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#18**ONLINE SERVICES: The IRS's Sudden Discontinuance of the Disclosure Authorization and Electronic Account Resolution Applications Left Practitioners Without Adequate Alternatives****RESPONSIBLE OFFICIALS**

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DEFINITION OF PROBLEM

The IRS offers practitioners the option to interact electronically through an e-Services suite of web-based products. In early 2013, the IRS decided to retire the Disclosure Authorization (DA) and Electronic Account Resolution (EAR) applications in e-Services without discussing the matter with the practitioner community beforehand. DA enabled practitioners to electronically submit Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*. DA processed approximately one-tenth of all disclosure authorizations (over 372,000 authorizations) submitted to the IRS in fiscal year (FY) 2013.¹ The EAR application enabled practitioners to interact with the IRS electronically on a client's account-related issues. EAR competed more than 31,000 transactions in FY 2013.²

The IRS cited two reasons for discontinuing the programs: low usage and increased operating costs.³ The National Taxpayer Advocate is concerned that, in making this decision, the IRS failed to take the following actions:

- **Base the Decision on a Strategic Plan to Promote and Develop e-Services.** The IRS failed to make the decision pursuant to an overarching strategic plan to expand e-service options to all tax partners. For example, it did not attempt to reevaluate and modify its marketing strategy for the two applications to increase usage and lower the cost per transaction. The IRS also failed to consider the additional long-term costs of practitioners' migration away from the online services to paper and phone-based systems.⁴
- **Provide an Electronic Alternative.** The IRS failed to take concrete steps to replace the programs with less costly alternative applications despite the clear demand for more electronic services by the practitioner community and the IRS's own strategic objective of expanding e-services to its tax partners.⁵

1 On September 2, 2013, the IRS retired the DA & EAR systems. Wage and Investment division (W&I) response to information request (Oct. 31, 2013). The amount of transactions in FY 2013 (372,681 through the week ending Sept. 7, 2013) was a slight increase over the 332,198 in FY 2012 and 282,987 in FY 2011. Ten percent is an understatement as the Centralized Authorization File (CAF) numbers include revocations of authorizations and other forms not processed through DA.

2 W&I response to TAS information request (Oct. 31, 2013). The number of transactions in FY 2013 (31,338 through the week ending Sept. 7, 2013) was a slight decrease from the 33,677 in FY 2012 (but a slight increase over the 30,457 in FY 2011).

3 *Id.*

4 *Id.*

5 IRS Strategic Plan 2009-2013 at 16.

- **Consult with Stakeholders Beforehand.** The IRS did not engage its stakeholders before making the final decision to retire the applications. Had the IRS done so, it might have recognized that growth potential warranted the investment in redesign and continuation of these two services.
- **Pay Due Consideration to the Increased Burden on Practitioners and Taxpayers.** Once the IRS retired the programs, practitioners who used DA reverted back to either mailing or faxing their disclosure authorization forms to the Centralized Authorization File (CAF), which has experienced increasing processing times and issues, in part, due to its outdated systems.⁶ In addition, those who used EAR must now contact the IRS through the Practitioner Priority Service (PPS), which has experienced decreasing customer service representative (CSR) levels of service and increasing wait times since fiscal year (FY) 2010.⁷

ANALYSIS OF PROBLEM

Background

The IRS has a strategic goal to provide more electronic services to its partners.⁸ The vehicle for providing such online tools to tax professionals is “e-services,” a suite of web-based products that allow tax professionals and payors to conduct business with the IRS electronically. Disclosure Authorization (DA) and Electronic Account Resolution (EAR) were two applications offered in IRS e-Services. DA allowed registered users to create, view, and modify Forms 2848, *Power of Attorney and Declaration of Representative*, and 8821, *Tax Information Authorization* (collectively referred to as disclosure authorizations herein).⁹ For example, when clients receive notices from the IRS, in order for their tax professionals to understand and address the notices, they file an authorization (such as Form 2848 or Form 8821) to contact the IRS on behalf of their clients. Using e-Services, tax professionals could instantaneously file an authorization through DA. The benefits of DA included quick processing and immediate acknowledgement of submissions, which are vital to stop levy actions and notices of deficiency.

