

Area of Focus #11 IRS Studies Focus on How to Maximize Revenue Collection Without Regard to Taxpayer Needs and Preferences for Contact

TAXPAYER RIGHTS IMPACTED¹

- *The Right to Be Informed*
- *The Right to Pay No More Than the Correct Amount of Tax*
- *The Right to Challenge the IRS's Position and Be Heard*
- *The Right to a Fair and Just Tax System*

DISCUSSION

The IRS sends Letter 16, *Request for Taxpayer to Contact ACS*, to taxpayers who have not taken sufficient action to resolve an outstanding tax liability.² The IRS usually sends the letter to taxpayers when the case is assigned to the Automated Collection System (ACS) for collection and prior lien and levy actions have not resulted in taxpayer contact.³ This is an important step in communication with the taxpayer, reminding them of their debt and “nudging” them to contact the IRS. However, the IRS has stopped the issuance of systemically generated Letters 16, dramatically reducing the number of such letters that it mails to taxpayers, apparently to allow ACS employees the opportunity to work on backlogged correspondence.⁴ Figure 3.11.1 shows the total number of Letters 16 that the IRS has sent out for the past four fiscal years (FYs).

FIGURE 3.11.1, Number of Letters 16 Sent by the IRS Between FYs 2014–2017⁵

| Fiscal Year | Letters Sent |
|-------------|--------------|
| 2014 | 1,906,425 |
| 2015 | 1,694,674 |
| 2016 | 866,105 |
| 2017 | 458,631 |

This reduction in notification is a tangible cut in service to taxpayers, who will receive less communication from the IRS. Since the IRS has stopped the systemic issuance of Letter 16, the overall number of Letters 16 issued by ACS has been significantly reduced, and the annual decrease that we see now will likely decline even more. In fact, between FYs 2015 and 2017, the issuance of Letter 16 dropped approximately 73 percent.

1 See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are now listed in the Internal Revenue Code (IRC). See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, Title IV, § 401(a) (2015) (codified at IRC § 7803(a)(3)).

2 IRS, *ACS LT 16 Notice Redesign Test Pilot Report 3* (Sept. 27, 2017).

3 Automated Collection System (ACS) was created to provide taxpayers or their representatives with the opportunity to resolve delinquent tax obligations with a single telephone contact. Internal Revenue Manual (IRM) 5.19.5.1, *Program Scope and Objectives* (March 9, 2018).

4 IRS, *ACS LT 16 Notice Redesign Test Pilot Report 3* (Sept. 27, 2017).

5 ACS, *Customer Service Activity Report Fiscal Years 2014–2017*; IRS, *ACS LT 16 Notice Redesign Test Pilot Report* (Sept. 27, 2017).

Recent IRS Research Illuminates the Focus of IRS Collection Correspondence

In 2017, the IRS convened a team to study how six redesigned versions of Letter 16, each with a different focus, could meet four goals:

- Increase payment compliance and account resolution;
- Increase the use of self-service tools;
- Reduce taxpayer burden; and
- Reduce IRS costs.⁶

The IRS defines taxpayer compliance as making a full payment, making a one-time partial payment, or setting up an installment agreement (IA); however, receiving full payment is the IRS's preferred outcome.⁷ While overall compliance did improve for three of the redesigned notices, only one of the redesigned notices showed a statistically significant improvement in full payment over the control (current) notice (and that improvement only appeared on high dollar accounts), and one notice, the IA notice, had statistically worse full payment results.⁸ Five of the redesigned notices did show a statistically significant improvement in partial payments.⁹ Only the redesigned notice dedicated to informing the taxpayer about IAs led to a statistically significant improvement in IAs over the control notice.¹⁰

As mentioned above, one focus of the redesigned notices was to increase taxpayer use of self-service tools. If taxpayers have questions, they are first directed to online tools. In each redesigned notice, the IRS phone number is offered as a last resort on the bottom of the first page. Taxpayers are left to figure out what the correct answer is to their case, which can lead to errors and resolutions that expose taxpayers to economic harm.

The IRS also measured how much the redesigned notices lowered IRS costs by concentrating on the cost of labor to manage the resulting inbound mail and phone calls for each redesigned notice.¹¹ Compared to the control notice, the redesigned notices led to a decrease between 2.3 percent and 28.4 percent in IRS costs.¹² The IRS should reduce costs when possible, but that reduction should not occur at the price of taxpayer service.

