

**CASE ADVOCACY**

**Introduction**

Internal Revenue Code (IRC) § 7803 requires the National Taxpayer Advocate to report to Congress annually on the activities of the Office of the Taxpayer Advocate.<sup>1</sup> Fiscal year 2006 presented several challenges for Taxpayer Advocate Service case advocacy due to increasing case levels influenced by IRS activities and external factors (e.g., new legislation, natural disasters, and the general economic environment).<sup>2</sup> As Table 4.1 illustrates, most (nearly 47 percent) TAS cases are referred to us by the IRS business operating divisions (BODs).

**TABLE 4.1, FY 2006 TAS CASE INTAKE**

How TAS Received Each Case	Function Refers to TAS	NTA Toll-Free	Taxpayer Comes Directly to TAS	Total <sup>3</sup> Receipts
<b>Servicewide</b>	<b>112,709</b>	<b>64,779</b>	<b>64,685</b>	<b>242,173</b>
Wage & Investment	65,750	44,233	27,190	137,173
Small Business/Self Employed	45,341	19,780	34,954	100,075
Large/Mid-Size Business	604	260	619	1,483
Tax Exempt/Government Entities	1,023	491	1,897	3,411

**TABLE 4.2, FY 2006 TAS CASE INTAKE PERCENTAGES**

How TAS Received Each Case	Function Refers to TAS	NTA Toll-Free	Taxpayer Comes Directly to TAS
<b>Servicewide</b>	<b>46.5%</b>	<b>26.7%</b>	<b>26.7%</b>
Wage & Investment	47.9%	32.2%	19.8%
Small Business/Self Employed	45.3%	19.8%	34.9%
Large/Mid-Size Business	40.7%	17.5%	41.7%
Tax Exempt/Government Entities	30.0%	14.4%	55.6%

<sup>1</sup> IRC § 7803(c)(2)(B)(ii).

<sup>2</sup> Nina E. Olson, *Common Sense and Good Judgment In Case Processing II* memorandum (Oct.4, 2006) <http://www.irs.gov/pub/foia/ig/tas/tas-13-1006-005.pdf>. This memorandum will be incorporated into the next revision of IRM 13.

<sup>3</sup> Business operating division (BOD) total receipts will not total to servicewide receipts. The Taxpayer Advocate Management Information System (TAMIS) is a dynamic system, and the statistics gathered for this chart were not compiled on the same date. The servicewide receipt data was retrieved on October 4, 2006. The BOD receipt data was obtained on November 16, 2006.

In addition to working individual taxpayer issues, TAS continually examines taxpayer needs to ensure TAS awareness and accessibility. Changes to IRS policies and procedures continue to dramatically impact taxpayers' need for TAS intervention, thus causing a downstream impact on our workload. TAS took the initiative to reach out to and assist taxpayers, including clarifying TAS acceptance criteria, and offering a public interface through marketing and outreach campaigns.

### Case Criteria

TAS clarified its case acceptance criteria<sup>4</sup> to make certain TAS successfully fulfill its mission,<sup>5</sup> protect taxpayer rights, prevent burden, and ensure the equitable treatment of taxpayers. TAS case acceptance criteria fall into four main categories:

- ◆ Economic Burden;
- ◆ Systemic Burden;
- ◆ Best Interest of the Taxpayer; and
- ◆ Public Policy.

TAS implemented the clarified case criteria on January 8, 2006.<sup>6</sup> In October 2006, the National Taxpayer Advocate issued a memorandum<sup>7</sup> providing additional guidance to TAS case advocates, IRS employees, and taxpayers explaining when a case qualifies for acceptance in TAS, and qualifies for issuance of a Taxpayer Assistance Order under IRC § 7811.

<sup>4</sup> IRC § 7803(c)(2)(c)(ii) authorizes the National Taxpayer Advocate to develop guidance for all IRS employees outlining the criteria for referring taxpayer inquiries to TAS.

<sup>5</sup> The TAS mission statement says that, "As an independent organization within the IRS, we help taxpayers resolve problems with the IRS and recommend changes to prevent the problems."

<sup>6</sup> National Taxpayer Advocate 2007 Objectives Report to Congress 33.

<sup>7</sup> Nina E. Olson, *Common Sense and Good Judgment In Case Processing II* memorandum (Oct.4, 2006) <http://www.irs.gov/pub/foia/ig/tas/tas-13-1006-005.pdf>. This memorandum will be incorporated into the next revision of IRM 13, Taxpayer Advocate Service.

CHART 4.3, TAX CASE ACCEPTANCE CRITERIA

## Economic Burden Case Receipts for FY 2006

Criteria Code	Description	Number of Cases	Percentage of Cases
1	The taxpayer is experiencing economic harm or is about to suffer economic harm.	46,173	19.0%
2	The taxpayer is facing an immediate threat of adverse action.	14,708	6.0%
3	The taxpayer will incur significant costs if relief is not granted (including fees for professional representation).	5,475	2.0%
4	The taxpayer will suffer irreparable injury or long-term adverse impact if relief is not granted.	6,107	3.0%
<b>Total Economic Burden Case Receipts</b>		<b>72,463</b>	<b>29.9%</b>

## Systemic Burden Case Receipts for FY 2006

Criteria Code	Description	Number of Cases	Percentage of Cases
5	The taxpayer has experienced a delay of more than 30 days to resolve a tax account problem.	48,558	20.0%
6	The taxpayer has not received a response or resolution to their problem or inquiry by the date promised.	38,019	16.0%
7	A system or procedure has either failed to operate as intended, or failed to resolve the taxpayer's problem or dispute within the IRS.	82,621	34.0%
<b>Total System Burden Case Receipts</b>		<b>169,198</b>	<b>69.9%</b>

## Best Interest of the Taxpayer Case Receipts for FY 2006

Criteria Code	Description	Number of Cases	Percentage of Cases
8	The manner in which the tax laws are being administered raise considerations of equity, or have impaired or will impair taxpayers' rights.	273	0.1%

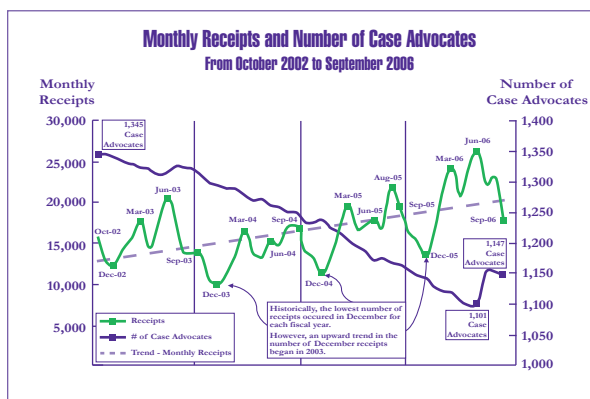
## Public Policy Case Receipts for FY 2006

Criteria Code	Description	Number of Cases	Percentage of Cases
9	The National Taxpayer Advocate determines compelling public policy warrants special assistance to an individual or group of taxpayers.	239	0.1%
<b>Total Case Receipts</b>		<b>242,173</b>	<b>100%</b>