Once a disclosure authorization was processed, the professional could later request clarification of the notice through EAR. EAR allowed tax professionals to expedite resolution of clients’ account problems by electronically sending and receiving related inquiries. This meant practitioners could:

- Instantly inquire about client refunds;
- Request account changes;
- Establish installment agreements for clients to pay taxes; and
- Submit other inquiries—all without long wait times or faxing authorizations during a call to the IRS.

6 National Taxpayer Advocate 2012 Annual Report to Congress 281-301 (Most Serious Problem: *IRS Processing Flaws and Service Delays Continue to Undermine Fundamental Taxpayer Rights to Representation*); National Taxpayer Advocate 2010 Annual Report to Congress 171-186 (Most Serious Problem: *Persistent Breakdown in Power of Attorney Processes Undermine Fundamental Taxpayer Rights*); National Taxpayer Advocate 2009 Annual Report to Congress 256-271 (Most Serious Problem: *IRS Power of Attorney Procedures Often Adversely Affect the Representation Many Taxpayers Need*).

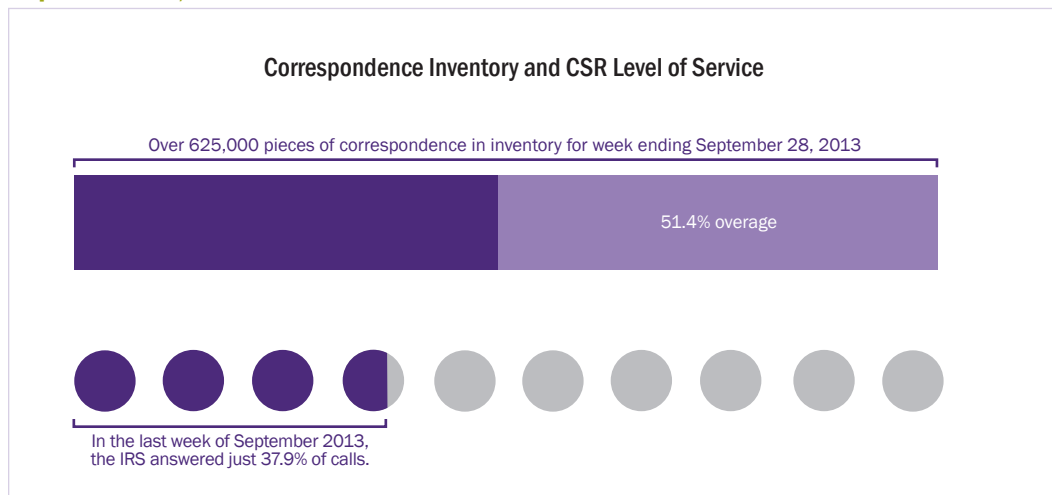
7 Internal Revenue Service Oversight Board Annual Report 2012 at 23. Monthly CSR level of service (LOS) rates varied but declined overall in FY 2013. Rates also declined for full FYs 2010 through 2012, but there was a slight increase in level of service in FY 2013 (when compared to 2012, but 2013 CSR LOS is less than 2010 levels) overall. Enterprise Snapshot Reports (Sep. 28, 2013). IRS, Joint Operations Center, Executive Level Summary Reports (Nov. 25, 2013).

