

Taxpayers Encounter Unnecessary Delays and Difficulties Reaching an Accountable and Knowledgeable Contact for Correspondence Audits

RESPONSIBLE OFFICIALS

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TAXPAYER RIGHTS IMPACTED¹

- *The Right to Be Informed*
- *The Right to Quality Service*
- *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*

EXPLANATION OF THE PROBLEM

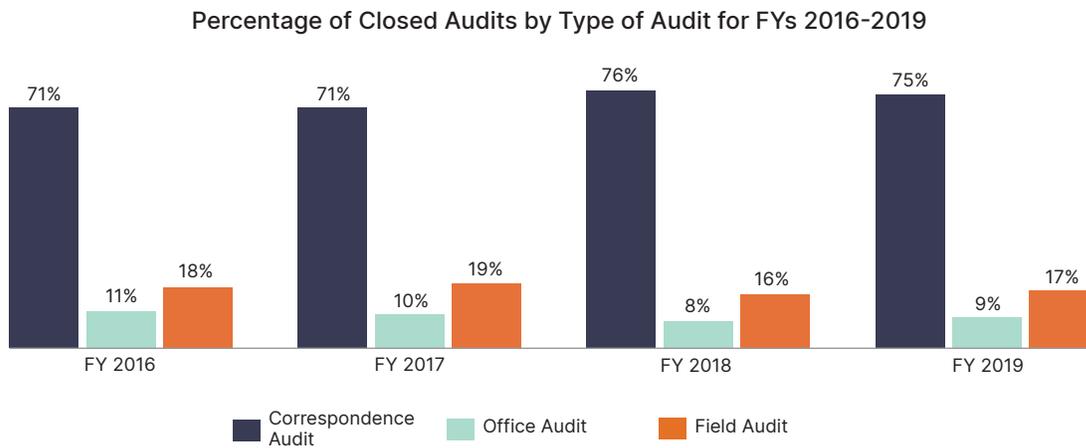
In response to taxpayer complaints about the inability to contact IRS staff directly, the IRS Restructuring and Reform Act of 1998 (RRA 98), section 3705(a) required that IRS correspondence “include in a prominent manner the name, telephone number, and unique identifying number of an Internal Revenue Service employee.” However, more than 20 years later, the IRS still has not meaningfully implemented this provision regarding its correspondence audit programs. This makes it difficult and frustrating for taxpayers or their representatives to reach a single point of contact at the IRS who is accountable and knowledgeable when they are seeking answers to questions about their audit or the information they submitted. The IRS correspondence audit program, as designed, leaves taxpayers solely dependent on toll-free phone services that operate with limited availability or the receipt of IRS notifications issued with uncertain timeframes. The inability to reach a single point of contact diminishes the customer experience, creates IRS inefficiency, hinders opportunities to engage and educate our nation’s taxpayers and decreases potential for developing and building trust with the IRS.

¹ See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are also codified in the IRC. See IRC § 7803(a)(3).

ANALYSIS

More than 70 percent of the audits conducted by the IRS are correspondence audits.² Although the number of taxpayers selected for IRS audit has declined in recent years,³ the percentage of IRS audits conducted by correspondence has increased from fiscal years (FYs) 2016 to 2018 with a slight decrease in 2019, as shown in Figure 1.7.1. Because correspondence audits represent one of the most significant tools the IRS employs to achieve voluntary compliance, the taxpayer’s ability to interact and communicate with the IRS is vitally important to the success of the correspondence audit process, the quality of service provided, and the fair and just treatment of taxpayers.

FIGURE 1.7.1⁴



What Are Correspondence Audits?

Correspondence audits are examinations conducted by mail for a single tax year involving no more than a few issues that the IRS can resolve by reviewing simple documents.⁵ Some of the highest volume issues addressed by correspondence audits during FY 2019 included the Earned Income Tax Credit (EITC); employee business expenses; nonfilers; items related to Schedule C, Profit or Loss From Business; and questionable refunds.⁶ While these issues seem simple, many of these audit categories can encompass complicated rules, procedures, or factual situations that could give rise to taxpayer questions or the need for assistance.

2 IRS Compliance Data Warehouse (CDW), Audit Information Management System (AIMS) Closed Case Database FYs 2016 to 2019 (Oct. 2020). Correspondence audits include audits closed by campus tax examiners in the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) Operating Divisions.

3 IRS CDW, AIMS Closed Case Database FYs 2016 to 2019 (Oct. 2020). Correspondence audits include audits closed by campus tax examiners in the W&I and SB/SE Operating Divisions. The IRS conducted a total of 1,111,323 income tax audits in FY 2016; 1,008,122 in FY 2017; 967,242 in FY 2018; and 752,306 in FY 2019.

4 IRS CDW, AIMS Closed Case Database FYs 2016 to 2019 (Oct. 2020); IRS response to TAS fact check (Nov. 24, 2020). For purposes of this figure, correspondence audits include audits closed by campus tax examiners in the W&I and SB/SE Operating Divisions. Office audits include audits closed by tax compliance offices in SB/SE. Field audits include audits closed by revenue agents in SB/SE and Large Business and International (LB&I) Operating Divisions. Due to rounding issues, the FY 2019 percentages exceed 100 percent.

5 See National Taxpayer Advocate 2018 Annual Report to Congress vol. 2, at 117 (*Introduction to the Exam Process: Promoting Voluntary Compliance and Minimizing Taxpayer Burden in the Selection and Conduct of Audits*).

6 IRS CDW, AIMS Closed Case Database FY 2019 (Oct. 2020).

Unlike other IRS audits, correspondence audits are not assigned to a single examiner who will work the case in its entirety and serve as the taxpayer's single point of contact for questions.⁷ Taxpayers undergoing a correspondence audit are referred to a toll-free number where they may discuss their case with an IRS phone assistant who generally holds no responsibility for the actions or determinations made with their audit.⁸ The high volume of correspondence audits combined with limited communication alternatives, insufficient levels of service, and the inability to contact a knowledgeable and accountable IRS employee often cause unnecessary taxpayer burden and hinder several taxpayer rights, including the *right to quality service*.⁹

