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IRS LOCAL PRESENCE: The Lack of a Cross-Functional Geographic Footprint Impedes the IRS's Ability to Improve Voluntary Compliance and Effectively Address Noncompliance

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DEFINITION OF PROBLEM

The Internal Revenue Restructuring and Reform Act of 1998 (RRA 98) required the IRS to replace its geographic-based structure with organizational units serving groups of taxpayers with similar needs.¹ Congress mandated that the IRS change its organizational structure but did not require the IRS to eliminate its physical local presence or centralize its employees in certain locations. While the new taxpayer-based structure has produced some benefits, the elimination of a functional geographic presence, with IRS employees understanding the needs and circumstances of a specific geographic economy, may harm taxpayers and erode compliance. Maintaining a local presence in both service and enforcement operations is important because such presence enables the IRS to:

- Better understand local economic, social, and cultural conditions and tailor initiatives accordingly to maximize voluntary compliance;
- Identify local variations of nationwide compliance problems;
- Identify and address significant local compliance problems that do not show up nationwide and are unique to a particular local environment; and
- Put a local, human face on the IRS organization through the presence of employees who live in the communities and interact with taxpayers on a day-to-day basis.

By virtually eliminating geographic presence after RRA 98, the IRS has created the following concerns:

- **Increased Taxpayer Burden May Decrease Compliance.** Reduced geographic presence increases taxpayer burden and can lead to reduced compliance.
- **One Size Does Not Fit All Taxpayers.** The IRS does not tailor service or enforcement initiatives to the needs of taxpayers in different regions, which violates the taxpayer's rights to *quality service* and *a fair and just tax system*.
- **Missed Compliance Opportunities.** Centralized compliance initiatives miss chances to identify and address noncompliance specific to a geographic region.
- **Erosion of Taxpayer-Based Structure Since Restructuring.** The taxpayer-based structure has eroded since RRA 98 implementation.

¹ Internal Revenue Service Reform and Restructuring Act of 1998 (RRA 98), Pub. L. No. 105-206, §§ 1001(a)(1) - (3) (1998).

- **The IRS Can Learn From the Experience of Other Taxing Jurisdictions.** For example, Her Majesty's Revenue and Customs (HMRC) in the United Kingdom has taken an approach to taxpayer service and enforcement that combines the expertise of centralization with the ability to reach out to taxpayers on a local level.²
- **Congress Did Not Mandate the Elimination of Local Presence.** The IRS can retain its taxpayer-based structure and still maintain local presence.

ANALYSIS OF PROBLEM

Background

Geographic Presence Promotes Voluntary Compliance.

The U.S. tax system is built on voluntary compliance. The IRS structure should enable the IRS, through its service and enforcement activities, to influence taxpayers to voluntarily comply. Encouraging voluntary compliance is the most cost-effective approach for the government in the long term and is less harmful and intrusive to taxpayers.

Research has shown that to improve tax compliance, one-size-fits-all enforcement is less effective than a “tax morale” model of tax administration. The tax morale model uses traditional enforcement techniques such as penalties and audits, but emphasizes taxpayers’ internal motivations and develops more individualized methods to match differing attitudes and behaviors of different types of taxpayers.³

For the 2012 and 2013 Annual Reports, the Taxpayer Advocate Service (TAS) developed and administered a survey to a national sample of sole proprietors to determine the factors that influence compliance behavior in this population. TAS also identified geographic communities where a disproportionate number of taxpayers were deemed to be either high or low compliant. Among many other findings, the studies found that respondents from low-compliance communities were suspicious of the tax system and its fairness. Those in the low-compliance group were clustered in geographic communities while those in the high-compliance group were more widely dispersed. The low-compliance group also reported more participation in local institutions. The research found that norms of belief and behavior, particularly local norms, were the most influential factors of tax compliance.

Accordingly, the research suggests the IRS should retain a local presence and conduct outreach and education events, particularly in low compliance communities.⁴ Therefore, to maximize voluntary compliance, a one-size-fits-all approach may not be ideal. In fact, it seems to run counter to the IRS’s goals of fostering voluntary compliance and combatting noncompliance.

The IRS consolidated 33 geographically dispersed lien units into a single centralized unit in 2005, virtually eliminating taxpayers’ ability to walk into an IRS office and obtain an immediate release of a lien.

2 HM Revenue and Customs News, *HMRC Comes Out of the Office to Support Customers Who Need Extra Help* (Feb. 12, 2014); HM Revenue & Customs, *Issue Briefing: Tackling Tax Evasion* (Jan. 2014).

3 National Taxpayer Advocate 2007 Annual Report to Congress vol. 2 138-50 (Research Study: *Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers*).

4 See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 2 60-61 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*); National Taxpayer Advocate 2012 Annual Report to Congress, vol. 2 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*). Geographers have classified regions of the U.S. based on local history, values, behavior, and culture. See Colin Woodard, *American Nations: A Hist. of The Eleven Rival Regional Cultures of No. Amer.* (N.Y.: Viking, 2011).

The IRS Moved from Geographic Presence Model to Centralization After the 1998 Restructuring.