8 IRS Strategic Plan 2009-2013 at 16.

9 W&I Operating Division Business Performance Review (BPR), FY 2013: First Quarter 7 (Mar. 2013).

The IRS responded to the EAR inquiry to a secure electronic mailbox within three business days, which is significantly less time than it would take to receive a response by mailing correspondence to the IRS. In fact, at the end of September 2013 the IRS had over 625,000 pieces of correspondence in inventory, of which more than half were considered overage.¹⁰ For taxpayers and representatives who attempted to talk to a customer service representative on the IRS Customer Account Services telephone lines, the IRS reported a level of service of less than 40 percent during the last week of FY 2013, which means for this week the IRS did not answer more than six out of every ten calls.¹¹

FIGURE 1.18.1, Correspondence Inventory and CSR Level of Service for Week Ending September 28, 2013



In March 2013, the IRS decided to retire the DA and EAR applications effective August 11, 2013.¹² This date was subsequently postponed to September 2, 2013, to coincide with the migration to a new web portal.¹³ The IRS cited low usage and costs as reasons to retire the applications.¹⁴

The IRS’s Decision to Retire the Two Applications Based on Increased Costs and Low Usage Does Not Comport with its Strategic Plan to Promote and Develop e-Services.

The IRS Strategic Plan in place at the time of the decision to terminate the programs has as its first goal to “[i]mprove service to make voluntary compliance easier.” To achieve this goal, Objective Four provides that it will “[s]trengthen partnership with tax practitioners, tax preparers, and other third parties in order

10 IRS, Joint Operations Center, *Accounts Management Information Report (AMIR) National Summary* (week ending Sept. 28, 2013). The IRS had 626,451 pieces of correspondence in inventory of which 51.4 percent were considered overage. The definition of overage varies by topic but it is generally over 45 days old.

11 IRS, Joint Operations Center, *Executive Level Summary Reports* (week ending Sept. 28, 2013). For this week, IRS reported a 37.9 percent CSR LOS. IRS now refers to Customer Account Services telephone lines as Accounts Management (AM) telephone lines. This is a compilation of 27 lines (AM is a sum of 27 (1040, 4933, 1954, 0115, 8374, 0922, 0582, 5227, 1778, 9887, 9982, 2942, 4184, 7388, 0452, 0352, 7451, 9946, 5215, 3536, 2050, 4778, 4259, 8482, 8775, 5500 and 4490).

12 W&I Operating Division BPR, FY 2013: First Quarter 7 (Mar. 2013).

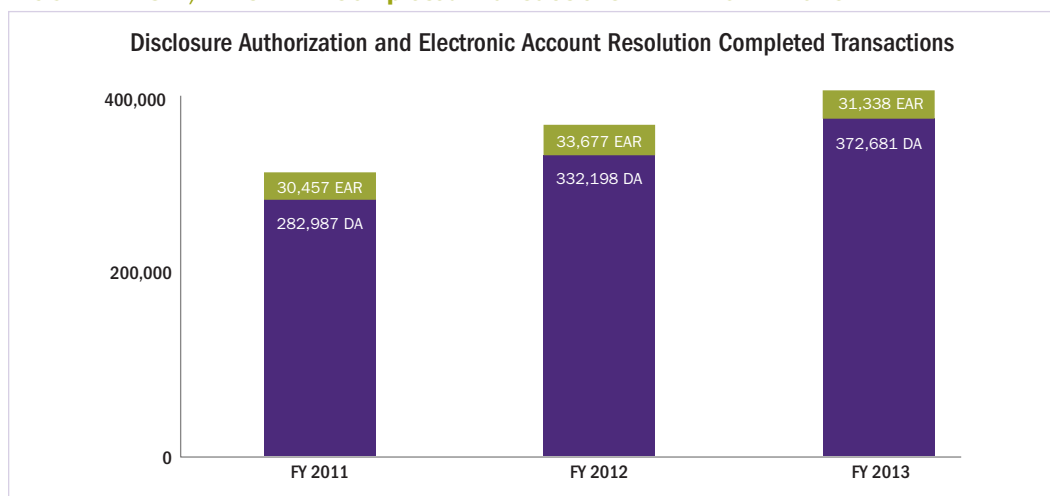
13 W&I response to TAS information request (Oct. 31, 2013). A portal is a critical interface between the IRS and the public. It is a point of entry to a network system that includes a search engine or collection of links to other sites arranged by topic. The IRS’s Internet portal provides the infrastructure that allows users (IRS employees and taxpayers) to have Web-based access to IRS information and file tax returns electronically.