The Current Correspondence Audit Process

The IRS has stated that 95 percent of the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) correspondence audit inventory is automated,¹⁰ and that the correspondence audit program was specifically designed to be a mail-based workstream.¹¹ Although Internal Revenue Manual (IRM) 4.19.13.10.1, Taxpayer Responses - Prior to Status 24, requires a telephone contact when a taxpayer provides requested audit documentation the IRS determines to be insufficient, the IRS notes that correspondence audit programs do not have the resources to contact every taxpayer by telephone.¹² It also indicates that it processes non-response cases using the Automated Correspondence Examination system (ACE) and describes the ACE system as a system that will automatically process the case through creation, statutory notice, and closing process, requiring no tax examiner involvement when a taxpayer fails to reply to the correspondence.¹³ Only when a correspondence audit receives a response from a taxpayer or representative is the correspondence assigned to one employee, who will generally field any subsequent case activities and responses from the taxpayer.¹⁴ This practice provides the perfect opportunity for the IRS to give the taxpayer the name and direct phone number of the employee assigned when it receives the taxpayer's response. The IRS explains that given the design of the correspondence audit program, these employees do not have telephones capable of receiving direct external incoming calls.¹⁵

Taxpayers with questions at any point during the correspondence audit process are directed to the IRS's Correspondence Examination Toll-Free Lines, the numbers provided on the taxpayer's initial contact notice of audit.¹⁶ By placing a toll-free number on correspondence audit notices, the IRS believes it has satisfied RRA 98, section 3705(a).¹⁷ The IRS believes this is the most efficient method to address correspondence audit inquiries and notes these toll-free lines allow it to answer all correspondence examination telephone calls

⁷ National Taxpayer Advocate 2018 Annual Report to Congress vol. 2, at 119 (*Introduction to the Exam Process: Promoting Voluntary Compliance and Minimizing Taxpayer Burden in the Selection and Conduct of Audits*).

⁸ National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 2, at 51 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2018 Annual Report to Congress*).

⁹ See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are also codified in the IRC. See IRC § 7803(a)(3).

¹⁰ National Taxpayer Advocate Fiscal Year 2016 Objectives Report to Congress vol. 2, at 53 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2014 Annual Report to Congress*).

¹¹ National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 2, at 49 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2018 Annual Report to Congress*).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at 51.

¹⁵ *Id.*

¹⁶ *Id.* at 52.

¹⁷ National Taxpayer Advocate Fiscal Year 2016 Objectives Report to Congress vol. 2, at 48 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2014 Annual Report to Congress*).

corporately for all campus operations, affording the taxpayer the ability to reach an experienced assistor at any campus for immediate assistance without waiting for a return call from an individually-assigned examiner.¹⁸

Correspondence Audit Toll-Free Lines Do Not Provide Sufficient Levels of Service

While the IRS views this toll-free corporate approach as the most efficient alternative, toll-free lines often fail to provide an adequate level of customer service. In FY 2019, W&I worked about 570,000 correspondence audits, generating more than a million calls to its toll-free line. Only about 400,000 of these callers reached an examiner, resulting in a 40.7 percent level of service.¹⁹ The average wait time to reach an assistor was 35 minutes, and over 600,000 taxpayers²⁰ disconnected their calls either before or after they entered the queue to reach the selected assistance.²¹

SB/SE toll-free results were somewhat better, reflecting that SB/SE worked nearly 500,000 correspondence audits in FY 2019, generating over 300,000 calls to its toll-free lines. Over 160,000 of these callers reached an examiner, resulting in a 59.9 percent level of service.²² Taxpayers calling the SB/SE correspondence audit toll-free line experienced an average wait time of 28 minutes to reach an assistor, while almost 150,000 of these callers²³ disconnected their call either before or after they entered the queue to reach the assistance they selected.²⁴

As shown in Figures 1.7.2 and 1.7.3, these FY 2019 levels of service are not unusual and represent the level of customer service taxpayers have customarily experienced when calling the IRS correspondence audit toll-free lines.²⁵ IRS correspondence audit toll-free lines are staffed insufficiently to adequately support the quantity of examinations conducted.

18 National Taxpayer Advocate Fiscal Year 2016 Objectives Report to Congress vol. 2, at 48-50 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2014 Annual Report to Congress*).

19 W&I opened nearly 320,000 correspondence audits in FY 2019 and continued to work about 250,000 correspondence audits carried over from prior FYs. IRS CDW, AIMS Closed Case Database for FY 2019 (Oct. 2020), IRS CDW, Individual Master File (IMF) Transaction History for correspondence audits opened in FY 2019 (Oct. 2020), and IRS, Joint Operations Center (JOC) Snapshot Reports: Product Line Detail, W&I Exam phone line (week ending Sept. 30, 2020).

20 IRS, JOC Snapshot Reports: Product Line Detail, W&I Exam phone line (week ending Sept. 30, 2020).

21 *Id.*

22 SB/SE opened about 289,000 correspondence audits in FY 2019 and continued to work about 203,000 correspondence audits carried over from prior FYs. IRS CDW, AIMS Closed Case Data FY 2019 (Oct. 2020), IRS CDW, IMF Transaction History for opened correspondence audits (Oct. 2020), and IRS, JOC Snapshot Reports: Product Line Detail, SB/SE Exam phone line (weeks ending Sept. 30, 2017; Sept. 30, 2018; Sept. 30, 2019; and Sept. 30, 2020).

23 IRS, JOC Snapshot Reports: Product Line Detail, SB/SE Exam phone line (week ending Sept. 30, 2020).

24 *Id.*

25 IRS CDW, IMF Transaction History for correspondence audits opened in FYs 2016-2019 (Oct. 2020) and IRS, JOC Snapshot Reports: Product Line Detail, SB/SE and W&I Exam phone line (week ending Sept. 30, 2020).

FIGURE 1.7.2, W&I Correspondence Audits Opened Compared With Toll-Free Telephone Statistics for FYs 2016-2019²⁶

Fiscal Year	Audits Opened	Calls Received	Calls Answered	Level of Service
2016	462,654	1,351,822	489,295	40.2%
2017	481,664	1,484,849	541,043	40.2%
2018	447,566	1,440,366	517,395	40.2%
2019	319,558	1,098,142	392,227	40.7%

FIGURE 1.7.3, SB/SE Correspondence Audits Opened Compared to Toll-Free Telephone Statistics for FYs 2016-2019²⁷

