSB Subgroup Chairman)**