14 *Id.*

to ensure effective tax administration.” Among the many ways the IRS will increase the quality of service to tax partners, the strategic plan clearly states that the IRS will “expand e-service options.”¹⁵ In addition, the second objective under the Plan’s Strategic Foundation to “[i]nvest for high performance” provides that the IRS should “[b]uild and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity” and provides as its fourth strategy thereunder to “[e]xpand online tools and services.”¹⁶ Therefore, by discontinuing two applications within e-Services without offering improved electronic alternatives, the IRS appears to have failed several objectives and strategies of its own Strategic Plan.

Before retirement, the DA system processed approximately 300,000 disclosure authorizations annually, with usage increasing steadily over the past three years. EAR experienced lower usage numbers with over 31,000 transactions completed in FY 2013, which is consistent with the previous two fiscal years. The chart below shows the transactions completed in DA and EAR.¹⁷

FIGURE 1.18.2, DA & EAR Completed Transactions — FY 2011–2013¹⁸



The Centralized Authorization File units in Accounts Management received the larger portion of the disclosure authorizations (approximately 3.4 million annually).¹⁹ Consequently, roughly ten percent of the authorizations were transmitted through DA.²⁰ The chart below illustrates authorizations received by the CAF unit for FY 2011 through 2013.

¹⁵ IRS Strategic Plan 2009–2013 at 16.

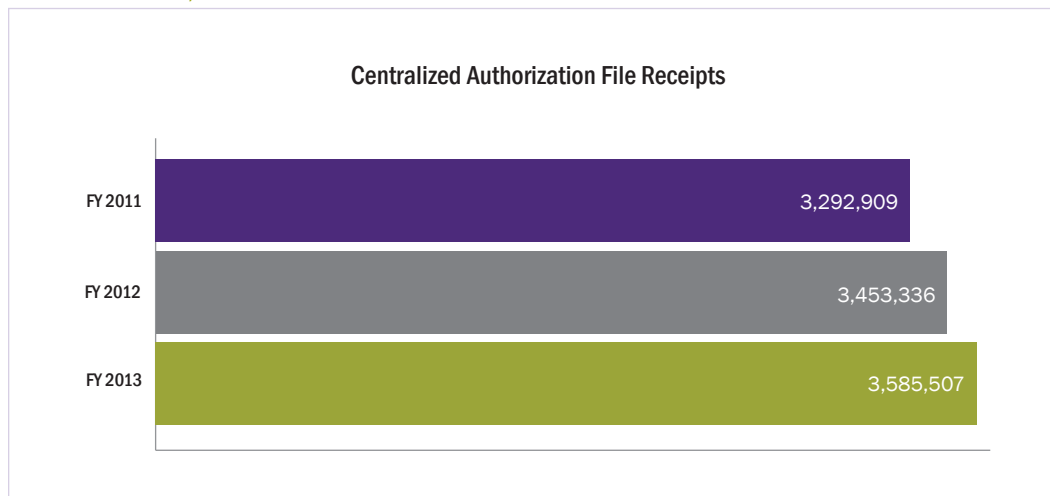
¹⁶ *Id.*

¹⁷ EAR completed 31,338 transactions in FY 2013, 33,677 transactions in FY 2012 and 30,457 in FY 2011. W&I response to TAS information request (Oct. 31, 2013).

¹⁸ The IRS retired the DA & EAR systems Sept. 2, 2013, thus the data reflects transactions completed through the week ending Sept. 7, 2013. *Id.*

¹⁹ W&I response to TAS information request (Oct. 31, 2013, and Dec. 18, 2013). DA processed 282,987 transactions in FY 2011, 332,198 in FY 2012 and 372,681 in FY 2013. CAF had 3,292,909 receipts in FY 2011, 3,453,336 in FY 2012 and 3,585,507 in FY 2013. W&I Operating Division BPR, FY 2013: First Quarter 7 (Mar. 2013).