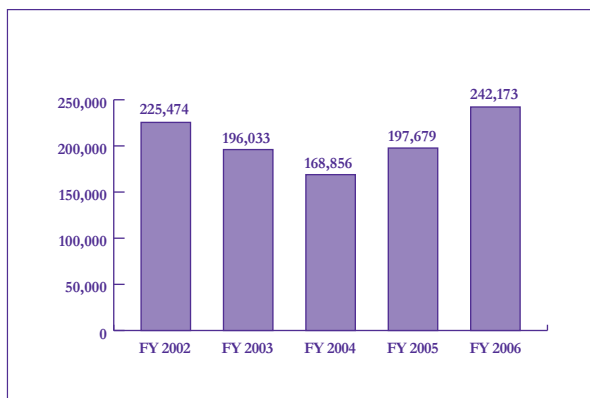
### Case Receipts

TAS continues to experience an upward trend in receipts coupled with a progressively more complex workload. Chart 4.4 below illustrates how TAS receipts have risen since the beginning of fiscal year 2003, while the number of case advocates needed to work these cases steadily declined. TAS hired a significant number of case advocates in FY 2006,<sup>8</sup> but unfortunately this hiring could not keep pace with either attrition or increasing workload.<sup>9</sup>

**CHART 4.4, MONTHLY TAS CASE RECEIPTS AND THE NUMBER OF CASE ADVOCATES FROM OCTOBER 2002 TO SEPTEMBER 2006**



**CHART 4.5, TAS TOTAL CASE RECEIPTS**



### Economic Burden

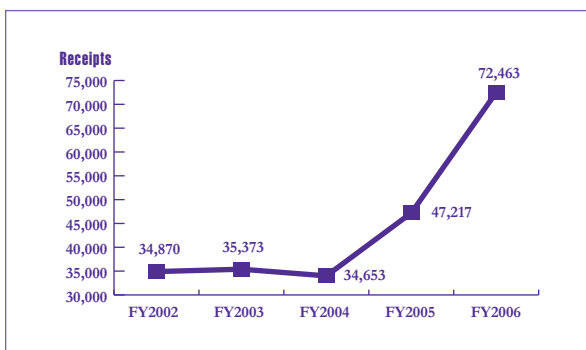
The percentage of economic burden case receipts has increased for the past several years primarily due to IRS compliance and enforcement activities. TAS procedures require

<sup>8</sup> TAS hired 67 case advocates and 35 intake advocates during FY 2006.

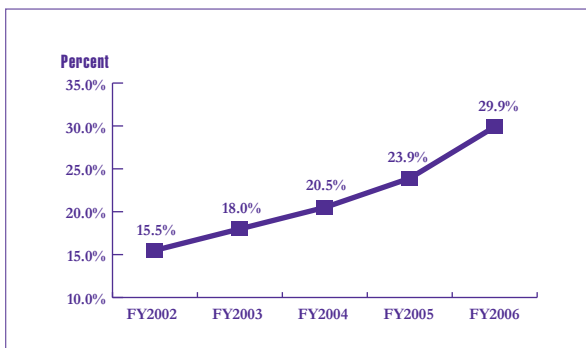
<sup>9</sup> As of December 31, 2006, 119 case advocates were eligible for retirement. An additional 66 case advocates will be eligible for retirement by December 31, 2007. HR Connect (IRS intranet), *Create a Retirement Projection Statistical Report*, (Nov. 9, 2006).

case advocates to respond immediately to the taxpayer’s request for assistance in economic burden cases.<sup>10</sup> Even as TAS resources decline, the growing trend of requests for relief from economic burden will likely continue as the IRS steps up enforcement and if taxpayers fail to maintain adequate personal savings to pay unexpected tax debts.<sup>11</sup>

**CHART 4.6, TAS ECONOMIC BURDEN CASE RECEIPTS**



**CHART 4.7, TAS ECONOMIC BURDEN RECEIPTS AS A PERCENTAGE OF TOTAL RECEIPTS**



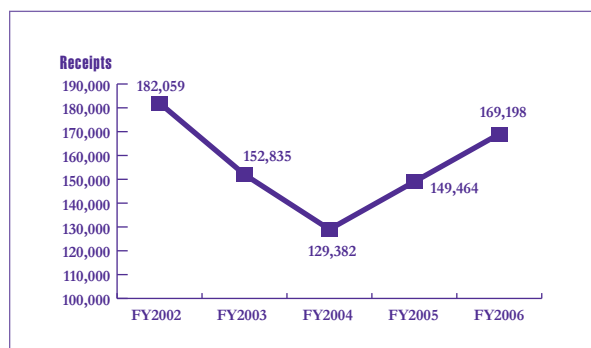
**Systemic Burden**

The majority of taxpayers who contact TAS do so because they are experiencing a systemic burden caused by a process, procedure, or system within the IRS that either failed to operate as intended or failed to resolve the taxpayer’s problem. As shown in Chart 4.8, systemic burden case receipts are on the rise. It is notable that the systemic burden cases have decreased in relationship to TAS’s total case inventory as shown in Chart 4.9.

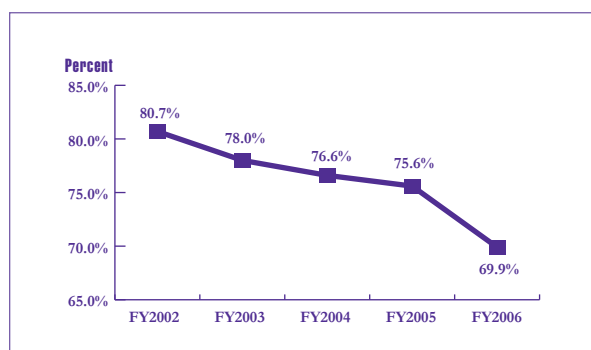
<sup>10</sup> Initial contact with taxpayers and actions to resolve cases involving economic burden (TAS Case Acceptance Criteria 1-4) must be initiated within three workdays of the date TAS receives the taxpayer’s inquiry.

<sup>11</sup> Personal saving as a percentage of disposable personal income was a negative 0.7 percent in September 2006. Saving for current income may be near zero or negative when outlays are financed by borrowing (including borrowing financed through credit cards or home equity loans), by selling investments or other assets, or by using savings from previous periods. Bureau of Economic Analysis, U.S. Department of Commerce, BEA 06-52, *Personal Income and Outlays: October 2006* (Nov. 30, 2006).

**CHART 4.8, SYSTEMIC BURDEN CASE RECEIPTS**



**CHART 4.9, SYSTEMIC BURDEN RECEIPTS AS A PERCENTAGE OF TOTAL RECEIPTS**



**Best Interest of the Taxpayer**

TAS accepts cases in situations where the manner in which the tax laws are being administered raise considerations of equity, or has or will impair taxpayer rights. Acceptance of these cases ensures taxpayers receive fair and equitable treatment and protects their rights in situations where no other TAS case acceptance criteria is applicable. TAS received 273 cases in this category in FY 2006. The majority, 67 percent, involved issues related to IRS compliance and enforcement activities, for example, issues related to audits, criminal investigations, levies, liens, and offers in compromise.

**Public Policy**

TAS accepts cases under this category when the National Taxpayer Advocate determines compelling public policy warrants assistance to an individual or group of taxpayers that may arise due to the implementation of new tax programs or initiatives. TAS accepts cases under Public Policy criteria only when the taxpayer’s situation does not fall under any other case acceptance criteria. In FY 2006, the National Taxpayer Advocate designated cases related to the IRS’s Private Debt Collection Initiative as warranting assistance under public policy criteria.<sup>12</sup>

<sup>12</sup> See Most Serious Problem, *True Costs and Benefits Of Private Debt Collection*, *supra*.

