

## MSP #1 **TAXPAYER SERVICE: Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers**

### DEFINITION OF PROBLEM

The most serious problem facing U.S. taxpayers is the declining quality of service provided to them by the IRS when they seek to comply with their federal tax filing and payment obligations. The deficiencies in taxpayer service have been on our “Most Serious Problems” list for several years. As we begin 2015, the widening imbalance between the IRS’s increasing workload and its shrinking resources leads us to designate it the #1 problem for taxpayers.

More than 100 million taxpayers attempt to reach the IRS by telephone each year. For fiscal year (FY) 2015, the IRS is projecting it will only be able to answer about 50 percent of the calls it receives from taxpayers seeking to speak with a telephone assistant, and it projects that those taxpayers who manage to get through “could easily wait 30 minutes or more for limited service.”<sup>1</sup> If these projections prove accurate, taxpayers in 2015 will receive the worst levels of service since the IRS implemented its current performance measures in 2001.<sup>2</sup> For comparison, the IRS’s best year was 2004, when it answered 87 percent of its calls, and taxpayers had to wait only about 2½ minutes on hold.<sup>3</sup> To make matters worse, the IRS last year decided it would answer only what it terms “basic” questions, declaring “more complex” questions that it previously answered “out of scope.”<sup>4</sup> Therefore, even when a taxpayer manages to get through to a telephone assistant with a question, the assistant may not be able to provide an answer.

Millions more taxpayers visit the IRS’s walk-in sites every year. The same limitations on the scope of tax-law questions imposed on the phone lines were also imposed at the walk-in sites.<sup>5</sup> In addition, the IRS last year discontinued its long-time practice of preparing tax returns for hundreds of thousands of low income, elderly, and disabled taxpayers who sought assistance.<sup>6</sup> Overall, the IRS is providing more limited services to fewer taxpayers who face increasing difficulty obtaining those services, compared to just two years ago.

The lack of adequate taxpayer service stands in marked contrast to congressional directives and the IRS’s own stated goal. In 1998, Congress directed the IRS to revise its mission statement, which at that time emphasized revenue collection, “to place a greater emphasis on serving the public and meeting taxpayers’ needs.”<sup>7</sup> In response, the IRS adopted a new mission statement, stating that the IRS’s mission is to

1 Email from Commissioner Koskinen to all employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014).

2 For data going back to FY 2001, see in combination IRS, FY 2013 Enforcement and Service Results 9, at <http://www.irs.gov/PUP/newsroom/FY%202013%20Enforcement%20and%20Service%20Results%20-%20WEB.pdf>, and IRS, FY 2006 Enforcement and Service Results 10, at [http://www.irs.gov/pub/newsroom/11-06\\_enforcement\\_stats.pdf](http://www.irs.gov/pub/newsroom/11-06_enforcement_stats.pdf).

3 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (Sept. 30, 2004).

4 IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>.

5 *Id.*

6 *Id.*

7 Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, § 1002, 112 Stat. 685, 690 (1998).

“provide 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 to all.”<sup>8</sup>

In the National Taxpayer Advocate’s 2007, 2011, and 2013 reports to Congress, we recommended that Congress strengthen taxpayer rights protections by adopting an overarching, principles-based Taxpayer Bill of Rights.<sup>9</sup> We reiterate and expand on that recommendation in this report.<sup>10</sup> Among the rights we recommended for adoption in 2007 and 2011 was “The Right to Be Assisted,” which in our 2013 report we retitled “*The Right to Quality Service*.” In July 2013, the House of Representatives—with bipartisan support, on a voice vote, and without opposition—approved verbatim the Taxpayer Bill of Rights we recommended in 2011, including “The Right to Be Assisted.”<sup>11</sup> The Senate did not pass companion legislation, but in 2014, the IRS administratively adopted a slightly modified version of the Taxpayer Bill of Rights.<sup>12</sup> It included “*The Right to Quality Service*.”

As we enter 2015, we are deeply concerned that taxpayers are receiving markedly less assistance from the IRS now than at any time in recent history. IRS support is critical for millions of taxpayers, and its absence imposes significant burdens on taxpayers who cannot obtain timely assistance from their government. Without adequate support, many taxpayers will be frustrated, some will make potentially costly mistakes, others will incur higher compliance costs when forced to seek information and assistance from tax professionals that the IRS previously provided for free, and still others will simply give up and not file returns at all.

## ANALYSIS OF PROBLEM

### Overview

The IRS interacts with more Americans every year than any other federal government agency.<sup>13</sup> In fiscal year (FY) 2014, individuals filed nearly *150 million income tax returns*.<sup>14</sup> Even that figure understates the number of people interacting with the IRS because about 50 million returns were joint returns, and many claimed additional dependents. Business entities filed more than *10 million income tax returns*.<sup>15</sup>

8 IRS News Release IR-98-59, *New IRS Mission Statement Emphasizes Taxpayer Service* (Sept. 24, 1998), at <http://www.irs.gov/pub/irs-news/ir-98-59.pdf>.

9 National Taxpayer Advocate 2013 Annual Report to Congress 5-19 (Most Serious Problem: *Taxpayer Rights: The IRS Should Adopt a Taxpayer Bill of Rights as a Framework for Effective Tax Administration*); National Taxpayer Advocate 2011 Annual Report to Congress 493-518 (Legislative Recommendation: *Enact the Recommendations of the National Taxpayer Advocate to Protect Taxpayer Rights*); National Taxpayer Advocate 2007 Annual Report to Congress 478-89 (Legislative Recommendation: *Taxpayer Bill of Rights and De Minimis “Apology” Payments*). We recommended that Congress take the multiple, existing taxpayer rights scattered throughout the Internal Revenue Code and group them into ten broad categories, modeled on the U.S. Constitution’s Bill of Rights, that would be easier for taxpayers to understand and invoke.

10 See Legislative Recommendation, *TAXPAYER RIGHTS: Codify the Taxpayer Bill of Rights and Enact Legislation that Provides Specific Taxpayer Protections*, *infra*.

11 Taxpayer Bill of Rights Act of 2013, H.R. 2768, 113th Cong. (sponsored by Representative Roskam and passed by the House on July 31, 2013). In addition to stating the ten core rights, the bill would have clarified that the Commissioner has a duty to ensure IRS employees are familiar with and act in accordance with those rights.

12 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), at <http://www.irs.gov/uac/Newsroom/IRS-Adopts-Taxpayer-Bill-of-Rights;-10-Provisions-to-be-Highlighted-on-IRSGov,-in-Publication-1>.

13 By comparison, 59 million Americans received Social Security benefits in 2014. See <http://www.ssa.gov/news/press/basic-fact.html>.

14 IRS Publication 6292, *Fiscal Year Return Projections for the United States 2014-2021*, at 4 (Fall 2014). About 50 million are joint returns, so the number of taxpayers is nearly 200 million. IRS Compliance Data Warehouse, *Individual Returns Transaction File* (Tax Year 2013) (showing 51.5 million joint returns filed through October 2014).

15 *Id.*

Because of the complexity of the tax code, many taxpayers or their preparers contact the IRS with questions. In addition, IRS compliance functions initiate contact with taxpayers throughout the year—usually through correspondence—and taxpayers often contact the IRS in response. All told, the IRS has received:

- More than *one hundred million telephone calls* from taxpayers in every year since 2008.<sup>16</sup>
- More than *ten million letters* a year, on average, from taxpayers responding to proposed adjustments and other notices.<sup>17</sup>
- More than *five million visits from taxpayers in the IRS's walk-in sites* each year who seek to obtain forms, ask questions, or conduct other business.<sup>18</sup>

Given that U.S. taxpayers pay the federal government's bills—and collectively paid more than \$3 trillion in taxes last year<sup>19</sup>—the National Taxpayer Advocate believes the government has a moral and practical imperative to make the tax compliance process as painless as possible. Today, we are far from that goal, and we are moving in the wrong direction.

As mentioned above, 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 in FY 2015, and it projects that taxpayers who get through will face wait times of 30 minutes or more for limited service.<sup>20</sup>

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For taxpayers who turn to practitioners for help, the news is even grimmer. The IRS maintains a “Practitioner Priority Service” (PPS) telephone line for tax professionals calling the IRS to assist their clients with account-related issues such as audits, yet the term “priority” has become an object of derision among practitioners. Prior to the enactment of the FY 2015 budget cuts, the IRS was projecting wait times averaging more than 41 minutes on the PPS phone line.<sup>21</sup> Not only is this extraordinarily inconvenient for the hundreds of thousands of Certified Public Accountants, Enrolled Agents, and attorneys who must wait on hold, but these professionals often charge their taxpayer-clients for some or all of this time, increasing the cost of tax compliance.

The IRS's ability to meet taxpayer needs has been deteriorating for the past decade as the agency's workload has increased and its budget has declined. While no metric is perfect, the following graph illustrates these trends, using the number of returns the IRS receives as a proxy for work and the percentage of

16 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for FY 2008 through FY 2014).

17 IRS, Joint Operations Center, *Adjustments Inventory Reports: July-September Fiscal Year Comparison (FY 2008 through FY 2014)*.

