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## VIRTUAL SERVICE DELIVERY (VSD): Establish Targets and Deadlines for the Development and Implementation of VSD in Brick & Mortar Locations, in Mobile Tax Assistance Units, and Over the Internet

### PROBLEM

In the deliberations leading to passage of the IRS Restructuring and Reform Act of 1998 (RRA 98), both the National Commission on Restructuring the IRS (Restructuring Commission) and Congress articulated a vision of the IRS operating as a business that used cutting-edge computer technology to increase accountability and improve taxpayer service.<sup>1</sup> Taxpayers are ready to embrace this technology.<sup>2</sup> The Social Security Administration (SSA) and the Department of Veterans Affairs (VA) have made extensive use of VSD to increase the accessibility and availability of their services.<sup>3</sup> Nevertheless, despite the vision of the Restructuring Commission and Congress, the openness of taxpayers to embrace computer technology, and the successes of other agencies, the IRS is still operating as a 20<sup>th</sup> century business, primarily relying on postal correspondence, telephone conversations, and taxpayer visits to brick and mortar locations.<sup>4</sup>

VSD in brick and mortar locations, such as Taxpayer Assistance Centers (TACs), allows taxpayers virtual face-to-face (VFTF) access to the IRS, and is particularly important for taxpayers who live in rural areas or who lack their own computer technology or proficiency in its use.<sup>5</sup> However, only 49 facilities currently provide VSD and the IRS has allocated no additional funding to expand this capacity.<sup>6</sup> Mobile tax assistance units, none of which are currently employed by the IRS, could also be equipped with VSD technology to bring VSD to strategic locations and needy populations.

Further, the provision of VSD over the Internet using taxpayer digital communications (TDC), which has the potential to revolutionize tax administration, is still in its conceptual stages.<sup>7</sup> This halting development of VSD in its various manifestations often has the effect of preventing taxpayers from face-to-face interactions with the IRS, which inhibits crucial communication and thereby infringes on *the right to quality service*, one of the core elements of the Taxpayer Bill of Rights (TBOR), recently adopted by the IRS.<sup>8</sup>

- 1 National Commission on Restructuring the Internal Revenue Service, *A Vision for a New IRS*, 6-8 (June 25, 1997); 144 Cong. Rec. S4182.
- 2 IRS Oversight Board, 2013 Taxpayer Attitude Survey, (conducted August 2013), available at [http://www.treasury.gov/IRSOB/reports/Documents/IRSOB\\_TAS%202013.pdf](http://www.treasury.gov/IRSOB/reports/Documents/IRSOB_TAS%202013.pdf) (last visited Aug. 25, 2014).
- 3 For a more in-depth discussion of this topic and for expanded analysis of the problem addressed by this legislative recommendation, see Most Serious Problem: *VIRTUAL SERVICE DELIVERY: Despite a Congressional Directive, the IRS Has Not Maximized the Appropriate Use of Videoconferencing and Similar Technologies to Enhance Taxpayer Services*, *supra*.
- 4 The exception to this circumstance is electronic filing of tax returns, the prevalence of which can be directly traced to the congressional mandate established in RRA 98. See Pub. L. No. 105-206, § 2001, 112 Stat. 685, 723 (1998).
- 5 See Most Serious Problem: *VIRTUAL SERVICE DELIVERY: Despite a Congressional Directive, the IRS Has Not Maximized the Appropriate Use of Videoconferencing and Similar Technologies to Enhance Taxpayer Services*, *supra*.
- 6 User & Network Services (Network Services) response to TAS research request (Aug. 6, 2014).
- 7 IRS Online Services (OLS) response to TAS research request (Aug. 18, 2014).
- 8 See IRS, Taxpayer Bill of Rights, available at <http://www.irs.gov/Taxpayer-Bill-of-Rights>.

**EXAMPLE<sup>9</sup>**

A taxpayer who lives in a rural area is the subject of a correspondence audit that raises substantiation questions and legal issues.<sup>10</sup> The taxpayer wishes to have a face-to-face meeting with the IRS agent to properly present his factual information and best explain his overall tax position. The taxpayer has a good deal of documentation, and is willing to obtain more, but is unsure what the IRS requires or would accept as substantiation for his claim.