**Sources of TAS Casework**

TAS uses primary and secondary issue codes to identify and track issues that lead taxpayers to seek TAS assistance. These issues are often indicators of the downstream impact of IRS initiatives. Chart 4.10 illustrates the top 15 issues taxpayers face when seeking TAS assistance. For example, TAS is experiencing significant increases in enforcement issues such as taxpayer delinquency investigations and levies.<sup>13</sup>

**TABLE 4.10, TOP 15 ISSUES RECEIVED IN TAS (FY 2006)**

Rank	Description of the Issue	Number of Cases		% Change
		FY 2005	FY 2006	
1	Criminal Investigation	28,639	21,395 <sup>14</sup>	-25.29%
2	Levies (including the Federal Payment Levy Program)	11,477	18,800	63.81%
3	Processing amended returns	12,338	17,140 <sup>15</sup>	38.92%
4	Earned Income Tax Credit (EITC) – Revenue Protection Strategy Claims	12,836	12,769	-0.52%
5	Injured spouse claim	6,285	11,599	84.55%
6	Processing original returns	9,288	10,398	11.95%
7	Expedite refund requests	6,903	10,070	45.88%
8	Reconsideration of Substitute for Return under IRC §6020(b) <sup>16</sup> and Audits <sup>17</sup>	7,406	10,005	35.09%
9	Automated Underreporter Examination <sup>18</sup> Completed	5,978	7,706	28.91%
10	Open audit	9,288	6,934	-25.34%
11	Liens (including original filing, release, withdrawal, subordination, and discharge)	5,474	6,065	10.80%
12	Copies of Returns, Transcript of Account, Audit Reports, or Information Requested under the Freedom of Information Act	5,677	5,753	1.34%
13	Other document processing issues	3,314	5,619	69.55%
14	Taxpayer Delinquency Investigation - Substitute for Return under IRC §6020(b) <sup>19</sup>	2,173	5,083	133.92%
15	Automated Underreporter Examination In Process	2,963	4,718	59.23%

<sup>13</sup> For a detailed discussion of levies, see Most Serious Problem, *Levies, supra*.

<sup>14</sup> See Status Update, *Major Improvements In the Questionable Refund Program And Some Continuing Concerns, supra*.

<sup>15</sup> See Most Serious Problem, *Correspondence Delays, supra*.

<sup>16</sup> IRC § 6020(b): If any person fails to make any return required by any internal revenue law or regulation made there under at the time prescribed therefore, or makes, willfully or otherwise, a false or fraudulent return, the Secretary shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise.

<sup>17</sup> Reconsideration of a tax assessment resulting from an IRS examination, or an income or employment tax return prepared by the IRS under IRC § 6020(b).

<sup>18</sup> The Automated Underreporter (AUR) program matches taxpayer income and deductions submitted by third parties against amounts reported on the individual income tax return.

<sup>19</sup> TDI is an IRS program to determine whether a taxpayer has filed a required return.

### Trends in Case Advocacy

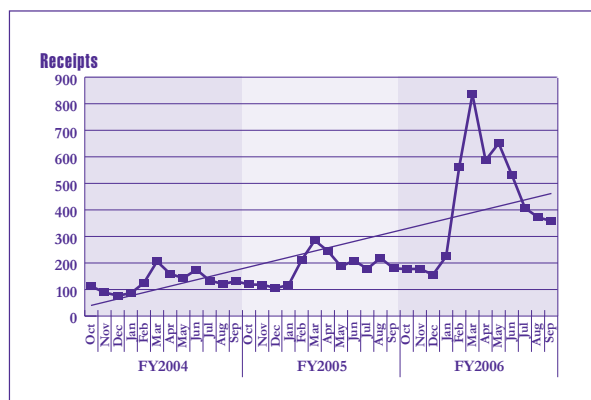
TAS workload volumes are a function of many variables, including new IRS initiatives, changes in legislation or IRS practices, and increases or decreases in staffing components within IRS operating divisions. The following issues exemplify the downstream effect on TAS receipts created by changes in other IRS functions.

#### Effect of the Delinquent Refund Hold Program on TAS Case Receipts

The Delinquent Return Refund Hold (RH) program delays issuing a taxpayer’s refund while the IRS investigates a return delinquency.<sup>20</sup> When the IRS secures the delinquent return, it uses the refund to offset any balance due amounts. In March 2006, the Wage & Investment (W&I) division issued new guidelines for processing RH cases, which included lowering the dollar threshold for freezing taxpayer refunds associated with unfiled returns. The IRS consolidated the program at one campus in January 2006, but expanded it to two others in March.

The impact of the RH program on TAS case receipts is illustrated in Chart 4.11, TAS Case Receipts Resulting from Taxpayer Delinquency Investigations<sup>21</sup> and Substitute for Return under IRC § 6020(b). TAS experienced a 182 percent increase in these receipts in February and March 2006 compared to 2005.

**CHART 4.11, TAS CASE RECEIPTS RESULTING FROM TAXPAYER DELINQUENCY INVESTIGATIONS AND SUBSTITUTE FOR RETURN UNDER IRC § 6020(B)**



In addition to the significant upturn in receipts in these two months, TAS receipts for the remainder of FY 2006 remained higher than in the two previous years. As illustrated in Chart 4.12, the IRS reported a reduction in TDI inventory, but the FY 2006 overage TDI inventory has increased by more than 90 percent, contributing to the continued increase in TAS TDI receipts.

<sup>20</sup> IRM 25.12.1.1(2) (10-01-2005).

<sup>21</sup> TDI is an IRS program to determine whether a taxpayer has filed a required return.

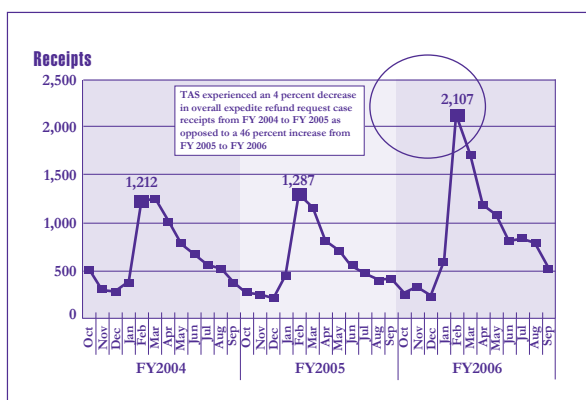


**CHART 4.12, COMPARISON OF TDI INVENTORY AND OVERAGE INVENTORY (ENTITY)<sup>22</sup>**

	FY 2004	FY 2005	Percentage Change from FY 2004 to 2005	FY 2006	Percentage Change from FY 2005 to 2006
ACS TDI Ending Inventory	1,274,175	1,223,025	-4.01%	1,122,418	-8.23%
ACS TDI Overage Inventory	151,201	113,486	-24.94%	217,634	91.77%
Field Collection TDI Ending Inventory	91,290	120,921	32.46%	100,352	-17.01%
Field Collection TDI Overage Inventory	6,057	4,358	-28.05%	8,308	90.64%

Expedite refund requests is another issue where the RH program impacts TAS case receipts with a significant (46 percent) increase for FY 2006. While these requests normally increase in February and March, during the tax filing season, Chart 4.13 shows that they rose by 63 percent in February of 2006.