²⁰ The CAF data reflects receipts while the DA data reflects transactions completed. Ten percent is a conservative estimate and likely an understatement as the CAF numbers include revocations of authorizations and other forms not processed through DA.

FIGURE 1.18.3, CAF RECEIPTS FY 2011–2013²¹

While the IRS promoted these e-service applications through various media over the years, it did not attempt to modify its marketing plan once low usage became a concern and possible basis for termination. Rather than attempting to increase use, the IRS decided to decrease it to zero.²²

In addition to low usage, the IRS has cited costs as a main reason for discontinuing these applications. The IRS retired the applications upon the launch of a new web portal that is considered more modern, with increased flexibility and security. Facing a limited budget, the IRS could not afford to redesign the two e-services applications to transition them to the new portal.²³

The IRS's final decision to terminate the programs runs counter to the goals of the Strategic Plan. Cost is an important program redesign objective, but in itself is insufficient without factoring in the objectives of time reduction and the measure of output quality. In fact, due to its budget restrictions, the IRS appears to have targeted "low hanging fruit" to suit its short-term fiscal needs without considering the long-term costs of paper and phone-based systems to replace the two applications.²⁴ In addition, the IRS made no effort to modify its current marketing strategy to increase usage and thereby lower the cost per transaction.²⁵ Finally, in this case, technology was viewed solely as a cost issue as opposed to a way of reshaping and improving business processes eliminating expensive downstream rework.

The IRS also failed to give due consideration to the long-term impact on its tax partners. When the IRS suddenly terminates an online self-service tool geared toward the tax practitioner community, it does not instill an atmosphere of trust. Practitioners may be wary and unwilling to invest resources in future IRS

²¹ W&I response to TAS information request (Oct. 31, 2013).

²² The IRS promoted the programs at the Tax Forums, in seminars to practitioner groups, and on PPS. However, it did not modify its marketing plan to increase usage before termination. *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ In a response to a 2009 Annual Report Recommendation 5-1, the IRS recently stated, "The IRS has already completed a short term research study and identified several quick-hits pertaining to existing electronic services that offer opportunities to enhance our e-services portfolio. Longer-term internet strategy key initiatives are underway for completion March 15, 2014." OLS response and request to close 2009 Annual Report to Congress Recommendation 5-1 (Sept. 13, 2013).

products and change their practices accordingly if they have no assurance that the IRS will support the product in the future.

The IRS Did Not Consider Replacement Electronic Applications Before Terminating the Applications

The IRS has said it intends to replace DA with a more cost-effective automated system that will save time with more user-friendly features.²⁶ However, it has not provided any concrete plans to roll out a comparable electronic alternative. The IRS Office of Online Services told TAS that it has an unfunded and yet-to-be prioritized work request to replace DA as a web-based stand-alone product.²⁷ In addition, we have recently learned the IRS will begin a limited pilot to use eFax for the storage and receipt of incoming powers of attorney in 2014.²⁸ While not as efficient as DA, we believe eFax could be a non-paper alternative with some of the benefits of electronic transmission.

Any new online application will have significant start-up costs, but the IRS must factor into its cost analysis the long-term savings of eliminating the need for manual processing. Once a new application is proven to operate effectively, the IRS could even phase in a mandate of its use for practitioners governed by Circular 230, *Regulations Governing Practice before the Internal Revenue Service*.

The IRS's final decision to terminate the programs does not display any strategic forethought and runs contrary to the goals of the IRS Strategic Plan.

The IRS Retired the Applications Without Soliciting Stakeholder Comments Beforehand or Adequately Addressing Practitioners' Needs

The IRS made the final decision to terminate the two applications without soliciting comments from its stakeholders beforehand. Almost immediately after the IRS announced the decision on its website, there was outcry from the practitioner community, many of whom contacted the Taxpayer Advocate Service to voice their significant concerns.²⁹ Practitioners were outraged that they were never consulted before the announcement, and nearly 4,000 of them signed a petition urging the IRS to reverse its decision.³⁰ By not consulting practitioners in advance, the IRS deprived itself of advice on how to improve the two programs or even market them to increase usage. Thus, at least in this instance, the IRS designed its e-services in a vacuum.