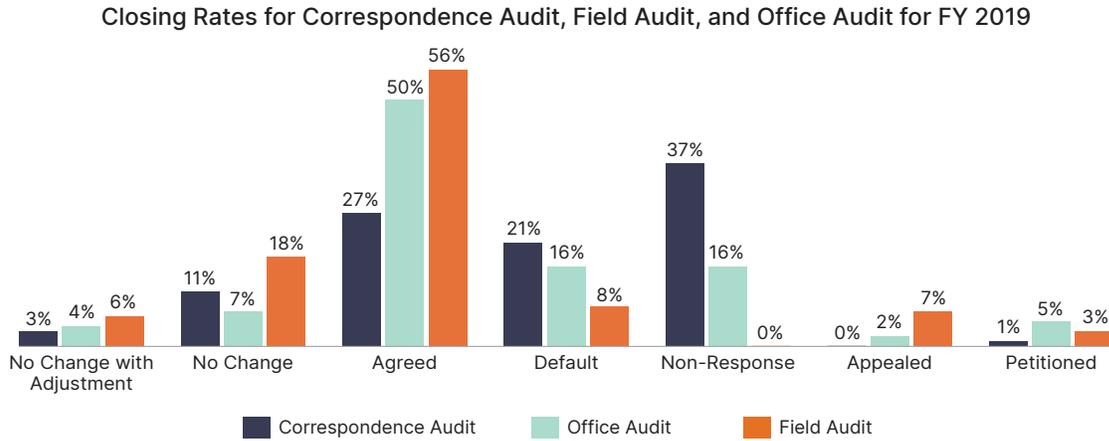
Fiscal Year	Audits Opened	Calls Received	Calls Answered	Level of Service
2016	301,567	412,853	241,225	65.8%
2017	348,985	435,512	236,213	60.8%
2018	298,466	468,569	245,140	60.8%
2019	289,334	317,737	162,730	59.9%

Despite the high call volumes discussed, audit results reflected that taxpayers subject to correspondence audit are less likely to participate in the audit process. As shown in Figure 1.7.4, correspondence audits resulted in the lowest agreement rate and the highest non-response rate of all other IRS audits. Cases closed “non-response” are cases where the taxpayers did not participate in the audit process because they did not respond to audit notifications or the postal service returned the audit notifications as “undeliverable.”

26 This figure compares audits opened in FYs 2016-2019 to toll-free telephone statistics since taxpayers are more likely to call the IRS at the beginning of an audit. IRS CDW, IMF Transaction History for correspondence audit opened in FYs 2016-2019 (Oct. 2020) and IRS, JOC Snapshot Reports: Product Line Detail, W&I Exam phone line (weeks ending Sept. 30, 2017; Sept. 30, 2018; Sept. 30, 2019; and Sept. 30, 2020).

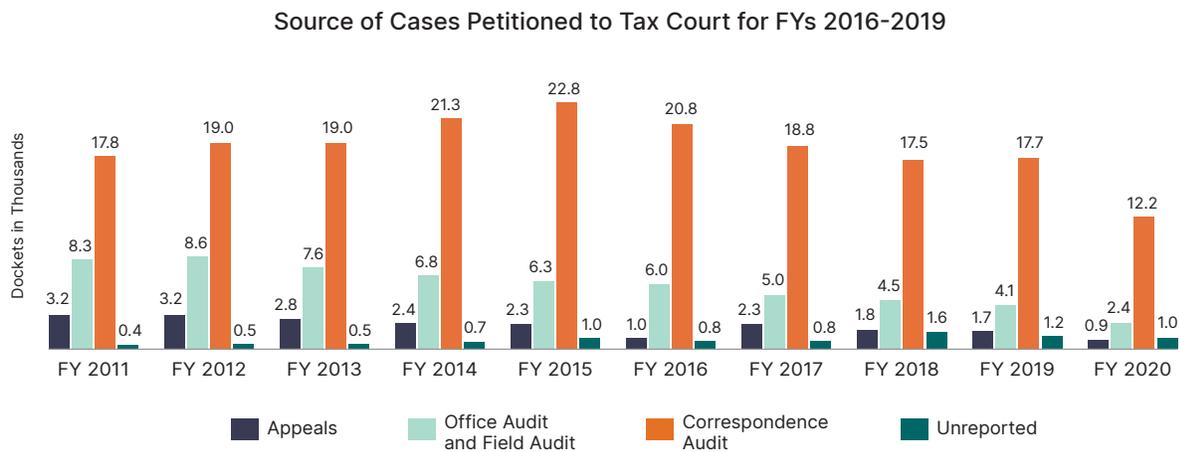
27 This figure compares audits opened in FYs 2016-2019 to toll-free telephone statistics since taxpayers are more likely to call the IRS at the beginning of an audit. IRS response to TAS fact check (Nov. 24, 2020); IRS, JOC Snapshot Reports: Product Line Detail (week ending Sept. 30, 2019); IRS, JOC Snapshot Reports: Product Line Detail, SB/SE Exam phone line (weeks ending Sept. 30, 2017; Sept. 30, 2018; Sept. 30, 2019; and Sept. 30, 2020).

FIGURE 1.7.4²⁸



Correspondence audits also resulted in the highest rate of audit deficiencies assessed by default²⁹ and produced the highest volume of petitions to the U.S. Tax Court as shown in Figure 1.7.5.

FIGURE 1.7.5³⁰



28 IRS CDW, AIMS Closed Case Database FY 2019 (Oct. 2020). The No Change with Adjustment category applies to no changed examined returns if there is an adjustment to the tax base data such as income or deduction items but no change in the tax liability or refundable credits.

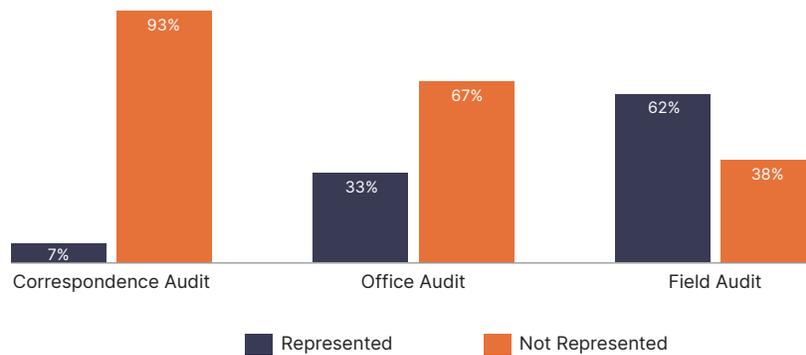
29 IRM 4.8.9.26, Defaulted Notices (July 9, 2013). The IRS may assess a proposed audit deficiency by default if the taxpayer does not petition the U.S. Tax Court within 105 days of the date a Statutory Notice is issued (165 days if the taxpayer resides outside of the U.S.). IRS CDW, AIMS Closed Case Database FY 2019 (Oct. 2020).

