

TAS Research Initiatives

The National Taxpayer Advocate is a strong proponent for the role of theoretical, cognitive, and applied research in effective tax administration. The Office of the Taxpayer Advocate is conducting a number of research initiatives, some of which are in collaboration with the IRS and independent researchers. A principal focus of these efforts is to explore issues and approaches impacting taxpayers' willingness and ability to comply with their tax obligations while also minimizing taxpayer burden.

Following is a discussion of the research initiatives TAS is conducting or participating in for the remainder of fiscal year (FY) 2016 and during FY 2017.

IMPACT OF EDUCATION AND OUTREACH ON EARNED INCOME TAX CREDIT (EITC) TAXPAYER COMPLIANCE

TAS is conducting a study to evaluate the compliance impact of education and outreach on potentially noncompliant EITC taxpayers. TAS Research identified EITC taxpayers who were audited in 2015 and others who were not, but who had similar risk scores to the taxpayers who were audited.¹ We then developed three representative samples from this population:

- **Audit Group:** This group was comprised of taxpayers who were audited in 2015.
- **Test Group:** This group was comprised of taxpayers who were not audited in 2015, but with similar risk scores to the taxpayers who were audited. The National Taxpayer Advocate sent letters highlighting potential errors to this group at the beginning of the 2016 filing season. The letters were specifically designed to inform and educate taxpayers about EITC eligibility rules and to correct common misconceptions in a non-threatening way.
- **Control Group:** This group was also comprised of taxpayers not audited in 2015, but with similar risk scores to the taxpayers who were audited. TAS did not send letters to this group.

During the first quarter of FY 2017, TAS Research will estimate the tax year (TY) 2015 EITC compliance of each of the above groups (*i.e.*, the group composed of taxpayers audited in 2015, the test group, and the control group) using their 2016 filing season Dependent Database (DDb) risk scores and compare them to estimate the impact of our outreach letters relative to audits and no treatment at all. We anticipate completing this research by the end of December 2016.

TAS also plans to repeat this study during the 2017 filing season. We will extend the study design to include a dedicated TAS-operated phone number for taxpayers to call to get enhanced EITC help.

¹ The IRS selects EITC returns for audit using a rule-based risk scoring algorithm that analyzes the DDb, which contains relationship and residency information on taxpayers' dependents. We will use the DDb scores to identify non-audited taxpayers with high risk scores.

BUSINESS MASTER FILE TAXPAYER DELINQUENT ACCOUNT COLLECTIBILITY CURVE

In the 2015 Annual Report to Congress, TAS Research reported the results of its study quantifying how the aging of an individual taxpayer delinquency affects dollars collected on individual Taxpayer Delinquent Accounts (TDAs).² Some of the principal findings include:

1. Dollars collected in aggregate and as a percent of the balance due decrease significantly during the first three years after the IRS assigns a liability to TDA status, and continue to decline throughout the ten year statutory period for collection.
2. Delinquent modules with balances due not in excess of \$5,000 comprise the vast majority of TDAs (they comprise 75 percent of TDAs). However, over 80 percent of the total amount due resides in TDAs with balances greater than \$5,000. The IRS collects both a higher percentage of subsequent payments and offsets in the lowest balance due categories. Collection and offsets as a percent of the balance due progressively decrease as the balance due rises.
3. Penalty and interest significantly increase the balance owed by taxpayers, particularly when the underlying balance remains unresolved for several years.
4. The IRS abates between a quarter and a third of TDA liabilities, and 40 to 50 percent of its substitute for return (SFR) assessments. It also abates a high proportion of automated under-reporting (AUR) assessments. During the years studied, the IRS abated 15 to 29 percent of AUR assessments.
5. The IRS completely resolves most of its TDA modules within the ten-year collection statute, with a resolution rate of about 80 percent for TDAs assigned in 2003 and 2005.³ Unfortunately, the percent of TDAs resolved has generally declined thereafter.

During 2016, TAS Research will examine the Business Master File (BMF) Accounts Receivable Dollar Inventory (ARDI) to conduct similar analyses of BMF taxpayers.⁴ In particular, TAS Research will explore patterns in dollars collected during the entire ten-year collection statute. Additional analyses will include dollars collected via subsequent payments compared to refund offsets, dollars abated, and how accruals of penalty and interest affect the balance due.