Many practitioner groups have voiced concern that the applications had low usage because the practitioners were not adequately informed of their availability, and have even offered to assist the IRS in raising awareness.³¹ While the IRS may cite low past usage of the products, the public outcry alone demonstrates there is great potential demand for the services. Had the IRS consulted with those stakeholder groups

26 W&I response to TAS information request (Oct. 31, 2013).

27 *Id.*

28 William Hoffman, *Werfel Warns of Service Cuts from Further IRS Budget Reductions*, *Tax Notes Today* (Nov. 21, 2013).

29 Kristin Esposito, *IRS E-Services: Can They Come Back Better Than Before?* AICPA Insights (Aug. 5, 2013); Jeff Stimpson, *Thousands of Practitioners Protest End of e-Services Tools*, *Accounting Today* (July 19, 2013).

30 Jeff Stimpson, *Thousands of Practitioners Protest End of e-Services Tools*, *Accounting Today* (July 19, 2013).

31 Joint Letter from National Association of Enrolled Agents, National Society of Accountants, and National Association of Tax Professionals to Acting IRS Commissioner (June 21, 2013), available at <http://www.naea.org/advocacy/comments-letters/irs-retiring-da-ar-e-services>; Letter from Florida Institute of Certified Public Accountants to Acting Commissioner (July 15, 2013), available at <http://www.ficpa.org/Content/News/NewsFlash/July-25-2013.aspx>.

prior to making its decision, it might have recognized the growth potential warranted the investment in redesign and continuation of these two services.

To many practitioners, the sudden and unexpected announcement appeared inconsistent with previous IRS communications encouraging practitioners to use e-Services — and even mandating that they e-file their clients' returns. Until this point, there was a perceived momentum on the part of the IRS to implement electronic solutions. Thus, the announcement came as a complete surprise to the practitioner community.³²

When the IRS Oversight Board conducted discussion groups with practitioners at the 2012 Nationwide Tax Forums, one of the ten main themes that emerged in those discussions was the practitioner demand for electronic tools to interact with the IRS.³³ Moreover, the IRS Electronic Tax Administration Advisory Committee (ETAAC) criticized the decision by stating, “removing online tools and reverting to a paper submission process is counter-productive.”³⁴

The National Taxpayer Advocate understands that the IRS has a limited budget for online services and must prioritize applications based on costs, usage, and impact. However, we believe the IRS should have engaged the stakeholder community and the National Taxpayer Advocate before making a final decision. As noted above, once the IRS announced the planned retirement, the practitioner community immediately raised its concerns; thus it is very likely that the practitioner community would have been responsive to the IRS in providing pre-decisional comments.

The IRS Decision Has Increased the Burden on Tax Practitioners and Their Taxpayer Clients.

In retiring the applications, the IRS acknowledged the customer impact to practitioners who used DA but now must go back to submitting paper POA and authorization forms by fax or regular mail. This change will significantly increase turnaround time from almost immediate processing with the online program to approximately five days of processing through the CAF.³⁵ To handle the increased workload, the IRS increased CAF staffing from nearly 220 full-time equivalents (FTEs) during FY 2012 to over 230 in FY 2013 with a goal of maintaining the level of service of five days or less going forward.³⁶ However, the IRS also has acknowledged, “current budget cuts will impact their dedicated resources to this program and they are working to determine the impact on processing time.”³⁷

The National Taxpayer Advocate is concerned that the IRS believes it has adequately addressed practitioner needs by directing Forms 2848 and 8821 away from an effective online system, which gained increasing acceptance from the practitioner community, toward a paper-based system with a poor track

32 Jim Buttonow, *Eight Ways to Improve IRS e-Services*, AICPA Tax Insider (July 11, 2013).

33 IRS Oversight Board Annual Report 2012 at 6, 33.

34 Electronic Tax Administration Advisory Committee, 2012 Annual Report to Congress 38 (June 3, 2012). ETAAC is an advisory committee pursuant to Federal Advisory Committee Act and established under the IRS Restructuring and Reform Act of 1998 (RRA 98) with the primary duty to provide input to the IRS on its strategic plan for electronic tax administration.