30 Counsel Automated Tracking System, TL-708B. The unreported category are petitioned cases not from Appeals, Office Audit, Field Audit, or Correspondence Audit.

The contrast between high call volume and low taxpayer response rate suggests that the level of service, or type of service provided on the correspondence audit toll-free lines, does not meet taxpayer needs. Further, the absence of personal interaction inherent to the correspondence audit process results in missed opportunities for the IRS to discuss the issues under audit and to educate taxpayers to improve future compliance. This is particularly impactful because so few of these taxpayers have representation and may be limited in their ability to secure assistance. As shown in Figure 1.7.6, only seven percent of the taxpayers undergoing correspondence audits in FY 2019 had representation, while 62 percent of the taxpayers undergoing field examinations were represented by tax professionals.³¹

FIGURE 1.7.6³²

Individual Tax Return Closed Audits by Representation for Correspondence Audits, Office Audits, and Field Audits for FY 2019



Correspondence Audit Response Time Can Be Lengthy

Because correspondence audit is a “mail-based workstream,” the taxpayer’s ability to effectively and timely communicate with the IRS by mail is also a critical component of the correspondence audit process. The IRS correspondence audit programs, however, cannot respond to correspondence promptly. In FY 2019, the IRS classified, on average, 67 percent³³ of the correspondence received in W&I correspondence audit and 54 percent³⁴ of the correspondence received in SB/SE correspondence audit as “overage,” meaning the IRS had not addressed within 30 days of the date received, requiring it to issue an interim letter.³⁵

31 IRS, CDW AIMS Closed Case Database and IMF Transaction History for FY 2019 individual correspondence audits where a power of attorney was on file with the IRS during the audit. For purposes of this figure, correspondence audits include audits closed by campus tax examiners in W&I and SB/SE. Office audits include audits closed by tax compliance offices in SB/SE. Field audits include audits closed by revenue agents in SB/SE and LB&I. A power of attorney (POA) on file during the audit was used as a proxy to determine representation.

32 IRS, CDW AIMS Closed Case Database and IMF Transaction History for FY 2019 individual correspondence audits where a POA was on file with the IRS during the audit; IRS response to TAS fact check (Nov. 24, 2020). For purposes of this figure, correspondence audits include audits closed by campus tax examiners in W&I and SB/SE. Office audits include audits closed by tax compliance offices in SB/SE. Field audits include audits closed by revenue agents in SB/SE and LB&I. A POA on file during the audit was used as a proxy to determine representation.

33 W&I, Refundable Credits Examination Operations Weekly Mail Report for TAS, FY 2019 data.

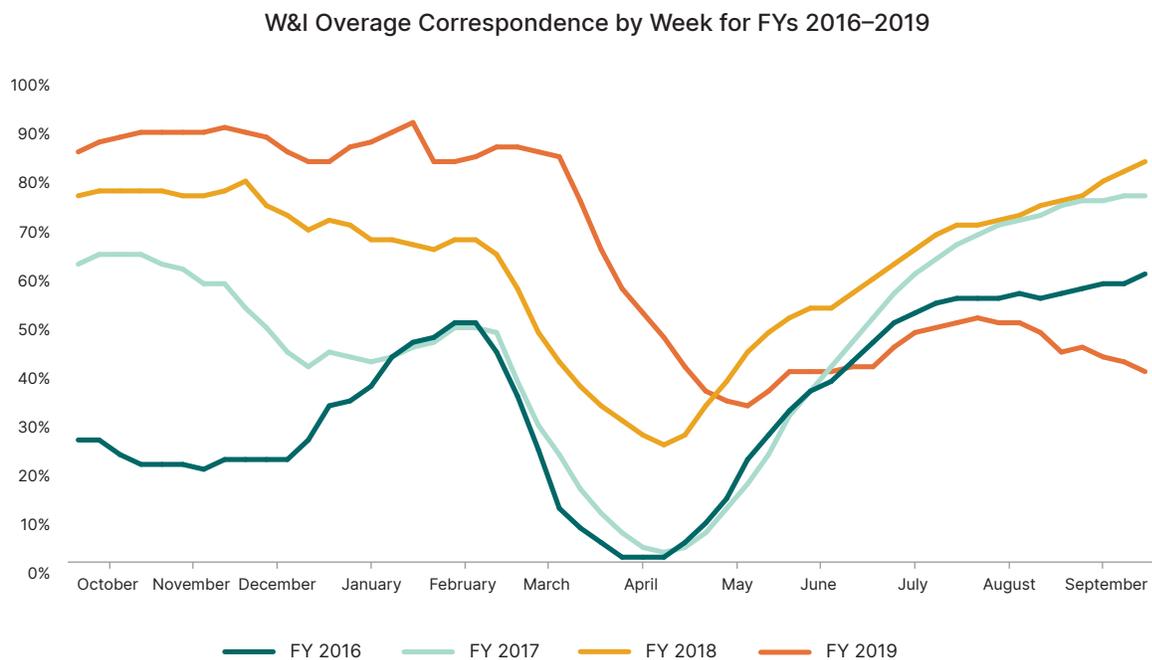
34 SB/SE Campus Operation Business Results (COBR) FY 2019, Corr Exam and Pass-Through Entities Reports FY 2019 year to date ending Sept. 30, 2019.

35 IRM 4.19.13.11, Monitoring Overage Replies (July 30, 2020).

The IRS sends interim letters to notify the taxpayer that the IRS will require additional time (generally 75 days) to provide a response. The IRS can extend this timeframe when the volume of overage correspondence renders the 75-day timeframe unachievable.³⁶ Taxpayers with questions about their audit or the documentation they have submitted cannot contact the examiner who will work their case. Although the assistants staffing the correspondence audit toll-free lines may view the documents the taxpayer has supplied, they generally cannot, with any certainty, provide a determination regarding the adequacy of the documents submitted or provide a timeframe in which the taxpayer might expect a reply. This inability to reach a knowledgeable, accountable IRS employee negatively affects customer satisfaction and often may lead taxpayers and their representatives to feel they have sent their correspondence into the proverbial “black hole.”

Much like the level of service on correspondence audit toll-free phone lines, the level of overage correspondence experienced in FY 2019 is not unusual and appears to trend in a pattern similar to that experienced in prior years, as shown in Figures 1.7.7 and 1.7.8.