Prior to reorganization, the IRS was comprised of 33 districts and ten campuses (then called service centers). Each of these 43 organizations reported to a director who was charged with administering the entire tax code for every kind of taxpayer—from low income individuals to high income businesses, with simple and complex problems, from taxpayer outreach and education to criminal investigation—within his or her district or campus. All of these units were geographically based and functionally separate, with multiple management layers. Four regional offices and a national office conducted oversight of these districts.⁵

Congressional hearings in late 1997 uncovered a wide array of inconsistencies among districts, inefficiencies, and deficiencies in taxpayer service and enforcement practices, which Congress attributed in part to the geographically based structure.⁶ The hearings prompted the enactment of RRA 98, which required the IRS to “eliminate or substantially modify the existing organization based on a national, regional, and district structure” and to “establish organizational units serving particular groups of taxpayers with similar needs.”⁷ Congress also directed the IRS to “place a greater emphasis on serving the public and meeting taxpayers’ needs.”⁸ Taxpayers are now classified as belonging to one of four operating divisions, each nominally charged with end-to-end responsibility for serving that particular group of taxpayers. Theoretically, this structure benefits taxpayers because it enables the IRS to gain a better understanding of the particular needs of each group and develop procedures accordingly.⁹ However, it can also mean that taxpayers with the same issue receive different treatment depending on the operating division, or even campus, handling their cases.¹⁰ Moreover, taxpayers with the same problem, but with specific needs because of localized community conditions, now work with IRS employees on the other side of the country who have no knowledge or understanding of those conditions. Finally, as we discuss below, the stated goals of the 1998 reorganization have been considerably undermined by later IRS staffing and policy decisions.

Reduced Geographic Presence Increases Taxpayer Burden and May Decrease Voluntary Compliance.

While the IRS is obligated to enforce complex tax laws, it does have the ability to simplify administrative procedures and make assistance accessible to all taxpayers. Taxpayers’ inability to obtain information and

5 See IRS Document 11052, IRS Organization Blueprint 2000 1-11, Figure 1-2 (Rev. 4-2000).

6 See *Report of the National Commission on Restructuring the Internal Revenue Service: Hearing Before Subcomm. on Oversight of the H. Comm. on Ways and Means 105th Cong.* (July 24, 1997). See also *IRS Restructuring: Hearings Before the S. Comm. on Finance*, 105th Cong. (Jan. 28-29, 1998; Feb. 5, 11, and 25, 1998); National Commission on Restructuring the Internal Revenue Service, *A Vision for a New IRS* (1997).

7 RRA 98, Pub. L. No. 105-206, § 1001(a) (1998).

8 Pub. L. No. 105-206 § 1002 (1998).

9 For more information about the rationale and benefits of the IRS structure after RRA 98, see *Treasury Tax Court Nominations: Hearing Before the S. Comm. on Finance*, 105th Cong. (Jan. 28, 1998) (statement of Charles O. Rossotti, IRS Commissioner).

10 See, e.g., National Taxpayer Advocate 2004 Annual Report to Congress 132-142 (Most Serious Problem: *Inconsistent Campus Procedures*); *Annual RRA '98 Joint Hearing on IRS Progress: Hearing Before J. Comm. on Tax'n* (May 3, 2000) (statement of Charles O. Rossotti, IRS Commissioner) (“Each operating division will be responsible for creating and executing business practices and strategies to meet those needs, and managers at all levels will be expected to be knowledgeable in the substantive problems and issues that arise in administering the tax law in their respective divisions.”) (Emphasis added); *Treasury Tax Court Nominations: Hearing Before the S. Comm. on Finance*, 105th Cong. (Jan. 28, 1998) (statement of Charles O. Rossotti, IRS Commissioner). In response to RRA 98, the IRS established the following four taxpayer-based operating divisions: (1) Wage and Investment Division (W&I); (2) Small Business/Self-Employed Division (SB/SE); (3) Tax Exempt and Government Entities (TEGE) Division; and (4) Large and Mid-Size Businesses (LMSB), which became the Large Business and International Division (LB&I) in 2010. IRS, *IRS Realigns and Renames Large Business Division, Enhances Focus on International Tax Administration*, IR-2010-88 (Aug. 4, 2010).

resolve tax issues by talking to a live IRS employee will certainly impact their ability and willingness to comply. By reducing services at Taxpayer Assistance Centers (TACs), centralizing examination and collection functions, and reducing the level of service on the phones, the IRS is essentially setting the taxpayer up to fail.¹¹ Even in the age of technological advances, there are still limited options for substituting face-to-face or local interaction with some taxpayer populations. The reduced geographic footprint is also a significant issue for taxpayers living abroad, as the IRS has decreased the number of tax attaché posts in foreign cities from 15 to three—even though the number of individual international taxpayers has increased 50 percent in the past five years alone.¹²

The reduced geographic footprint in enforcement activities is equally burdensome to taxpayers. Some states have neither an IRS Appeals Officer nor a Settlement Officer, and the number of states without these employees has grown from nine in 2011 to 12 in 2014. The IRS consolidated 33 geographically dispersed lien units into a single centralized unit in 2005, virtually eliminating taxpayers' ability to walk into an IRS office and obtain an immediate release of a lien.¹³

One Size Does Not Fit All Taxpayers—The IRS Does Not Tailor Service or Enforcement Initiatives to Meet the Particular Needs of Taxpayers in Different Geographic Regions.

While the post-RRA 98 IRS is built around categories of taxpayers, the IRS has made no real effort to tailor service or enforcement initiatives to meet the particular needs of taxpayers based on their geographic locations. Failure to maintain a local presence infringes upon the taxpayer's *right to quality service*, whereby the taxpayer has the right to receive clear, easily understandable communications from the IRS. It also infringes upon the taxpayer's right to a *fair and just tax system*, because the taxpayer has the right to expect the system to consider facts and circumstances that might affect his or her underlying liabilities, ability to pay, or ability to provide information timely.¹⁴ National "one-size-fits-all" service and enforcement policies for each category of taxpayer and the centralization of much IRS activity into remote "campuses" means the IRS is not addressing the particular attributes of local taxpayer populations. Therefore, not only will the IRS potentially violate the taxpayers' rights but the service and enforcement initiatives designed at the national level may vary in effectiveness across geographic lines.

