# MSP #2 TAXPAYER SERVICE: Due to the Delayed Completion of the Service Priorities Initiative, the IRS Currently Lacks a Clear Rationale for Taxpayer Service Budgetary Allocation Decisions

## RESPONSIBLE OFFICIAL

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## DEFINITION OF PROBLEM

The National Taxpayer Advocate believes that when taxpayers are attempting to comply with laws that require them to turn over a significant portion of their incomes to pay our nation's bills, they have a right to expect that their government will take their telephone calls and answer their letters. The IRS agrees and included the *right to quality service* as a fundamental taxpayer right in its recent adoption of a taxpayer bill of rights.[1] The National Taxpayer Advocate is concerned, however, that the ongoing cuts to the IRS's budget in fiscal years (FY) 2010–FY 2014[2] have resulted in an unacceptably poor level of taxpayer service, a problem that will only be exacerbated in FY 2015.[3]

For FY 2015, the IRS is projecting it will be able to answer only about 50 percent of the telephone calls it receives from taxpayers seeking to speak with a telephone assistor, and it projects that those taxpayers lucky enough to get through "could easily wait 30 minutes or more for limited service."[4] This falls woefully short of the service that taxpayers deserve.

In response to these concerns, the Wage & Investment (W&I) Division and the Taxpayer Advocate Service (TAS) are collaborating on the development of a ranking methodology for the major taxpayer service activities offered by W&I. The new methodology will take taxpayer needs and preferences into account while balancing them against the IRS's need to conserve limited resources, thus enabling the IRS to make resource allocation decisions that will optimize the delivery of taxpayer service activities given resource constraints.[5] Congress will also be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities. But limitations imposed by the lack of available data have delayed implementation, and it is unclear whether the IRS will devote the resources necessary to complete development of the methodology. In the absence of this or a similar methodology, the IRS lacks a principled basis for making the difficult resource allocation decisions necessitated by today's tight budget environment.

1 *See* IRS News Release, IR-2014-72, IRS Adopts "Taxpayer Bill of Rights"; 10 Provisions to Be Highlighted on IRS.gov, in Publication 1 (June 10,2014), *available at* http://www.irs.gov/uac/Newsroom/IRS-Adopts-Taxpayer-Bill-of-Rights: -10-Provisions-to-be-Highlighted-on-IRSgov,-in-Publication-1.

2 The FY 2014 funding level of 11.3 billion is slightly above the 11.2 billion FY 2013 funding level, but is still significantly below the FY 2010 12.1 billion funding level. See Department of the Treasury, Budget-in-Brief, *at* http://www.treasury.gov/about/budget-performance/budget-in-brief/pages/default.aspx (available for each fiscal year).

3 For an in-depth discussion of the impact of IRS budget cuts on taxpayer service, see Most Serious Problem: *Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers*, *supra*.

4 Email from Commissioner Koskinen to All Employees, *Fiscal Year 2015 Funding* (Dec. 17, 2015).

5 We use the word "optimize" to mean that the ranking methodology will provide the IRS with a rigorous way to select the combination of competing taxpayer service initiatives that maximizes the "value" of service delivery given available resources.

## ANALYSIS OF PROBLEM

### The IRS Rationale for Recent Deep Cuts to Taxpayer Service is Unclear.

Since FY 2010, the IRS budget has been cut by ten percent, resulting in an ongoing erosion in IRS taxpayer service delivery, and culminating in a number of major cuts the IRS made to taxpayer services in FY 2014:[6]

- The IRS had fewer Customer Service Representatives on the phones to answer questions;
- IRS assistors, both on the phones and at the taxpayer assistance centers (TACs), only answered tax law questions during the filing season even though millions of taxpayers get extensions and do not file until later in the year;
- The IRS limited the scope of questions answered to the most "basic" taxpayer questions;
- The IRS ended tax return preparation services at its TACs; and
- The IRS had fewer TACs in operation.

In response to these budget cuts, the IRS has come under scrutiny by external oversight organizations who have questioned the IRS's rationale for its budget decisions. They have not been satisfied with the IRS's response to their inquiries.