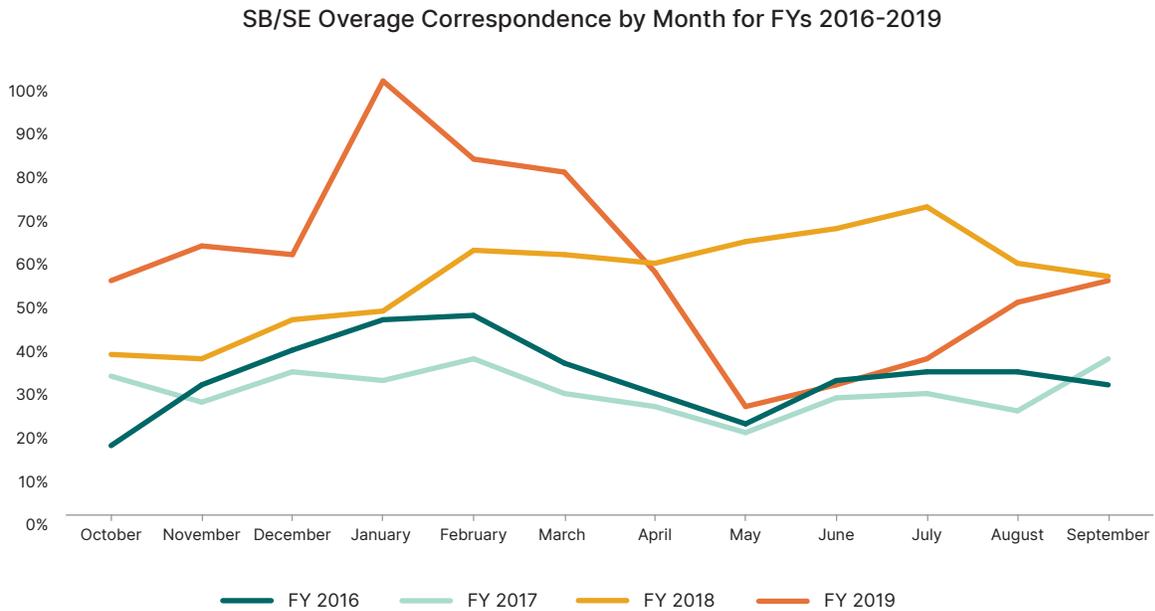
FIGURE 1.7.7³⁷



36 IRM 4.19.13.11, Monitoring Overage Replies (July 30, 2020).

37 W&I, RCEO Weekly Mail Report for TAS, FY 2016 through 2019 data. W&I provided weekly overage data. Figure 1.7.7 shows the weekly variation of the data even though the x-axis depicts months.

FIGURE 1.7.8³⁸



Results of the IRS’s correspondence audit customer satisfaction surveys indicate how taxpayers view the overall correspondence audit process. Although the IRS’s FY 2019 work product reviews indicate that both W&I and SB/SE have been highly successful in meeting the agency’s standards, IRS customer satisfaction survey results indicate that correspondence audit programs are far less successful in meeting the standards of our nation’s taxpayers.

As shown in Figure 1.7.9, IRS correspondence audit reviews reflected high marks in phone and case-related accuracy, professionalism, and timeliness. IRS customers, however, rated their overall satisfaction with the correspondence audit experience at 59 percent and 51 percent for SB/SE and W&I respectively, with the time taken to complete the audit identified among the taxpayers’ chief concerns.³⁹ These results show that measures for select components of the correspondence audit process are not indicative of taxpayers’ satisfaction with the overall correspondence audit experience.

38 IRS response to TAS fact check (Nov. 24, 2020); SB/SE COBR, Corr Exam and Pass-Through Entities Reports for all months of FYs 2016 through 2019.

39 IRS W&I response to TAS information request (Oct. 1, 2020) (from Internal Revenue Service Customer Satisfaction Survey, FY 2019, W&I RCEO Mail/Online Annual Report); IRS SB/SE response to TAS information request (Oct. 7, 2020) (from SB/SE Campus Exam Mail Customer Satisfaction Report, Survey Year 2018 (April 2018 through March 2019)).

FIGURE 1.7.9, FY 2019 Correspondence Audit Quality and Customer Satisfaction⁴⁰

	SB/SE	W&I
Phone Accuracy	91.6%	87.9%
Phone Professionalism	99.4%	99.3%
Phone Timeliness	96.4%	95.0%
Paper Accuracy	98.7%	96.9%
Paper Professionalism	99.1%	98.6%
Paper Timeliness	99.4%	99.1%
Customer Satisfaction	59.0%	51.0%

Impact of Insufficient Service and Communication Alternatives

Insufficient service and communication alternatives impact more than just customer satisfaction and can have consequences that result in reduced IRS efficiency. Taxpayers assessed tax deficiencies due to a lack of timely response or lack of understanding about the documentation required may need to request audit reconsideration of these unpaid deficiencies once the IRS assesses the tax. To do this, taxpayers must provide documentation that the IRS had not considered during the audit process.⁴¹ The need to revisit completed audits results in duplicative IRS efforts and use of additional IRS resources.

In FY 2019, W&I completed 11,284 correspondence audit reconsiderations, and SB/SE completed audit reconsiderations totaling 6,081.⁴² As shown in Figure 1.7.10, correspondence audits produce a significantly higher reconsideration rate than that experienced by IRS’s field and office audit programs.

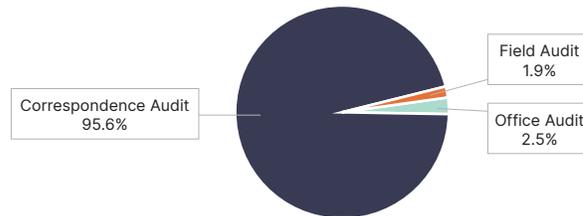
40 IRS SB/SE response to TAS information request (Oct. 7, 2020) (from FY 201909 COBR Workbooks, Corr Exam and Pass Through Entities, Exam Quality and Employee-Customer Satisfaction). IRS W&I response to TAS information request (Oct. 1, 2020) (from Internal Revenue Service Customer Satisfaction Survey, FY 2019, W&I RCEO Mail/Online Annual Report). IRS W&I response to TAS information request (Oct. 1, 2020) (from W&I Correspondence Exam Phones and Paper, Quality Measures, FY 2019). IRS SB/SE response to TAS information request (Oct. 7, 2020) (from SB/SE Campus Exam Mail Customer Satisfaction Report, Survey Year 2018 (April 2018 through March 2019)). Percentage reflects overall customer satisfaction rate for paper in the absence of an overall customer satisfaction rate.