Localized outreach and education have all but disappeared. For example, the Small Business/Self-Employed division (SB/SE), which serves approximately 65 million taxpayers, has no outreach and education employees in 13 states, plus the District of Columbia. In addition, the Wage and Investment division (W&I), which is responsible for helping approximately 126 million individuals understand and comply with their tax obligations, devotes about six percent of its outreach and education budget to

11 See National Taxpayer Advocate 2013 Annual Report to Congress 20-39 (Most Serious Problem: *IRS Budget: The IRS Desperately Needs More Funding to Serve Taxpayers and Increase Voluntary Compliance*).

12 National Taxpayer Advocate 2009 Annual Report to Congress 137; National Taxpayer Advocate 2013 Annual Report to Congress 205; Memorandum from Douglas W. O'Donnell, Acting Deputy Commissioner Large Business and International Division, to LB&I Commissioner, *Beijing Post Closure* (Oct 16, 2014).

13 See Most Serious Problem: *APPEALS: The IRS Lacks a Permanent Appeals Presence in 12 States and Puerto Rico, Thereby Making It Difficult for Some Taxpayers to Obtain Timely and Equitable Face-to-Face Hearings with an Appeals Officer or Settlement Officer in Each State*, *infra*; see also National Taxpayer Advocate 2006 Annual Report to Congress 130.

14 For more information about these and other taxpayer rights, see IRS, Taxpayer Bill of Rights, available at <http://www.irs.gov/Taxpayer-Bill-of-Rights/Taxpayer-Bill-of-Rights-Channel-Page#service>.

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activities that involve face-to-face contact with taxpayers.¹⁵ Despite the trend to reduce local outreach and education resources, the National Taxpayer Advocate urges the IRS, when designing an outreach and education campaign, to give significant attention to local culture and how different messages will be received across geographic lines

Without local expertise, it is nearly impossible for the IRS to understand and address the distinct attributes of local taxpayer populations. Some taxpayers may not require face-to-face assistance but instead need local personnel who understand their particular environment or occupation. IRS employees should have knowledge of local issues and know the demographics and normative culture of local populations.¹⁶

As illustrated in the Appendix to this Most Serious Problem, the IRS significantly reduced staffing in the local offices between 2001 and 2014. At the same time, the IRS increased staffing at the campuses, due to centralization.

Centralized Compliance Initiatives Miss Opportunities to Identify and Address Noncompliance Specific to a Geographic Region.

Centralized compliance initiatives may miss chances to target strategies to locally noncompliant groups of taxpayers.¹⁷ Significant local noncompliance may not even show up on the radar at a national level. In contrast, Local Compliance Initiative Projects (CIPs)¹⁸ are likely to have a greater effect on voluntary compliance by cash economy businesses than seemingly random examinations.¹⁹

An example of a successful local initiative is one that took place in the early 1990s in Alaska, where the IRS used a “Compliance 2000” project to address noncompliance by commercial fishermen, which resulted from confusion as well as community norms and attitudes. With the assistance of local authorities, the IRS compared a list of fishing permit and license holders with existing data to identify nonfilers.

15 IRS, Individual Returns Transaction File, IRS Compliance Data Warehouse (Tax Year (TY) 2013 returns filed through Oct. 2014); IRS HRRC, Report of SB/SE Job Series 0526, Stakeholder Liaison Field Employees as of November 1, 2014 (Nov. 19, 2014) (13 states include Alaska, Delaware, Hawaii, Kentucky, Mississippi, Montana, North Dakota, Nebraska, New Hampshire, South Dakota, Vermont, West Virginia, Wyoming); National Taxpayer Advocate 2012 Annual Report to Congress 319 (Most Serious Problem: *The IRS is Substantially Reducing Both the Amount and Scope of Its Direct Education and Outreach to Taxpayers and Does Not Measure the Effectiveness of Its Remaining Outreach Activities, Thereby Risking Increased Noncompliance*).

16 See National Taxpayer Advocate 2011 Annual Report to Congress 273-335 (Most Serious Problem Category: *Diversity Issues*).

17 See, e.g., National Taxpayer Advocate 2009 Annual Report to Congress 168 (Most Serious Problem: *The IRS Exam Function is Missing Opportunities to Maximize Voluntary Compliance at the Local Level*); National Taxpayer Advocate 2009 Annual Report to Congress 185 (Most Serious Problem: *The IRS Does Not Have a Significant Audit Program Focused on Detecting the Omission of Gross Receipts*); National Taxpayer Advocate 2004 Annual Report to Congress 220 (Most Serious Problem: *IRS Examination Strategy*).

18 CIP procedures are followed when groups of returns with the same areas of potential noncompliance are selected and forwarded for examination in a project, either in the campus or area office. CIPs are characterized by the use of internal and external data to identify and quantify areas of noncompliance. They usually involve a study, survey, or other analysis of a group of individuals such as those involved in a specific economic activity, undertaken to identify, measure, or analyze compliance with the tax laws. CIPs are often multi-functional in their approach. IRM 4.19.10.2.5, *SB/SE Compliance Initiative Project (CIP) Procedures*, (Jan. 1, 2011).

19 Underreported income from the “cash economy”—taxable income from legal activities that is not subject to information reporting or withholding—is probably the single largest component of the tax gap, likely accounting for an estimated \$120 billion per year. IRS, Tax Gap for Tax Year 2006, Overview, Chart 1. See National Taxpayer Advocate 2007 Annual Report to Congress 35 (Most Serious Problem: *The Cash Economy*); National Taxpayer Advocate 2005 Annual Report to Congress 55 (Most Serious Problem: *The Cash Economy*). National Taxpayer Advocate 2004 Annual Report to Congress 220 (Most Serious Problem: *IRS Examination Strategy*).

Local IRS officials also proposed changes to federal and state laws to reduce confusion, promote compliance, and facilitate collection. The IRS simultaneously launched extensive outreach and education efforts in remote fishing villages and on fishing vessels, which included the preparation of returns and training local volunteers to assist taxpayers. The IRS also enlisted the help of local community organizations, which hired a Yupik speaker full-time to help local residents with tax problems, provided loans to help fishermen pay delinquencies, and helped to publicize the IRS's compliance initiatives.