18 IRS Wage & Investment Division, *Business Performance Review 7* (4th Quarter – FY 2014, Nov. 6, 2014).

19 Government Accountability Office (GAO), GAO-15-173, *Financial Audit: IRS's Fiscal Years 2014 and 2013 Financial Statements 111* (Nov. 2014), at <http://www.gao.gov/assets/670/666863.pdf>.

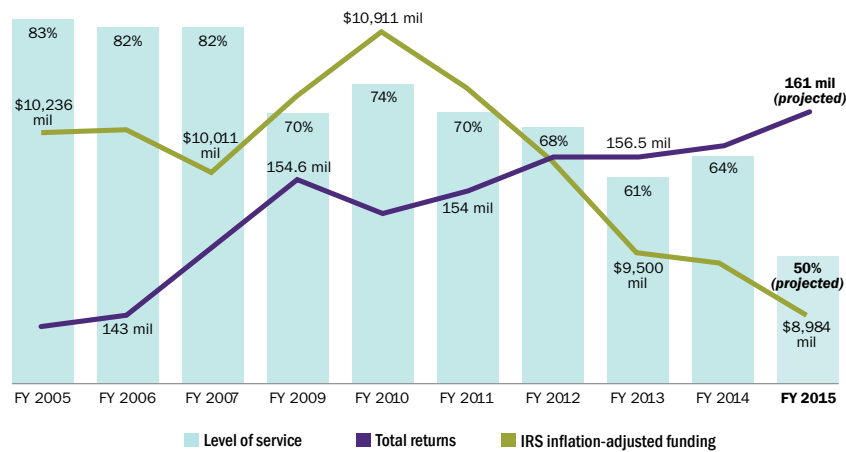
20 Email from Commissioner Koskinen to all employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014).

21 IRS Wage & Investment Division, *Business Performance Review 4* (4th Quarter – FY 2014, Nov. 6, 2014). This projection was made prior to the enacted reduction in IRS funding for FY 2015. As a consequence of the funding reduction, the wait-time projections are likely to be increased.

telephone calls the IRS is able to answer from taxpayers seeking to speak with a telephone assistor (known as the “Level of Service”) as a proxy for taxpayer service.<sup>22</sup>

**FIGURE 1.1.1**

**Total tax returns, IRS budget, and telephone level of service**



In FY 2014, the IRS significantly reduced core taxpayer services it had long provided. As mentioned above, it substantially stopped answering tax-law questions from taxpayers, limiting the scope of questions it answered during the filing season ending on April 15 and answering no tax-law questions at all after that date. It also terminated its longstanding practice of preparing tax returns for certain populations of taxpayers.

With further reductions in the IRS’s budget and increasing challenges in 2015, the IRS leadership has been discussing further changes to its service delivery options. The National Taxpayer Advocate and her staff, who serve on committees discussing these contemplated changes, are deeply concerned about the long-term ability of the IRS to provide essential taxpayer services.

The causes of this unfortunate and worsening state of affairs are several:

- First, the complexity of the tax code makes tax administration far more complicated than it needs to be.
- Second, Congress has given the IRS the task of administering many social and economic benefit programs, including tax credits for low income and business taxpayers, and most recently, the Patient Protection and Affordable Care Act (ACA).<sup>23</sup> Both the ACA and the Foreign Account

<sup>22</sup> The number of returns combines individual and business-entity returns. In this and several other workload-trend charts in this section, we omit data for FY 2008 because the data for that year was extreme and aberrational. As discussed in more detail below, the Economic Stimulus Act of 2008 caused the number of telephone calls the IRS received on its Account Management (AM) phone lines to more than double from 67 million in FY 2007 to 151 million in FY 2008, and the number of individual income tax returns to increase from 139 million in FY 2007 to 154 million in FY 2008.

<sup>23</sup> Pub. L. No. 111-148, 124 Stat. 119 (2010).

Tax Compliance Act (FATCA),<sup>24</sup> a far-reaching compliance program, will substantially take effect during 2015.

- Third, and as described later in this section, the IRS's workload has been increasing significantly in recent years.
- Fourth, Congress has reduced the IRS's funding significantly since FY 2010. The IRS's budget has been cut by 10 percent, and we estimate the effects of inflation have reduced the agency's purchasing power by an additional 7.5 percent, effectively reducing its resources by about 17 percent overall. Among other things, these cuts have left the IRS without sufficient funds to hire enough customer service representatives to staff the phone lines, answer taxpayer correspondence, conduct taxpayer and practitioner outreach and education, and meet taxpayers' needs in its walk-in sites.

The National Taxpayer Advocate has repeatedly urged Congress to simplify the tax code,<sup>25</sup> and as a related matter, has suggested standards policymakers may use in evaluating which social and economic benefit programs the IRS is best equipped to administer and which programs are better left to other agencies.<sup>26</sup> In the long run, we continue to believe that tax simplification is of overriding importance.

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**It is in the government's self-interest to facilitate voluntary compliance because voluntary compliance is far more cost effective than enforced compliance. For context, more than 98 percent of all tax revenue collected by the government is paid voluntarily and timely. Less than two percent is collected through enforcement action. If the IRS were to collect 10 percent less in enforcement revenue, tax revenue would decline by less than \$6 billion. If voluntary tax payments were to drop by 10 percent, tax revenue would decline by more than \$300 billion.**

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24 Pub. L. No. 111-147, Title V, Subtitle A, 124 Stat. 71, 97 (2010).

25 See National Taxpayer Advocate 2012 Annual Report to Congress 3-23 (Most Serious Problem: *The Complexity of the Tax Code*); Testimony of Nina E. Olson, National Taxpayer Advocate, at *Hearing on Fundamental Tax Reform Before H. Comm. On Ways and Means*, 112th Cong. (2011), at <http://waysandmeans.house.gov/calendar/eventsingle.aspx?EventID=219701>; National Taxpayer Advocate 2010 Annual Report to Congress 3-14 (Most Serious Problem: *The Time for Tax Reform Is Now*); National Taxpayer Advocate 2010 Annual Report to Congress 365-72 (Legislative Recommendation: *Enact Tax Reform Now*); National Taxpayer Advocate 2005 Annual Report to Congress 375-80 (Key Legislative Recommendation: *A Taxpayer-Centric Approach to Tax Reform*); Presentation of Nina E. Olson, National Taxpayer Advocate, at Public Meeting of the President's Advisory Panel on Federal Tax Reform (Mar. 3, 2005) at <http://www.taxreformpanel.gov/meetings/meeting-03032005.shtml>. Over the past decade, the National Taxpayer Advocate's annual reports have contained dozens of additional proposals to simplify particular sections or areas of the tax code.

26 In our 2010 Annual Report to Congress, we recommended adoption of a process to evaluate whether a tax expenditure presents an administrative challenge to the IRS or taxpayers and the extent to which it achieves its intended purpose. See National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, at 101-19 (*Evaluate the Administration of Tax Expenditures*). In our 2009 report, we proposed an analytic framework for evaluating whether specific social benefit programs—whether for individuals or for businesses—should be run through the tax system. See National Taxpayer Advocate 2009 Annual Report to Congress, vol. 2, at 75-104 (*Running Social Programs Through the Tax System*). Among other factors, we suggested that Congress consider the IRS's existing relationship with and access to the targeted population as well as the additional burden imposed on that population, the IRS's ability to deliver the benefit in a timely manner and at the appropriate time, the IRS's access to the information required to make eligibility determinations, and the IRS's suitability to be the administrator of the provision in light of its enforcement culture.

In the short run, however, the IRS lacks sufficient resources to handle its growing workload. The National Taxpayer Advocate believes our government is not meeting the basic service needs of the taxpaying public, and if adequate funding is not provided, taxpayer service will continue to deteriorate.

### Why Taxpayer Service Matters

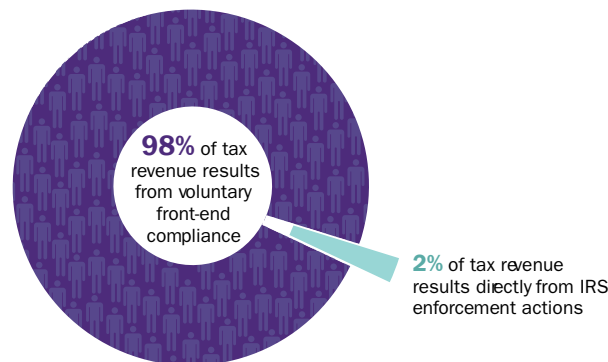
The proposition that the government should provide taxpayers with high quality service may seem obvious, but it is worth considering why taxpayer service is so important. In our view, there are two related but independent reasons.

First, it is, very simply, the right thing for the government to do for its taxpayers. The requirement to file a return and pay taxes is generally the most significant burden a government imposes on its citizens. The government therefore has a duty to make compliance as simple and painless as possible.

Second, it is in the government's self-interest to facilitate voluntary compliance because voluntary compliance is far more cost effective than enforced compliance. For context, more than 98 percent of all tax revenue collected by the government is paid voluntarily and timely. Less than two percent is collected through enforcement action.<sup>27</sup> If the IRS were to collect 10 percent less in enforcement revenue, tax revenue would decline by less than \$6 billion. If voluntary tax payments were to drop by 10 percent, tax revenue would decline by more than \$300 billion.