41 IRM 4.13.1.2(1), Definition of an Audit Reconsideration (Dec. 16, 2015).

42 IRS CDW AIMS Closed Case Database and Enforcement Revenue Information Management System FY 2019. For purposes of this figure, correspondence audits include audits closed by campus tax examiners in W&I and SB/SE. Office audits include audits closed by tax compliance offices in SB/SE. Field audits include audits closed by revenue agents in SB/SE and LB&I.

FIGURE 1.7.10⁴³

Audit Reconsideration for Correspondence Audit, Office Audit, and Field Audit for FY 2019



Taxpayers unable to reach a knowledgeable and accountable point of contact frequently seek assistance requiring the utilization of resources by other areas within the IRS. In FY 2019, TAS provided service to almost 16,000 taxpayers seeking assistance during their EITC-related correspondence audits, rendering this among the highest volume of issues that brought taxpayers to TAS. TAS further assisted approximately 1,700 additional taxpayers seeking assistance for audit reconsideration of these EITC correspondence audit determinations and over 2,000 taxpayers seeking reconsideration of assessments made because of non-filer correspondence audits.⁴⁴ The volume of correspondence audit-related cases received in TAS⁴⁵ clearly demonstrates that taxpayers unable to obtain sufficient assistance by calling the correspondence audit toll-free lines find other avenues within IRS — such as TAS — to obtain the assistance they require.

Correspondence Audit and COVID-19

The impact of COVID-19 further pronounced the shortcomings of the IRS's correspondence audit programs. As a part of its People First Initiative,⁴⁶ the IRS announced it would generally not start new audits during the period of April 1, 2020, through July 15, 2020. Existing technology and communication limitations, however, brought many of the IRS's correspondence audits already in progress to a standstill. Because of the COVID-19 shutdown, the IRS suspended correspondence audit toll-free phone assistance in March 2020 and did not resume it until September 28, 2020.⁴⁷ Because the IRS does not provide a single point of contact for taxpayers undergoing correspondence audits, these taxpayers, solely reliant on the IRS's correspondence audit toll-free lines for information, were left with no ability to call the IRS regarding correspondence audits in progress during the shutdown. The suspension of toll-free phone line services allowed employees to perform duties associated with the receipt and control of mail and with addressing overaged correspondence.⁴⁸ Correspondence backlogs experienced during this timeframe resulted in the IRS classifying over 90 percent of

43 IRS CDW AIMS Closed Case Database and Enforcement Revenue Information Management System FY 2019. For purposes of this figure, correspondence audits include audits closed by campus tax examiners in W&I and SB/SE. Office audits include audits closed by tax compliance offices in SB/SE. Field audits include audits closed by revenue agents in SB/SE and LB&I.

44 TAS provided service to 15,841 taxpayers seeking assistance during EITC-related correspondence audits, 1,684 taxpayers with audit reconsiderations and another 2,130 taxpayers seeking reconsideration of non-filer correspondence audits. Data obtained from Taxpayer Advocate Management Information System (TAMIS) (Oct. 1, 2019).

45 TAS cases received in FY 2019 with a primary issue code of 610, 620, 630, or 639 compared to the examination started. Data obtained from TAMIS (Oct. 1, 2019) and IRS CDW, AIMS Closed Case Database (Oct. 2020).

46 See IRS News Release IR-2020-59, IRS Unveils New People First Initiative; COVID-19 Effort Temporarily Adjusts, Suspends Key Compliance Programs (Mar. 25, 2020).

47 IRS W&I response to TAS information request (Oct. 1, 2020).

48 *Id.*

the mail received in W&I and SB/SE campus operations as overage.⁴⁹ As a result of correspondence backlogs, taxpayers, in some instances, received interim letters requesting they allow up to an additional six months⁵⁰ to receive a reply, further showcasing the need for improved communication alternatives.⁵¹

The Taxpayer First Act Calls for Improved IRS Efficiency and Effectiveness

The Taxpayer First Act (TFA)⁵² signed into law on July 1, 2019, included several provisions designed to improve customer service and ensure that the IRS enforces tax laws in a fair and impartial manner. Among these provisions, TFA Section 1101 required the IRS to develop a thorough customer service strategy that would include private sector customer service best practices to meet reasonable customer expectations. Section 1302 called for redesigning the organization to minimize the duplication of services and to ensure that taxpayers easily receive needed assistance. Section 2101 further called for the development and implementation of a multiyear strategic plan for IRS information technology that aligns with the IRS's needs and strategic plan.⁵³ Although the IRS has taken steps to improve the correspondence audit process and the level of service, resulting customer satisfaction rates indicate it could do more to meet customer expectations.

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Improvements to Toll-Free Phone Technology

In September 2020, the IRS provided correspondence audit examiners with all necessary equipment to answer the correspondence audit toll-free phone lines from alternate locations, preventing the suspension of correspondence audit toll-free operations if future emergency situations dictate the need for employees to work from remote locations.⁵⁴ Additional technology could also provide correspondence audit examiners the ability to receive direct external calls, removing phone system limitations that prevent these examiners from serving as a taxpayer's single point of contact during the correspondence audit process.⁵⁵

49 RCEO Weekly Mail Report for TAS, 20200822, reflected overage mail at 92.61 percent and COBR FY20, 202008 Corr-Exam-PTE Report, reflected SB/SE overage mail at 97.2 percent as of 08/22/2020.

50 See National Taxpayer Advocate 2018 Annual Report to Congress 135 (Most Serious Problem: *Correspondence Examination: The IRS's Correspondence Examination Procedures Burden Taxpayers and Are Not Effective in Educating the Taxpayer and Promoting Future Voluntary Compliance*).

51 Taxpayers reported to TAS, Systemic Advocacy, the receipt of interim letters with six-month response timeframes. TAS is currently exploring this issue.

52 See TFA, Pub. L. No. 116-25.

53 National Taxpayer Advocate Fiscal Year 2021 Objectives Report to Congress 69-78 (Systemic Advocacy Objective: *Putting Taxpayers First, Improving Taxpayer Service, and Supporting the Development of a Comprehensive Customer Service Strategy and Related Plans to Implement the Taxpayer First Act*).

54 IRS W&I response to TAS information request (Oct. 1, 2020).

55 National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 2, at 51 (*IRS Responses and National Taxpayer Advocate's Comments Regarding Most Serious Problems Identified in the 2018 Annual Report to Congress*).