**CHART 4.13, TAS EXPEDITE REFUND REQUEST CASE RECEIPTS FOR FY 2004 - 2006**



W&I reviewed the RH program after receiving an increased number of Operations Assistance Requests (OARs)<sup>23</sup> and Taxpayer Assistance Orders (TAOs)<sup>24</sup> from TAS. The objective of the review was to determine how the IRS could release refunds more quickly, especially if the delinquent returns are likely to result in refunds.<sup>25</sup> Working together, W&I and TAS have identified improvements to the Refund Hold Program to ensure

<sup>22</sup> IRS, *Business Measures DataMart, Enterprise Director, Collection Report Monthly Comparison, Enterprise ACS Commissioner's Report Monthly Comparison, September 2004, 2005, and 2006*, at [http://irbizmart.enterprise.irs.gov/P120.asp?url=/start\\_bal\\_ind.asp](http://irbizmart.enterprise.irs.gov/P120.asp?url=/start_bal_ind.asp). Entity refers to the amount of taxpayers affected as opposed to the tax modules affected (which includes multiple years for the same taxpayer).

<sup>23</sup> IRM 13.1.7.7(1) (Oct. 31, 2004). An OAR is used by TAS to request assistance from an operating division or function to complete an action on a TAS case when TAS does not have the delegated or statutory authority to take the required action.

<sup>24</sup> A Taxpayer Assistance Order (TAO) may require an IRS unit to take an action, cease an action, or refrain from taking an action. A TAO may expedite consideration of a taxpayer's case, review and reconsider its own determination, or review the determination at a higher level in that unit.

<sup>25</sup> Wage & Investment, *Business Performance Review 25* (Nov. 1, 2006).

cases are worked and resolved promptly and have issued guidance to their employees on handling these cases.

### Effects of Customer Account Support (CAS) Operations on TAS Case Receipts

Customer Account Support (CAS), a function within W&I, is responsible for processing all individual and business returns (paper and electronic), and answering automated and assistor calls.<sup>26</sup> TAS case receipts most significantly impacted by this operation are amended returns processing,<sup>27</sup> injured spouse claims,<sup>28</sup> and math error notices,<sup>29</sup> all processes that W&I considers adjustments work.<sup>30</sup> W&I reported that as of September 30, 2006, the Individual Adjustments inventory (IMF) stood at 381,010, significantly higher than the 282,582 for last year.<sup>31</sup> IMF overage was approximately 40 percent of the total inventory, compared to approximately 20 percent last year.<sup>32</sup> This increase was caused by the need to maintain 15 hours of daily service in the toll-free operation coupled with high telephone traffic experienced during the timeframe normally devoted to adjustments work.<sup>33</sup>

As shown in Charts 4.14, 4.15, and 4.16, TAS normally experiences an increase in amended return processing, Injured Spouse Claim and Math Error receipts during May, June, and July. The downstream impact caused by IRS's overage inventory is readily apparent. TAS Amended Return case receipts increased 51.5 percent, Injured Spouse receipts rose 129.5 percent, and Math Error receipts went up 91.1 percent from June 2005 to June 2006.<sup>34</sup>

At the request of the IRS Oversight Board, TAS and W&I developed a new efficiency measure to document progress in reducing systemic problems. TAS and W&I selected amended return processing to test the process, and in FY 2007 will conduct root cause analysis, take corrective actions, and monitor case inventories for improvements.

<sup>26</sup> Wage & Investment, *Strategy & Program Plan FY 2007 – 2008*, 7 (Sept. 2006 revision).

<sup>27</sup> For further discussion of processing claims for refund, see National Taxpayer Advocate 2002 Annual Report to Congress 42-46.

<sup>28</sup> See Most Serious Problem, *Injured Spouse Allocations*, *supra*.

<sup>29</sup> See Most Serious Problem, *IRS Implementation of Math Error Authority Impairs Taxpayer Rights*, *supra*. For further discussion on Math Error Authority, see National Taxpayer Advocate 2003 Annual Report to Congress 113-121.

<sup>30</sup> IRM 21.5.1.2 (Oct. 1, 2003). General adjustments are changes made at the request of the taxpayer on Individual [IMF], Business [BMF], and International tax accounts and Internal Transcripts. Adjustments may be required because of processing errors on returns; missing schedules; claims; amended returns; or internal transcripts.

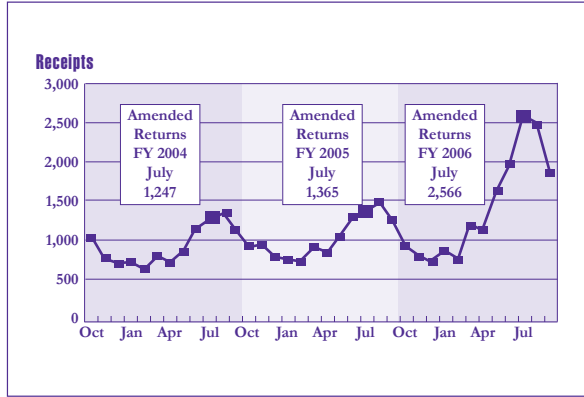
<sup>31</sup> Wage & Investment, *Business Performance Review* 16 (Nov. 1, 2006).

<sup>32</sup> *Id.*

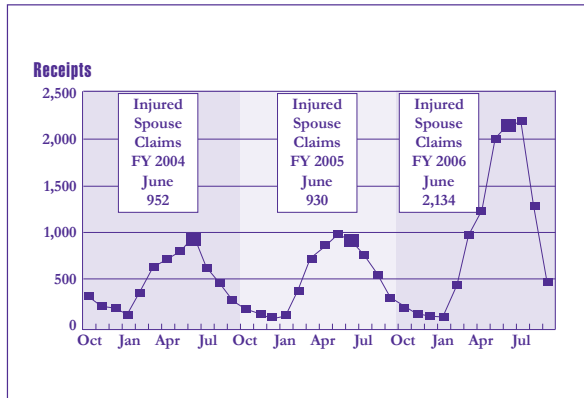
<sup>33</sup> *Id.* at 14.

<sup>34</sup> Amended Return case receipts increased 88.0 percent from July 2005 to July 2006. Math error case receipts include Math Error, Math Error IRS Individual Taxpayer Identification Number (ITIN), Invalid Dependent Social Security Number (SSN) or name, and Invalid Spouse or Dependent ITIN.

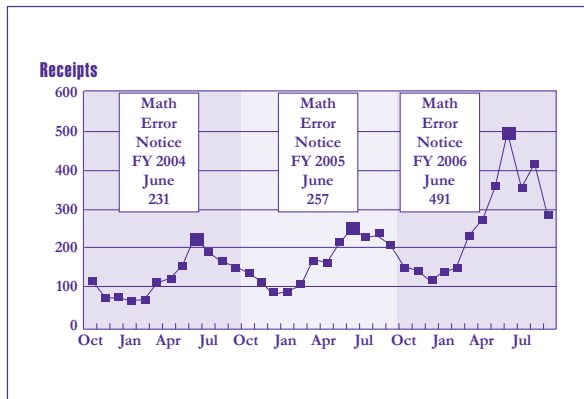
**CHART 4.14, PROCESSING AMENDED RETURNS CASE RECEIPTS**



**CHART 4.15, PROCESSING INJURED SPOUSE CLAIM CASE RECEIPTS**



**CHART 4.16, MATH ERROR NOTICE CASE RECEIPTS**



### Effect of Criminal Investigation Cases on TAS Case Receipts

The National Taxpayer Advocate published a study of the problems taxpayers were experiencing with the IRS's Questionable Refund Program (QRP) in her 2005 Annual Report to Congress.<sup>35</sup> The program freezes taxpayers' refunds when the IRS Criminal Investigation (CI) division makes a determination that the refund claim may be fraudulent. In the majority of cases, taxpayers were not notified of the IRS's determination to freeze the refund or given an opportunity to provide information to support their claims. As a result, TAS case receipts involving CI issues increased dramatically, from 5,509 cases in FY 2002 to 28,639 in FY 2005 as taxpayers turned to TAS for assistance in obtaining their refunds.