**FIGURE 1.1.2**

#### Tax revenue from voluntary compliance vs. enforcement actions



Some level of enforcement is necessary both to ensure that all taxpayers pay their fair share of taxes and to provide an incentive for all taxpayers to continue to comply. But we must not lose sight of the overriding importance of maintaining high levels of voluntary compliance, nor take it for granted. If the government treats its taxpayers poorly, voluntary compliance almost certainly will erode over time. Therefore, there is a strong business case for the government to provide sufficient funds for taxpayer service to ensure that taxpayer needs are adequately met.

<sup>27</sup> In FY 2014, the IRS collected total tax revenue of about \$3.1 trillion. Of that amount, it collected \$57.1 billion through enforcement actions. Government Accountability Office (GAO), GAO-15-173, *Financial Audit: IRS's Fiscal Years 2014 and 2013 Financial Statements* 29 (Nov. 2014), at <http://www.gao.gov/assets/670/666863.pdf>.

Yet as the discussion below shows, the workload of the IRS has been increasing over the past decade while the resources available to do its work have been shrinking, and the predictable result has been deteriorating levels of taxpayer service. We note that poor taxpayer service is not just limited to the IRS's pre-filing or filing activities. The quality of service the IRS provides to taxpayers in its enforcement functions has similarly eroded.<sup>28</sup>

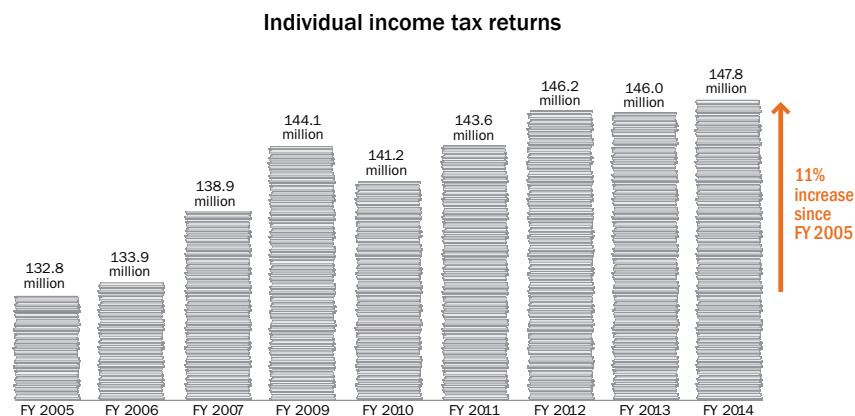
### The IRS's Workload Has Been Increasing

Because of the extensive nature of the IRS's responsibilities, no single metric provides an accurate reflection of changes in the agency's workload. However, two useful indicators are the number of tax returns processed and the number of telephone calls received.

Tax returns are a useful measure because the IRS's overall workload is largely derivative of the number of returns it receives. When that number increases, the IRS receives proportionately more telephone calls,<sup>29</sup> incurs proportionately greater costs to process the returns, performs proportionately more data matching, and would have to conduct proportionately more audits and take proportionately more collection actions to maintain consistent levels of enforcement.

From FY 2005 to FY 2014, the number of individual income tax returns rose from about 132.8 million to about 147.8 million, an increase of 11 percent. About 44 percent of that increase has occurred since FY 2010, when about 141.2 million returns were filed.<sup>30</sup>

**FIGURE 1.1.3**



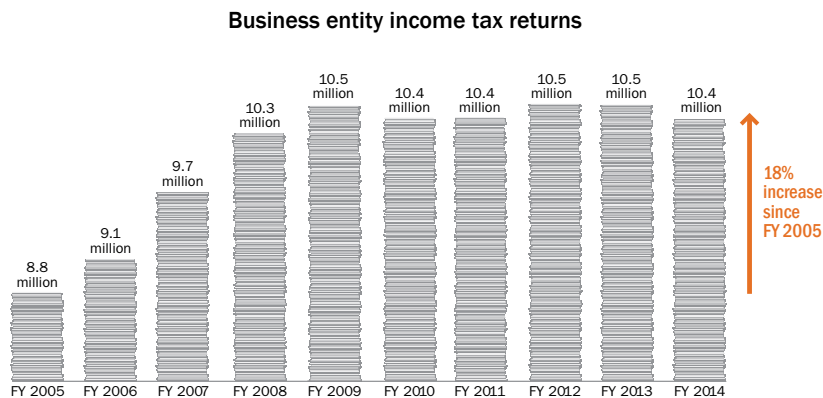
28 For a discussion of the relationship between IRS service functions, such as the IRS's toll-free telephone lines and its correspondence units, and IRS enforcement functions, see Preface, *supra*.

29 In FY 2014, the number of returns increased slightly while the number of telephone calls declined. The IRS's explanation for the reduction in calls in FY 2014 is discussed in the text below.

30 See IRS Data Books, Table 2 (showing return totals for FY 2005 through FY 2013). Data for FY 2014 are projections made by the IRS Office of Research, Analysis, and Statistics; see IRS Publication 6292, Fiscal Year Return Projections for the United States 2014-2021, at 4 (Fall 2014). In this and several other workload-trend charts in this section, we omit data for FY 2008 because the data for that year was extreme and aberrational. As discussed in more detail below, the Economic Stimulus Act of 2008 caused the number of telephone calls the IRS received on its Account Management phone lines to more than double from 67 million in FY 2007 to 151 million in FY 2008 and the number of individual income tax returns to increase from 139 million in FY 2007 to 154 million in FY 2008.

The percentage increase in returns was larger for business entities, which include C corporations, S corporations, and partnerships. From FY 2005 to FY 2014, the number of business entity returns rose from about 8.8 million to about 10.4 million, an increase of 18 percent.<sup>31</sup>

**FIGURE 1.1.4**



The number of telephone calls the IRS receives is also a useful measure of workload because answering phone calls is labor-intensive. As noted above, the IRS has received more than 100 million telephone calls in each year since 2008. Of those calls, the significant majority is directed to the “Accounts Management” phone lines, and the IRS focuses on this category of calls for purposes of measuring its “Level of Service” (discussed below).<sup>32</sup>

Since FY 2005, the IRS has seen a significant and continual increase in the number of calls it receives on its Accounts Management (AM) telephone lines, as shown in the graph below.<sup>33</sup> We note that two years on the graph are inconsistent with the general trend:

- In FY 2008, the IRS received an extraordinary one-time spike in telephone calls and returns due to enactment of the Economic Stimulus Act of 2008.<sup>34</sup> For that reason, we have omitted data from FY 2008 in several of the workload-trend charts included in this section.

31 See IRS Data Books, Table 2 (showing return totals for FY 2005 through FY 2013). Data for FY 2014 are projections made by the IRS Office of Research, Analysis, and Statistics; see IRS Publication 6292, *Fiscal Year Return Projections for the United States 2014-2021*, at 4 (Fall 2014).

32 The overall number of telephone calls the IRS receives is referred to as the “enterprise” total. The significant majority of those calls are directed to the AM telephone lines, which, among other things, provide answers to tax-law questions and account inquiries. A relatively small percentage of calls—typically about 16 million to 17 million calls—are directed to IRS compliance telephone lines and a few other less frequently used lines. Because of the purpose of the IRS’s “Level of Service” measure, those calls are excluded from the “Level of Service” computations.

33 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for FY 2005 through FY 2014).

34 The Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (2008), required the IRS to make one-time payments to nearly 119 million taxpayers. See IRS News Release, IR-2009-10, *IRS Offers Tips to Avoid Recovery Rebate Credit Confusion* (Jan. 30, 2009), at <http://www.irs.gov/uac/IRS-Offers-Tips-to-Avoid-Recovery-Rebate-Credit-Confusion>. The procedures for claiming these “stimulus payments” required millions of individuals otherwise without a filing obligation to file a tax return. The stimulus payments were paid out over several months, and taxpayers who did not receive their payments early in the process inundated the IRS with telephone calls. As a result, many IRS measures reflect the effects of this one-time event. The number of calls the IRS received on its AM telephone lines more than doubled from FY 2007 to FY 2008 (increasing from 67 million to 151 million), and the number of individual income tax returns jumped from 139 million to 154 million – the highest annual totals in the past ten years and probably ever.