The Alaska-based compliance initiative brought in over 1,000 unfiled returns and significantly improved voluntary compliance among the target population, reducing nonfiling from 13.1 percent in tax year 1990 to 9.2 percent in tax year 1992.²⁰ This shows how a local compliance effort can identify and address geographically-based noncompliance where a national or centralized compliance initiative would not. It also illustrates the need for a cross-functional approach with exam, collection, outreach and education, and TAS employees collaborating to develop and implement a comprehensive strategy.

Despite evidence that CIPs can generate valuable information and results, SB/SE Field Exam only had five open local CIPs (Part 2) as of November 10, 2014.²¹

The Taxpayer-Based Structure Has Eroded Since the IRS Implemented RRA 98.

The taxpayer-based structure required by RRA 98 is beneficial to taxpayers but has eroded over time. After enactment of the law, both service and enforcement activities were initially organized around taxpayer populations. For example, each operating division (OD) had stakeholder relations groups. In addition, the enforcement procedures were initially specific to the type of taxpayer. However, the IRS has deviated from the goal of providing end-to-end service by taxpayer type in an attempt to achieve efficiencies. Notably, the IRS has charged the W&I division with performing key servicewide operations such as:

- Processing returns;
- Staffing telephone lines;
- Managing taxpayer accounts;
- Publishing all forms, instructions, and publications; and
- Maintaining the IRS's e-services.²²

In addition, traditional local exam and collection work has been increasingly directed to remote centralized SB/SE sites for efficiency purposes.²³ As a result, the IRS now has large, remote organizations and little local presence. It retains virtually no local compliance initiatives, despite evidence that compliance

20 National Taxpayer Advocate 2008 Annual Report to Congress 177-78.

21 SB/SE Field has seven areas working CIPs (as opposed to one for each district pre-RRA 98). In addition, SB/SE Exam had 62 Part 1 CIPs open as of November 4, 2014. IRS, CIP National Office Database, SB/SE Field Open CIPs (Nov. 4, 2014). A Part 1 CIP is limited to fewer than 50 taxpayer contacts. IRM 4.17.4.1.1(2), *Types of CIP Requests*, (Feb. 25, 2010). A Part 2 CIP is an expanded initiative when there is a documented demonstrated level of non-compliance found on an initial Part 1 CIP. IRM 4.17.4.1.1(3), *Types of CIP Requests*, (Feb. 25, 2010). In addition, LB&I had 12 open CIPs as of December 18, 2014. IRS response to TAS fact check (Dec. 18, 2014).

22 National Taxpayer Advocate 2010 Annual Report to Congress 49-70 (Most Serious Problem: *The Wage & Investment Division Is Tasked With Supporting Multiple Agency-Wide Operations, Impeding its Ability to Serve its Core Base of Individual Taxpayers Effectively*).

23 National Taxpayer Advocate Blog, *IRS Correspondence Examinations: Are they really as effective as the IRS thinks?*, available at <http://www.taxpayeradvocate.irs.gov/Blog/irs-correspondence-examinations-are-they-really-as-effective-as-the-irs-thinks>; National Taxpayer Advocate 2012 Annual Report to Congress 381-402 (Most Serious Problem: *The Automated Collection System Must Emphasize Taxpayer Service Initiatives to Resolve Collection Workload More Effectively*).

is driven by community norms.²⁴ In addition, remote centralization has been made worse by the batch processing approach in which, generally, no one employee is assigned to work a particular case end to end. In other words, no employee is accountable for what happens with that case. This lack of individual accountability undermines both the efficiency and effectiveness benefits of centralization.

An example of how to retain centralization and expertise while still addressing the particular local needs of taxpayers is the way the IRS processes innocent spouse relief claims. Generally, the IRS has centralized innocent spouse case processing at the Cincinnati Centralized Innocent Spouse Operation (CCISO). This structure is essential for the expeditious handling of these cases. However CCISO will refer the case to an Area office if the case satisfies certain criteria set forth in IRM 25.15.6.1(3).²⁵

The Alaska-based compliance initiative brought in over 1,000 unfiled returns and significantly improved voluntary compliance among the target population, reducing nonfiling from 13.1 percent in tax year 1990 to 9.2 percent in tax year 1992. This shows how a local compliance effort can identify and address geographically-based noncompliance where a national or centralized compliance initiative would not.

The IRS Can Learn From the Experience of Other Countries.

In the United Kingdom, Her Majesty's Revenue and Customs has acted to meet the needs of taxpayers through a combination of centralization and local presence. HMRC closed its tax offices, called "enquiry centres," in early 2014 and launched a new approach to customer service. Based on the findings from a seven-month pilot, HMRC implemented a national service to bring expert advisers together to resolve multiple issues on a single phone call without transferring the taxpayer to different parts of the organization. The new approach also provides mobile advisors for taxpayers who need face-to-face help. The mobile advisors meet with taxpayers by appointment at a variety of venues, from government and community buildings to a taxpayer's home or business.²⁶

HMRC also has a geographic presence in its enforcement activities. For example, since 2011, it has set up more than 60 regional task forces aimed at high-risk sectors, such as markets in London, taxi firms in Yorkshire and the East Midlands, property rentals in several regions, and restaurants in the Midlands.²⁷

The IRS Can Retain its Taxpayer-Based Structure and Still Maintain Local Presence.

The IRS can retain its national policymaking structure without losing the ability to respond to local conditions and challenges. In RRA 98, Congress did not mandate that the IRS completely eliminate its local presence. It only directed the IRS to reorganize in a taxpayer-based model.