In a recent review of the IRS's provision of face-to-face services, the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS did not have a rigorous methodology for identifying how best to make service cuts affecting face-to-face services, stating:

> The IRS eliminated or reduced services at Taxpayer Assistance Centers as part of its Fiscal Year 2014 Service Approach … The reduction in service was implemented without completing the required taxpayer burden risk evaluation for the taxpayers most likely to visit a Taxpayer Assistance Center, such as low-income, elderly, and limited-English-proficient taxpayers … For example, taxpayers' additional travel costs, wait times, and access to volunteer tax return preparation sites were not analyzed …[7]

TIGTA recommended that the IRS:

> Continue working with the National Taxpayer Advocate to complete the Service Priority Project Initiative as well as coordinate the inclusion of Taxpayer Assistance Center services in future surveys that can be used with the Taxpayer Choice Model to obtain data on the services that are most important to taxpayers.

Similarly, when the Government Accountability Office (GAO) conducted its annual review of the IRS filing season, it found the IRS did not have an effective plan for analyzing service changes:

> While IRS collected some data that it could use to evaluate effectiveness, it did not develop plans to analyze the data or track it in a way that would allow officials to draw causal connections and develop valid conclusions about the effectiveness of its 2014 service changes.[8]

6 See Most Serious Problem: *Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers*, *supra*.

7 See TIGTA, Ref. No. 2014-40-038, *Processes to Determine Optimal Face-to-Face Taxpayer Services, Locations, and Virtual Services Have Not Been Established*, 5-6 (June 27, 2014).

8 See GAO, GAO-15-163, *TAX FILING SEASON: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks*, 22 (Dec. 2014).

As discussed below, W&I is collaborating with TAS on the Service Priorities Project. The project team is developing a tool that will provide the IRS with better information to make budget allocation decisions. Development of the ranking took has been delayed, however, due to the lack of available data needed to fully populate the ranking tool. Recently, the IRS Oversight Board questioned TAS at length on the goals and status of the Service Priorities Project, emphasizing the need for the IRS to have a methodology to inform its taxpayer service budget allocation decisions.[9]

### Automation Is Not a Complete Solution.

To address ongoing budget pressures, the IRS is increasingly turning away from personal service toward automation, and it is clear that cost-effective innovations could yield improvements in taxpayer service. For example, the IRS allows taxpayers to conduct simple actions through IRS.gov, but taxpayers cannot use the site for tasks such as:

- Correcting computational errors;
- Checking account status; or
- Obtaining prior year return information immediately.

By requiring a taxpayer to write, call, or visit a TAC to complete these tasks, the IRS creates a higher volume of calls, correspondence, and TAC visits, leading to lower levels of service for each of these service channels.

Moving tasks to the Internet would enable computer-savvy taxpayers to use this channel for these actions and could reduce stress on IRS walk-in, telephone and correspondence resources, allowing IRS assistors to focus on taxpayers who need and prefer the TACs, the phone or correspondence.

While automated options are an important component of a comprehensive taxpayer service strategy, the IRS cannot rely solely on these options to close gaps. As the tax code grows more complex, taxpayer issues become increasingly difficult and less suitable for automation. Additionally, IRS research shows that taxpayers prefer personal service for some activities, and that certain segments of the taxpaying public are unable or unwilling to use automation.

> … taxpayers report they use IRS.gov most often to complete transactional tasks (*i.e.*, tasks that require minimal in-person assistance, such as obtaining a form or publication). However, when responding to a notice or obtaining payment information, taxpayers said that they are more likely to call the IRS toll-free telephone lines….Research also suggested that age, income, and education are correlated to taxpayer behavior, and recent findings show that taxpayers with lower household incomes reported higher use of non-web-based IRS service channels than taxpayers in higher income households … Low income, limited English proficient (LEP), and elderly taxpayers tend to report a somewhat higher preference for the TAC channel and a lower preference for the electronic channel than the majority of taxpayers as a whole … Low income and LEP taxpayers report using the telephone channel more than the overall taxpaying population.[10]

9 IRS Oversight Board Operations Committee Meeting (Dec. 2, 2014). See also follow-up email from the IRS Oversight Board received on Dec. 11, 2014, requesting additional information on the Service Priorities Project ranking model (on file with author).