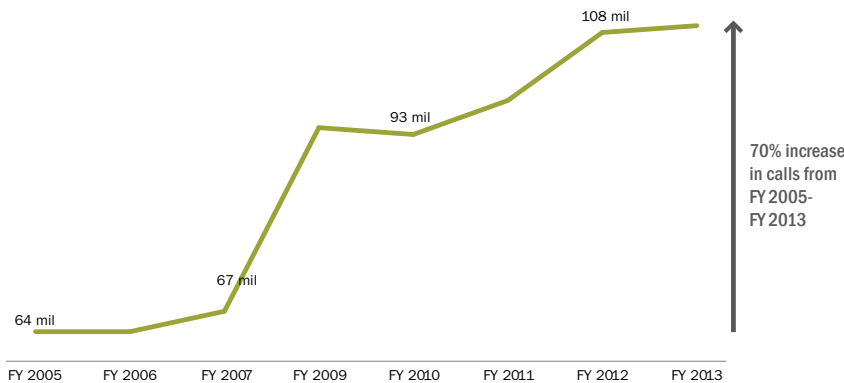


- In FY 2014, the IRS received significantly fewer telephone calls.<sup>35</sup> The IRS has attributed the reduction in calls to two factors. First, tax-law changes often generate taxpayer confusion, and Congress made changes to the Internal Revenue Code on only two occasions during 2013.<sup>36</sup> Second, the IRS significantly limited the scope of tax-law questions it answered.<sup>37</sup> To manage its workload, it adopted a policy of answering only “basic” tax-law questions until April 15 and then no tax-law questions after that date.<sup>38</sup> The virtual absence of tax legislation in 2013 was an aberration that is unlikely to recur; for context, Congress made nearly 4,200 changes to the Code over the preceding decade—an average of about 420 changes per year.<sup>39</sup> The restriction on tax-law-questions may continue, but we believe that taxpayer frustration will eventually lead the IRS, in collaboration with Members of Congress, to find ways to reinstate discontinued services. Therefore, we believe that any apparent “improvements” in FY 2014 are illusory.

Omitting FY 2008 and FY 2014, the number of calls the IRS received on its AM lines over the past decade soared from about 64 million in FY 2005 to about 109 million in FY 2013, or about 70 percent. That is a substantial increase that requires significantly more resources to handle.<sup>40</sup>

**FIGURE 1.1.5**

**Taxpayer calls to IRS Accounts Management telephone lines**



35 In FY 2014, the IRS received 86 million calls on its Accounts Management telephone lines. IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (Sept. 30, 2014).

36 According to a GAO report, the IRS attributes the decline in taxpayer telephone calls in FY 2014 partly to “smooth tax return and refund processing” and partly to its “efforts to limit or eliminate assistor-based services and direct taxpayers to self-service options.” GAO, GAO-15-163, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks* 11 (Dec. 2014). The report says the IRS attributed its smooth return processing, in turn, to “fewer tax-law changes that resulted in fewer system and form updates compared to previous years.” *Id.* at 9.

37 *Id.*

38 IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>.

39 Unpublished data provided to TAS by Wolters Kluwer, CCH (Dec. 12, 2012, supplemented on Sept. 29, 2014).

40 The majority of the additional calls was handled by automation. The increase in calls seeking to speak with a customer service representative was 23 percent. See IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of fiscal years 2005 and 2013) (indicating that the number of calls seeking to reach a representative on the Account Management telephone lines increased from about 40.4 million to about 49.8 million). The percentage increase in calls seeking to reach an assistor likely would have been considerably higher absent IRS policies designed to drive more taxpayers to use automated processes.

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While the National Taxpayer Advocate believes the IRS can operate more effectively and efficiently in certain areas, the only way the IRS can assist the tens of millions of taxpayers seeking to speak with an IRS employee is to have enough employees to answer their calls. The only way the IRS can timely process millions of letters from taxpayers is to have enough employees to read their letters and act on them. And the only way the IRS can meet the needs of the millions of taxpayers who visit its walk-in sites is to have enough employees to staff them.

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There are several other obvious sources of workload increase. First, the IRS has had to address a huge spike in tax-related identity theft and refund fraud. In FY 2014, the IRS assigned more than 3,000 employees to work on identity theft cases, which reduced the number of employees available to handle the IRS's traditional workload.<sup>41</sup> Second, and as mentioned above, Congress has continued to make significant changes to the tax code over the past decade—an average of about 420 changes per year from 2003 to 2012, according to one count.<sup>42</sup> Tax-law changes add to the IRS's workload, variously requiring the agency to reprogram its return processing systems, issue interpretative regulations or other guidance, and train its telephone assistants and auditors. Third, the Patient Protection and Affordable Care Act has been a heavy lift for the agency and will become even heavier in 2015—the Act's first year of substantial implementation.<sup>43</sup> Finally, the implementation of the Foreign Account Tax Compliance Act is also requiring changes to IRS technology and the commitment of personnel.

The combination of more tax returns, substantially more telephone calls, substantially more cases of tax-related refund fraud, and continual tax law changes, including implementation of the ACA and FATCA, have sharply increased the IRS's workload.

### The IRS's Resources Have Been Declining Overall

At the same time that the IRS's workload has been increasing, the resources available to handle that workload have been declining, particularly in inflation-adjusted dollars.

In FY 2005, the IRS operated on an appropriated budget of \$10.24 billion.<sup>44</sup> From FY 2005 to FY 2015 (projected), the non-defense sector of the U.S. economy has experienced price inflation of about 21.8 percent.<sup>45</sup> If the IRS's FY 2005 budget had kept pace with inflation, its budget in FY 2015 would be \$12.47 billion. In fact, the IRS's funding level for FY 2015 has been set at \$10.95 billion.<sup>46</sup> Thus, the IRS's budget has been reduced by approximately 12.2 percent since FY 2005 in inflation-adjusted terms.<sup>47</sup>

41 IRS Wage & Investment Division, Business Performance Review 25 (3rd Quarter – FY 2014, Nov. 6, 2014).

42 Unpublished data provided to TAS by Wolters Kluwer, CCH (Dec. 12, 2012, supplemented on Sept. 29, 2014). Congress made very few changes to the tax code in 2013. The number rose considerably in 2014, but a final count was not available as of our publication deadline.

43 See Most Serious Problem: *HEALTH CARE IMPLEMENTATION: Implementation of the Affordable Care Act May Unnecessarily Burden Taxpayers*, *infra*.

44 See Internal Revenue Service FY 2007 Budget-in-Brief, at <http://www.irs.gov/pub/irs-news/fy07budgetinbrief.pdf> (showing enacted FY 2005 IRS appropriation of \$10,236,087,000).

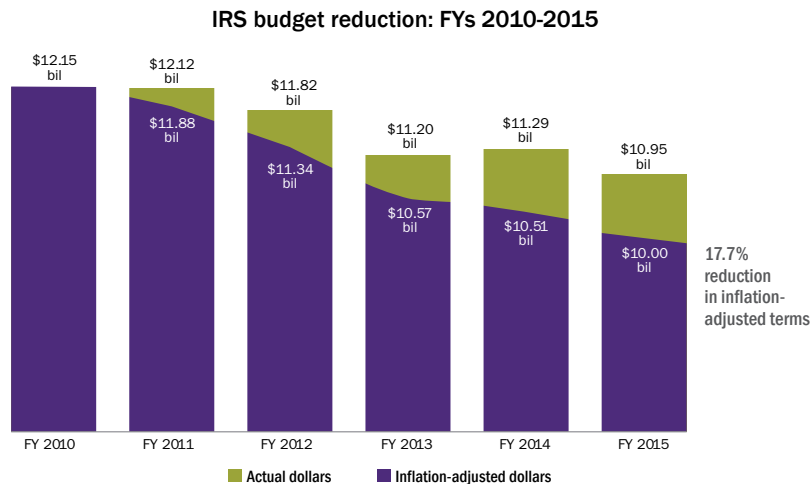
45 See Office of Management and Budget, *Fiscal Year 2015 Budget of the U.S. Government, Historical Tables*, Table 10.1, at 217-218, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hist.pdf> (showing Gross Domestic Product and year-to-year increases in the GDP). For budgeting purposes, our understanding is that federal agencies use the Gross Domestic Product deflator, as reflected in the OMB charts.

46 Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, Division E, Title I, 128 Stat. 2130, 2332 (2014). The total IRS appropriated budget represents the sum of the Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization accounts.

47 Budget numbers have been rounded, but percentage changes were computed using exact values.

From FY 2005 through FY 2010, the IRS's budget increased, but it has been cut sharply since.<sup>48</sup> In FY 2010, the agency's appropriated budget stood at \$12.1 billion. In FY 2015, its budget was set at \$10.9 billion, a reduction of about 9.9 percent. Inflation over the same period is estimated at about 9.4 percent.<sup>49</sup> In combination, the budget reduction and the effects of inflation suggest an effective reduction of nearly 18 percent.

**FIGURE 1.1.6**



Because of the three-year federal pay freeze, we believe the impact of inflation may be slightly less than broad economic measures would suggest. Taking the effects of the pay freeze into account, we estimate the effective reduction in the IRS budget since FY 2010 has been about 17 percent.<sup>50</sup>

48 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).

49 See Office of Management and Budget, *Fiscal Year 2015 Budget of the U.S. Government, Historical Tables*, Table 10.1, at 217-218 (showing Gross Domestic Product (GDP) and year-to-year increases in the GDP) at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hist.pdf>.