The IRS agreed to implement significant changes to the QRP program for tax returns processed during the 2006 tax filing season. These changes included notifying taxpayers when the IRS places a refund in freeze status, providing taxpayers with the opportunity to submit information to support their refund claim, and affording taxpayers appeal rights if the information submitted is not sufficient to substantiate the claim.<sup>36</sup>

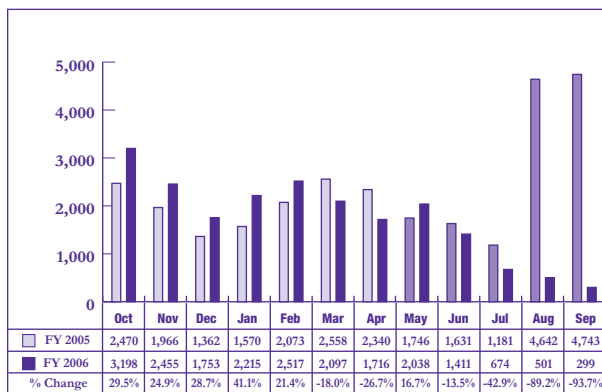
In March 2006, the IRS implemented the first phase of the program reforms when it began issuing notices to taxpayers to advise them of the delays in issuing their refunds and the reasons for the delays. The notice also gave taxpayers a timeframe when they could expect to receive their refund or additional contact from the IRS. If the IRS determined the refund claim was questionable, it sent taxpayers a second notice giving them the opportunity to substantiate their claim. As illustrated in the following chart, the new procedures led to a dramatic decrease in TAS cases related to the QRP in FY 2006 compared to FY 2005. More importantly, this systemic improvement afforded taxpayers equitable treatment and appeal rights.<sup>37</sup>

<sup>35</sup> National Taxpayer Advocate 2005 Annual Report to Congress 25-54.

<sup>36</sup> National Taxpayer Advocate's 2007 Objectives Report to Congress 17-19.

<sup>37</sup> For a complete assessment of the CI program changes, see Status Update, *Major Improvements In the Questionable Refund Program And Some Continuing Concerns*, *supra*.

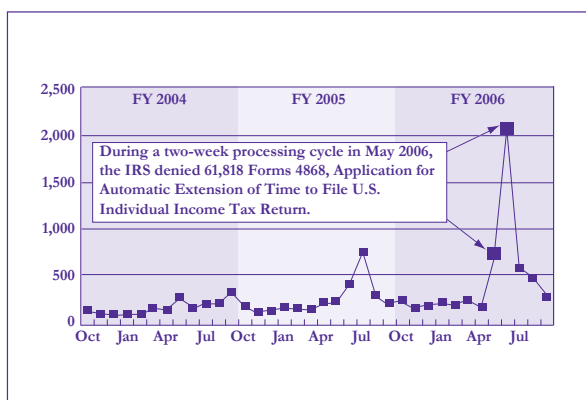
CHART 4.17, TAS QUESTIONABLE REFUND PROGRAM CASE RECEIPTS FOR FY 2005 – FY 2006



Other Document Processing Issues

In May 2006, TAS and W&I collaborated to resolve the erroneous denial of a large number of Forms 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. This error caused increases of 201.6 percent and 379.5 percent in Other Document Processing Issue case receipts for May and June of FY 2006, respectively, compared to the prior year. This is an example of a systemic issue identified by case advocates that created a large volume of TAS cases. TAS worked to resolve the systemic issue with the operating division, and issued guidance to assist case advocates in processing individual cases.<sup>38</sup>

TABLE 4.18, TAS CASE RECEIPTS – OTHER DOCUMENT PROCESSING ISSUES, MONTHLY FOR FY 2004 – FY 2006<sup>39</sup>



<sup>38</sup> A communication with interim guidance was issued to all TAS employees on June 9, 2006.

<sup>39</sup> IRS Alert, AM/SP IRM W 06276, *Erroneously Denied Requests for Extensions of Time to File* (June 2, 2006).

### Congressional Casework

TAS is responsible for independently reviewing all tax account inquiries sent to the IRS by members of Congress. TAS received 10,873 such inquiries in FY 2006. Table 4.19 below highlights the top ten issues in Congressional cases.

**TABLE 4.19, TOP TEN ISSUES IN CONGRESSIONAL CASES**

Issue	Number
Levies (including the Federal Payment Levy Program)	1,015
Application for Exempt Status (Form 1023/1024)	693
Account/Notice Inquiry	440
Liens (including original filing, release, withdrawal, subordination, and discharge)	439
Failure to File Penalty (FTF)/ Failure to Pay Penalty (FTP)	420
Copies of Returns/Transcripts/Reports/Requests under the Freedom of Information Act (FOIA)	400
Open Audit (Not Revenue Protection Strategy or Earned Income Tax Credit)	396
Automated Underreporter Examination in Process	373
Reconsideration of Substitute for Return under IRC §6020(b) <sup>40</sup> and Audits <sup>41</sup>	331
Offer in Compromise (includes Doubt as to Collectibility and Effective Tax Administration)	318

### Case Closures

In FY 2006, TAS closed 234,630 cases received in the 2006 fiscal year or prior years, providing full or partial relief to the taxpayer in 63.8 percent of these cases. Closures increased 23.4 percent over FY 2005, largely because of the overall growth (22.5 percent) in case receipts. Table 4.20 details the disposition of cases closed in FY 2006.

<sup>40</sup> IRC § 6020(b): If any person fails to make any return required by any internal revenue law or regulation made thereunder at the time prescribed therefore, or makes, willfully or otherwise, a false or fraudulent return, the Secretary shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise.

<sup>41</sup> Reconsideration of a tax assessment resulting from an IRS examination, or an income or employment tax return prepared by the IRS under IRC § 6020(b).

**TABLE 4.20, TAS CASE DISPOSITIONS FOR FY 2006**

Type of Relief	Number	%
<b>Relief Provided to Taxpayer</b>	<b>165,085</b>	<b>70.36%</b>
Full relief	152,260	64.89%
Partial relief	12,797	5.45%
TAO Issued - IRS Complied	28	0.01%
TAO Issued - IRS Appealed; TAO Sustained	0	0.00%
TAO Issued - IRS Appealed; TAO Modified	0	0.00%
<b>No Relief Provided to Taxpayer</b>	<b>69,545</b>	<b>29.64%</b>
TAO Issued - IRS Appealed; TAO Rescinded	5	0.00%
No relief (no response from taxpayer)	30,077	12.82%
Advocate does not deem relief appropriate	16,980	7.24%
Relief provided prior to Taxpayer Advocate Service Intervention	13,924	5.93%
Relief not required (taxpayer rescinded request)	3,276	1.40%
No relief (hardship not validated)	1,410	0.60%
Relief not required (hardship not related to internal revenue laws)	1,383	0.59%
No relief (tax law precluded relief)	1,471	0.63%
Other	1,019	0.43%
<b>Total TAS Cases Closed</b>	<b>234,630</b>	<b>100.00%</b>
Taxpayer Assistance Orders (TAO) Issued	46	0.02%

**Operations Assistance Requests (OARs)**

TAS uses Operations Assistance Requests (OARs) to obtain assistance from an IRS operating division or function to complete an action. An OAR is needed when TAS does not have the statutory or delegated authority to take the action(s) required to resolve taxpayers' problems. Table 4.21 highlights the OARs issued and closed during FY 2006 and the average number of days it took the IRS to complete the requested action(s).