This research will yield information on the time available to effectively collect various BMF delinquencies and on how collection resources and tools, such as offer in compromise (OIC), partial payment installment agreements (PIAs) and lien subordinations can be more effectively used to resolve otherwise uncollectable liabilities and reduce or eliminate the assignment of unproductive cases to the Collection TDA queue. We anticipate completing this research by the end of December 2016.

2 See National Taxpayer Advocate 2015 Annual Report to Congress vol. 2, 33 (Research Study: *IRS Collectibility Curve*).

3 The liability is completely resolved when no outstanding liability remains. It may be completely resolved because: (a) the taxpayer paid the liability in full, including penalties and interest; (b) the IRS may have determined the liability was incorrect and abated all or part of it; or (c) the IRS may have accepted an offer to compromise the tax liability for less than the full amount.

4 The BMF stores tax return information for business taxpayers with the following return types (among others):

- ◆ Employment Tax Returns (Form 941, Form 943, Form 944, Form 945);
- ◆ Unemployment Tax Return (Form 940);
- ◆ Corporate Income Tax Returns (Form 1120 series, except International Tax Returns);
- ◆ Fiduciary Tax Returns (Form 1041, Form 1041-A, Form 5227);
- ◆ Partnership Tax Returns (Form 1065, Form 1065-B);
- ◆ Estate and Gift Tax Returns (Form 706 and Form 709 series);
- ◆ Exempt organizations (Form 990, Form 990-EZ, Form 990-T, Form 990-PF, Form 990-BL, Form 4720); and
- ◆ Excise Tax Returns (Form 11-C, Form 720, Form 730, Form 2290).

IMPACT OF LIEN FILING VERSUS ALTERNATIVE TREATMENTS ON PAYMENT BEHAVIOR

TAS is collaborating with the Small Business/Self-Employed (SB/SE) Division on a study that will evaluate the impact on payment behavior of different treatments (lien filing versus informational letters) on Individual Master File (IMF) taxpayers entering the Collection Queue from the Automated Collection System (ACS). To conduct the study, the project team identified five groups which will be comprised of representative samples of taxpayers drawn from the population of taxpayers entering the Collection Queue from ACS. These groups include:

- **Control Group:** This group will consist of new IMF cases transferred to the Collection Queue in accordance with current procedures.
- **Treatment Group #1:** The IRS will file notices of federal tax lien (NFTL) on a representative group of taxpayers with tax liabilities between \$10,000 and \$25,000 before transfer to the queue. The IRS will consult the pre-lien determination considerations in Internal Revenue Manual (IRM) 5.12.2.3 prior to filing liens in these cases.
- **Treatment Group #2:** These taxpayers will receive a reminder notice that the taxes are still owed and that they need to contact the IRS to resolve their delinquencies.
- **Treatment Group #3:** These taxpayers will receive a new notice that also provides more information about payment alternatives that may be available to taxpayers.
- **Treatment Group #4:** These taxpayers will receive monthly reminder notices throughout the study period.

The project team anticipates that the study will begin in April 2016 and extend into early 2017.

SERVICE PRIORITIES PROJECT

In response to the National Taxpayer Advocate's concerns that the ongoing cuts to the IRS's budget in FY 2010–2015, and the IRS's response to those cuts, have resulted in unacceptable taxpayer service, TAS and the Wage & Investment (W&I) Division are developing a ranking methodology for the major taxpayer service activities offered by W&I. The new methodology will balance taxpayer needs and preferences against the IRS's need to effectively utilize limited resources, enabling the IRS to make resource allocation decisions that will optimize the delivery of taxpayer services given resource constraints. Congress will also be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities. However, limitations imposed by the lack of available data have delayed implementation.

During 2015, the project team worked to fill a number of previously identified “data gaps” using tax year 2013 data that had recently become available and updated the ranking tool. The team then identified the remaining data needs.

In early 2016, TAS procured contractor services to address these data needs. Throughout the remainder of 2016, TAS will work with the contractor to develop and administer a telephone based survey that will expand on the data collected in prior W&I surveys.⁵ TAS's goal is to complete survey administration by the end of 2016 and to develop a complete ranking of the major W&I taxpayer services by early 2017.

⁵ TAS also worked with independent researchers to develop questions for the survey that explore how taxpayers' perceptions of IRS service and enforcement activities influence trust in the IRS. For a discussion of this initiative, see *Enforced Versus Voluntary Taxpayer Compliance*, *infra*.