50 To determine whether IRS costs rose roughly in proportion to the Gross Domestic Product measure of inflation, we estimated the reduction in the IRS's resources using a different methodology and compared the results. Because the majority of the IRS budget is spent on employee salaries, we used the size of the IRS workforce as a proxy for the inflation-adjusted impact of budget changes over time. From FY 2010 to FY 2014, the number of full-time-equivalent employees (including seasonal employees) fell from 94,618 to 82,982, a drop of 12.3 percent. While the number of employees in FY 2015 has not yet been determined, the agency's budget has been reduced by 3.1 percent overall, and the IRS Commissioner has said the IRS faces cost increases of \$250 million, or 2.2 percent compared with FY 2014 funding levels. Email from Commissioner Koskinen to all employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014) (i.e., a \$250 million increase in costs from the FY 2014 appropriated budget of \$11,290,612,000 translates to a 2.2 percent increase). Viewing in combination the FY 2010 to FY 2014 reduction in staffing of 12.3 percent, the FY 2014 to FY 2015 reduction in the IRS appropriated budget of 3.1 percent, and the Commissioner's statement that the IRS's costs will rise by 2.2 percent in FY 2015, this methodology suggests the inflation-adjusted reduction in the IRS budget from FY 2010 to FY 2015 was approximately 17.6 percent. That result is almost identical to the result produced using the GDP measure of inflation. For purposes of this report, we estimate the inflation-adjusted reduction in the IRS budget from FY 2010 to FY 2015 at about 17 percent (about 10 percent due to the dollar-denominated reduction and about 7 percent due to cost increases).

### The IRS's Resources for Taxpayer Services Have Declined Along with Its Overall Budget

Because the IRS budget consists of several accounts, of which Taxpayer Services is just one, we have also analyzed the trends in funding for taxpayer services. Under the current budget structure, the IRS receives funding through four accounts:

- Taxpayer Services;
- Enforcement;
- Operations Support; and
- Business Systems Modernization.

Over the ten-year period from FY 2006–FY 2015, the Taxpayer Services account received a significantly smaller pre-inflation funding increase than the overall IRS budget.<sup>51</sup> The overall IRS budget rose by 3.5 percent, while Taxpayer Services funding increased by only 0.7 percent. However, the changes did not occur evenly over the decade. From FY 2006–FY 2010, the Taxpayer Services account received considerably smaller increases than the overall IRS budget. From FY 2010–FY 2015, Taxpayer Services fared relatively better because it sustained smaller cuts, with the overall IRS budget reduced by 9.9 percent and the Taxpayer Services budget reduced by 5.4 percent.

In enacting the IRS's budget for FY 2015, Congress cut all accounts except Taxpayer Services, for which it provided the same funding as in FY 2014.<sup>52</sup> While that is comparatively welcome news, the resources available for the IRS to provide taxpayer services will still be lower in FY 2015 for two reasons. First, the Office of the IRS Chief Financial Officer has advised us that approximately 40 percent of the dollars in the Operations Support account, or \$1.5 billion, are apportioned to support Taxpayer Services operations, and the Operations Support account has been reduced by 4.2 percent.<sup>53</sup> A cut of 4.2 percent to \$1.5 billion translates to a reduction of about \$64 million for taxpayer service support.

Second, the Administration's budget proposal provided an estimate of additional funding that would be required in FY 2015 to maintain the same services provided in FY 2014 (known as "Maintaining Current Levels" or "MCLs").<sup>54</sup> The combined MCLs for the Taxpayer Services account and 40 percent of the Operations Support account are about \$138 million. Thus, the effective reduction in funds available to support taxpayer services will be about 3.8 percent.

51 In discussing 10-year trends in other portions of this discussion, we focus on the FY 2005–FY 2014 period. In discussing the Taxpayer Services account, however, relevant data for FY 2005 is not available. Congress realigned the IRS account structure beginning in FY 2007. The IRS Budget-in-Brief for FY 2008 showed how funding for years going back to FY 2006 would have been allocated under the new structure, but no such information was made available for earlier years. See Internal Revenue Service, FY 2008 Budget-in-Brief, at <http://www.irs.gov/pub/newsroom/budget-in-brief-2008.pdf>.

52 Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, Division E, Title I, 128 Stat. 2130, 2332 (2014). The total for FY 2014 includes base funding of \$2,122,554,000 and a \$34 million supplement reflecting the portion of a \$92 million non-recurring additional appropriation allocated to the Taxpayer Services account.

53 Funding for the Operations Support account was reduced from about \$3.8 billion in FY 2014 to about \$3.6 billion in FY 2015 (the reduction comes to 4.2 percent when exact numbers are used). The Operations Support account covers, among other things, infrastructure, including rent for IRS office space; shared services and support, including agency management functions, procurement, human resources, and certain employee benefits programs; and information services, including return processing and other tax administration technology systems, and employee technology.

54 See Internal Revenue Service, FY 2015 Budget-in-Brief 5, at <http://www.irs.gov/PUP/newsroom/IRS%20FY%202015%20Budget%20in%20Brief.pdf>

**FIGURE 1.1.7, Reduction in funding for taxpayer service activities from FY 2014–FY 2015**

	FY 2014	FY 2015	Maintain current levels	FY 2015 Adjusted
Taxpayer services	\$2,156,554,000	\$2,156,554,000	\$(46,483,000)	\$2,110,071,000
Operations support dollars allocated to taxpayer services	\$1,519,577,000	\$1,455,378,000	\$(27,753,000)	\$1,427,625,000
<b>Total</b>	<b>\$3,676,131,000</b>	<b>\$3,611,932,000</b>	<b>\$(74,236,000)</b>	<b>\$3,537,696,000</b>
<b>Percent change</b>		<b>-1.7%</b>		<b>-3.8%</b>

**Declining Resources Have Led to a Reduced Workforce and Insufficient Employee Training**

In light of the significant cuts to its budget, the IRS has substantially reduced the number of employees since FY 2010. The following chart shows that the number of full-time-equivalent employees has fallen by 12.3 percent from FY 2010 to FY 2014.<sup>55</sup>

**FIGURE 1.1.8**

**Full-time equivalent IRS employees including seasonals**



In light of the inflation-adjusted reduction to the IRS budget in FY 2015, the Commissioner has stated that the IRS workforce will shrink by several thousand additional employees.<sup>56</sup>

There is a close and obvious connection between the number of IRS employees and the IRS’s ability to meet taxpayer needs. While the National Taxpayer Advocate believes the IRS can operate more effectively and efficiently in certain areas, the only way the IRS can assist the tens of millions of taxpayers seeking to speak with an IRS employee is to have enough employees to answer their calls. The only way the IRS can timely process millions of letters from taxpayers is to have enough employees to read their letters and act on them. And the only way the IRS can meet the needs of the millions of taxpayers who visit its walk-in sites is to have enough employees to staff them.

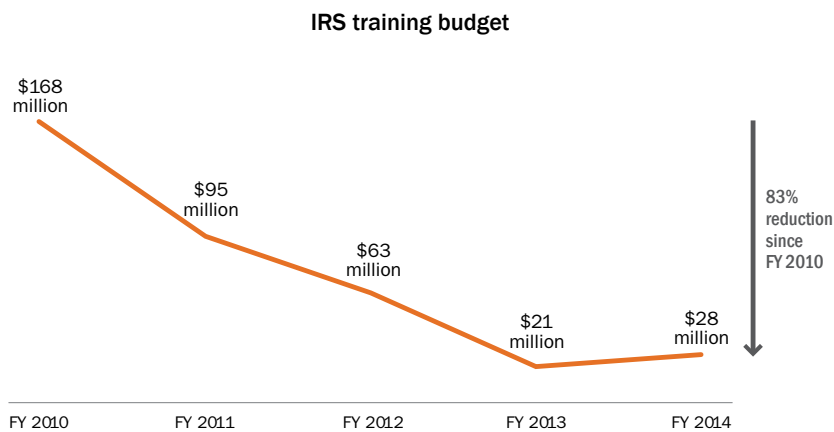
55 IRS Chief Financial Officer, Corporate Budget. These figures represent actual full-time equivalent employees realized through appropriated dollars.

56 Email from Commissioner Koskinen to all employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014).

A closely related issue is employee training. In light of the complexity of the tax code and the wide range of issues that arise in tax administration, employees who interact with taxpayers require extensive training. It is of little value—and it is frustrating to taxpayers—if employees on the front lines cannot provide proper assistance.

The following charts show that the IRS’s training budget, while up slightly in FY 2014 as compared with FY 2013, is still 83 percent below its FY 2010 level and that dollars spent on training per full-time-equivalent employee have declined substantially.<sup>57</sup>

**FIGURE 1.1.9**



**FIGURE 1.1.10, Training dollars per full-time equivalent (FTE) employee**

Fiscal year	Number of FTEs	Training dollars per FTE
2010	94,618	\$1,774
2011	93,906	\$1,014
2012	89,520	\$705
2013	86,301	\$240
2014	82,982	\$339

As discussed in more detail below, the combination of fewer employees and less training has impaired the IRS’s ability to meet taxpayers’ service needs.

**The Gap Between an Increasing Workload and Declining Resources Has Left the IRS Unable to Meet Taxpayer Needs, and Due to Concerns the Gap Will Widen, the IRS is Considering Long-Term Strategies That Will Cause Significant Harm to Groups of Taxpayers**

Many taxpayers use the Internet as their initial method of obtaining forms or other information from the IRS. For well over a decade, the IRS has devoted considerable resources to building and improving its website, and it is continuing to improve the availability of its resources online. Yet despite the IRS’s efforts to transition taxpayers to its website, demand for personal contact has increased.