**TABLE 4.21, OAR ACTIVITY FOR FY 2006**

Operating Division/Function	OARs Issued	OARs Rejected <sup>43</sup>	OARs Completed <sup>44</sup>	Average Age (Days) <sup>45</sup>
Appeals	1,888	459	1,500	56.4
Criminal Investigation	28,557	696	31,458	22.3
Large/Mid-Size Business	117	12	90	37.0
Small Business/Self-Employed	75,155	13,465	60,935	18.8
Tax Exempt/Government Entities	1,093	136	911	32.2
Wage & Investment	83,619	11,167	70,650	19.2
<b>Total</b>	<b>190,429</b>	<b>25,935</b>	<b>165,544</b>	<b>20.0</b>

<sup>42</sup> Thirteen TAOs remained open at the end of FY 2006 pending resolution.

<sup>43</sup> An OAR may be rejected for more than one reason. Examples include OARs routed to the wrong IRS function or location, incomplete OARs, OARs lacking sufficient documentation to support the recommended action, the recommended action is not clear or the IRS disagrees with the recommended action.

<sup>44</sup> Completed OARs do not include OARs that were rejected.

<sup>45</sup> The Average Age is the number of days to close an OAR divided by the number of OARs closed.

### Taxpayer Assistance Orders

IRC § 7811 authorizes the National Taxpayer Advocate to issue a Taxpayer Assistance Order (TAO) when a taxpayer is suffering or about to suffer a significant hardship as a result of the manner in which the tax laws are being administered. A TAO may be issued to direct the IRS to take an action, cease an action, or refrain from taking an action in a case.<sup>46</sup> A TAO may also be issued to order the IRS to expedite consideration of a taxpayer's case, reconsider its determination in a case, or review the case at a higher level of the organization.

Upon receipt of a TAO, the responsible IRS official can either agree to take the action directed or appeal the order. During FY 2006, TAS issued 46 TAOs compared to 20 in FY 2005. The following table summarizes the issues:

**TABLE 4.22, TAXPAYER ASSISTANCE ORDERS ISSUED IN FY 2006**

Issue Description	Number
Levies	8
Taxpayer Delinquent Investigation	8
Open Audit	6
Application for Tax Exempt Status	5
Processing Amended Return	3
Request for Reconsideration of Audit/Substitute for Return or IRC § 6020(b) Assessment	3
Offer in Compromise - Doubt as to Collectibility	3
Lost or Stolen Refund	1
Expedite Refund Request	1
IRS Offset of Refund to Other Debt	1
Application for Individual Taxpayer Identification Number	1
Claim for Earned Income Tax Credit	1
Other Examination Issues	1
Bankruptcy	1
Offer in Compromise - Effective Tax Administration	1
Request for Interest Abatement	1
Account or Notice Inquiry	1

The IRS complied with 28 of the TAOs. TAS rescinded five TAOs after negotiating further with the IRS to resolve the taxpayer's problem. Thirteen TAOs remained open and pending resolution as of the end of FY 2006.

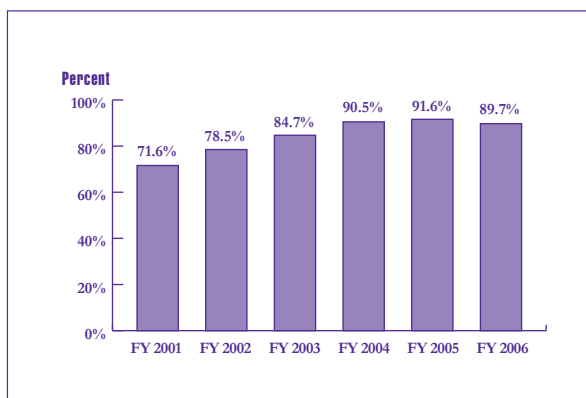
<sup>46</sup> The terms of a TAO may require the Secretary within a specified time period to release property of the taxpayer levied upon, or to cease any action, take any action as permitted by law, or refrain from taking any action, with respect to the taxpayer under chapter 64 (relating to collection), subchapter B of chapter 70 (relating to bankruptcy and receiverships), chapter 78 (relating to discovery of liability and enforcement of title), or any other provision of law which is specifically described by the National Taxpayer Advocate in such order.



### Case Quality and Timeliness

TAS has measured the case quality and timeliness of the assistance it provides to taxpayers since the organization began operating in FY 2001.<sup>47</sup> Because TAS is the last resort for many taxpayers, it maintains extremely high quality standards and goals for its employees. Chart 4.23 below shows TAS case quality improved significantly from FY 2001 through FY 2005. In FY 2006, TAS's cumulative quality rate remained very high at 89.7 percent; however, the measure fell below the FY 2006 goal of 91.5 percent. TAS also experienced a decline in quality standards 1 through 3, which measure the timeliness of responses to taxpayers, as depicted in Chart 4.24.

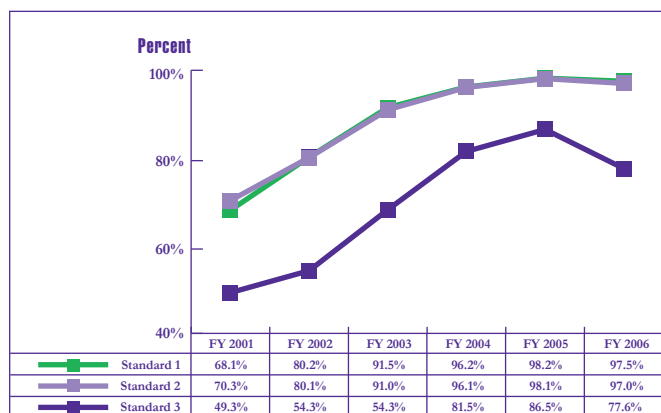
**CHART 4.23, TAS CASE QUALITY – FY 2001 THROUGH 2006**



<sup>47</sup> TAS Quality Standards are:

1. Did TAS make timely contact with the taxpayer?
2. Did TAS take initial action/request information within the specified timeframe?
3. Did TAS take all subsequent actions timely from the time action could have been taken?
4. Did TAS resolve all taxpayer issues?
5. Did TAS address all related issues?
6. Were all actions taken by TAS and the IRS operations/functional divisions technically and procedurally correct?
7. Did TAS give the taxpayer a clear, complete, correct explanation at closing?
8. Did TAS educate the taxpayer regarding any of his/her actions that contributed to the problem?

**CHART 4.24, TAS QUALITY TIMELINESS STANDARDS**



Several factors contributed to the decline in the case quality index, particularly TAS’s timeliness standards, which occurred in spite of TAS’s continued focus on improving the quality and timeliness of responses to taxpayers. Rising receipts, higher per employee inventory levels, and the growing complexity of case issues have made it difficult for TAS to maintain and improve its level of quality. Receipts increased 22.5 percent, from 197,679 in FY 2005 to 242,173 in FY 2006, and open inventory levels have risen 18.6 percent, from 40,648 at the end of FY 2005 to 48,198 at the end of FY 2006. Further, TAS has experienced steady attrition among the case advocates who handle taxpayer inquiries, with the number falling from 1,345 to 1,147 between FY 2002 and September 2006. The average daily inventory for FY 2006 was 42 cases per case advocate. TAS casework has also become more complex. Cases involving economic burden (TAS Case Acceptance Criteria 1-4), which have stringent timeframes for timely contact and resolution,<sup>48</sup> increased 53.5 percent.<sup>49</sup> Cases involving compliance and enforcement issues, which are considered more complex and take longer to resolve, increased 19.9 percent from the prior year and represent 64.2 percent of TAS’s case receipts in FY 2006.