IMPACT OF OUTREACH AND EDUCATION ON TAX COMPLIANCE

TAS is engaged in a multi-year study exploring the impact of a variety of factors on taxpayer compliance behavior.⁶ In the second phase of the study, TAS found that compliance norms and trust in government were the principal factors that appear to influence sole proprietor compliance behavior.⁷

In the current study, TAS will explore whether outreach and education can favorably influence compliance norms and trust in the IRS, resulting in improved taxpayer compliance.⁸ TAS has contracted with independent researchers who are collaborating with TAS to design the study, analyze the results, and produce a final report evaluating the results in detail, discussing their implications for tax administration, and recommending new IRS outreach and education initiatives.

The team of independent researchers has completed a draft high-level study design which entails testing a variety of outreach methods to taxpayers with outstanding tax liabilities whose cases are in the Collection Queue awaiting assignment. Possible outreach methods currently under consideration include:

- **Rational Appeal:** A letter with information on the composition of the outstanding amount as well as the negative consequences of non-timely payment, such as the further accrual of interest and penalties.
- **Social Norms Appeal:** A letter with an appeal to taxpayers' social norms, such as the high rate of on-time tax payments in the taxpayers' area.
- **Reciprocation Appeal:** A letter with information on how payments are used such as public services that benefit the taxpayer.
- **Threat of Enforcement:** A letter with information on potential penalties and the IRS's capacity to enforce noncompliant behavior.
- **Telephone Service Offer:** A letter with the telephone number of a high-priority support hotline the IRS offers to selected taxpayers during the filing and payment process.

TAS is currently reviewing the proposed study design. TAS is also reviewing the possibility of surveying collection management personnel to determine what impact management attitudes toward taxpayer noncompliance has on taxpayers' ability to resolve collection issues and become compliant in the future. TAS anticipates that it will finalize the design and begin study implementation in FY 2017 and will complete the study by end of FY 2017.

6 See National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 33-56 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*). See also National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).

7 TAS employed factor analysis and logistic regression to analyze the results of a national survey of taxpayers with sole proprietor income (i.e., Schedule C, Profit or Loss from Business (Sole Proprietorship)). See National Taxpayer Advocate 2013 Annual Report to Congress vol 2, 33 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*). See also National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).

8 The phase 2 study found that trust in the federal government, the tax laws and the IRS appear to influence compliance behavior. We are focusing solely on trust in the IRS, since we believe that the IRS can take actions to directly influence this component.

ENFORCED VERSUS VOLUNTARY TAXPAYER COMPLIANCE

As a part of our multi-year study exploring the impact of a variety of factors on taxpayer compliance behavior, TAS is working with independent researchers on a new study. The study will explore how taxpayers' perceptions of and emotional responses to IRS service and enforcement activities influence trust in the IRS and taxpayer compliance behavior. The principal goal of our research will be to test a hypothesis of the "Slippery Slope" framework that trust in the tax authority and its legitimate exercise of power leads to higher voluntary compliance.⁹

To conduct the study, TAS will work with the independent researchers to develop a telephone-based survey that will explore taxpayers' perceptions of and emotional responses to the power and legitimacy of IRS enforcement, and its commitment to help taxpayers understand and meet their tax obligations. Survey respondents will remain anonymous, but their responses will be linked to compliance information. This will enable us to explore relationships between their responses and compliance behavior. Our goal is to complete this research by the end of 2017.

FOCUS FOR FISCAL YEAR 2017

In Fiscal Year 2017, TAS will continue to:

- Complete a study evaluating whether soft letters or audits influence the subsequent compliance behavior of EITC taxpayers;
- Study how the aging of a delinquency affects dollars collected on BMF TDAs and identify potential implications for IRS collection policy;
- Collaborate with SB/SE to evaluate the impact on payment behavior of different treatment methods (lien filing versus informational letters) on IMF taxpayers entering the Collection Queue from ACS;
- Collaborate with W&I to complete a ranking of the major W&I taxpayer services using existing data and additional data collected by a new TAS survey to be administered in FY 2017;
- Collaborate with independent researchers to explore the impact that various treatment methods (letters) have on the payment behavior of taxpayers in the Collection Queue; and
- Collaborate with independent researchers to explore how taxpayers' perceptions of and emotional responses to IRS service and enforcement activities influence trust in the IRS and taxpayer compliance behavior.

9 E. Kirchler, E. Hoelzl, & I. Wahl, *Enforced Versus Voluntary Tax Compliance: The "Slippery Slope" Model*, (2007). Paper presented at the 32nd IAREP Annual Colloquium, Ljubljana, Slovenia, Values and Economy; 9-12 (Sept 2007).