57 IRS Chief Financial Officer, Corporate Budget.

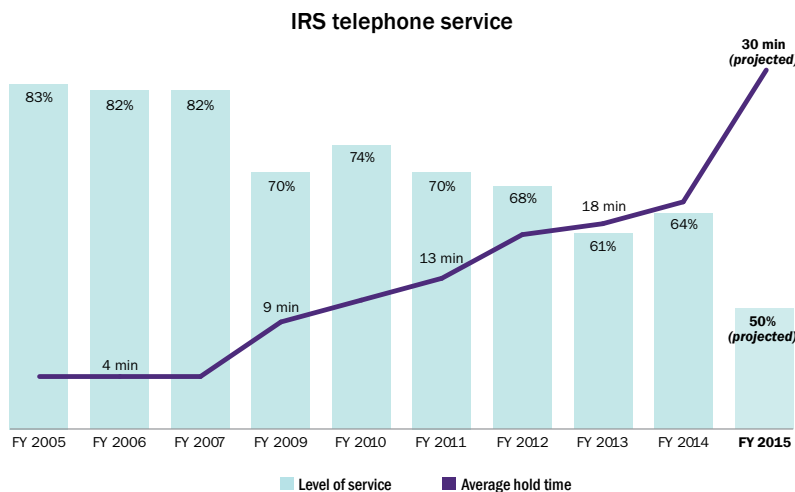
**a. Taxpayer Telephone Calls**

During the past decade, the IRS’s ability to answer taxpayer telephone calls—and do so promptly—has been declining. Among callers trying to reach a customer service representative on the IRS’s Accounts Management telephone lines, the “Level of Service” (*i.e.*, the percentage of calls the IRS is able to answer among all callers seeking to reach a representative) decreased from 83 percent in FY 2005 to 64 percent in FY 2014.<sup>58</sup>

As noted above, FY 2014 was anomalous because the IRS overall received about 24 million fewer calls than the year before, including about 14 million fewer calls seeking to speak with a customer service representative. As a result, the IRS was able to answer about seven million fewer telephone calls than in FY 2013 and still raise its Level of Service from 61 percent to 64 percent.<sup>59</sup> Had the IRS received the same number of calls seeking to reach a representative in FY 2014 as it had received the previous year without additional staffing, the number of calls it answered would have produced a Level of Service below 50 percent.<sup>60</sup>

Moreover, even with the reduction in calls, the hold time for taxpayers who got through to an assistor reached nearly 20 minutes—the continuation of a worsening trend and far longer than the four-minute hold time at the beginning of the 10-year period.<sup>61</sup>

**FIGURE 1.1.11**



In FY 2014, the IRS reduced taxpayer services in several areas to conserve resources. One of the most significant and concerning reductions was to the scope of tax-law questions it answered. During the filing season (January through April), it announced it would answer only “basic” tax-law questions. It declined to answer “more complex” questions. It announced that after the April 15 filing deadline, it would not answer *any* tax-law questions (even basic ones), including tax-law questions from about 15 million

58 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for FY 2005 through FY 2014).

59 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of fiscal years 2013 and 2014).

60 *Id.*

61 IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for FY 2005 through FY 2014).

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We are deeply concerned that the government is largely turning its back on the significant number of taxpayers who require face-to-face assistance to comply with their tax obligations.

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taxpayers who obtained filing extensions or otherwise filed their returns later in the year.<sup>62</sup> We think it is a sad state of affairs when the government writes tax laws as complex as ours—and then is unable to answer any questions beyond “basic” ones from baffled citizens who are doing their best to comply.<sup>63</sup>

As we discussed earlier, the IRS believes its decision to answer only “basic” tax-law questions, combined with fewer-than-usual tax-law changes, was responsible for at least a portion of the decline in telephone calls last year. What this makes clear is that the increase in the Level of Service on the toll-free telephone lines last year was not due to improved taxpayer service. Rather, it came about partly because Congress happened to make virtually no changes to the tax code and partly because the IRS simply shrank the categories of services it provides. Thus, the small “improvement” in the percentage of calls getting through to the IRS occurred, at least in part, because the IRS made a conscious decision to diminish the services it provides to taxpayers.

#### b. Taxpayer Correspondence

Just as the IRS’s ability to handle its telephone call volumes has declined over the past decade, its ability to timely process taxpayer correspondence has also fallen off. When the IRS sends a taxpayer a notice proposing to increase his or her tax liability based on math error authority<sup>64</sup> or asserts a penalty against a taxpayer during processing, it typically gives the taxpayer an opportunity to present an explanation or documentation supporting the position taken on the return. Also, before the IRS sends the account of a delinquent taxpayer to its Collection function, the IRS sends the taxpayer a series of notices explaining the balance due and giving the taxpayer the opportunity to pay the debt. Each year, the IRS typically receives around ten million taxpayer responses to these notices, which are known collectively as the “adjustments inventory.”<sup>65</sup>

The IRS has established timeframes for processing taxpayer correspondence, generally 45 days. During the final week of FY 2005, the IRS failed to process two percent of its adjustments correspondence within its timeframes. During the final week of FY 2014, the IRS was unable to process 51 percent of

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62 IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>. In both 2013 and 2014, the number of tax returns received after the filing season was about 15 million. See IRS 2014 Filing Season Statistics, at <http://www.irs.gov/uac/2014-and-Prior-Year-Filing-Season-Statistics> (showing 134.3 million returns received by April 25, 2014 and 149.2 million returns received by Nov. 21, 2014, an increase of 14.9 million; the increase over the same time period in FY 2013 was virtually identical.).

63 In fact, one could argue that the IRS should focus primarily on answering complex questions and direct taxpayers seeking answers to simple questions to IRS.gov or IRS publications. However, a question that seems simple to one taxpayer may appear complex to another. For this reason, we believe “*The Right to Quality Service*” means the IRS should answer both simple and complex questions.

64 See IRC § 6213(b)(1), (g).

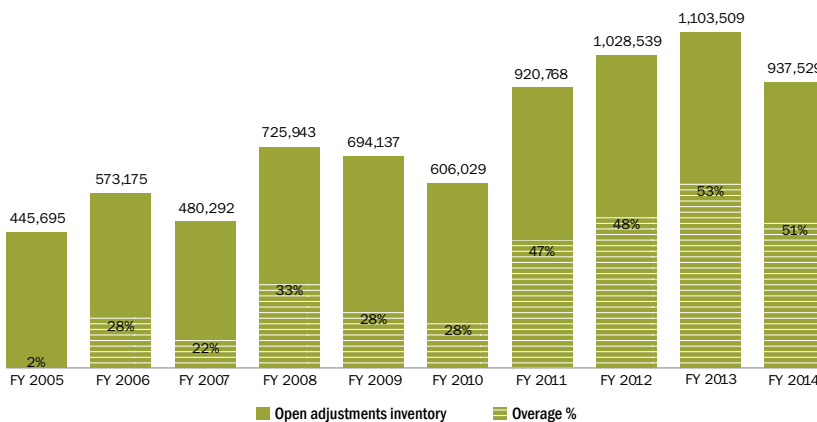
65 IRS, Joint Operations Center, *Adjustments Inventory Reports: July-September Fiscal Year Comparison (FY 2005 through FY 2014)*.



its adjustments correspondence within the timeframes. That represents a 2,450 percent increase in the percentage of taxpayer correspondence that the IRS could not answer within its established timeframes.<sup>66</sup>

**FIGURE 1.1.12**

**Open adjustments inventory at fiscal year end**



When the IRS becomes backlogged in processing correspondence, it often leads to adverse taxpayer impact. For a taxpayer who owes additional tax, interest charges and penalties generally will continue to accrue. For a taxpayer who has overpaid, a delay in processing correspondence may translate into a delay in receiving a refund.

As with telephone performance, correspondence performance has dropped off since FY 2010. Comparing the final week of FY 2010 with the final week of FY 2014, the percentage of overage correspondence rose from 28 percent to 51 percent, and open inventory grew from about 606,000 to about 938,000—both significant increases.<sup>67</sup>

**c. Taxpayer Walk-in Assistance**

Many taxpayers prefer to communicate with the IRS in person. As an alternative to telephone or correspondence interaction, the IRS maintains walk-in sites known as Taxpayer Assistance Centers, or “TACs.” These sites are particularly important for taxpayers who do not have Internet access and for the low income, elderly, disabled, and Limited English Proficiency (LEP) populations. Over the past decade, the

66 IRS, Joint Operations Center, *Weekly Enterprise Adjustments Inventory Report* (week ending Sept. 27, 2014). In auditing IRS correspondence operations, the GAO uses a broader definition of “taxpayer correspondence” than ours. According to the GAO: “We define taxpayer correspondence as written communication from taxpayers as well as work internally generated by IRS employees. This includes amended returns, carry back claims, employer identification numbers, identity theft, and refund check problems.” The GAO “[does] not include correspondence between taxpayers and IRS’s compliance and Automated Underreporter offices as this relates to ongoing work.” GAO, GAO-11-111, *2010 Tax Filing Season: IRS’s Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others* 15 n.29 (Dec. 2010). Under the GAO’s broader definition of “taxpayer correspondence,” the IRS received about 20 million pieces of mail overall in FY 2014, and about 50 percent of the inventory was not handled within established timeframes (e.g., it was “overage”). See GAO, GAO-15-163, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks* 18 (Dec. 2014).