Although not yet implemented, the IRS is also currently working to introduce telephone callback technology that would address insufficient levels of service on its correspondence audit and other toll-free phone lines.⁵⁶ This technology will enable callers to request a call back rather than waiting on hold to reach the next available assistant. Introducing callback technology will serve to reduce the lengthy hold times experienced by taxpayers and will reduce the need for taxpayers to make multiple calls to reach assistance. While this technology will improve the customer correspondence audit toll-free phone experience and reduce the volume of repeated unsuccessful attempts to these toll-free lines, it will not reduce the actual volume of callers requiring assistance. Based on the IRS's staffing model discussed below, introducing callback technology may require that the IRS further divert resources from completing correspondence audit activities to meet customer callback expectations.

Increased Communication Alternatives

In August 2020, the SB/SE correspondence audit program expanded its communication alternatives through the Secure Messaging feature of its Taxpayer Digital Communications (TDC) program. This initiative, originally piloted in 2016, offers certain taxpayers the ability to communicate electronically with the IRS during their audit. TDC Secure Messaging enables taxpayers to receive messages from the IRS, respond to questions, and upload documents using the IRS's Secure Messaging Portal. Taxpayers invited to participate in this program must authenticate their identities via IRS Secure Access. They then receive a notification to their registered email address to log into the TDC Secure Messaging portal to view messages.

Using TDC Secure Messaging shows potential for improving the customer's correspondence audit experience and the correspondence audit process. TDC Secure Messaging offers a more expedient communication alternative to traditional mail. Further, TDC Secure Messaging enables taxpayers to access other IRS online services such as e-Services and Get Transcripts using the same account login name and password. The use of TDC Secure Messaging has been introduced in all five of SB/SE's correspondence audit campuses, with potential for successful expansion to other correspondence audit programs.⁵⁷ The IRS indicated that using TDC Secure Messaging has resulted in a reduction in the time needed for audit completion and a significant increase in customer satisfaction, reporting customer satisfaction rates consistently ranging near 83 percent with TDC Secure Messaging.⁵⁸ Further, the IRS indicates that the exam deployment of TDC Secure Messaging uses a feature of the software called "sticky agent," which automatically directs replies to the examiner assigned without clerical research or intervention.⁵⁹ This feature would complement the IRS's efforts to provide taxpayers with a single point of contact should the IRS do so.

By expanding the use of TDC Secure Messaging to a larger volume of taxpayers, calls to the correspondence audit toll-free phone lines will decline. W&I customer satisfaction surveys reflected that 41 percent of the taxpayers surveyed called the correspondence audit toll-free line to simply check the status of their case. Of these callers, 77 percent called more than once, and 39 percent called five or more times. Twelve percent of the callers surveyed indicated that they called merely to inform the IRS they had sent in the requested documentation. Of these callers, 61 percent called in more than once, with 31 percent indicating that

⁵⁶ Most Serious Problem: *Telephone and In-person Service: Taxpayers Face Significant Difficulty Reaching IRS Representatives Due to Outdated Information Technology and Insufficient Staffing*, *supra*.

⁵⁷ IRS response to fact check (Nov. 24, 2020).

⁵⁸ IRS SB/SE response to TAS information request (Oct. 7, 2020).

⁵⁹ *Id.*

they called five or more times to relay this information.⁶⁰ If TDC is widely used, the ability to submit documents and request status updates through TDC could positively impact call volumes experienced on the correspondence audit toll-free phones.

CONCLUSION AND RECOMMENDATIONS

The IRS staffs W&I and SB/SE correspondence audit programs with a finite group of examiners who hold responsibility for both staffing the correspondence audit toll-free phone lines and auditing tax returns selected for correspondence audit.⁶¹ The interdependence of the correspondence audit staffing structure clarifies that the current random shifting of resources from toll-free phones to audit activities will not increase the number of taxpayers serviced or improve the overall correspondence audit customer experience. Providing taxpayers who have responded to their correspondence audit notifications with the name and contact information for the examiner most knowledgeable and responsible for their case, however, will improve efficiency and the customer experience and is necessary for tax administration. Shifting these callers to an examiner who can serve as a single point of contact and act to progress their case will reduce the number of callers to the correspondence audit toll-free lines. This will enable callers recently receiving audit notifications who have not yet responded increased opportunity to reach assistance at this crucial point in the audit when general audit assistance is most appropriate.

The IRS indicates that the level of service provided on the correspondence audit toll-free phones and correspondence audit response timeframes are both factors under consideration when the IRS determines the number of correspondence audits it will conduct each year. The IRS indicates it uses historical data that incorporates these measures when determining the number of correspondence audits planned for completion.⁶² The consistency displayed regarding the level of service provided by the correspondence audit toll-free phone lines and the trends identified regarding overage mail during the time period of FYs 2016 to 2019 suggest the IRS not only views these insufficient levels of customer service as acceptable, it builds them into the correspondence audit planning process.

Based on staffing levels, current staffing policies, and the number of audits conducted, the IRS's correspondence audit programs by design do not have the capacity to provide personal contact to every taxpayer subjected to a correspondence audit. However, the IRS should modify the correspondence audit planning process to appropriately ensure it can provide service to taxpayers responding to audit inquiries. Should technology alone fail to achieve sufficient improvements, the IRS must be willing to revisit the volume and timing of audits it introduces into its audit workstream. The volume of audits conducted should be commensurate with the IRS's ability to provide quality service that minimizes audit cycle time, provides for reasonable response timeframes, adequately services toll-free phone inquiries, and allows the IRS to provide taxpayers responding to their audit notifications the name and contact information to an IRS employee who can serve as the taxpayer's single point of contact throughout the correspondence audit process.

60 IRS W&I response to TAS information request (Oct. 1, 2020) (from Internal Revenue Service Customer Satisfaction Survey, W&I RCEO IVR FY 2019 Annual Report Issued May 2020).

61 IRS W&I response to TAS supplemental information request (Oct. 5, 2020); IRS SB/SE response to TAS supplemental information request (Oct. 6, 2020).

62 IRS W&I response to TAS information request (Oct. 1, 2020); IRS SB/SE response to TAS information request (Oct. 7, 2020).

As discussed, provisions of the TFA have mandated that the IRS develop customer service strategies, redesign the organization to promote efficiency, and introduce technology to include private sector customer service best practices. The IRS has taken steps to improve the correspondence audit process; however, with TFA mandates, it must revise its approach to the correspondence audit process in an effort to substantially improve the customer experience.