10 *See* IRS, *The Taxpayer Assistance Blueprint: Taxpayer Service Improvements: October 2012 to September 2013* 3 (March 24, 2014).

As discussed below, implementation of the Service Priorities ranking methodology will enable the IRS to identify a proper balance between automated and personal service delivery.

### The Service Priorities Project Can Help Optimize Service Delivery.

In response to the National Taxpayer Advocate's concerns about the erosion of taxpayer service delivery, the W&I Division and TAS are collaborating on an initiative, the Service Priorities Project, which will enable the IRS to make resource allocation decisions that will optimize the delivery of taxpayer service activities given resource constraints. Congress will also be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities. The implementation of this approach is particularly urgent in light of today's funding environment for taxpayer service.

> The IRS included the right to quality service as a fundamental taxpayer right in its recent adoption of a taxpayer bill of rights. The National Taxpayer Advocate is concerned, however, that the ongoing cuts to the IRS's budget in fiscal years 2010–2014 have resulted in an unacceptably poor level of taxpayer service, a problem that will only be exacerbated in fiscal year 2015.

The project team is developing a ranking methodology for IRS taxpayer services that takes taxpayer needs and preferences into account. The methodology will value each of the major taxpayer services offered by the IRS from both the government's and the taxpayers' perspective. The IRS will be able to use this ranking methodology to make resource allocation decisions based on highest valued services in the face of budget or staffing constraints.

The methodology measures "value" using separate sets of criteria for taxpayers and the IRS. This is necessary because taxpayers and the IRS have different priorities. The IRS is concerned with conserving resources, especially in a tight budget environment.[11] Taxpayers need services that will enable them to understand their tax obligations and resolve tax issues without imposing undue burden. Frequently, these needs are best met by personal services that are more costly to the IRS than automated services, such as internet based services.

The methodology assigns a score to each initiative that reflects its overall value based on an appropriate balance between criteria that weigh the value of the initiative to the IRS and to the taxpayer.[12] The IRS can use these scores to choose between competing initiatives and identify a proper balance between automated and personal service delivery.

### Service Priorities Project Status and Challenges

TAS has recently held a number of conference calls with W&I Research to discuss the proposed ranking methodology and the steps needed to complete development of the ranking tool. TAS and W&I appear to have informal agreement on the proposed methodology, but some data availability issues still need to be resolved.

The project team identified a number of "data gaps" while attempting to do a trial ranking using a prototype ranking tool and available data. Some of these "data gaps" can be filled by tax year 2013 data that has recently become available, but some known gaps remain. TAS Research and W&I Research have informally agreed to conduct another trial ranking using the new 2013 data. We anticipate completing

11 For a discussion of the current IRS funding environment see Most Serious Problem: *Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers*, *supra*.

12 For a more complete discussion of the ranking methodology, see National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 57-66 (Research Study: *The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services*).

this ranking in early 2015. At that time the project team will identify all remaining data needs and TAS will need to negotiate an agreement with W&I to meet those needs.

## CONCLUSION

The National Taxpayer Advocate urges W&I to work with TAS to complete the research and data collection necessary to make the ranking tool effective as expeditiously as possible. While populating the tool will require the IRS to make additional investments in a time of severe resource constraints, the tool will provide the kind of information the IRS needs to inform the difficult resource allocation decisions that severe resource constraints impose. The tool will also position the IRS to make better investment decisions in the future to reach its goal of providing the world-class taxpayer service that taxpayers deserve.

## RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Complete the ranking process with the newly available tax year 2013 data and identify all steps needed to fully populate the ranking tool.
2. Develop and execute a memorandum of understanding with the National Taxpayer Advocate to document the steps needed to complete development of the Service Priorities Project ranking tool.
3. Incorporate the ranking tool and methodology into plans currently under development for the Services on Demand initiative.[13]

13 The Services on Demand Initiative has the goal of developing a multi-year plan to build "A tax administration ecosystem that delivers tailored efficient services where, when, and how customers should be served." Services on Demand Executive Brief not currently available for distribution (June 2014).