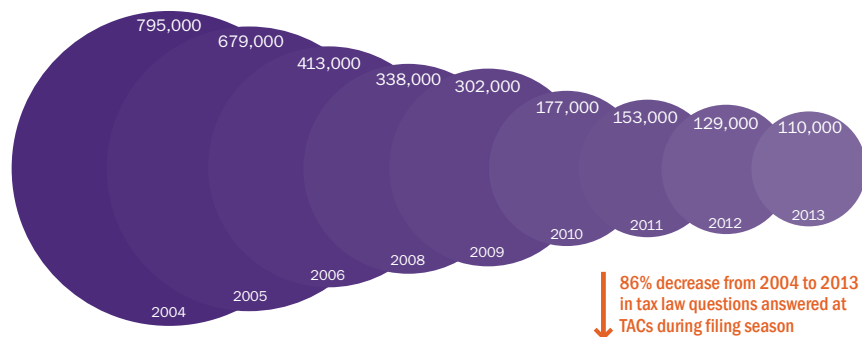
67 IRS, Joint Operations Center, *Weekly Enterprise Adjustments Inventory Report* (week ending Oct. 2, 2010 and Sept. 27, 2014).

services the IRS provides at the TACs have also been limited in several ways. First, the IRS has reduced the number of operational TACs.<sup>68</sup>

Second, we described above that the IRS implemented a new policy last year of declining to answer many tax-law questions—notably, those considered beyond “basic” questions—on its toll-free telephone lines during the filing season and declining to answer *any* tax-law questions after the filing season. The same policy applies at the TACs.<sup>69</sup> According to data compiled by the GAO, the number of tax-law questions answered in the TACs between 2004 and 2013 during the filing season declined by 86 percent—from about 795,000 questions to 110,000.<sup>70</sup>

**FIGURE 1.1.13**

**Tax law questions answered at  
Taxpayer Assistance Centers (TACs) during filing season**



In the past, the annual GAO filing season reports generally did not list the number of tax-law questions outside the filing season, but the numbers are significant. In FY 2004, for example, IRS data indicate that in addition to handling some 795,000 tax-law questions during the filing season, the IRS handled about 638,000 tax-law questions after the filing season. Thus, 45 percent of the 1.433 million questions

68 Between 2011 and 2014, the number of TACs declined from 401 to 382, and the number of TACs with zero or one full-time employee increased from 37 to 80. IRS Wage & Investment Division Response to TAS Information Request (Dec. 23, 2014). TACs with fewer than two employees are subject to unexpected closure due to employee absence and subject to extended wait times when there are more-than-projected taxpayer visits. For more detail, see National Taxpayer Advocate FY 2014 Objectives Report to Congress at 59.

69 IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>.

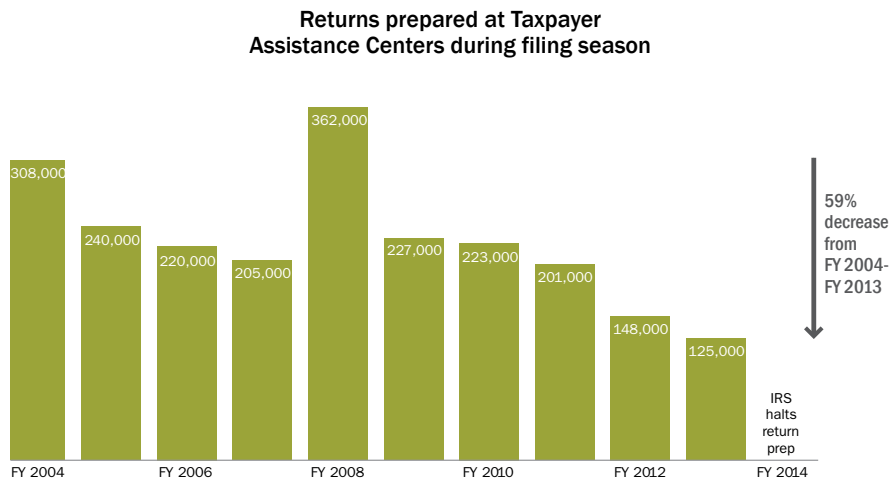
70 GAO, GAO-14-133, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources* 26 (Dec. 2013); GAO, GAO-11-111, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others* 45 (Dec. 2010); GAO, GAO-08-38, *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated* 27-28 (Nov. 2007); GAO, GAO-07-27, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings* 29 (Nov. 2006) (supplemented with more precise IRS data provided to TAS by the IRS Wage & Investment Division for 2004 through 2006). To our knowledge, the GAO did not publish comparable data for 2007 or 2014. In a December 2014 report, the GAO published data for FY 2009–FY 2014 that shows a decline of 42 percent in tax-law questions from FY 2013 to FY 2014. However, the data in the report appears to cover more than just the filing season and therefore is not directly comparable to the data for earlier years. See GAO, GAO-15-163, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks* 40 (Dec. 2014).

received came outside the filing season.<sup>71</sup> None of those 638,000 questions would be answered under the IRS’s new policy.

It should be emphasized that the reduction in tax-law questions is not necessarily a function of reduced demand. Rather, the IRS has reduced TAC staffing and reduced the scope of the questions it is willing to answer, and wait times have often been unreasonably long. As a consequence, many taxpayers have simply given up.

Third, the TACs historically prepared tax returns for taxpayers seeking assistance, particularly low income, elderly, and disabled taxpayers. Over the past decade, the IRS has taken steps to reduce return preparation assistance in order to conserve resources. According to the GAO filing season reports, the number of returns prepared during the filing season from 2004 to 2013 declined by 59 percent.<sup>72</sup>

**FIGURE 1.1.14**



As with tax-law questions, data covering solely the filing season understates the assistance the IRS has provided to taxpayers. In FY 2004, IRS data indicates that in addition to preparing some 308,000 returns during the filing season, the IRS prepared an additional 168,000 returns after the filing season. Thus, roughly 35 percent of the returns prepared by the TACs were prepared after April 15.<sup>73</sup> But with

71 This data was provided to TAS by the IRS Wage & Investment Division in connection with the National Taxpayer Advocate 2007 Annual Report to Congress 162-182 (Most Serious Problem: *Service at Taxpayer Assistance Centers*). TAS does not have data on tax-law questions asked outside the filing season for more recent years.

72 GAO, GAO-14-133, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources* 26 (Dec. 2013); GAO, GAO-11-111, *2010 Tax Filing Season: IRS’s Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others* 45 (Dec. 2010); GAO, GAO-08-38, *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated* 27-28 (Nov. 2007); GAO, GAO-07-27, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings* 29 (Nov. 2006) (supplemented with more precise IRS data provided to TAS by the IRS Wage & Investment Division for 2004 through 2006); GAO, GAO-05-67, *Tax Administration: IRS Improved Performance in the 2004 Filing Season, But Better Data on the Quality of Some Services Are Needed* 18 (Nov. 2004). The GAO filing season reports do not provide a total for 2007. However, the report on the 2007 filing season said the number of TAC-prepared returns was almost 74 percent less than the number of TAC-prepared returns in 2001, and the report on the 2004 filing season said the number of TAC-prepared returns in 2001 was about 790,000. We therefore have provided an approximate total for 2007 in the chart above.

73 This data was provided to TAS by the IRS Wage & Investment Division in connection with the National Taxpayer Advocate 2007 Annual Report to Congress 162-182 (Most Serious Problem: *Service at Taxpayer Assistance Centers*).

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It is unacceptable that the IRS may only be able to answer about half the calls it receives, that it will not be able to answer any tax-law questions beyond “basic” ones (and none at all beyond April), and that wait times to speak with customer service representatives will average about a half hour. All too often, the message the government is sending to U.S. taxpayers doing their best to comply with the law is, “We’re sorry. You’re on your own.” U.S. taxpayers deserve better.

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dwindling resources, the IRS had been placing increasing limits on return preparation assistance, and last year it made the decision to discontinue *all* return preparation assistance at the TACs.<sup>74</sup>

These service cutbacks represent a withdrawal from the IRS’s longstanding commitment to provide face-to-face assistance to taxpayers, particularly those who do not have Internet access or who encounter special challenges communicating with the IRS by mail or by phone, often because of language barriers. There is no doubt that organizations can achieve efficiencies by centralizing and automating operations, and centralized service delivery may be adequate for the majority of taxpayers. However, automated services do not meet the needs of many taxpayers. We are deeply concerned that the government is largely turning its back on the significant number of taxpayers who require face-to-face assistance to comply with their tax obligations. The net effect of withdrawing this assistance is that many taxpayers will not receive the help they need and many others will have to pay for a previously free service, often consulting “tax preparers” who generally are unregulated and do not have to meet even minimum competency requirements.<sup>75</sup>

### IRS Oversight Bodies Have Begun to Take Note of the Significance of Service Reductions

The significant IRS budget reductions that have taken place since FY 2010 result from two factors. First, Congress has reduced domestic discretionary spending, including IRS appropriations, as part of an agreement to reduce the federal budget deficit.<sup>76</sup> Second, reports by the Treasury Inspector General for Tax Administration (TIGTA) that the IRS used inappropriate criteria to screen certain applicants for tax-exempt status<sup>77</sup> and that an IRS business unit had