24 See National Taxpayer Advocate 2013 Annual Report to Congress, vol. 2 60-61 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*); National Taxpayer Advocate 2012 Annual Report to Congress, vol. 2 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).

25 IRM 25.15.6.1 (3), *Overview: Purpose of Manual* (Mar. 21, 2008). See also IRM 25.15.8.5.3.2, *CCISO Processing* (Nov. 13, 2014) (transferring collection cases with "unusual situations" to field examination). In addition, the LB&I Division restructured in 2012 to retain its six industry organizational structure but to realign the industries using a geographic model. That is, the six industries were realigned so they follow more contiguous geographic boundaries. However, the individual Industry Directors retain responsibility for strategic issues in their industries no matter where the issue is located. IRS Fact Sheet, *Large Business & International (LB&I) Realignment* (May 2012).

26 HM Revenue and Customs News, *HMRC Comes Out of the Office to Support Customers Who Need Extra Help* (Feb. 12, 2014).

27 HM Revenue & Customs, *Issue Briefing: Our Approach to Tax Compliance* (Sept. 2012); HM Revenue & Customs, *Issue Briefing: Tackling Tax Evasion* (Jan. 2014).

The IRS is currently realigning its compliance operations in the W&I and SB/SE Divisions, with the stated goals of increasing organizational efficiencies and improving the agency's ability to quickly identify emerging compliance risks.²⁸ The IRS even solicited suggestions from all employees. The National Taxpayer Advocate believes the current realignment is an ideal time to reassess the IRS structure to better achieve the goals of RRA 98. The IRS's structure should balance the need for centralization of certain activities and the need for local presence in others. To achieve the goals of RRA 98, the IRS should attempt to maximize the benefits of both the "taxpayer type" model and the geographic presence model and mitigate any associated risks. Accordingly, the IRS should take the following six administrative actions to enhance its local presence while retaining its taxpayer-based structure:

1. **Reinvigorate the Local Compliance Initiative Program.** To accomplish this objective, the IRS must increase local staffing and research in outreach and education, Exam, Collection, and Appeals.²⁹ The creation of additional local positions should not necessarily cause a net gain in employees, because the IRS can shift campus positions to the field (the IRS can decrease campus staffing through attrition and not filling vacancies). The reinvigorated local presence groups would still report to the operating divisions and have cross-divisional local compliance counsels.³⁰ Finally, the local groups could propose compliance pilots that include outreach, service, and problem resolution components that would further the National Office goals but with a local flavor.
2. **Introduce videoconferencing for a virtual remote office audit or office collection visit.** Providing taxpayers with the ability to discuss their tax controversies virtually will combine the benefits of centralization and geographic presence. It will also enable remote taxpayers to explain their particular circumstances to a live person working their cases.
3. **Assign one employee to work each case end to end.** The IRS should modify batch-processing procedures so that once the taxpayer has responded, the case is assigned to one employee for its duration. This one employee can hear and consider the taxpayer's unique circumstances, and the IRS can better understand whether to refer that case to the local office.³¹
4. **Re-staff Appeals Officers and Settlement Officers locally.** The IRS should re-staff Appeals Officer and Settlement Officer positions so at least one of each is located and regularly available in every state, the District of Columbia, and Puerto Rico.³²
5. **Re-staff Local Outreach and Education Positions.** The IRS should increase outreach and education staff for each operating division to ensure that at least one W&I and one SB/SE outreach employee is located in every state, the District of Columbia, and Puerto Rico.

28 See IRS, *IRS to Realign Compliance Operation*, 2014 TNT 196-18, Tax Analysts Tax Notes Today (Oct. 9, 2014); *IRS Looks at Realigning Compliance Operations*, available at <http://www.irs.gov/uac/Newsroom/IRS-To-Realign-Compliance-Operations> (last visited Dec. 22, 2014), noting that "Generally, this plan would move pre-filing compliance work to W&I and post-filing compliance work for individuals and small businesses to SB/SE."

29 Criminal Investigation is already geographically-based. It is divided into geographic areas throughout the United States—Southern, Northern, and Western. The Director of Field Operations in each area has functional coordination and program oversight responsibilities over criminal investigation activities for that area. In addition, the three geographic areas are further divided into field offices. Each field office has a Special Agent in Charge to direct, monitor, and coordinate the criminal investigation activities within that office's area of responsibility. Several smaller posts-of-duty are located within each field office. See also IRS Criminal Investigation Division (CI), Business Architecture Version 2.0 slides 41-47 (July 30, 2003).

30 While further evaluation is necessary, perhaps the IRS could have 33 cross-BOD local compliance counsels, similar to the old district structure. Alternatively, the structure could entail 32 officials overseeing the compliance counsel and those officials reporting to the national office.

31 See Most Serious Problem: *CORRESPONDENCE EXAMINATION: The IRS Has Overlooked the Congressional Mandate to Assign a Specific Employee to Correspondence Examination Cases, Thereby Harming Taxpayers*, *infra*.

32 See Most Serious Problem: *APPEALS: The IRS Lacks a Permanent Appeals Presence in 12 States and Puerto Rico, Thereby Making It Difficult for Some Taxpayers to Obtain Timely and Equitable Face-to-Face Hearings with an Appeals Officer or Settlement Officer in Each State*, *infra*; National Taxpayer Advocate 2009 Annual Report to Congress 346-50.

6. **Provide face-to face service through mobile vans in each state.** Similar to HMRC, the IRS should use mobile vans to tour each state on a set schedule, so taxpayers, including those in remote areas, can receive education or face-to-face assistance with tax controversies. The employees in these mobile units would be well-versed in the local culture as well as any issues specific to the local economy.