35 W&I response to TAS information request (Oct. 31, 2013). See also *e-Services for Low Income Taxpayer Clinics* (Nov. 13, 2013), available at <http://www.irs.gov/Advocate/e-Services-for-Low-Income-Taxpayer-Clinics>.

36 W&I Operating Division BPR, FY 2013: First Quarter 7 (Mar. 2013); W&I response to TAS information request (Oct. 31, 2013) shows a staffing increase from 218 in FY 2012 to 232 in FY 2013.

37 W&I response to TAS information request (Oct. 31, 2013); W&I Operating Division BPR, FY 2013: First Quarter 7 (Mar. 2013).

record, increased overall processing times, and a lack of acknowledgement upon receipt of submissions. Practitioners have also voiced similar concerns that they will be forced to revert to inefficient, old-fashioned methods.³⁸

In the 2009, 2010, and 2012 Annual Reports, we have written about the problems experienced with processing authorization requests through the CAF unit. Specifically, the ineffective and outdated high-speed fax machines used by the CAF have failed to transmit all pages, break down frequently, and sometimes do not even receive authorizations. In addition, the unit has misplaced or failed to record authorizations. Practitioners do not receive an acknowledgement upon submission and many actually submit authorizations in duplicate to ensure receipt, which only creates a greater backlog.³⁹ Moreover, for authorization requests it actually works, the CAF has experienced long processing times in the past.⁴⁰ The IRS has stated that it has a goal to maintain processing times of five days or less, but this still increases the risk that taxpayers will not receive the benefit of representation during critical periods, such as levy actions.⁴¹ Furthermore, the longer processing times increase the likelihood that the practitioner will contact the IRS several times, which only increases costs to the IRS.⁴² Any additional time the practitioner spends submitting disclosure authorization is a cost of representation likely passed on to the client.

Practitioners who used EAR for assistance with client account issues must now call the PPS, which experienced a steady decline in service between FY 2010 and FY 2012. For example, in FY 2010, the CSR level of service was 80 percent, with a decrease to 78 percent in FY 2011 and 73 percent in FY 2012. The CSR level of service slightly increased to 75 percent in FY 2013, but the average wait time to receive an answer nearly doubled from over 10 minutes in FY 2010 to nearly 20 minutes in FY 2013.⁴³ The graphic below shows the fluctuation in the wait times as well as level of service on PPS during each month of FY 2013:

38 Letter from Florida Institute of Certified Public Accountants to Acting Commissioner (July 15, 2013); Joint Letter from National Association of Enrolled Agents, National Society of Accountants, and National Association of Tax Professionals to Principal Deputy Commissioner Daniel Werfel (June 21, 2013).

39 National Taxpayer Advocate 2012 Annual Report to Congress 281-301 (Most Serious Problem: *IRS Processing Flaws and Service Delays Continue to Undermine Fundamental Taxpayer Rights to Representation*); National Taxpayer Advocate 2010 Annual Report to Congress 171-186 (Most Serious Problem: *Persistent Breakdown in Power of Attorney Processes Undermine Fundamental Taxpayer Rights*); National Taxpayer Advocate 2009 Annual Report to Congress 256-271 (Most Serious Problem: *IRS Power of Attorney Procedures Often Adversely Affect the Representation Many Taxpayers Need*). Disclosure Authorization issues a real-time acknowledgement of accepted submissions. See <http://www.irs.gov/Advocate/e-Services-for-Low-Income-Taxpayer-Clinics> (last visited Dec. 11, 2013).