In FY 2006, TAS completed a study to determine the complexity of each case and identify a method of tracking the factors that contribute to complexity. TAS is implementing most of the recommendations from the study and will use the information to identify and support future staffing and resource needs.

TAS hired 67 case advocates and 35 intake advocates in June 2006, and is waiting for final action on the FY 2007 federal budget to determine if further hiring will be possible in 2007.

<sup>48</sup> Initial contact with taxpayers and actions to resolve cases involving economic burden (TAS Case Acceptance Criteria 1-4) must be initiated within 3 workdays of the date TAS receives the taxpayer’s inquiry.

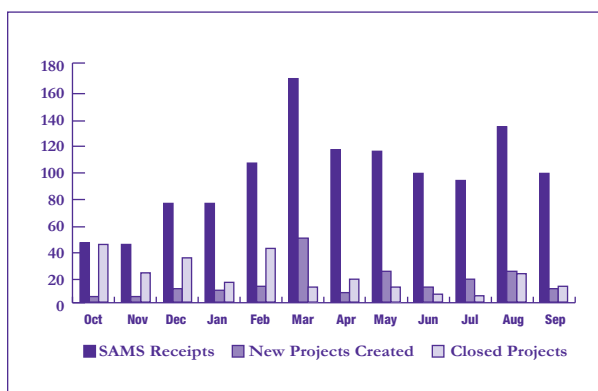
<sup>49</sup> TAS economic burden case receipts increased from 47,217 in FY 2005 to 72,463 in FY 2006.

**SYSTEMIC ADVOCACY RECEIPTS AND PROJECTS**

The TAS Office of Systemic Advocacy reviews, assigns, and tracks advocacy work through the Systemic Advocacy Management System (SAMS), a web-based application available to IRS employees and the public.<sup>50</sup> Systemic Advocacy employees review and evaluate all issue submissions and apply criteria that categorize and develop the issues into projects when appropriate, or assimilate new issues into existing projects.

Table 4.25 illustrates monthly issue receipts, new advocacy projects created from receipts and project closures for fiscal year 2006.

**TABLE 4.25, FY 2006 SAMS RECEIPTS, NEW PROJECTS, AND CLOSURES**



From October 1, 2005 through September 30, 2006, the Office of Systemic Advocacy received 1,144 issues on SAMS, an increase of 80 percent from the previous fiscal year. Most of the submissions came to TAS during and immediately after the filing season and during the summer months when the majority of TAS’s outreach occurred. The public (taxpayers, academics, and tax professionals) submitted approximately 43 percent (487) of all systemic advocacy issues received, an increase from the 17 percent (107) submitted via the public Internet in fiscal year 2005. TAS and other IRS employees submitted the remaining issues directly into SAMS using the IRS intranet.

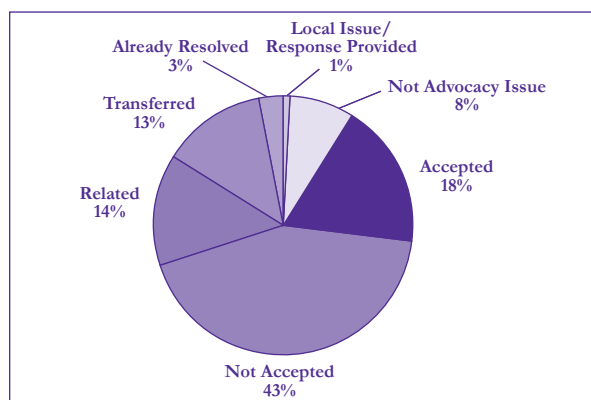
The number of submissions received this past fiscal year is the largest since the Office of Systemic Advocacy put SAMS online in FY 2003. Heightened awareness of Systemic Advocacy and SAMS through internal and external outreach may be responsible for the increase. Additionally, some tax web sites began encouraging taxpayers to submit advocacy issues on specific topics resulting in multiple submissions on the same topic, many

<sup>50</sup> SAMS is a database of advocacy issues submitted to TAS by IRS employees and the public, and the advocacy projects created from issues. The Internet version of SAMS is available through the Systemic Advocacy pages of the TAS public website at <http://www.irs.gov/advocate>.

with the exact same wording.<sup>51</sup> While submissions of this type do help determine the scope of issues, only one of these related submissions will be evaluated and considered a potential project. Systemic Advocacy closes the rest of these issues on SAMS and designates them as related to the initial submission.

Systemic Advocacy does not consider all advocacy submissions for development into projects. Some SAMS submissions are individual taxpayer account issues, tax law or procedural questions, or issues that have already been or are in the process of being resolved. Systemic Advocacy also receives submissions relating to other government or state taxing agencies. These issues are marked accordingly on SAMS, but are not elevated for project consideration. The following chart illustrates the disposition and percentages of fiscal year 2006 issues.

**CHART 4.26, FY 2006 SAMS RECEIPTS AND CLOSING DISPOSITIONS**<sup>52</sup>



Systemic Advocacy reviews all issue submissions, using established criteria to prioritize inventory and develop advocacy projects. SAMS Program Managers first rank the issues, then forward their recommendations to the Directors of Immediate Interventions and Advocacy Projects for their concurrence. This three tiered review enhances the probability that Systemic Advocacy is using its resources to work the most important projects. Even

<sup>51</sup> In July, the Internet site <http://www.taxmama.com> ran an article titled *Tax Mama's Tax Quips – Changing IRS Collection Policy* about the inequity of IRS policy on collecting back taxes from divorced spouses. The following sentence appeared at the end of the article:

So, please join me in submitting this issue to the Taxpayer Advocate so she can recommend legislation in this area. You can use the link below. Limit your submission to 2000 characters, including spaces. <http://www.irs.gov/advocate/article/0,,id=117703,00.html>. This is the link to the TAS Systemic Advocacy / SAMS section of the <http://www.irs.gov> website.

<sup>52</sup> *Related* issues are those for which a project already exists or is under consideration. *Transferred* issues are those that are sent to other TAS departments for consideration and resolution. This category includes taxpayer account issues or TAS casework policy issues. Issues marked as *Already Resolved* are ones for which a procedural fix is in place or a legislative recommendation has already been made by the National Taxpayer Advocate. Issues for which a quick response can be given directing the submitter to the answer to his or her question are designated as *Response Provided*. Issues that are not systemic or lie outside the jurisdiction of TAS or the IRS are marked as *Not Advocacy Issue*.

though most submissions do not become projects, Systemic Advocacy continually assesses all submissions to identify trends and gain a comprehensive understanding of problems.

During fiscal year 2006, Systemic Advocacy developed approximately 16 percent of submissions into new projects.<sup>53</sup> Chart 4.27 presents the top categories of new projects, which account for 84 of the 181 total projects created in FY 2006. Systemic Advocacy closed 238 projects during this period.