The IRS does not maintain an office in the taxpayer's vicinity. Moreover, although the taxpayer's local community has a TAC and other public buildings such as a post office and a library, none of these sites are outfitted with videoconferencing equipment.

Because no VSD technology is available to offer a VFTF conference, the taxpayer must either travel to meet with the IRS agent, which the taxpayer cannot afford, or allow the audit to move forward without the desired face-to-face contact. Seeing no alternative, the taxpayer proceeds with the audit, communicating with the IRS solely by mail and telephone, and speaking with numerous employees.

At the conclusion of the audit, the IRS proposes a substantial income adjustment resulting in tax deficiencies and accompanying penalties. The taxpayer, frustrated and disappointed with the process as well as the outcome, walks away from the experience feeling as though he was never able to adequately convey the nuances of his facts and tax position without the ability to interact with a single IRS agent face-to-face.

**RECOMMENDATION**

To address the need for enhanced and expanded virtual service delivery, the National Taxpayer Advocate recommends that Congress pass legislation to:

1. Establish targets and timelines for development and implementation of VSD in brick and mortar locations, including non-IRS facilities, in mobile tax assistance units, and via TDC over the Internet.
2. Provide funding, or require the IRS to allocate funding, sufficient to enable continued implementation of VSD initiatives in brick and mortar locations, in mobile tax assistance units, and over the Internet.

9 For a similar example relating to the lack of access to a face-to-face Appeals conference, see Legislative Recommendation: *ACCESS TO APPEALS: Require that Appeals Have at Least One Appeals Officer and Settlement Officer Located and Permanently Available Within Every State, the District of Columbia, and Puerto Rico, infra/supra*. See also Most Serious Problem: *APPEALS: The IRS Lacks a Permanent Appeals Presence in 12 States and Puerto Rico, Thereby Making It Difficult for Some Taxpayers to Obtain Timely and Equitable Face-to-Face Hearings with an Appeals Officer or Settlement Officer in Each State, supra*.

10 Correspondence examinations are centralized and automated in large IRS campuses. These examinations use batch processing, which automates the initiation, processing, and closing of correspondence examination cases. See NTA Blog: *Are IRS Correspondence Audits Really Less Burdensome for Taxpayers?* (Mar. 13, 2012), available at <http://www.taxpayeradvocate.irs.gov/Blog/are-irs-correspondence-audits-really-less-burdensome-for-taxpayers>.

## PRESENT LAW

Section 3465(b) of RRA 98 provides “The Commissioner of Internal Revenue shall ensure that an appeals officer is regularly available within each State.”<sup>11</sup> Congress, however, recognizing that this physical presence alone may not be sufficient to meet taxpayer demand and wishing more generally to help the IRS develop the tools to function as a 21<sup>st</sup> century business, also passed § 3465(c). That section directs the IRS to “consider the use of the videoconferencing of appeals conferences between appeals officers and taxpayers seeking appeals in rural or remote areas.”<sup>12</sup>

In passing RRA 98, Congress urged the IRS to adopt a course of action that likely would have generated substantial progress in the use of VSD to improve customer service. Although Congress called for the IRS to explore VSD in the context of Appeals, technological innovation on that front presumably would have migrated to other IRS divisions. More than 15 years after the enactment of RRA 98, however, the desire reflected in and the opportunity presented by Congress’ videoconferencing directive have yet to be achieved.