CONCLUSION

When implementing the congressional directive to reorganize, the IRS should not have eliminated its local structure. The National Taxpayer Advocate believes the IRS can maintain its current taxpayer-based structure without abandoning a geographic footprint. While the IRS is already realigning its compliance operations in the Wage and Investment and Small Business/Self-Employed Divisions to increase organizational efficiencies, it should reconsider its structure and balance the need for centralization of certain activities and the need for local presence in others.³³ The IRS can modify the current structure to meet taxpayer needs and compliance challenges specific to a certain locale.

RECOMMENDATIONS

To improve the IRS's geographic presence, the National Taxpayer Advocate recommends that the IRS take the following actions:

1. Reinvigorate the Local Compliance Initiative Program by increasing local staffing and research in outreach and education, Exam, Collection, and Appeals.
2. Introduce videoconferencing for a virtual remote office audit or office collection visit.
3. Modify batch processing procedures so that once the taxpayer has responded, the case is assigned to one employee for the duration of the case.
4. Re-staff Appeals Officers and Settlement Officers locally so that one of each employee is located and regularly available in every state, the District of Columbia, and Puerto Rico.
5. Re-staff local outreach and education positions to bring an actual presence to every state.
6. Provide face-to face service through the use of mobile vans in each state.

³³ See *IRS Looks at Realigning Compliance Operations*, available at <http://www.irs.gov/uac/Newsroom/IRS-To-Realign-Compliance-Operations> (last visited Nov. 20, 2014), noting that "Generally, this plan would move pre-filing compliance work to W&I and post-filing compliance work for individuals and small businesses to SB/SE."

APPENDIX: A Case Study in Local Presence in Various Regions: Substantial Reduction of Geographic Presence in Local Offices as Compared to the Campuses.

The impact of the reduced geographic footprint is best told through examples of offices located around the country. We have chosen IRS offices in the state of Wyoming and the New York City borough of Manhattan to illustrate two locations at opposite ends of the spectrum in terms of the volume of taxpayers and type of assistance required. To contrast the staffing trends in these local offices, we have also provided staffing data for the IRS Campus in Kansas City.³⁴ The data for each of the jurisdictions illustrate the significant changes in staffing from 2001 to 2014 for IRS functions with significant roles in IRS compliance functions and customer service.³⁵ We have excluded Taxpayer Advocate Service employees and those from Submission Processing, where relevant.

Background: Total IRS Staffing and Tax Returns.

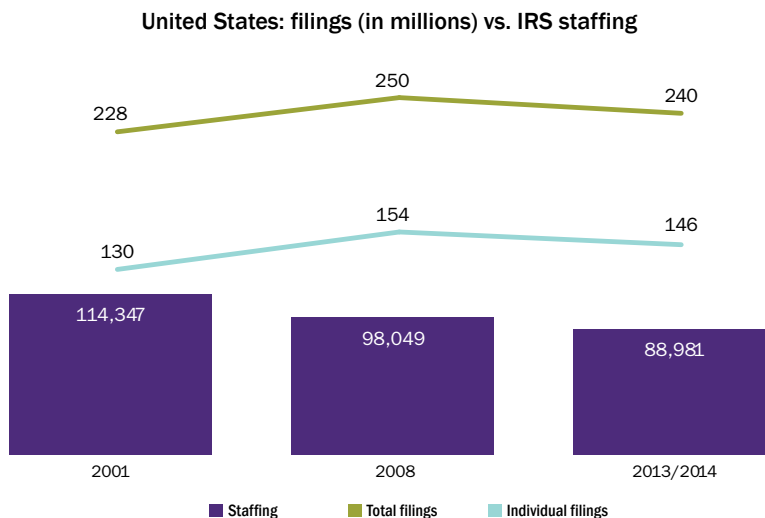
Over the last 13 years, the IRS experienced a significant drop in staffing. Excluding TAS, IRS employee levels dropped approximately 22 percent since 2001. While staffing dropped, total and individual filings increased between 2001 and 2013 by five percent and 12 percent, respectively.

Specifically, there were over 114,000 employees in 2001 and this staffing level dropped by more than 22 percent to fewer than 89,000 in 2014. At the same time, according to the annual IRS data books, taxpayer filings showed growth over the first decade of the 21st century, followed by a slightly downward trend in recent years, as displayed in the following chart. Overall, individual filings grew by five percent and total filings grew by 12 percent between 2001 and 2013.

34 The data only includes specific functions that are mutual to both local offices and the campuses. Thus, we have excluded some functions, such as submission processing, because there is no corollary in the field. We have excluded TAS because, by statute, TAS is required to maintain at least one Local Taxpayer Advocate office in each state. IRC § 7803(c)(2)(D)(i)(I).

35 The staffing data in this discussion was obtained from the IRS Human Resources Reporting Center.

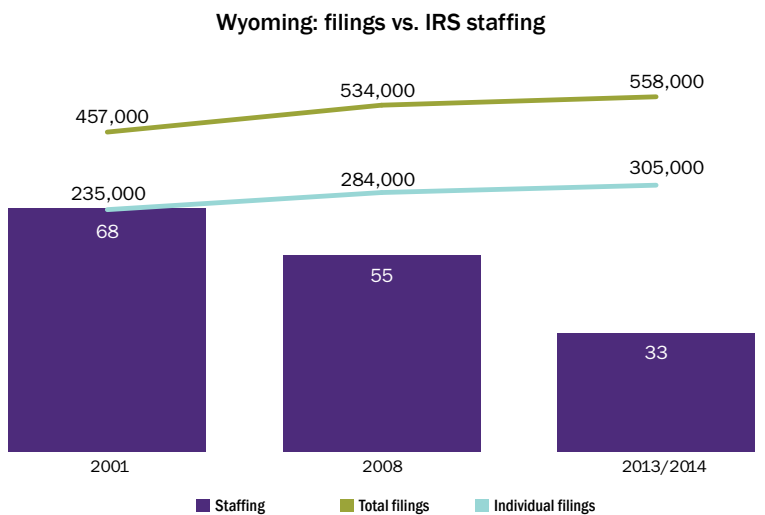
FIGURE 1.3.1³⁶



Out West: Significant Drop in Wyoming Staffing.