**CHART 4.27, FY 2006 TOP SYSTEMIC ADVOCACY PROJECT CATEGORIES**

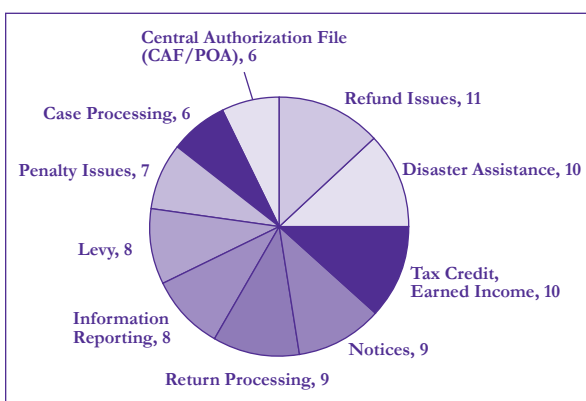


Table 4.28 outlines the Top 25 systemic issue topics in SAMS by major issue (MI) codes that correspond to tracking on TAMIS, the TAS database of individual taxpayer cases. Some of the advocacy issues do not directly match with TAMIS MI Codes because cases usually relate to problems with customer service or problems with taxpayer accounts. For example, no TAMIS MI code exactly matches the SAMS key word Notices, which usually deals with notice clarity. Systemic advocacy issues often address problems with tax law interpretation, lack of published guidance,<sup>54</sup> or difficulty (either by IRS or by taxpayers) in applying tax law.

<sup>53</sup> Some advocacy issues accepted in fiscal year 2006 were not yet developed into projects by the end of the fiscal year resulting in the difference in percentage between accepted issues (18 percent) and projects created (16 percent).

<sup>54</sup> Published guidance includes Treasury Regulations, Revenue Rulings and Procedures and Notices.

**TABLE 4.28, TOP 25 ISSUES RECEIVED IN SAMS FOR FY 2006**

Core Issue Code	Description	FY06 Advocacy Receipts
000-090	Refund Issues <sup>55</sup>	74
310	Return Processing <sup>56</sup>	54
100	Service	43
N/A	Case Processing	41
N/A	Fringe Benefits	39
200	Payments/Account Credits	39
111	Notices	37
600	Examination Issues	35
700	Collection Issues	28
N/A	Form or Publication Issue	28
390	Information Reporting	28
500	Penalty Issues	28
150	Copies of Tax Returns/ Transcripts	26
190	Employment Tax Issues	26
710	Levy	26
N/A	Navigating the IRS	25
780	Offers in Compromise (OIC)	24
N/A	Central Authorization File (CAF/POA)	23
751	Installment Agreements	23
720	Lien	23
N/A	Free Filing	22
N/A	Income Issues	21
N/A	Instructions	21
340	Injured Spouse	19
N/A	Expenses	18

Eight of the top ten advocacy issues from fiscal year 2005 remain in the top ten this year, including Refund Issues, Return Processing, Service, Case Processing, Payments/Account Credits, Notices, Examination Issues, and Information Reporting. Offer in Compromise and Installment Agreements dropped from the top ten, but remain frequently reported issues at 17th and 18th respectively. These were replaced by Fringe Benefits as the fifth most reported key issue and Collection Issues, Penalty Issues, and Form/Publication Issue all tying for tenth.<sup>57</sup>

<sup>55</sup> All refund issue key words were consolidated and include refund freezes, offsets, and direct deposits. It also includes lost or stolen refunds, erroneous refunds and issues pertaining to the refund statute of limitations (RSED).

<sup>56</sup> Key words “Return Processing” and “Original Return” were combined to create one issue referring to the processing of original tax returns.

<sup>57</sup> All of the submissions on fringe benefits were requesting amendment of IRC § 129 to increase the \$5,000 limit employees can currently exclude from gross income for employer-paid dependent care costs. All but one of these submissions was received in December 2005 from external sources.

### LOW INCOME TAXPAYER CLINICS

TAS administers and oversees the Low Income Taxpayer Clinic (LITC) Program for the IRS. IRC § 7526 provides for matching grants of up to \$100,000 per year for qualifying organizations that represent low income taxpayers involved in controversies with the IRS and for organizations that provide tax education and outreach to taxpayers who speak English as a second language (ESL taxpayers) or who have limited English proficiency (LEP). IRC § 7526 requires clinics to provide services for free or for no more than a nominal fee.

TAS remains committed to achieving maximum access to representation for low income taxpayers under the terms of the LITC Grant Program. In 2006, the LITC Program funded at least one clinic in every state, the District of Columbia, and Puerto Rico. TAS continued to work towards the following goals when awarding the FY 2007 grants:

- ◆ Ensure each state (plus the District of Columbia and Puerto Rico) continues to be served by at least one clinic;
- ◆ Expand coverage in states that do not have both controversy representation and ESL education and outreach; and
- ◆ Ensure grant recipients demonstrate they are serving geographic areas that have sizable populations eligible for and requiring LITC services.

TAS continues to aggressively market the LITC Grant Program in areas where LITC services are underrepresented. For the 2007 grant cycle, TAS received 192 grant applications, including 52 first-time applicants, and for the first time in the history of the LITC Program, TAS received an application from Guam. The LITC Program Office worked with local tax officials in Guam to market the LITC Program and identify qualified organizations who were interested in participation. TAS awarded grants to at least one clinic in the District of Columbia, Puerto Rico, Guam, and every state except Colorado for 2007.

TAS is planning a 2007 supplemental application period, which will focus on Colorado. TAS will contact the congressional offices, accredited law schools, business schools, and 501(c) organizations in Colorado to promote the LITC Program and help identify qualifying organizations.

### TAXPAYER ADVOCACY PANEL TOWN HALL MEETINGS

The National Taxpayer Advocate partnered with the Taxpayer Advocacy Panel (TAP) in fiscal year 2006 to give taxpayers a unique opportunity to voice their concerns about taxpayer service. The TAP hosted a series of town hall meetings focusing on current customer service needs and how the IRS should strategically address those needs. The primary objectives of the meetings were to:

- ◆ Conduct outreach and educate citizens about the TAP;
- ◆ Gather input from taxpayers on change and their future customer service needs;

- ◆ Solicit direct grassroots feedback from taxpayers on what service initiatives could be improved; and
- ◆ Validate the current level of customer service taxpayers are receiving.

The meetings took place in seven cities across the country in locations designed to attract maximum citizen input, in venues including small college campuses, libraries, and veterans’ facilities. As the following table illustrates, TAS and the TAP scheduled the meetings to meet the needs of a diverse population and ensure participation from a cross-section of taxpayers.

**TABLE 4.29, TAP TOWN HALL MEETINGS**

Location	Date
Philadelphia, PA	December 7, 2005
San Diego, CA	February 1, 2006
Davenport , IA	March 8, 2006
Jackson, MS	March 23, 2006
Fargo, ND	April 26, 2006
Cranston, RI	May 10, 2006
Cincinnati, OH	June 6, 2006

Feedback and attendance were mixed, but the overwhelming response from all attendees was that the IRS should not sacrifice customer service, but rather should continue to improve service. Although the meetings covered a variety of topics in different cities, some issues remained consistent. The key customer service issues raised by taxpayers include:

- ◆ Taxpayers’ fear of the IRS;
- ◆ The need for alternative service locations, including mobile vans and access to service in shopping malls;
- ◆ A single point of contact to address account issues;
- ◆ Confusing correspondence and notices; and
- ◆ Long wait times on customer assistance telephone lines.

The meetings afforded taxpayers an unprecedented opportunity to hold a candid dialogue with the National Taxpayer Advocate about issues that directly impact their tax situations. All meetings featured local TAP members who gave taxpayers an overview of the TAP, the recruitment process, and current success stories. The National Taxpayer Advocate served as the keynote speaker and engaged the participants in a direct conversation focused on customer service. Some attendees also took part in smaller focus group sessions with TAP members that further delved into customer service and taxpayer expectations, and completed exit surveys designed to gather information for potential TAP issues. W&I supported communications and outreach and provided representatives from the Taxpayer Assistance Blueprint (TAB) team for each session.<sup>58</sup>

<sup>58</sup> For a further discussion of the TAB, see Volume II of this report.