74 IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>.

75 Since 2002, the National Taxpayer Advocate has been recommending that Congress establish minimum standards for return preparers. On two occasions, the Senate Finance Committee on a bipartisan basis approved legislation to implement our recommendation. H.R. 1528 (incorporating S. 882) (108th Cong.); S. 1321 (incorporating S. 832) (109th Cong.). On one occasion, the full Senate approved the legislation as well. H.R. 1528 (incorporating S. 882) (108th Cong.). The House has not taken up companion legislation, but the Ways and Means Oversight Subcommittee held a hearing in 2005 at which five leading tax practitioner and preparer organizations testified in support of minimum preparer standards. See *Fraud in Income Tax Return Preparation: Hearing Before the Subcomm. on Oversight of the H. Comm. on Ways & Means*, 109th Cong. (2005). Beginning in 2011, the IRS attempted to implement minimum preparer standards administratively, but the U.S. Court of Appeals for the District of Columbia upheld a district court decision invalidating the regulations, concluding that the IRS lacked the authority to regulate return preparers. *Loving v. IRS*, 742 F.3d 1013 (D.C. Cir. 2014), *aff’g* 917 F.Supp.2d 67 (D.D.C. 2013). The National Taxpayer Advocate continues to recommend that Congress pass legislation to establish minimum preparer standards or authorize the IRS to do so. For a detailed discussion of this issue, see National Taxpayer Advocate 2013 Annual Report to Congress 61-74 (Most Serious Problem: *Regulation of Return Preparers: Taxpayers and Tax Administration Remain Vulnerable to Incompetent and Unscrupulous Return Preparers While the IRS Is Enjoined from Continuing its Efforts to Effectively Regulate Return Preparers*).

76 The most significant budget reduction was imposed in FY 2013 as a result of sequestration. See Pub. L. No. 112-25, 125 Stat. 240 (2011).

77 TIGTA, Ref. No. 2013-10-053, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review* (May 2013).

misspent appropriated funds have raised concerns about the management of the agency.<sup>78</sup> The IRS has undergone leadership changes since that time, but concerns persist.

As discussed above, the agency's budget has been reduced by about 10 percent before taking account of inflation and by about 17 percent when cost increases are considered. Those reductions have had a significant impact on all IRS operations.

From a taxpayer advocacy perspective, we are pleased that that IRS oversight bodies are beginning to recognize the impact these reductions are having on taxpayer service.

### a. Congress

The most important IRS overseer is, of course, Congress. Several Members of Congress have made clear publicly and privately that, despite concerns about the IRS overall, they consider it important that the service needs of their constituents be met.

In enacting the IRS's budget for FY 2015, Congress spared the Taxpayer Services account from the reductions it made to other IRS accounts. In addition, the Appropriations Committees' Explanatory Statement accompanying the final bill directed the IRS to "alleviate difficulties faced by rural taxpayers seeking guidance and assistance to properly file their returns" and, more broadly, to examine "the impacts on minority, rural, elderly, disabled, and low-income populations" of certain service reductions the IRS has implemented.<sup>79</sup>

The National Taxpayer Advocate appreciates the Appropriations Committees' attention to the IRS's declining service capabilities and their awareness of the impact declining services are having on taxpayers, particularly rural taxpayers and other taxpayers who face particular challenges navigating the tax system. She will continue to monitor the IRS's performance in meeting taxpayer needs and will keep the committees up to date regarding her findings and concerns.

### b. The Government Accountability Office

The GAO maintains extensive audit coverage over IRS operations, and in particular, issues an annual review of the filing season. By 2012, the GAO was seeing a significant impact to taxpayers. In 2013, it titled its filing season report, "IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources."<sup>80</sup> Among other things, it noted that "[d]espite efficiency gains . . . , the [IRS] was unable to keep up with the demand for telephone and correspondence services."<sup>81</sup> It reiterated its prior-year recommendation that the IRS undertake a "dramatic revision in [its] taxpayer service strategy . . . to better balance demand for services with available resources."<sup>82</sup>

The "dramatic revision" is needed because the GAO recognized that the imbalance between funding and taxpayer demand for services has reached a point where taxpayer needs are not being adequately met. The

78 See, e.g., TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).

79 Explanatory Statement accompanying H.R. 83, Consolidated and Further Continuing Appropriations Act, 2015 – Division E, at 10, at <http://rules.house.gov/sites/republicans.rules.house.gov/files/113-1/PDF/113-HR83sa-ES-E.pdf> (became Pub. L. No. 113-235).

80 GAO, GAO-14-133, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, "Highlights" page (Dec. 2013).

81 *Id.*

82 *Id.*

GAO recommended that the IRS strategy could be used “to facilitate a discussion with Congress and other stakeholders about the appropriate mix of service, level of performance, and resources.”<sup>83</sup>

In its report on the 2014 filing season, the GAO again noted its concern about service levels:

Since fiscal year 2010, IRS has absorbed approximately \$900 million in budget cuts, resulting in significant staffing declines. Performance has declined in both enforcement and taxpayer services including telephone and correspondence services.<sup>84</sup>

### c. Treasury Inspector General for Tax Administration

TIGTA has also called attention to the IRS’s funding challenges in its audit reports and congressional testimony. For example, in testimony before the Senate Appropriations Subcommittee on Financial Services and General Government in April 2014, the Inspector General stated:

These budget constraints continue to result in the IRS cutting service to taxpayers which make it difficult for the IRS to effectively assist taxpayers. As demand for taxpayer services continues to increase, resources devoted to customer service have decreased, thereby affecting the quality of customer service that the IRS is able to provide.<sup>85</sup>

### d. IRS Oversight Board

The IRS Oversight Board consistently has been recommending that the IRS budget be increased and has been expressing concern about the impact of budget cuts on taxpayer service.<sup>86</sup> In addition, the Oversight Board has conducted a Taxpayer Attitude Survey in each year since 2004. In the 2014 survey, 74 percent of taxpayers reported they were satisfied with their personal interaction with the IRS. While that is a respectable number, the Board indicated it was a notable decline from prior years. In releasing the survey, IRS Oversight Board Chairman Paul Cherecwich, Jr., stated:

Taxpayer satisfaction with IRS customer service has fallen to its lowest level in more than a decade. The Board believes this can be directly tied to deep cuts in IRS funding which have served only to punish honest America’s taxpayers who must endure long wait times over the IRS toll-free telephone lines and at walk-in centers. Taxpayers understand what’s going on—a solid majority [61 percent] supports extra funding for IRS customer service .... It is time to reinvest in the IRS to help honest taxpayers comply with a complex tax code and to protect the integrity of our tax system.<sup>87</sup>

83 GAO, GAO-14-133, *2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources*, “Highlights” page (Dec. 2013).

84 See GAO, GAO-15-163, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks* 1 (Dec. 2014). In light of the additional cuts made in the IRS’s budget for FY 2015, the overall budget reduction since FY 2010 now comes to about \$1.2 billion.

85 *Review of the President’s Fiscal Year 2015 Funding Request for the Department of the Treasury and the Internal Revenue Service: Hearing Before the Subcomm. On Financial Services and General Government of the Senate Committee on Appropriations*, 113th Cong. (2014) (statement of J. Russell George, Treasury Inspector General for Tax Administration).

86 See IRS Oversight Board, *FY 2015 IRS Budget Recommendation Special Report* (May 2014), at <http://www.treasury.gov/IRSOB/reports/Documents/IRSOB%20FY2015%20Budget%20Report-FINAL.pdf>.

87 IRS Oversight Board News Release, *Vast Majority of Taxpayers Still Have No Tolerance for Income Tax Cheating; Solid Majority Trust IRS and Support Additional Funding* (Dec. 8, 2014), at <http://www.treasury.gov/IRSOB/news/Pages/12082014.aspx>.

## CONCLUSION

Since FY 2010, the IRS's budget has been reduced by about 17 percent in inflation-adjusted terms while taxpayer needs have remained high overall and have increased in certain areas. The key reasons for the funding reduction have been sequestration and a mistrust of the IRS after certain significant management mistakes. Notwithstanding these concerns, the National Taxpayer Advocate believes Congress and the IRS have a shared responsibility to ensure that the taxpayers who pay our nation's bills receive the assistance they need when they seek to comply with their tax filing and payment obligations. It is unacceptable that the IRS may only be able to answer about half the calls it receives, that it will not be able to answer any tax-law questions beyond "basic" ones (and none at all beyond April), and that wait times to speak with customer service representatives will average about a half hour. All too often, the message the government is sending to U.S. taxpayers doing their best to comply with the law is, "We're sorry. You're on your own." U.S. taxpayers deserve better.

Whatever concerns may continue to exist about the IRS, we urge Members of Congress to provide sufficient funding for the IRS to meet taxpayer needs effectively and timely and to make taxpayers' *right to quality service* more than a mere distant aspiration.

## RECOMMENDATIONS

The National Taxpayer Advocate recommends that Congress take the following actions:

1. In the short term, carefully monitor taxpayer service trends and ensure that the IRS receives the oversight and funding it requires to meet the needs of U.S. taxpayers.
2. Over the longer term, undertake comprehensive tax reform to reduce the complexity of the Internal Revenue Code and the associated compliance burdens it imposes on taxpayers.