Preliminary Administrative Recommendations to the IRS

The National Taxpayer Advocate preliminarily recommends that the IRS:

1. Provide taxpayers responding to correspondence audit notices the name, telephone number, and unique identifying number of an IRS employee who can serve as their direct contact throughout the correspondence audit process, along with the employee's secure email address or the TDC Secure messaging access needed to send and receive documents and communicate electronically with the assigned examiner.
2. Ensure that the volume and timing of audits conducted are commensurate with the IRS's ability to provide correspondence audit toll-free phone services, timely correspondence responses, and timely audit completion.
3. Expand TDC Secure Messaging capabilities to all correspondence audit programs.

IRS COMMENTS

Correspondence Exam is a critical part of the IRS's overall compliance approach to fair and balanced tax administration. The IRS designed Correspondence Exam to work single issue (non-complex) and single year cases that can easily be resolved via mail, allowing for broader geographic coverage. The program supports the IRS strategic goal to protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code.

As previously noted in the IRS responses to the 2014 and 2018 National Taxpayer Advocate Annual Report to Congress, it is not practical to assign one employee to handle all aspects of a taxpayer's correspondence examination from beginning to end. When we receive a written response from a taxpayer, it is assigned to one tax examiner to review,⁶³ and when the tax examiner sends a letter in response, the letter identifies the tax examiner by name and includes Exam's toll free telephone number since tax examiners do not have direct telephone lines. When taxpayers call the Correspondence Exam toll-free line, their call is routed to the next available assistor. Phone assistants are trained and experienced tax examiners, have access to the taxpayer's case history, and work with the taxpayer toward case resolution. However, if a taxpayer responds to an examination letter with correspondence and later calls the toll-free line and is not satisfied at the end of the call, they can request that the assigned tax examiner return their call.

⁶³ IRM 4.19.10.1.5.1(6), Correspondence Examination Letters (Dec. 8, 2017). Letters mailed on cases in the corporate inventory will include the appropriate Business Operating Division (BOD) corporate toll-free number, "Tax Examiner" as person to contact, and the site-specific identification number. If the letter sent is in reply to taxpayer correspondence, the letter, case history, and all letter attachments must identify the originating tax examiner to provide information for any subsequent contact, if needed.

Since 2017, Correspondence Exam has improved communications by digitizing a population of case files. Although transparent to taxpayers, some taxpayer correspondence is digitized and uploaded to the case file. Digitized cases improve customer service by increasing the visibility of case information. Telephone assistors can electronically view correspondence previously sent in by the taxpayer, regardless of which IRS site received the correspondence. This assists in resolving taxpayer inquiries more expeditiously.

We continued to improve communications with taxpayers with the expansion of secure messaging within Taxpayer Digital Communications (TDC) to all five SB/SE campuses. With TDC, taxpayers who sign up can submit documents online and easily ask questions. They do this without waiting in a queue, at their convenience, and on their own schedule. In general, like with paper correspondence, these messages are directed back to the examiner who last worked their case. The current customer satisfaction rating is 83.2 percent, and it is our expectation that as more taxpayers take advantage of this communication vehicle, we'll continue to see this high level of customer satisfaction.

Regarding the Earned Income Tax Credit (EITC), the IRS currently staffs a year-round toll-free telephone line in order to answer questions on EITC correspondence audits, many of which contain an audit issue for the Child Tax Credit/Additional Child Tax Credit. Our employees who answer these toll-free calls are trained and experienced, and best equipped to answer taxpayer telephone calls related to these potential audit issues. To enhance the taxpayer experience on the phone, a new Fast Track option will be implemented in 2021 for taxpayers inquiring about whether we received their documentation. This option will reroute incoming customer calls to an assistor to provide taxpayers with information on the receipt and status of their correspondence. We will continue to leverage available technology, as budget permits, to enhance taxpayers' experience when interacting with the IRS.

TAXPAYER ADVOCATE SERVICE COMMENTS

While the IRS advises that it is not practical to assign one employee to handle all aspects of a taxpayer's correspondence examination, the described procedures suggest that correspondence audits are primarily assigned and worked by one employee. The simple lack of a direct telephone line, however, prevents the taxpayer from contacting the assigned employee directly, enabling the assigned examiner to serve as the taxpayer's single point of contact for assistance. Correspondence examiners hold responsibility for both staffing the correspondence audit toll-free phone lines and for auditing the tax returns selected for correspondence audit. It is unclear why these employees can audit returns and answer calls, yet it is impractical for correspondence examiners to answer calls from the taxpayers they are assigned to audit.

Recently implemented telephone and TDC technology, could serve to enhance the IRS's ability to provide taxpayers a single point of contact for correspondence audit assistance, and demonstrates that IRS has the capability to provide correspondence audit examiners with phone lines equipped to receive direct incoming calls. As stated, the inability to reach a single point of contact diminishes the customer experience, creates IRS inefficiency, and hinders opportunities to engage and educate our nation's taxpayers. Providing taxpayers who have responded to their correspondence audit notifications with the contact information of the assigned examiner will improve the customer experience, improve efficiency and is necessary for tax administration. Because correspondence exam is recognized as a critical part of the IRS's overall compliance approach to fair and balanced tax administration, the IRS must be willing to reconsider its current approach to the correspondence audit process — the process used to conduct the highest percentage of taxpayers audits throughout the IRS. In light of the fact that correspondence audits result in the highest rate of audit deficiencies assessed by default⁶⁴ and produced a high volume of petitions to the U.S. Tax Court, this is an area ripe for improvement.

RECOMMENDATIONS

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. Provide taxpayers responding to correspondence audit notices the name, telephone number, and unique identifying number of an IRS employee who can serve as their direct contact throughout the correspondence audit process, along with the employee's secure email address or the TDC Secure messaging access needed to send and receive documents and communicate electronically with the assigned examiner.
2. Ensure that the volume and timing of audits conducted are commensurate with the IRS's ability to provide correspondence audit toll-free phone services, timely correspondence responses, and timely audit completion.
3. Expand TDC Secure Messaging capabilities to all correspondence audit programs.

⁶⁴ IRM 4.8.9.26, Defaulted Notices (July 9, 2013). The IRS may assess a proposed audit deficiency by default if the taxpayer does not petition the U.S. Tax Court within 105 days of the date a Statutory Notice is issued (165 days if the taxpayer resides outside of the U.S.). IRS CDW, AIMS Closed Case Database FY 2019 (Oct. 2020).