## REASONS FOR CHANGE

The IRS has ample evidence to indicate that taxpayers generally favor the use of VSD. In a limited pilot conducted by the Wage & Investment (W&I) division of the IRS between October 2011 and June 2012, 87 percent of taxpayers reported they were satisfied with the services provided, and 91 percent would use VSD again.<sup>13</sup> Similarly, 83 percent of taxpayers responding to a study conducted by the IRS Oversight Board indicated they were likely to use the IRS website, while 72 percent said they were likely to use email to send questions to the IRS.<sup>14</sup>

As models for the successful implementation of VSD, the IRS can look to the SSA, which in 2012 held over 25 percent of its hearings by video, and the VA, which operates over 700 sites with videoconferencing capacity for veterans who lack easy access to VA hospitals.<sup>15</sup> Effective use of such technology would allow the IRS to deliver services outside of IRS facilities, enhance utilization of IRS resources, optimize staffing, balance workload, and increase taxpayer access to face-to-face services.<sup>16</sup>

Despite the acknowledged benefits of VSD, however, and the express urging of Congress over 15 years ago, the IRS has made only limited progress toward developing and implementing such technology. The IRS appears to have no current intention of expanding VSD in brick and mortar locations.<sup>17</sup> This decision would fall disproportionately hard on low income and elderly taxpayers, who are the most likely

11 Pub. L. No. 105-206, § 3465(b), 112 Stat. 685, 768 (1998). For a discussion of RRA § 3465(b), see Most Serious Problem: *APPEALS: The IRS Lacks a Permanent Appeals Presence in 12 States and Puerto Rico, Thereby Making It Difficult for Some Taxpayers to Obtain Timely and Equitable Face-to-Face Hearings with an Appeals Officer or Settlement Officer in Each State, infra/supra*; Legislative Recommendation: *ACCESS TO APPEALS: Require that Appeals Have at Least One Appeals Officer and Settlement Officer Located and Permanently Available Within Every State, the District of Columbia, and Puerto Rico, infra/supra*.

12 Pub. L. No. 105-206, § 3465(c), 112 Stat. 685, 768 (1998). See also 144 Cong. Rec. S4182.

13 E.g., in a limited pilot conducted by W&I between October 2011 and June 2012, 87 percent of taxpayers reported they were satisfied, to very satisfied, with this service, and 91 percent would use it again. W&I response to TAS fact check request (Nov. 4, 2014).

14 IRS Oversight Board, 2013 Taxpayer Attitude Study, available at [http://www.treasury.gov/IRSOB/reports/Documents/IRSOB\\_TAS%202013.pdf](http://www.treasury.gov/IRSOB/reports/Documents/IRSOB_TAS%202013.pdf) (last visited Aug. 25, 2014).

15 See Most Serious Problem: *VIRTUAL SERVICE DELIVERY: Despite a Congressional Directive, the IRS Has Not Maximized the Appropriate Use of Videoconferencing and Similar Technologies to Enhance Taxpayer Services, supra*.

16 Virtual Service Delivery: *Delivering Taxpayer Services Using Video Communications Technology* (Jan. 9, 2014). Provided as part of the Network Services response to TAS research request (Aug. 6, 2014).

17 Network Services supplemental response to TAS research request (Aug. 25, 2014).

to lack home computer technology or the proficiency required to use it when interacting with the IRS.<sup>18</sup> The IRS also has no plans to migrate delivery of face-to-face services to more flexible mobile tax assistance units, by which taxpayers could access VSD technology. These mobile units would enable the IRS to respond more nimbly to population shifts and natural disasters, and could be used to benefit underserved communities allowing for both pre-scheduled and walk-in visits.<sup>19</sup> Moreover, none of the projected functionalities of TDC, which will be delivered over the Internet, is in development, and most do not have projected availability dates.<sup>20</sup>

One of the fundamental rights within TBOR is *the right to quality service* which involves the right of taxpayers to receive prompt, courteous, and professional assistance in their dealings with the IRS, to be spoken to in a way they can easily understand, and to receive clear and easily understandable communications from the IRS. The ability to have face-to-face interactions with the IRS is an indispensable element of this right, and is greatly constrained by the lack of VSD options currently available to taxpayers.

The following table illustrates the funding allocated by the IRS to the development of VSD:

**FIGURE 2.4.1, IRS expenditures on VSD in fiscal years 2012–2014<sup>21</sup>**

	FY 2012	FY 2013	FY 2014
VSD in brick & mortar locations	\$1,531,000	\$1,736,000	\$0
VSD in mobile tax assistance units	\$0	\$0	\$0
VSD over the Internet (TDC)	\$0	\$375,000	\$1,700,000

Since the passage of RRA 98, the IRS has devoted insufficient resources and funding to the development of VSD. As a result, the IRS suffers from a VSD gap when compared with the technological advances made by some other agencies and private businesses.