The downward trend in staffing is even more pronounced in some states, such as Wyoming, where staffing dropped by 50 percent while total and individual filings increased over the same period by 22 percent and 30 percent, respectively, as displayed in the following chart.

FIGURE 1.3.2³⁷



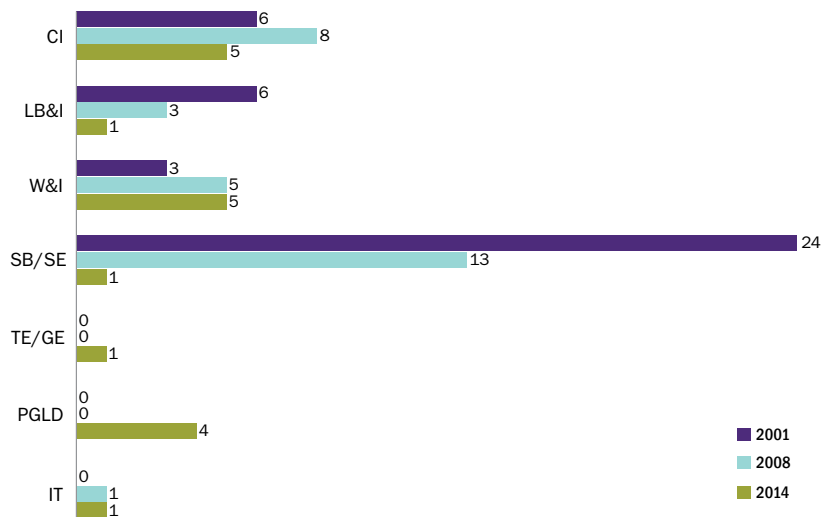
36 Data summarizes total staffing (full time, part time, seasonal and intermittent), excluding TAS, for 2001, 2008 and 2014 from IRS, Human Resources Reporting Center, available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014). Effective dates were January 27, 2001, January 5, 2008 and October 18, 2014. Filing data from IRS Databooks for 2001, 2008, 2013. Filing data for 2014 will not be available until March, 2015.

37 Data summarizes total staffing (full time, part time, seasonal and intermittent), excluding TAS, for 2001, 2008 and 2014 from IRS, Human Resources Reporting Center, available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014). Effective dates were Jan. 27, 2001, Jan. 5, 2008 and Oct. 18, 2014. Filing data from IRS Databooks for 2001, 2008, 2013, rounded to the nearest thousand. Filing data for 2014 will not be available until March, 2015.

Focusing on Cheyenne, the state capitol, there was a decrease for most of the operating divisions, as shown in the below graph.

FIGURE 1.3.3³⁸

Cheyenne, Wyoming: IRS staffing, 2001-2014



Notably, SB/SE employees dropped from 24 to one between 2001 and 2014, a decline of 96 percent, despite an increase in small businesses in the Cheyenne area of 10 percent for businesses with less than 100 employees between 2001 and 2011.³⁹

The Big City: Manhattan Also Experienced a Significant Drop in Staffing.

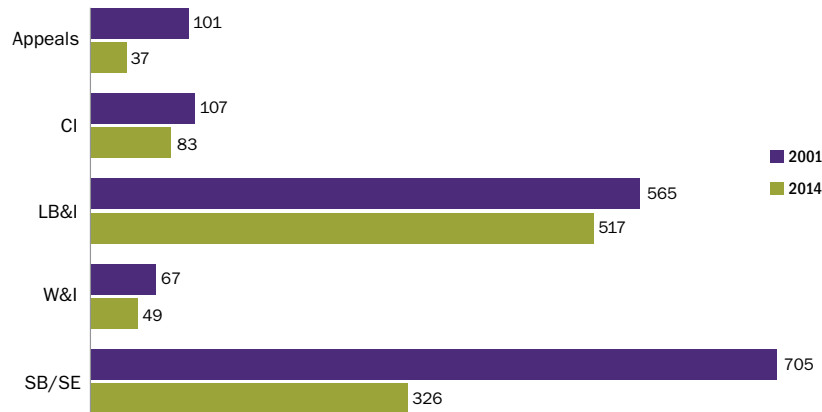
Another example from a much larger metropolitan area, Manhattan, shows that staffing in major operating divisions dropped 34 percent from 2001 to 2014.

38 CI is Criminal Investigation Division; LB&I is Large Business and International Division; W&I is Wage and Investment Division; SB/SE is Small Business/Self-Employed Division; TE/GE is Tax Exempt/Government Entities Division; PGLD is Privacy, Government Liaison and Disclosure; and IT is Information Technology. Staffing data for 2001, 2008 and 2014 from IRS, Human Resources Reporting Center, Post of Duty Building Reports, Workforce Information by Building – Now with Employee Listing Option (using the dates Jan. 27, 2001, Jan. 5, 2008 and Oct. 18, 2014).

39 U.S. Census Bureau, Statistics of U.S. Businesses, Historical Data Tabulations by Enterprise Size, available at http://www.census.gov/econ/susb/historical_data.html (last visited Dec. 22, 2014). The number of businesses rose from 13,465 in 2000-2001 to 14,839 in 2010-11.

FIGURE 1.3.4⁴⁰

Manhattan, New York: IRS staffing, 2001 & 2014



Specifically, although individual filings increased by 12 percent, staffing of Wage & Investment employees decreased by 27 percent. Small business corporations and partnerships increased by 19 and 94 percent, respectively, but SB/SE staffing (which handles both service and enforcement activities with respect to the small business population) decreased by more than 50 percent.