Research shows that complex issues are best handled by telephone rather than self-help tools. A 2017 TAS study on taxpayer service preferences found that for simple tasks, such as obtaining tax forms, taxpayers preferred using the internet. However, for more complex tasks, such as getting an answer

6 IRS, *ACS LT 16 Notice Redesign Test Pilot Report 2* (Sept. 27, 2017). Even though taxpayer burden is considered a goal for this research, the IRS could only reliably measure the number of taxpayers receiving the maximum failure-to-pay penalty. The metrics to evaluate this goal include: percentage of notices that resulted in approved penalty abatement or penalty abatement request, the dollar amount of penalties and interest prevented, and the number of inbound telephone or mail contact. *Id.* at 13. The study did not address aspects such as readability or quality of the correspondence content. TAS participated in this project by providing input from the taxpayer's perspective.

7 IRS, *ACS LT 16 Notice Redesign Test Pilot Report 15* (Sept. 27, 2017).

8 *Id.* at 15–17. When high balance accounts are considered, the behavioral notice is statistically worse for full payment results. *Id.* The six redesigned test notices each focused on certain aspects to study. They were labeled accordingly: Minimalist, Color, Behavioral, Urgent, Visual, and Installment Agreement.

9 *Id.* at 18.

10 *Id.*

11 *Id.* at 23.

12 *Id.*

to a tax question, taxpayers preferred calling the IRS or visiting in person.¹³ Results from the IRS's notice redesign project also show that many taxpayers want to contact the IRS by phone. Depending on the redesigned notice, there was a reduction between 12 percent and 33 percent of taxpayers contacting the IRS by phone compared to the control group.¹⁴ However, placing the phone number in an inconspicuous place did not deter taxpayers from finding *any* way to reach the IRS by phone. *All the redesigned notices resulted in more calls to phone numbers not printed on the notice compared to the control group and four of the redesigned notices generated more inbound mail.*¹⁵ These expenses were included in the total cost estimate of each notice. Each notice resulted in lower costs to the IRS than the control notice, but it is not clear how the IRS measured the cost of all phone calls to a number not listed on Letter 16.¹⁶

One of the goals of the study was to reduce taxpayer burden. However, the only metric that could be reliably measured by the study was the number of taxpayers with a maximum failure-to-pay penalty.¹⁷ As a result, this study does not shed light on the amount of time taxpayers spent trying to solve their problem on their own, how many times they tried to contact the IRS, or if the resolution met their needs.

TAS Is Conducting a Study of Collection Notices to Observe Taxpayer Behavior

Collection notices that meet the needs of taxpayers will save IRS resources and reduce taxpayer burden. To this end, TAS will be conducting its own study to test the impact of different language and messages in IRS collection notices throughout FY 2019, testing several versions of messages to see what types of responses are elicited from taxpayers. TAS will plan to send a collection notice to an identified population of taxpayers. TAS's review will focus on four criteria:

- Did the taxpayer respond?
- How did the taxpayer respond?
- What did the taxpayer tell us in that response?
- What outcome did the taxpayer receive?

Furthermore, TAS will retain the services of a “professor in residence” to assist with graphic design options based on an understanding of how people absorb information. Unlike the recent IRS research discussed above, the TAS research study will focus on comparing and contrasting the behavioral response obtained from each letter and what the desired behavior should be, based on each taxpayer's facts and circumstances. Last, TAS will explore how communicating at different stages of the collection process impacts the four criteria for success.

13 National Taxpayer Advocate 2017 Annual Report to Congress vol. 2, 81 (Research Study: *A Further Exploration of Taxpayers' Varying Abilities and Attitudes Toward IRS Options for Fulfilling Common Taxpayer Service Needs*).

14 IRS, *ACS LT 16 Notice Redesign Test Pilot Report* 22–23 (Sept. 27, 2017).

15 *Id.* at 23.

16 *Id.*

17 *Id.* at 24.

CONCLUSION

Currently, IRS collection notices focus on bringing in as much revenue as possible at the lowest cost. Raising revenue and reducing costs should be goals for the IRS. However, these goals should not be achieved at the price of harming taxpayers.

The IRS should try to communicate with taxpayers with outstanding tax debts so that they understand their rights as taxpayers and their collection alternatives. The content, timing, and modality of communications, and the way that information is presented, all affect a taxpayer's response, including whether the IRS receives the information it needs to get to the correct result for both the IRS and the taxpayer. To achieve this correct result, IRS studies should explore the behavior, needs, and preferences of particular taxpayer populations rather than trying to drive taxpayer behavior in ways that are merely convenient and cheap for the IRS, but which may not meet taxpayer needs.

FOCUS FOR FISCAL YEAR 2019

In fiscal year 2019, TAS will:

- Conduct a study of collection notices to observe taxpayer behavior and make recommendations to improve notices.