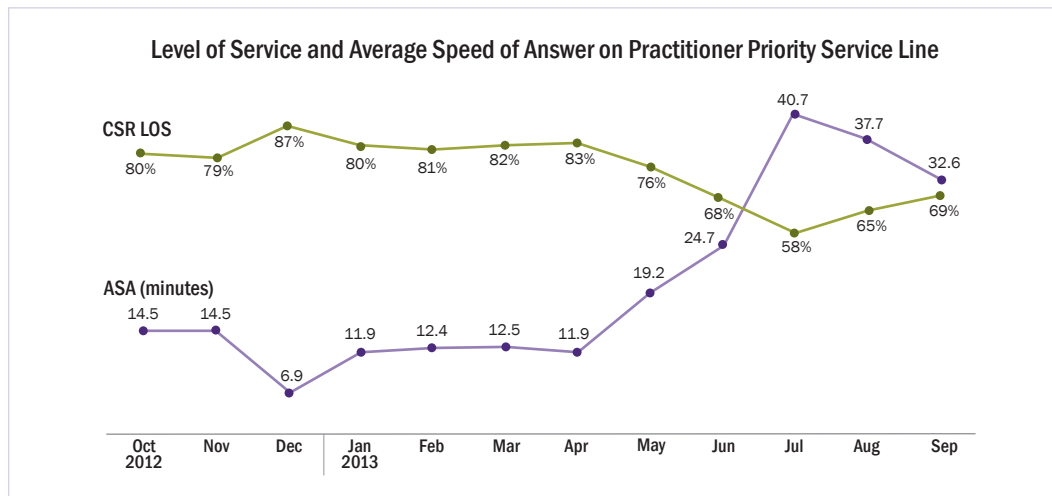
40 National Taxpayer Advocate 2012 Annual Report to Congress 281-301 (Most Serious Problem: *IRS Processing Flaws and Service Delays Continue to Undermine Fundamental Taxpayer Rights to Representation*); National Taxpayer Advocate 2010 Annual Report to Congress 171-186 (Most Serious Problem: *Persistent Breakdown in Power of Attorney Processes Undermine Fundamental Taxpayer Rights*).

41 W&I response to TAS information request (Oct. 31, 2013). The IRS states “In 2013 Accounts Management CAF processing was consistently 5 days or less.”

42 *Id.* Authorizations input via e-Services Disclosure Authorization (DA) were immediately loaded to the Centralized Authorization File (CAF).

43 Internal Revenue Service Oversight Board Annual Report 2012 at 23; IRS Joint Operations Center, Snapshot Product Line Detail Reports (Sept. 30, 2011, Sept. 30, 2012, Sept. 30, 2013). The CSR LOS for the PPS was 79.8 percent for FY 2010, 78.3 percent for FY 2011, 73.4 percent for FY 2012, and 75.0 percent for FY 2013.

FIGURE 1.18.4, FY 2013 Monthly CSR Level of Service and Average Speed of Answer on PPS⁴⁴



CONCLUSION

The IRS discontinued the DA and EAR applications undermining its strategic plan to expand e-service options to all tax partners. The decision was made without first consulting the practitioner community. Requiring practitioners to revert to paper and phone-based systems, which have had declining service in recent years, sends a message to the community that the IRS is unresponsive to practitioners’ needs in favor of its own short-term budgetary needs. In addition, taxpayers will pay the ultimate price when their disclosure authorizations are not processed timely.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Consult with and solicit comments from impacted stakeholders, *i.e.*, the practitioner community, before deciding whether to retire applications.
2. Establish a strategic plan to identify, develop, and promote viable electronic alternatives to discontinued applications prior to discontinuance.
3. For online practitioner applications experiencing low usage, solicit comments from the users on how to improve the applications to boost usage to acceptable levels.
4. Solicit suggestions from practitioners on marketing strategies and potentially develop a joint marketing initiative, leveraging stakeholders’ ability to communicate with their members.
5. Evaluate potential electronic alternatives to the retired e-services applications.

⁴⁴ IRS Joint Operations Center, Snapshot Product Line Detail Reports (Sept. 30, 2011, Sept. 30, 2012, Sept. 30, 2013). Average speed of answer was 10.5 minutes in FY 2010 compared to 19.7 minutes in FY 2013.