Thus, while staffing significantly decreased in all of the above-displayed operating divisions, total filings of the above-mentioned forms (Forms 1040, 1120, 1120S, and 1065) grew by almost 14 percent in Manhattan between TY 2000 and TY 2013.⁴¹

FIGURE 1.3.5, Manhattan filings, tax years 2000-2013

Form	TY 2000	TY 2007	TY 2013	% Change from 2000 to 2013
Form 1040	1,993,379	2,385,057	2,227,685	12%
Form 1120	79,758	75,396	74,906	-6%
Form 1120S	93,828	107,397	111,700	19%
Form 1065	64,836	104,036	125,734	94%

To The Middle: Kansas City Campus Experiences a Significant Growth in Staffing.

The Kansas City campus experienced overall growth, due to centralization. This campus houses, among others, the following operations: Submission Processing, Accounts Management, Correspondence Exam, and Automated Collection System (ACS). The following table shows a drop in campus staffing for most operating divisions, but a significant (23 percent) increase for non-submissions processing staff in Wage &

40 Staffing data for all Manhattan locations, excluding Support and Headquarters positions, 2001 (Jan. 27, 2001) and 2014 (Oct. 18, 2014) from IRS, Human Resources Reporting Center, Post of Duty Building Reports, Workforce Information by Building available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014).

41 IRS Compliance Data Warehouse (CDW), Individual Returns Transaction File and Business Returns Transaction File, Tax Years 2000, 2007 and 2013.

Investment.⁴² We excluded Submission Processing staff from the campus data for comparison purposes, because there is no counterpart to this function in the local offices in the field.⁴³ We have included staffing numbers for Overland Park, Kansas (OVP) in the totals because staff from the OVP office moved to the campus during the period under review.

FIGURE 1.3.6, IRS staffing for Kansas City, 2001 and 2014, Submission Processing excluded

Operating Division	As of January 27, 2001			As of October 18, 2014			Percent change
	OPK	KC	Total	OPK	KC	Total	
Appeals	0	21	21	0	14	14	-33%
Criminal Investigation	0	58	58	7	20	27	-53%
Large Business and International LB&I (formerly LMSB)	0	35	35	5	1	6	-83%
Small Business/Self-Employed	5	53	58	48	13	61	5%
Wage & Investment	1,350	187	1,537	5	1,888	1,893	23%
Total	1,355	354	1,709	65	1,936	2,001	17%

In contrast, the outlying towns and cities, with few exceptions, experienced steep declines in staffing, between 2001 and 2014.⁴⁴

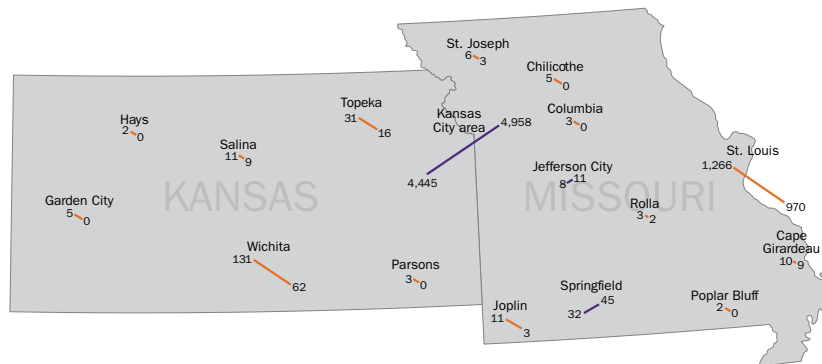
42 Total W&I staff in OVP and KC campus increased from 1,537 on Jan. 27, 2001 to 1,893 on Oct. 18, 2014. IRS, Human Resources Reporting Center (using the dates Jan. 27, 2001 and Oct. 18, 2014).

43 Submission Processing's mission is to receive, process and archive tax and information returns; issue taxpayer notices; process refunds; and account for all tax revenues. See also IRM 21.3.4.8, *Receipt of Tax Returns*, (Jan. 2, 2014).

44 Data summarizes total staffing (Full time, part time, seasonal and intermittent), excluding TAS, for 2001 and 2014 from IRS, Human Resources Reporting Center, available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014). Effective dates were Jan. 27, 2001 and Oct. 18, 2014.

FIGURE 1.3.7⁴⁵

Decrease in staffing in local offices surrounding Kansas City, 2001-2014



Notably, Wichita dropped 53 percent and the St. Louis area (St. Louis, Town and Country, Sunset Hills, and Florissant) by 23 percent. Ten locations in Kansas and Missouri had some staffing in 2001, but no staffing at all in 2014.

The increase in W&I staffing can also be seen in the IRS campuses across the country. The following chart compares W&I staffing in Accounts Management and Compliance for all the existing campuses between January 27, 2001 and October 18, 2014.⁴⁶

FIGURE 1.3.8, W&I Accounts Management and Compliance staff for all IRS campuses⁴⁷

W&I Function	2001 Staff	2014 Staff	% Change
W&I Accounts Management	8,025	16,655	108%
W&I Compliance	5,456	5,237	-4%
Total W&I AM and Compliance	13,481	21,892	62%

45 Data summarizes total staffing (Full time, part time, seasonal and intermittent), excluding TAS, for 2001 and 2014 from IRS, Human Resources Reporting Center, available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014). Effective dates were Jan. 27, 2001 and Oct. 18, 2014).

46 In 2001, the IRS had W&I AM and compliance staff in the following campuses: Andover, Atlanta, Austin, Fresno, and Kansas City. In 2014, the IRS had the W&I staff in the following campuses: Andover, Atlanta, Austin, Brookhaven, Cincinnati, Fresno, Kansas City, Memphis, Ogden, and Philadelphia.

47 IRS, Human Resources Reporting Center, available at <https://persinfo.web.irs.gov/> (last visited Nov. 25, 2014). Effective dates were Jan. 27, 2001 and Oct. 18, 2014).