By contrast, RRA 98 also established the specific goal that, by 2007, 80 percent of tax and information returns would be electronically filed.<sup>22</sup> As part of this legislation, Congress required the IRS Oversight Board, as well as the Electronic Tax Administration Advisory Committee, to report to Congress annually on the progress toward the goal.<sup>23</sup> The IRS did not meet the target in 2007, but the 80 percent electronic filing goal was extended to 2012, at which point it was reached.<sup>24</sup>

As analyzed by the IRS Oversight Board, “Looking back over the 15 years since the passage of RRA 98, the focus created by that goal [the 10-year, 80 percent electronic filing requirement] has proven to be an

18 See Most Serious Problem: *VIRTUAL SERVICE DELIVERY: Despite a Congressional Directive, the IRS Has Not Maximized the Appropriate Use of Videoconferencing and Similar Technologies to Enhance Taxpayer Services*, *supra*. See also Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2014-40-038, *Processes to Determine Optimal Face-to-Face Taxpayer Services, Locations, and Virtual Services Have Not Been Established* (June 27, 2014).

19 For a more in-depth discussion of this topic, see Most Serious Problem: *IRS LOCAL PRESENCE: The Lack of a Cross-Functional Geographic Footprint Impedes the IRS’s Ability to Improve Voluntary Compliance and Effectively Address Noncompliance*, *supra*. See also National Taxpayer Advocate 2008 Annual Report to Congress 95.

20 OLS response to TAS research request (Aug. 18, 2014).

21 Network Services response to TAS research request (Aug. 6, 2014); OLS response to TAS research request (Aug. 18, 2014).

22 Pub. L. No. 105-206, § 2001(a)(2), 112 Stat. 685, 723 (1998).

23 *Id.* at § 2001(d), 112 Stat. 685, 723 (1998).

24 IRS Oversight Board Electronic Filing 2012 Annual Report to Congress, 5 (Dec. 2012).

effective catalyst for coordinated efforts by the IRS, the tax professional community, and Congress. This has led to tremendous progress in electronic filing.”<sup>25</sup>

## EXPLANATION OF RECOMMENDATION

The IRS would benefit from the similar catalyst of congressionally mandated goals for development and implementation of VSD in brick and mortar locations, including non-IRS facilities, in mobile tax assistance units, and via TDC over the Internet. These parameters should include targets for the expanded availability of VSD in brick and mortar locations, emphasizing the use of partner locations to reach taxpayers who most need access to and help with such equipment. In particular, Congress should consider requiring the IRS to explore partnerships with the U.S. Postal Service, which could build VSD-equipped rooms available to a number of agencies including the IRS, the SSA, and the VA. Congress should also establish timetables and reporting obligations for continued expansion of VSD in brick and mortar locations and mobile tax assistance units, and the ongoing development and implementation of TDC over the Internet.

Congressional intervention and oversight would enhance and accelerate the IRS’s VSD initiatives. As with the 80 percent electronic filing goal, Congress should consider requiring the IRS Oversight Board, the Electronic Tax Administration Advisory Committee, or other appropriate entities to report annually on the progress being made toward the applicable targets and deadlines. Funding to facilitate this essential progress, however, will need to be provided by Congress or separately allocated by the IRS pursuant to congressional directive.<sup>26</sup>

25 IRS Oversight Board Electronic Filing 2013 Annual Report to Congress, 5 (Feb. 2014).

26 The income effect of these VSD efforts cannot be adequately estimated, as the IRS does not appear to have undertaken a comprehensive cost-benefit study relating to VSD. TIGTA has recommended that the cost savings and benefits related to VSD be quantified by the IRS and reported as part of the budget request process. TIGTA, Ref. No. 2014-40-038, *Processes to Determine Optimal Face-to-Face Taxpayer Services, Locations, and Virtual Services Have Not Been Established* (June 27, 2014).